



Mary Taylor, CPA
Auditor of State

**CITY OF IRONTON
LAWRENCE COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

City of Ironton
Lawrence County
301 South Third Street
Ironton, Ohio 45638

To the Members of City Council:

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, Lawrence County, Ohio (the City), as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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, Lawrence County, Ohio, as of December 31, 2006 and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General and Revolving Loan Funds 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 December 31, 2007, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

December 31, 2007

CITY OF IRONTON, OHIO

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

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, 2006. 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 2006 are as follows:

- ❑ In total, net assets decreased by \$162,635. Net assets of governmental activities decreased by \$554,568, which represents a 1.9% decrease from 2005. Net assets of business-type activities increased by \$391,933, or 4.1% from 2005.
- ❑ General revenues accounted for \$3,144,244 in revenue, or 32.2% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$6,622,132, or 67.8% of total revenues of \$9,766,376.
- ❑ The City had \$6,247,214 in expenses related to governmental activities; only \$2,548,402 of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) of \$3,144,244 were adequate to provide for these programs.
- ❑ Among major funds, the general fund had \$4,179,670 in revenues and \$3,727,341 in expenditures. The general fund's fund balance increased \$363,754.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts – *management's discussion and analysis* and the *basic financial statements*. 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.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

CITY OF IRONTON, OHIO

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

Unaudited

Government-Wide Financial Statements

The government-wide statements report information about the City as a whole using accepted 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 operations. 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, 2006*

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

The following table provides a comparison of the City's net assets at December 31, 2006 and 2005:

	Governmental		Business-type		Total	
	Activities		Activities			
	2006	Restated 2005	2006	Restated 2005	2006	Restated 2005
Current and other assets	\$5,918,780	\$5,534,238	\$4,059,779	\$3,373,310	\$9,978,559	\$8,907,548
Capital assets, Net	26,649,514	27,606,618	10,607,380	10,748,922	37,256,894	38,355,540
Total assets	<u>32,568,294</u>	<u>33,140,856</u>	<u>14,667,159</u>	<u>14,122,232</u>	<u>47,235,453</u>	<u>47,263,088</u>
Long-term debt outstanding	3,223,486	3,319,805	4,540,448	4,373,508	7,763,934	7,693,313
Other liabilities	749,196	670,871	259,493	273,439	1,008,689	944,310
Total liabilities	<u>3,972,682</u>	<u>3,990,676</u>	<u>4,799,941</u>	<u>4,646,947</u>	<u>8,772,623</u>	<u>8,637,623</u>
Net assets						
Invested in capital assets, net of related debt	24,089,738	24,910,978	6,541,909	6,488,661	30,631,647	31,399,639
Restricted	3,004,612	3,131,415	0	0	3,004,612	3,131,415
Unrestricted	1,501,262	1,107,787	3,325,309	2,986,624	4,826,571	4,094,411
Total net assets	<u><u>\$28,595,612</u></u>	<u><u>\$29,150,180</u></u>	<u><u>\$9,867,218</u></u>	<u><u>\$9,475,285</u></u>	<u><u>\$38,462,830</u></u>	<u><u>\$38,625,465</u></u>

CITY OF IRONTON, OHIO

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

Unaudited

Changes in Net Assets – The following table shows the changes in net assets for the fiscal year 2006 and 2005:

	Governmental Activities		Business-type Activities		Total	Total
	2006	2005	2006	2005	2006	2005
Revenues						
Program revenues:						
Charges for Services and Sales	\$1,652,599	\$1,205,690	\$4,073,730	\$3,829,612	\$5,726,329	\$5,035,302
Operating Grants and Contributions	671,251	657,726	0	0	671,251	657,726
Capital Grants and Contributions	224,552	1,272,422	0	0	224,552	1,272,422
General revenues:						
Taxes	2,313,718	2,377,357	0	0	2,313,718	2,377,357
Grants and Entitlements not Restricted to Specific Programs	380,233	868,243	0	0	380,233	868,243
Investment Earnings	326,063	148,972	0	0	326,063	148,972
Miscellaneous	124,230	91,271	0	0	124,230	91,271
Total revenues	5,692,646	6,621,681	4,073,730	3,829,612	9,766,376	10,451,293
Program Expenses						
Security of Persons & Property	2,409,206	2,304,297	0	0	2,409,206	2,304,297
Public Health and Welfare	197,183	213,663	0	0	197,183	213,663
Leisure Time Activities	62,481	73,742	0	0	62,481	73,742
Community Environment	113,954	77,950	0	0	113,954	77,950
Transportation	1,627,281	493,380	0	0	1,627,281	493,380
General Government	1,683,521	1,469,913	0	0	1,683,521	1,469,913
Interest and Fiscal Charges	153,588	160,271	0	0	153,588	160,271
Water	0	0	1,556,224	1,409,846	1,556,224	1,409,846
Sewer	0	0	1,211,850	1,054,937	1,211,850	1,054,937
Sanitation	0	0	563,615	526,661	563,615	526,661
Storm Water	0	0	350,108	40,000	350,108	40,000
Total expenses	6,247,214	4,793,216	3,681,797	3,031,444	9,929,011	7,824,660
Excess (deficiency) before Transfers and special items	(554,568)	1,828,465	391,933	798,168	(162,635)	2,626,633
Transfers	0	(12,000)	0	12,000	0	0
Total Change in Net Assets	(554,568)	1,816,465	391,933	810,168	(162,635)	2,626,633
Beginning Net Assets - Restated	29,150,180	27,333,715	9,475,285	8,665,117	38,625,465	35,998,832
Ending Net Assets	\$28,595,612	\$29,150,180	\$9,867,218	\$9,475,285	\$38,462,830	\$38,625,465

Governmental Activities

Net assets of the City's governmental activities decreased by \$554,568. This was mainly due to increased expenditures resulting from higher salaries and wages, and other fringe benefits as well as the effects of the depreciation of the City's infrastructure.

CITY OF IRONTON, OHIO

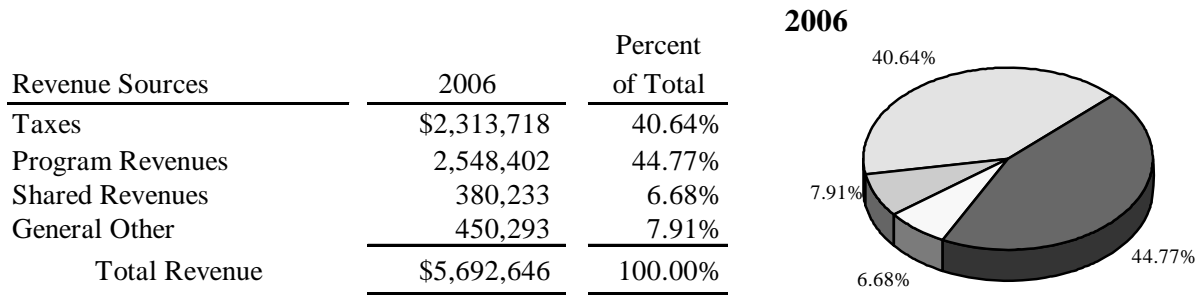
**Management's Discussion and Analysis
For the Year Ended December 31, 2006**

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 40.64% of revenues for governmental activities for the City in fiscal year 2006. The City's reliance upon tax revenues is demonstrated by the following graph:



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City's governmental funds reported a combined fund balance of \$4,002,957, which is an increase from last year's balance of \$3,446,666. The schedule below indicates the fund balance and the total change in fund balance by fund type as of December 31, 2006 and 2005:

	Fund Balance December 31, 2006	Fund Balance December 31, 2005	Increase (Decrease)
General	\$1,178,593	\$814,839	\$363,754
Revolving Loan	275,373	239,479	35,894
Other Governmental	2,548,991	2,392,348	156,643
Total	<u>\$4,002,957</u>	<u>\$3,446,666</u>	<u>\$556,291</u>

CITY OF IRONTON, OHIO

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

Unaudited

General Fund – The City's General Fund balance increase is due to many factors. The tables that follow assist in illustrating the financial activities and balance of the General Fund:

	2006 Revenues	2005 Revenues	Increase (Decrease)
Taxes	\$2,291,573	\$2,212,454	\$79,119
Intergovernmental Revenues	643,335	695,730	(52,395)
Charges for Services	645,292	276,943	368,349
Licenses and Permits	23,818	21,130	2,688
Investment Earnings	58,838	33,653	25,185
Special Assessments	4,235	23,940	(19,705)
Fines and Forfeitures	289,629	266,457	23,172
All Other Revenue	222,950	110,149	112,801
Total	\$4,179,670	\$3,640,456	\$539,214

General Fund revenues in 2006 increased by 14.8% compared to revenues in fiscal year 2005. The most significant factor contributing to this increase was the increase in reimbursements from the enterprise funds for overhead costs as well as increased donations to the City.

	2006 Expenditures	2005 Expenditures	Increase (Decrease)
Security of Persons & Property	\$2,008,794	\$1,950,179	\$58,615
Public Health and Welfare	9,968	7,744	2,224
Transportation	21,113	48,522	(27,409)
General Government	1,465,214	1,437,968	27,246
Capital Outlay	100,000	2,240	97,760
Debt Service:			
Principal Retirement	56,000	71,000	(15,000)
Interest and Fiscal Charges	66,252	69,777	(3,525)
Total	\$3,727,341	\$3,587,430	\$139,911

General Fund expenditures increased by \$139,911, or 3.9%. The increase is due to increased costs associated with the fire department personnel services, and the cost of the purchase of the Armory building for resale to the Lawrence County Port Authority increased Capital Outlay expenditures.

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.

CITY OF IRONTON, OHIO

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

Unaudited

For the General Fund, final budget basis revenue of \$4.2 million did not significantly change over the original budget estimates of \$4.1 million. The General Fund had an adequate fund balance to cover expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2006 the City had \$37,256,894 net of accumulated depreciation invested in land, construction in progress, buildings, land improvements, machinery and equipment, and infrastructure. Of this total, \$26,649,514 was related to governmental activities and \$10,607,380 to the business-type activities. The following table shows fiscal year 2006 and 2005 balances:

	Governmental Activities		Increase (Decrease)
	2006	Restated 2005	
	Land	\$2,505,788	\$2,509,784
Buildings	2,905,767	2,905,767	0
Land Improvements	4,454,077	4,454,077	0
Machinery and Equipment	2,719,388	2,545,951	173,437
Infrastructure	35,801,955	35,719,242	82,713
Less: Accumulated Depreciation	(21,737,461)	(20,528,203)	(1,209,258)
Totals	\$26,649,514	\$27,606,618	(\$957,106)

	Business-Type Activities		Increase (Decrease)
	2006	Restated 2005	
	Land	\$60,060	\$60,060
Land Improvements	6,521,341	6,518,141	3,200
Buildings and Improvements	4,051,851	4,051,851	0
Machinery and Equipment	5,297,029	4,968,269	328,760
Infrastructure	4,671,952	4,671,952	0
Less: Accumulated Depreciation	(9,994,853)	(9,521,351)	(473,502)
Totals	\$10,607,380	\$10,748,922	(\$141,542)

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

CITY OF IRONTON, OHIO

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

Unaudited

Debt

At December 31, 2006, the City had \$2,425,000 in bonds outstanding, \$70,000 due within one year. The following table summarizes the City's debt outstanding as of December 31, 2006 and 2005:

	2006	Restated 2005
	<u>2006</u>	<u>2005</u>
Governmental Activities:		
General Obligation Bonds	\$2,425,000	\$2,495,000
Community Action Organization Loan	16,240	27,240
Installment Loans	115,600	173,400
Compensated Absences	183,653	135,546
Capital Leases	2,936	0
Police and Firemen's Accrued Pension	480,057	488,619
Total Governmental Activities	<u>3,223,486</u>	<u>3,319,805</u>
Business-Type Activities:		
General Obligation Notes	\$273,099	\$0
Ohio Water Development Authority Loan	4,021,276	4,157,508
Ohio Public Works Commission Loan	68,454	0
Compensated Absences	93,841	113,247
Capital Leases	83,778	102,753
Total Business-Type Activities	<u>4,540,448</u>	<u>4,373,508</u>
Totals	<u><u>\$7,763,934</u></u>	<u><u>\$7,693,313</u></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, 2006, the City's outstanding debt was below the legal limit. Additional information on the City's long-term 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, 2006*

	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and Cash Equivalents	\$ 3,189,299	\$ 2,904,454	\$ 6,093,753
Investments	225,000	385,551	610,551
Receivables:			
Taxes	1,177,376	0	1,177,376
Accounts	30,845	633,362	664,207
Intergovernmental	964,385	15,078	979,463
Interest	0	995	995
Loans	286,043	0	286,043
Internal Balances	(766)	766	0
Inventory of Supplies at Cost	19,043	22,514	41,557
Prepays	27,555	20,621	48,176
Restricted Assets:			
Cash and Cash Equivalents	0	76,438	76,438
Capital Assets:			
Capital Assets Not Being Depreciated	2,505,788	60,060	2,565,848
Capital Assets Being Depreciated	24,143,726	10,547,320	34,691,046
Total Assets	32,568,294	14,667,159	47,235,453
Liabilities:			
Accounts Payable	69,152	48,896	118,048
Accrued Wages and Benefits	226,283	73,354	299,637
Intergovernmental Payable	8,941	5,380	14,321
Contracts Payable	0	55,425	55,425
Refundable Deposits	0	76,438	76,438
Deferred Revenue	433,512	0	433,512
Accrued Interest Payable	11,308	0	11,308
Long Term Liabilities:			
Due Within One Year	233,470	669,170	902,640
Due in More Than One Year	2,990,016	3,871,278	6,861,294
Total Liabilities	3,972,682	4,799,941	8,772,623
Net Assets:			
Invested in Capital Assets, Net of Related Debt	24,089,738	6,541,909	30,631,647
Restricted For:			
Capital Projects	155,580	0	155,580
Debt Service	315,147	0	315,147
Streets & Highways	739,695	0	739,695
Security of Persons & Property	1,433,699	0	1,433,699
Other Purposes	360,491	0	360,491
Unrestricted (Deficit)	1,501,262	3,325,309	4,826,571
Total Net Assets	\$ 28,595,612	\$ 9,867,218	\$ 38,462,830

See accompanying notes to the basic financial statements

CITY OF IRONTON, OHIO

Statement of Activities *For the Year Ended December 31, 2006*

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Current:				
Security of Persons and Property	\$ 2,409,206	\$ 587,405	\$ 1,000	\$ 0
Public Health and Welfare Services	197,183	21,752	50,370	0
Leisure Time Activities	62,481	0	0	0
Community Environment	113,954	324,832	59,000	0
Transportation	1,627,281	1,260	560,881	224,552
General Government	1,683,521	717,350	0	0
Interest and Fiscal Charges	153,588	0	0	0
Total Governmental Activities	6,247,214	1,652,599	671,251	224,552
Business-Type Activities:				
Water	1,556,224	1,513,433	0	0
Sewer	1,211,850	1,290,290	0	0
Sanitation	563,615	594,627	0	0
Storm Water	350,108	675,380	0	0
Total Business-Type Activities	3,681,797	4,073,730	0	0
Totals	\$ 9,929,011	\$ 5,726,329	\$ 671,251	\$ 224,552

General Revenues

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

 Change in Net Assets

 Net Assets Beginning of Year (As Restated)

 Net Assets End of Year

See accompanying notes to the basic financial statements

CITY OF IRONTON, OHIO

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (1,820,801)	\$ 0	\$ (1,820,801)
(125,061)	0	(125,061)
(62,481)	0	(62,481)
269,878	0	269,878
(840,588)	0	(840,588)
(966,171)	0	(966,171)
<u>(153,588)</u>	<u>0</u>	<u>(153,588)</u>
<u>(3,698,812)</u>	<u>0</u>	<u>(3,698,812)</u>
0	(42,791)	(42,791)
0	78,440	78,440
0	31,012	31,012
<u>0</u>	<u>325,272</u>	<u>325,272</u>
<u>0</u>	<u>391,933</u>	<u>391,933</u>
<u>(3,698,812)</u>	<u>391,933</u>	<u>(3,306,879)</u>
201,424	0	201,424
2,112,294	0	2,112,294
380,233	0	380,233
326,063	0	326,063
<u>124,230</u>	<u>0</u>	<u>124,230</u>
<u>3,144,244</u>	<u>0</u>	<u>3,144,244</u>
(554,568)	391,933	(162,635)
<u>29,150,180</u>	<u>9,475,285</u>	<u>38,625,465</u>
<u>\$ 28,595,612</u>	<u>\$ 9,867,218</u>	<u>\$ 38,462,830</u>

CITY OF IRONTON, OHIO

**Balance Sheet
Governmental Funds
December 31, 2006**

	General	Revolving Loan	Other Governmental Funds	Total Governmental Funds
Assets:				
Cash and Cash Equivalents	\$ 638,428	\$ 275,373	\$ 2,260,058	\$ 3,173,859
Investments	25,000	0	200,000	225,000
Receivables:				
Taxes	941,549	0	235,827	1,177,376
Accounts	26,430	0	4,415	30,845
Intergovernmental	366,484	285,400	312,501	964,385
Loans	0	286,043	0	286,043
Inventory of Supplies, at Cost	0	0	19,043	19,043
Prepaid Items	22,568	0	4,987	27,555
Total Assets	\$ 2,020,459	\$ 846,816	\$ 3,036,831	\$ 5,904,106
Liabilities:				
Accounts Payable	\$ 42,939	\$ 0	\$ 12,205	\$ 55,144
Accrued Wages and Benefits Payable	198,415	0	27,868	226,283
Intergovernmental Payable	8,941	0	0	8,941
Deferred Revenue	591,571	571,443	447,767	1,610,781
Total Liabilities	841,866	571,443	487,840	1,901,149
Fund Balances:				
Reserved for Encumbrances	23,043	0	36,566	59,609
Reserved for Prepaid Items	22,568	0	4,987	27,555
Reserved for Supplies Inventory	0	0	19,043	19,043
Reserved for Debt Service	0	0	326,455	326,455
Unreserved, Undesignated in:				
General Fund	1,132,982	0	0	1,132,982
Special Revenue Funds	0	275,373	2,021,223	2,296,596
Capital Projects Funds	0	0	140,717	140,717
Total Fund Balances	1,178,593	275,373	2,548,991	4,002,957
Total Liabilities and Fund Balances	\$ 2,020,459	\$ 846,816	\$ 3,036,831	\$ 5,904,106

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, 2006***

Total Governmental Fund Balances		\$ 4,002,957
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>		
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		26,649,514
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
		1,177,269
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	1,432	
Allocation to Business-Type Activities	(766)	666
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	(2,425,000)	
Installment Loans	(115,600)	
Community Action Organization Loans	(16,240)	
Police Pension Accrued Liability	(480,057)	
Capital Leases Payable	(2,936)	
Compensated Absences Payable related to Governmental Funds	(183,653)	
Accrued Interest Payable	(11,308)	(3,234,794)
<i>Net Assets of Governmental Activities</i>		\$ 28,595,612

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, 2006

	General	Revolving Loan	Other Governmental Funds	Total Governmental Funds
Revenues:				
Property Taxes	\$ 2,291,573	\$ 0	\$ 237,753	\$ 2,529,326
Intergovernmental Revenues	643,335	0	934,634	1,577,969
Charges for Services	645,292	0	283,210	928,502
Licenses and Permits	23,818	0	43,026	66,844
Investment Earnings	58,838	1,448	66,711	126,997
Special Assessments	4,235	0	0	4,235
Fines and Forfeitures	289,629	0	105,434	395,063
All Other Revenue	222,950	42,000	46,977	311,927
Total Revenue	4,179,670	43,448	1,717,745	5,940,863
Expenditures:				
Current:				
Security of Persons and Property	2,008,794	0	316,113	2,324,907
Public Health and Welfare Services	9,968	0	188,385	198,353
Leisure Time Activities	0	0	62,074	62,074
Community Environment	0	7,554	106,400	113,954
Transportation	21,113	0	407,245	428,358
General Government	1,465,214	0	141,060	1,606,274
Capital Outlay	100,000	0	274,383	374,383
Debt Service:				
Principal Retirement	56,000	0	91,362	147,362
Interest & Fiscal Charges	66,252	0	88,971	155,223
Total Expenditures	3,727,341	7,554	1,675,993	5,410,888
Excess (Deficiency) of Revenues Over Expenditures	452,329	35,894	41,752	529,975
Other Financing Sources (Uses):				
Sale of Capital Assets	6,260	0	0	6,260
Issuance of Capital Leases	3,500	0	0	3,500
Transfers In	0	0	98,335	98,335
Transfers Out	(98,335)	0	0	(98,335)
Total Other Financing Sources (Uses)	(88,575)	0	98,335	9,760
Net Change in Fund Balances	363,754	35,894	140,087	539,735
Fund Balances at Beginning of Year	814,839	239,479	2,392,348	3,446,666
Increase (Decrease) in Inventory Reserve	0	0	16,556	16,556
Fund Balances End of Year	\$ 1,178,593	\$ 275,373	\$ 2,548,991	\$ 4,002,957

See accompanying notes to the basic financial statements

CITY OF IRONTON, OHIO

***Reconciliation Of The Statement Of Revenues, Expenditures
And Changes In Fund Balances Of Governmental Funds
To The Statement Of Activities
For The Fiscal Year Ended December 31, 2006***

Net Change in Fund Balances - Total Governmental Funds		\$ 539,735
<i>Amounts reported for governmental activities in the statement of activities are different because</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.		
Capital Outlay - governmental capital assets	462,403	
Depreciation Expense - governmental capital assets	<u>(1,363,044)</u>	(900,641)
The statement of activities reports gains arising from the disposal of capital assets. Conversely, the governmental funds do not report any gains on the disposal of capital assets.		
		(56,463)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
		(248,217)
The issuance of long-term debt provides current financial resources to governmental funds, but has no effect on net assets.		
		(3,500)
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	70,000	
Installment Loan Principal Payment	57,800	
Community Action Organization Loan Payment	11,000	
Police Accrued Pension Liability	8,562	
Capital Lease Payment	<u>564</u>	147,926
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		
		1,635
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	(48,107)	
Change in Inventory	<u>16,556</u>	(31,551)
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	(6,700)	
Change in portion of internal service fund net assets allocated to Business-Type Activities	<u>3,208</u>	(3,492)
<i>Change in Net Assets of Governmental Activities</i>		<u><u>\$ (554,568)</u></u>

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, 2006**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Property Taxes	\$ 2,606,500	\$ 2,598,299	\$ 2,188,314	\$ (409,985)
Intergovernmental Revenue	639,153	697,565	698,403	838
Charges for Services	342,300	348,800	642,845	294,045
Licenses and Permits	21,000	23,000	23,688	688
Investment Earnings	10,000	51,050	58,838	7,788
Special Assessments	0	4,235	4,235	0
Fines and Forfeitures	242,600	284,584	284,526	(58)
All Other Revenues	188,650	213,357	222,675	9,318
Total Revenues	<u>4,050,203</u>	<u>4,220,890</u>	<u>4,123,524</u>	<u>(97,366)</u>
Expenditures:				
Current:				
Security of Persons and Property	2,212,207	2,218,426	2,023,791	194,635
Public Health and Welfare Services	8,119	10,341	9,734	607
Transportation	17,453	23,455	23,455	0
General Government	1,533,859	1,553,441	1,503,698	49,743
Capital Outlay	100,000	100,000	100,000	0
Debt Service:				
Principal Retirement	49,888	56,000	56,000	0
Interest and Fiscal Charges	59,021	66,252	66,252	0
Total Expenditures	<u>3,980,547</u>	<u>4,027,915</u>	<u>3,782,930</u>	<u>244,985</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	69,656	192,975	340,594	147,619
Other Financing Sources (Uses):				
Sale of Capital Assets	6,260	6,260	6,260	0
Transfers In	150,050	150,050	0	(150,050)
Transfers Out	(85,000)	(98,335)	(98,335)	0
Total Other Financing Sources (Uses):	<u>65,050</u>	<u>57,975</u>	<u>(92,075)</u>	<u>(150,050)</u>
Net Changes in Fund Balance	134,706	250,950	248,519	(2,431)
Fund Balance at Beginning of Year	<u>319,334</u>	<u>319,334</u>	<u>319,334</u>	<u>0</u>
Fund Balance at End of Year	<u>\$ 454,040</u>	<u>\$ 570,284</u>	<u>\$ 567,853</u>	<u>\$ (2,431)</u>

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, 2006**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Investment Earnings	\$ 2,900	\$ 1,420	\$ 1,448	\$ 28
All Other Revenues	21,000	48,000	42,000	(6,000)
Total Revenues	23,900	49,420	43,448	(5,972)
Expenditures:				
Current:				
Community Environment	71,500	128,337	7,554	120,783
Total Expenditures	71,500	128,337	7,554	120,783
Excess (Deficiency) of Revenues Over (Under) Expenditures	(47,600)	(78,917)	35,894	114,811
Other Financing Sources (Uses):				
Sale of Capital Assets	0	0	0	0
Transfers Out	0	(118,000)	0	118,000
Total Other Financing Sources (Uses):	0	(118,000)	0	118,000
Net Changes in Fund Balance	(47,600)	(196,917)	35,894	232,811
Fund Balance at Beginning of Year	239,479	239,479	239,479	0
Fund Balance at End of Year	\$ 191,879	\$ 42,562	\$ 275,373	\$ 232,811

See accompanying notes to the basic financial statements

CITY OF IRONTON, OHIO

Statement of Net Assets Proprietary Funds December 31, 2006

	Business-Type Activities		
	Water	Sewer	Sanitation
Assets:			
<i>Current Assets:</i>			
Cash and Cash Equivalents	\$ 974,547	\$ 799,408	\$ 212,784
Investments	250,000	135,551	0
<i>Receivables:</i>			
Accounts	261,079	251,141	121,142
Intergovernmental	5,666	6,907	2,505
Interest	0	995	0
Inventory of Supplies at Cost	22,514	0	0
Prepaid Items	15,188	4,188	1,245
<i>Restricted Assets:</i>			
Cash and Cash Equivalents	76,438	0	0
Total Current Assets	1,605,432	1,198,190	337,676
<i>Non Current Assets:</i>			
<i>Capital Assets:</i>			
Capital Assets Not Being Depreciated	21,097	38,963	0
Capital Assets Being Depreciated	5,216,363	5,241,784	89,173
Total Assets	6,842,892	6,478,937	426,849
Liabilities:			
<i>Current Liabilities:</i>			
Accounts Payable	17,395	17,735	13,766
Accrued Wages and Benefits	36,685	20,920	15,749
Intergovernmental Payable	180	5,200	0
Contracts Payable	0	55,425	0
Refundable Deposits	76,438	0	0
Compensated Absences Payable - Current	26,436	6,019	10,077
Capital Leases - Current	0	19,732	0
General Obligation Notes - Current	0	55,753	0
OWDA Loans Payable - Current	249,167	298,236	0
OPWC Loans Payable - Current	0	3,750	0
Total Current Liabilities	406,301	482,770	39,592
<i>Long Term Liabilities:</i>			
Compensated Absences Payable	7,373	21,950	21,986
Capital Leases Payable	0	64,046	0
General Obligation Notes Payable	0	217,346	0
OWDA Loans Payable	3,092,737	0	0
OPWC Loans Payable	0	64,704	0
Total Liabilities	3,506,411	850,816	61,578
Net Assets:			
Invested in Capital Assets, Net of Related Debt	1,895,556	4,557,180	89,173
Unrestricted	1,440,925	1,070,941	276,098
Total Net Assets	\$ 3,336,481	\$ 5,628,121	\$ 365,271

See accompanying notes to the basic financial statements

CITY OF IRONTON, OHIO

Storm Water	Total	Governmental Activities - Internal Service Funds
\$ 917,715	\$ 2,904,454	\$ 15,440
0	385,551	0
0	633,362	0
0	15,078	0
0	995	0
0	22,514	0
0	20,621	0
0	76,438	0
917,715	4,059,013	15,440
0	60,060	0
0	10,547,320	0
917,715	14,666,393	15,440
0	48,896	14,008
0	73,354	0
0	5,380	0
0	55,425	0
0	76,438	0
0	42,532	0
0	19,732	0
0	55,753	0
0	547,403	0
0	3,750	0
0	928,663	14,008
0	51,309	0
0	64,046	0
0	217,346	0
381,136	3,473,873	0
0	64,704	0
381,136	4,799,941	14,008
0	6,541,909	0
536,579	3,324,543	1,432
\$ 536,579	\$ 9,866,452	\$ 1,432

CITY OF IRONTON, OHIO

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2006

	Business-Type Activities		
	Water	Sewer	Sanitation
Operating Revenues:			
Charges for Services	\$ 1,463,667	\$ 1,264,175	\$ 587,482
Other Operating Revenue	0	0	0
Total Operating Revenues	1,463,667	1,264,175	587,482
Operating Expenses:			
Personal Services	726,777	426,829	306,233
Contractual Services	137,764	266,235	191,734
Materials and Supplies	99,278	0	0
Other Operating Expenses	321,905	215,794	43,515
Depreciation	195,569	255,800	22,133
Total Operating Expenses	1,481,293	1,164,658	563,615
Operating Income (Loss)	(17,626)	99,517	23,867
Nonoperating Revenue (Expenses):			
Investment Earnings	37,325	23,960	5,478
Interest Expense	(71,723)	(47,192)	0
Other Nonoperating Revenue	12,441	2,155	1,667
Total Nonoperating Revenues (Expenses)	(21,957)	(21,077)	7,145
Change in Net Assets	(39,583)	78,440	31,012
Net Assets Beginning of Year (As Restated)	3,376,064	5,549,681	334,259
Net Assets End of Year	\$ 3,336,481	\$ 5,628,121	\$ 365,271

See accompanying notes to the basic financial statements

CITY OF IRONTON, OHIO

<u>Storm Water</u>	<u>Total</u>	<u>Governmental Activities - Internal Service Funds</u>
\$ 670,074	\$ 3,985,398	\$ 0
<u>0</u>	<u>0</u>	<u>122,479</u>
670,074	3,985,398	122,479
0	1,459,839	0
341,136	936,869	0
0	99,278	129,179
8,972	590,186	0
<u>0</u>	<u>473,502</u>	<u>0</u>
350,108	3,559,674	129,179
319,966	425,724	(6,700)
5,306	72,069	0
0	(118,915)	0
<u>0</u>	<u>16,263</u>	<u>0</u>
5,306	(30,583)	0
325,272	395,141	(6,700)
<u>211,307</u>	<u>9,471,311</u>	<u>8,132</u>
<u>\$ 536,579</u>	<u>\$ 9,866,452</u>	<u>\$ 1,432</u>

CITY OF IRONTON, OHIO

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

	Business-Type Activities		
	Water Fund	Sewer Fund	Sanitation Fund
<u>Cash Flows from Operating Activities:</u>			
Cash Received from Customers	\$1,520,814	\$1,290,253	\$590,398
Cash Payments for Goods and Services	(488,635)	(434,829)	(289,706)
Cash Payments to Employees	(739,798)	(446,955)	(317,177)
Net Cash Provided (Used) by Operating Activities	292,381	408,469	(16,485)
<u>Cash Flows from Capital and Related Financing Activities:</u>			
Acquisition and Construction of Assets	(17,094)	(314,866)	0
Intergovernmental Grants	0	0	0
Issuance of General Obligation Notes	0	300,000	0
Issuance of OWDA Loans	0	0	0
Issuance of OPWC Loans	0	68,454	0
Principal Paid on Installment Loans	0	0	0
Principal Paid on Ohio Water Development Authority Loans	(244,280)	(299,989)	0
Principal Paid on Capital Lease	0	(18,975)	0
Interest Paid on All Debt	(71,723)	(47,192)	0
Net Cash Used for Capital and Related Financing Activities	(333,097)	(312,568)	0
<u>Cash Flows from Investing Activities:</u>			
Purchase of Investments	(200,000)	0	0
Receipts of Interest	37,325	22,965	5,478
Net Cash Provided by Investing Activities	(162,675)	22,965	5,478
Net Increase (Decrease) in Cash and Cash Equivalents	(203,391)	118,866	(11,007)
Cash and Cash Equivalents at Beginning of Year	1,254,376	680,542	223,791
Cash and Cash Equivalents at End of Year	\$1,050,985	\$799,408	\$212,784
<u>Reconciliation of Cash and Cash Equivalents per the Balance Sheet</u>			
Cash and Cash Equivalents	\$974,547	\$799,408	\$212,784
Restricted Cash and Cash Equivalents	76,438	0	0
Cash and Cash Equivalents at End of Year	\$1,050,985	\$799,408	\$212,784

CITY OF IRONTON, OHIO

Storm Water Fund	Total Enterprise Funds	Governmental Activities Internal Service Fund
\$670,074	\$4,071,539	\$122,479
(350,108)	(1,563,278)	(127,728)
0	(1,503,930)	0
<u>319,966</u>	<u>1,004,331</u>	<u>(5,249)</u>
0	(331,960)	0
0	0	0
0	300,000	0
381,136	381,136	0
0	68,454	0
0	0	0
0	(544,269)	0
0	(18,975)	0
0	(118,915)	0
<u>381,136</u>	<u>(264,529)</u>	<u>0</u>
0	(200,000)	0
5,306	71,074	0
<u>5,306</u>	<u>(128,926)</u>	<u>0</u>
706,408	610,876	(5,249)
<u>211,307</u>	<u>2,370,016</u>	<u>20,689</u>
<u>\$917,715</u>	<u>\$2,980,892</u>	<u>\$15,440</u>
\$917,715	\$2,904,454	\$15,440
0	76,438	0
<u>\$917,715</u>	<u>\$2,980,892</u>	<u>\$15,440</u>

(Continued)

CITY OF IRONTON, OHIO

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

	Business-Type Activities		
	Water	Sewer	Sanitation
<u>Reconciliation of Operating Income to Net Cash</u>			
<u>Provided by Operating Activities:</u>			
Operating Income (Loss)	(\$17,626)	\$99,517	\$23,867
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation Expense	195,569	255,800	22,133
Miscellaneous Nonoperating Revenue	33,366	2,155	1,667
Changes in Assets and Liabilities:			
Decrease in Accounts Receivable	26,628	27,543	1,074
Increase in Intergovernmental Receivable	(5,666)	(6,907)	(2,505)
Decrease in Inventory	83,988	0	0
Increase in Prepaid Items	(1,395)	(448)	(118)
Increase (Decrease) in Accounts Payable	(12,392)	(12,612)	(54,339)
Decrease in Accrued Wages and Benefits	(5,733)	(6,952)	(3,214)
Increase in Intergovernmental Payable	111	4,835	0
Increase in Contracts Payable	0	55,425	0
Decrease in Compensated Absences	(4,469)	(9,887)	(5,050)
Total Adjustments	310,007	308,952	(40,352)
Net Cash Provided by Operating Activities	\$292,381	\$408,469	(\$16,485)

See accompanying notes to the basic financial statements

CITY OF IRONTON, OHIO

<u>Storm Water</u>	<u>Total</u>	<u>Governmental Activities Internal Service Funds</u>
\$319,966	\$425,724	(\$6,700)
0	473,502	0
0	37,188	0
0	55,245	0
0	(15,078)	0
0	83,988	0
0	(1,961)	0
0	(79,343)	1,451
0	(15,899)	0
0	4,946	0
0	55,425	0
0	(19,406)	0
<u>0</u>	<u>578,607</u>	<u>1,451</u>
<u>\$319,966</u>	<u>\$1,004,331</u>	<u>(\$5,249)</u>

CITY OF IRONTON, OHIO

Statement of Net Assets
Fiduciary Funds
December 31, 2006

	Private Purpose Trust	
	Special Trust Fund	Agency
Assets:		
Cash and Cash Equivalents	\$ 4,850	\$ 52,074
Total Assets	<u>4,850</u>	<u>52,074</u>
Liabilities:		
Due to Others	<u>0</u>	<u>52,074</u>
Total Liabilities	<u>0</u>	<u>52,074</u>
Net Assets:		
Unrestricted	<u>4,850</u>	<u>0</u>
Total Net Assets	<u>\$ 4,850</u>	<u>\$ 0</u>

See accompanying notes to the basic financial statements

CITY OF IRONTON, OHIO

Statement of Changes in Net Assets
Fiduciary Fund
For the Year Ended December 31, 2006

	Private Purpose Trust
	<u>Special Trust</u>
	<u>Fund</u>
Additions:	
Contributions:	
Private Donations	\$ 16,000
Total Contributions	<u>16,000</u>
Total Additions	<u>16,000</u>
Deductions:	
Community Gifts, Awards and Scholarships	<u>22,850</u>
Total Deductions	<u>22,850</u>
Change in Net Assets	(6,850)
Net Assets at Beginning of Year	<u>11,700</u>
Net Assets End of Year	<u>\$ 4,850</u>

See accompanying notes to the basic financial statements

CITY OF IRONTON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2006

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, 2006 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 a blended component unit. The Ironton Port Authority has been determined to be a component unit of the City, but its activity is not material to require reporting. The City's financial reporting entity also includes all funds, 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, and refuse) and other governmental services.

The City is involved with the following organizations which are defined as jointly governed organizations: Huntington-Ironton Empowerment Zone, Woodland Union Cemetery, KYOVA Interstate Planning Commission, Ohio Valley Regional Development Commission and Lawrence County Economic Development Corporation (LEDC). Additional information concerning these jointly governed organizations is presented in Note 15.

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, 2006

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 are the City's major governmental funds:

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:

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

Sewer Fund - This fund is used to account for the operation of the City's sanitary sewer service.

Sanitation Fund - This fund is used to account for the operation of the City's sanitation service.

Storm Water Fund - This fund is used to account for the upkeep and construction of the City's storm water system.

Internal Service Funds - These funds are used to account for rotary 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, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Fiduciary funds are used to account for assets the City holds in a trustee capacity or as an agent for individuals, private organizations, other governments, and other funds. The City's trust funds are private purpose trust account for monies used for the demolition of buildings not owned by the City. Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations. 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.

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.

CITY OF IRONTON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Financial Statements (Continued)

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.

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, 2006

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, 2006

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 2006.

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 the additional information becomes available, provided that total fund appropriations do not exceed 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 Balance-Budget and Actual" (Non-GAAP Budgetary Basis) are presented on a budgetary basis to provide a comparison of actual results to the final budget, all including 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, 2006**

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)	\$363,754	\$35,894
Increase (Decrease):		
Accrued Revenues at December 31, 2006 received during 2007	(763,544)	0
Accrued Revenues at December 31, 2005 received during 2006	707,398	0
Accrued Expenditures at December 31, 2006 paid during 2007	250,295	0
Accrued Expenditures at December 31, 2005 paid during 2006	(231,864)	0
2005 Prepays for 2006	19,971	0
2006 Prepays for 2007	(22,568)	0
Outstanding Encumbrances	(74,923)	0
Budget Basis	\$248,519	\$35,894

CITY OF IRONTON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2006

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, 2006***

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:

<u>Description</u>	<u>Governmental and Business-Type Activities Estimated Lives (in years)</u>
Buildings	20-50
Improvements other than Buildings	10-50
Infrastructure	10-100
Machinery, Equipment, Furniture and Fixtures	3 - 50

CITY OF IRONTON, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2006***

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	General Fund Fire Fund
Long-Term Obligation	General Fund
Installment Loans	General Fund Fire Fund
Police and Fire Accrued Pension Liability	Police Pension Fund Fire Pension Fund
Ohio Water Development Authority Loans	Water Fund Sewer Fund
Ohio Public Works Commission	Sewer Fund
Compensated Absences	General Fund Street Fund Health Fund Water Fund Sewer Fund Sanitation Fund
Capital Leases	General Fund Sewer 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, 2006

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 are 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, 2006

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 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 –RESTATEMENT OF NET ASSETS

The City restated its beginning net assets of governmental activities and the sewer fund. The Sewer fund was not recording the asset and liability associated with a capital lease for a street sweeper in prior years. The governmental activities were restated to account for the retroactive reporting of governmental infrastructure. These restatements had the following affects on the net assets as of December 31, 2005:

	<u>Governmental Activities</u>	<u>Sewer Fund</u>	<u>Business-Type Activities</u>
Net Assets as reported December 31, 2005	\$7,916,878	\$5,546,559	\$9,472,163
Capital Asset Restatement	21,233,302	105,875	105,875
Capital Lease Liability	0	(102,753)	(102,753)
Net Assets as restated December 31, 2005	<u>\$29,150,180</u>	<u>\$5,549,681</u>	<u>\$9,475,285</u>

CITY OF IRONTON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2006

NOTE 3 - CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash resources of several individual funds are combined to form a pool of cash and investments. In addition, investments are separately held by a number of individual funds. The City has adopted an Investment Policy that follows Ohio Revised Code Chapter 135 and applies the prudent person standard. The prudent person standard requires the Finance Director to exercise the care, skill and experience that a prudent person would use to manage his/her personal financial affairs and to seek investments that will preserve principal while maximizing income.

Statutes require the classification of funds held by the City into three categories:

Category 1 consists of "active" funds - those funds required to be kept 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 (STAROhio).

CITY OF IRONTON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2006

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

A. Deposits

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

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Historically, the City has not purchased these types of investments or issued these types of notes. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity.

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

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned. Protection of City cash and deposits is provided by the federal deposit insurance corporation as well as qualified securities pledged by the institution holding the assets. 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. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

The City has no deposit policy for custodial risk beyond the requirements of State statute.

CITY OF IRONTON, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2006**

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

A. Deposits (Continued)

At year end the carrying amount of the City's deposits was \$6,837,666 and the bank balance was \$6,928,451. Federal depository insurance covered \$429,299 of the bank balance and \$6,499,152 was uninsured. Of the remaining uninsured bank balance, the District was exposed to custodial risk as follows:

	<u>Balance</u>
Uninsured and collateralized with securities held by the pledging institution's trust department not in the City's name	\$6,499,152
Total Balance	\$6,499,152

B. Reconciliation of Cash, Cash Equivalents and Investments

The classification of cash, cash equivalents and investments on the financial statements is based on criteria set forth in GASB Statement No. 9. Repurchase agreements and STAR Ohio are treated as cash equivalents. The classification of cash and cash equivalents (deposits) for purposes of this note are 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:

	<u>Cash and Cash Equivalents *</u>	<u>Investments</u>
Per Financial Statements	\$6,227,115	\$610,551
Certificates of Deposit (with maturities of more than 3 months)	610,551	(610,551)
Per GASB Statement No. 3	\$6,837,666	\$0

* Includes Cash with Fiscal Agent

CITY OF IRONTON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2006

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 2006 were levied after October 1, 2005 on assessed values as of January 1, 2005, 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.

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, 2006 was \$4.28 per \$1,000 of assessed value. The assessed value upon which the 2006 tax levy was based was \$129,428,410. This amount constitutes \$118,003,840 in real property assessed value, \$6,780,880 in public utility assessed value and \$4,643,690 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 .428% (4.28 mills) of assessed value.

CITY OF IRONTON, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2006***

NOTE 4 - TAXES (Continued)

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, 2006 consisted of taxes, accounts, loans and intergovernmental receivables arising from shared revenues.

NOTE 6 - INTERFUND ACCOUNTS

On the Statement of Net Assets, the Governmental Activities reported an internal balance at December 31, 2006 of \$766, 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 2006:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	\$0	\$98,335
Nonmajor Governmental Funds	98,335	0
Totals	<u>\$98,335</u>	<u>\$98,335</u>

Transfers are used to move revenues from the funds that statute or budget requires to collect them to the funds that statute or budget requires to expend them; to segregate money for anticipated capital projects; to provide additional resources for current operations or debt service; and to return money to the fund from which it was originally provided once a project is completed.

CITY OF IRONTON, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2006**

NOTE 8 - CAPITAL ASSETS

A. Governmental Activities Capital Assets

Summary by category of changes in governmental activities capital assets at December 31, 2006:

<i>Historical Cost:</i>	Restated December 31, 2005	Additions	Deletions	December 31, 2006
Class				
<i>Capital assets not being depreciated:</i>				
Land	\$2,509,784	\$0	(\$3,996)	\$2,505,788
Subtotal	2,509,784	0	(3,996)	2,505,788
<i>Capital assets being depreciated:</i>				
Buildings	2,905,767	0	0	2,905,767
Land Improvements	4,454,077	0	0	4,454,077
Machinery and Equipment	2,545,951	195,727	(22,290)	2,719,388
Infrastructure	35,719,242	266,676	(183,963)	35,801,955
Subtotal	45,625,037	462,403	(206,253)	45,881,187
Total Cost	\$48,134,821	\$462,403	(\$210,249)	\$48,386,975
<i>Accumulated Depreciation:</i>				
Class	Restated December 31, 2005	Additions	Deletions	December 31, 2006
Buildings	(\$660,966)	(\$74,322)	\$0	(\$735,288)
Land Improvements	(3,259,142)	(31,548)	0	(3,290,690)
Machinery and Equipment	(1,676,419)	(128,014)	20,061	(1,784,372)
Infrastructure	(14,931,676)	(1,129,160)	133,725	(15,927,111)
Total Depreciation	(\$20,528,203)	(\$1,363,044)	\$153,786	(\$21,737,461)
<i>Net Value:</i>	\$27,606,618			\$26,649,514

* Depreciation expenses were charged to governmental functions as follows:

Security of Persons and Property	\$145,400
Leisure Time Activities	373
Public Health & Welfare	378
Transportation	1,158,550
General Government	58,343
Total Depreciation Expense	<u>\$1,363,044</u>

CITY OF IRONTON, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2006**

NOTE 8 – CAPITAL ASSETS (Continued)

B. Business-Type Activities Capital Assets

Summary by Category at December 31, 2006:

Historical Cost:

Class	Restated December 31, 2005	Additions	Deletions	December 31, 2006
Capital assets not being depreciated:				
Land	\$60,060	\$0	\$0	\$60,060
Subtotal	60,060	0	0	60,060
Capital assets being depreciated:				
Land Improvements	6,518,141	3,200	0	6,521,341
Buildings and Improvements	4,051,851	0	0	4,051,851
Machinery and Equipment	4,968,269	328,760	0	5,297,029
Infrastructure	4,671,952	0	0	4,671,952
Subtotal	20,210,213	331,960	0	20,542,173
Total Cost	\$20,270,273	\$331,960	\$0	\$20,602,233

Accumulated Depreciation:

Class	Restated December 31, 2005	Additions	Deletions	December 31, 2006
Land Improvements	(\$1,713,959)	(\$134,214)	\$0	(\$1,848,173)
Buildings and Improvements	(1,843,552)	(71,247)	0	(1,914,799)
Machinery and Equipment	(3,330,660)	(203,602)	0	(3,534,262)
Infrastructure	(2,633,180)	(64,439)	0	(2,697,619)
Total Depreciation	(\$9,521,351)	(\$473,502)	\$0	(\$9,994,853)
Net Value:	\$10,748,922	(\$141,542)	\$0	\$10,607,380

CITY OF IRONTON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2006

NOTE 9 – DEFINED BENEFIT PENSION PLANS

All of the City's full-time employees participate in one of two separate retirement systems which are cost-sharing 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, including postemployment health care benefits. Chapter 145 of the Ohio Revised Code provides statutory authority to establish and amend benefits. The Ohio Public Employees Retirement System issues a stand-alone 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) 222-5601 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2006, employee and employer contribution rates were consistent across all three plans (TP, MD and CO). The employee contribution rate is 9.0%. The 2006 employer contribution rate for local government employer units was 13.70%, of covered payroll, 9.20% to fund the pension and 4.5% 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, 2006, 2005, and 2004 were \$467,875, \$454,917 and \$430,865, 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, 2006

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 under the TP and CO plans 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 2006 employer contribution rate (identified above) that was used to fund health care for the year 2006 was 4.5% of covered payroll which amounted to \$133,320.

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, 2005. The individual entry age 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 annually, not to exceed a 12% corridor. The investment assumption rate for 2005 was 6.5%. 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 .50% to 6% for the next 9 years. In subsequent years (10 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 for the TP and CO Plans was 358,804. The actuarial value of the Ohio PERS net assets available for OPEB at December 31, 2005 is \$11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$31.3 billion and \$20.2 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, will be effective January 1, 2007. In addition to the HCPP, Ohio PERS has taken additional action to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. As an additional component of the HCPP, member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

CITY OF IRONTON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2006

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, 2006, 2005, and 2004 were \$134,517, \$170,458 and \$134,904 for police and \$191,080, \$224,286 and \$172,357 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 2006 covered payroll that was used to fund postemployment health care benefits was \$36,802 representing 7.75% of covered payroll for police and \$44,353 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, 2005, the date of the last actuarial evaluation available, the number of participants eligible to receive health care benefits was 13,922 for police and 10,537 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, 2005 were \$108,039,449, which was net of member contributions of \$55,271,881.

CITY OF IRONTON, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2006***

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, 2006, the total liability for accumulated unpaid compensated absences recorded in the Governmental Activities was as follows:

	<u>Hours</u>	<u>Amount</u>
Sick Leave	5,688	\$89,848
Vacation / Compensatory Time	<u>7,579</u>	<u>93,805</u>
Total	<u><u>13,267</u></u>	<u><u>\$183,653</u></u>

In addition, the accrued liability for accumulated unpaid compensated absences recorded in the enterprise funds decreased \$19,406 from a beginning year balance of \$113,247 to a year-end balance of \$93,841.

CITY OF IRONTON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2006

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

Long-term debt and other long-term obligations of the City at December 31, 2006 were as follows:

			Restated Balance December 31, 2005	Additions	(Reductions)	Balance December 31, 2006	Due Within One Year
Business-Type Activities:							
Ohio Water Development Authority Loans (OWDA):							
2.00%	Loan #0239	1994	\$3,586,184	\$0	(\$244,280)	\$3,341,904	\$249,167
9.48%	Loan #0760-C	1992	979	0	(468)	511	511
8.97%	Loan #0750-C	1992	3,897	0	(1,864)	2,033	2,033
9.48%	Loan #0760	1988	241,770	0	(115,400)	126,370	126,370
8.97%	Loan #0750	1988	324,678	0	(155,356)	169,322	169,322
3.20%	Loan #4449	2006	0	381,136	0	381,136	0
Total Ohio Water Development Authority Loans			<u>4,157,508</u>	<u>381,136</u>	<u>(517,368)</u>	<u>4,021,276</u>	<u>547,403</u>
Ohio Public Works Commission							
0.00%		2006	0	68,454	0	68,454	3,750
General Obligation Notes							
4.80%	Sludge Press Acquisition	2006	0	300,000	(26,901)	273,099	55,753
Capital Leases							
3.95%	Street Sweeper Lease	2005	102,753	0	(18,975)	83,778	19,732
Compensated Absences							
			113,247	93,841	(113,247)	93,841	42,532
Total Business-Type Long-Term Debt			<u>\$4,373,508</u>	<u>\$843,431</u>	<u>(\$676,491)</u>	<u>\$4,540,448</u>	<u>\$669,170</u>
Governmental Activities Long-Term Debt:							
General Obligation Bonds:							
Varies	Building Improvement	2022	\$1,195,000	\$0	(\$45,000)	\$1,150,000	\$45,000
Varies	Fire House Construction Bonds	2026	1,300,000	0	(25,000)	1,275,000	25,000
Total General Long-Term Debt			<u>2,495,000</u>	<u>0</u>	<u>(70,000)</u>	<u>2,425,000</u>	<u>70,000</u>
Installment Loans:							
5.25%	Fire Equipment Acquisition	2008	173,400	0	(57,800)	115,600	57,800
Total Installment Loans			<u>173,400</u>	<u>0</u>	<u>(57,800)</u>	<u>115,600</u>	<u>57,800</u>
Other Long-Term Obligations:							
Community Action Organizaton			27,240	0	(11,000)	16,240	0
Police/Accrued Pension Obligations			488,619	0	(8,562)	480,057	8,929
Capital Leases Payable			0	3,500	(564)	2,936	2,936
Compensated Absences			135,546	183,653	(135,546)	183,653	93,805
Total Other Long-Term Obligations:			<u>651,405</u>	<u>187,153</u>	<u>(155,672)</u>	<u>682,886</u>	<u>105,670</u>
Total Governmental Activities			<u>\$3,319,805</u>	<u>\$187,153</u>	<u>(\$283,472)</u>	<u>\$3,223,486</u>	<u>\$233,470</u>

CITY OF IRONTON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2006

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, 2006, follows:

Years	Installment Loans		OWDA Loans		General Obligation Bond	
	Principal	Interest	Principal	Interest	Principal	Interest
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	0	0	264,416	51,587	85,000	111,883
2011	0	0	269,704	46,299	85,000	107,868
2012-2016	0	0	1,431,620	148,394	505,000	471,325
2017-2021	0	0	613,621	18,383	660,000	326,407
2022-2026	0	0	0	0	375,000	169,800
2027-2031	0	0	0	0	335,000	90,750
2032-2035	0	0	0	0	155,000	11,750
Totals	\$115,600	\$9,104	\$3,640,141	\$477,495	\$2,425,000	\$1,645,437

Years	Police/Fire Accrued Pension Liability		General Obligation Notes		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$8,930	\$20,309	\$55,753	\$12,447	\$739,884	\$254,468
2008	9,313	19,925	58,462	9,739	454,723	213,237
2009	9,713	19,525	61,302	6,899	410,246	198,729
2010	10,131	19,108	64,280	3,922	423,827	186,500
2011	10,566	18,673	33,302	799	398,572	173,639
2012-2016	60,038	86,153	0	0	1,996,658	705,872
2017-2021	74,088	72,104	0	0	1,347,709	416,894
2022-2026	91,427	54,765	0	0	466,427	224,565
2027-2031	112,821	33,370	0	0	447,821	124,120
2032-2035	93,030	7,990	0	0	248,030	19,740
Totals	\$480,057	\$351,922	\$273,099	\$33,806	\$6,933,897	\$2,517,764

CITY OF IRONTON, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2006**

NOTE 11 - LONG-TERM OBLIGATIONS (Continued)

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, 2006 was \$831,979 in principal and interest payments through the year 2035. Only the principal amount of \$480,057 is included in the Long-Term debt amount.

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, 2006, \$283,760 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 \$16,240 is included in the Long-term obligations.

C. Capital Leases

The City has entered into agreements to lease equipment. The original cost of the equipment was \$124,500. Such agreements are, in substance, lease purchases (capital leases) and are classified as long-term obligations in the financial statements. The costs of these assets are included in the capital asset balances of the Governmental Activities and the Sewer Fund (major enterprise fund). The capital leases payable are recorded in Governmental Activities and the Business-Type Activities in the amount of \$2,936, and \$83,778, respectively.

The following is a schedule of future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of December 31, 2006:

Year Ending December 31,	Governmental Activities	Business-Type Activities
2007	\$3,050	\$22,848
2008	0	22,848
2009	0	22,848
2010	0	22,848
Minimum Lease Payments	3,050	91,392
Less: amount representing interest at the City's incremental borrowing rate of interest	(114)	(7,614)
Present value of minimum lease payments	<u>\$2,936</u>	<u>\$83,778</u>

CITY OF IRONTON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2006

NOTE 12 - CONSTRUCTION COMMITMENTS

As of December 31, 2006, 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>
Downtown Street Scape Projects	West End Electric and Diaz Construction	\$30,779	December-07
Street Paving Projects	Mountain Enterprises	225,963	December-07
Sludge Press	MSD Environmental	55,425	December-07
	Total	<u>\$312,167</u>	

NOTE 13 - RISK MANAGEMENT

The City is exposed to various risks of property and casualty losses, and injuries to employees.

The City insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

The City belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage 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.

Casualty Coverage

For an occurrence prior to January 1, 2006 PEP retains casualty risks up to \$250,000 per occurrence, including claim 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 \$10,000,000 in the aggregate per year. For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to \$350,000 per occurrence, including loss adjustment expenses. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year. Governments can elect up to \$10,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with PEP.

If losses exhaust PEP's retained earnings, APEEP provides excess of funds available coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000 (for claims prior to January 1, 2006) or \$3,000,000 (for claims on or after January 1, 2006) as noted above.

Property Coverage

Through 2004, PEP retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence.

CITY OF IRONTON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2006

NOTE 13 - RISK MANAGEMENT (Continued)

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable values. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2006 was \$1,901,127.

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.

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

Financial Position

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, 2006 and 2005 (the latest information available):

<u>Casualty Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$30,997,868	\$29,719,675
Liabilities	(15,875,741)	(15,994,168)
Retained earnings	<u>\$15,122,127</u>	<u>\$13,725,507</u>

<u>Property Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$5,125,326	\$4,443,332
Liabilities	(863,163)	(1,068,245)
Retained earnings	<u>\$4,262,163</u>	<u>\$3,375,087</u>

At December 31, 2006 and 2005, respectively, casualty coverage liabilities noted above include approximately \$14.4 million and \$14.3 million of estimated incurred claims payable. The Casualty Coverage assets and retained earnings above also include approximately \$14.4 million and \$14.3 million of unpaid claims to be billed to approximately 447 member governments in the future, as of December 31, 2006 and 2005, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The City's share of these unpaid claims collectible in future years is approximately \$185,602. This payable includes the subsequent year's contribution due if the City terminates participation, as described in the last paragraph below.

Based on discussions with PEP, the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to

CITY OF IRONTON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2006

NOTE 13 - RISK MANAGEMENT (Continued)

determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

<u>Contributions to PEP</u>	
2004	\$85,085
2005	\$93,583
2006	\$92,801

After completing one year of membership, members may withdraw on each anniversary of the date they joined PEP provided they give written notice to PEP 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's budgetary contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

NOTE 14 - CONTINGENCIES

The City is party to legal proceedings. However, no liability has been accrued since the ultimate disposition of these claims and legal proceedings has yet to be determined and the amount of liability, if any, is not measurable.

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, 2006.

CITY OF IRONTON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2006

NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS

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 cross-representation 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.

Woodland Union Cemetery - Woodland Union Cemetery was established under Ohio Revised Code Section 517. The constitution and laws of the State of Ohio establish the rights and privileges for Woodland Union Cemetery as a body corporate and politic. The City of Ironton and Upper Township appoint a three-member Board of Trustees to direct cemetery operations. The Cemetery provides grounds maintenance, opening and closing of graves, and the sale of lots. The Cemetery is not dependent upon the City of Ironton for its continued existence.

CITY OF IRONTON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2006

NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS (Continued)

KYOVA Interstate Planning Commission - The KYOVA Interstate Planning Commission was established by joint resolution adopted by the State of West Virginia and Ohio. The objectives and policies of the Commission are prescribed in the West Virginia State Code, Chapter 8, Articles 4C-4 and the Ohio Revised Code, Section 713.30, et seq. Membership is comprised of elected or appointed county and municipal officials or their officially appointed designees as determined by the three county governing bodies of Cabell and Wayne Counties, West Virginia, and Lawrence County, Ohio, and by the governing bodies of the cities of Huntington, West Virginia, and Ironton, Ohio. The Commission is not dependent upon the City of Ironton for its continued existence.

Ohio Valley Regional Development Commission - The Ohio Valley Regional Development Commission is a jointly governed organization that serves a twelve county economic development planning district in southern Ohio. The Commission was formed to influence favorably the future economic, physical and social development of Adams, Brown, Clermont, Fayette, Gallia, Highland, Jackson, Lawrence, Pike, Ross, Scioto, and Vinton Counties. Membership is comprised of elected and appointed county, municipal and township officials or their officially appointed designees, as well as members of the private sector, community action agencies and regional planning commissions. The Commission is not dependent upon the City of Ironton for its existence.

Lawrence County Economic Development Corporation (LEDC) - The Lawrence County Economic Development Corporation is a non for profit community improvement corporation formed under Chapter 1724 of the Ohio Revised Code. The LEDC was formed in 1983 and was designated as the economic development agent for the City of Ironton and Lawrence County. The goal of the agency is job creation and retention. The LEDC is administered by a Board of Trustees, composed of local elected officials and local business leaders. The LEDC is not dependent upon the City of Ironton for its existence.

NOTE 16 – SUBSEQUENT EVENT

The City issued a Bond Anticipation Note on April 12, 2007 for \$313,733 for the purchase of various pieces of equipment.



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

City of Ironton
Lawrence County
301 South Third Street
Ironton, Ohio 45638

To the Members of City Council:

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, Lawrence County, Ohio (the City), as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 31, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

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

We consider the following deficiencies described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting: 2006-002 and 2006-003.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the City's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, of the significant deficiencies described above, we believe finding numbers 2006-002 and 2006-003 are also material weaknesses.

We also noted certain internal control matters that we reported to the City's management in a separate letter dated December 31, 2007.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings as item 2006-001.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated December 31, 2007.

We intend this report solely for the information and use of management and City Council. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

December 31, 2007

**CITY OF IRONTON
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2006-001

Noncompliance Citation

Ohio Rev. Code Section 117.38 states cash-basis entities must file annual reports with the Auditor of State within 60 days of the fiscal year end. GAAP-basis entities must file annual reports within 150 days. The Auditor of State may prescribe by rule or guidelines the forms for these reports. However, if the Auditor of State has not prescribed a reporting form, the public office shall submit its report on the form used by the public office. Any public office not filing the report by the required date shall pay a penalty of twenty-five dollars for each day the report remains unfiled, not to exceed seven hundred fifty dollars. The AOS may waive these penalties, upon the filing of the past due financial report.

The report shall contain the amount of: (A) receipts, and amounts due from each source; (B) expenditures for each purpose; (C) income of any public service industry that the entity owns or operates, as well as the costs of ownership or operation; and (D) public debt of each taxing district, the purpose of the debt, and how the debt will be repaid. Also, the public office must publish notice in a local newspaper stating the financial report is available for public inspection at the office of the chief fiscal officer.

The City did not file its annual financial report for 2006 by the required deadline. They did request an extension from the Auditor of State's office; however, this extension was denied.

We recommend the City file their required GAAP financial reports within the 150 day deadline as stated above.

Officials' Response: We did not receive a response from officials' to this finding.

FINDING NUMBER 2006-002

Material Weakness

Indirect costs are those costs which are incurred for a common or joint purpose benefiting more than one cost objective, and not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved. Management should prepare a cost allocation plan to allocate the indirect costs, as well as retain the related documentation to support those costs.

The City could not provide a 2006 Cost Allocation Plan to support the amounts that were transferred from the Water, Sewer, Sanitation, and Storm Utility Funds to the General Fund. In addition to this, the amounts on the most up to date allocation plan on file included figures that were not actually expenditures. Instead, these amounts (shown as unallocated budget stabilization on the cost allocation plan) were carryover cash balances that could not be substantiated by the City's financial records. This resulted in a \$95,000 adjustment from the General Fund to the Storm Utility Water Fund.

It was also noted in the prior year's audit of the cost allocation plan, that the amounts calculated for indirect cost allocation did not agree to the amounts transferred from the Water, Sanitation, Storm Utility and Sewer Funds to the General Fund. The cost allocation plan on file was several years old and did not reflect the information to determine the proper allocation at the time.

These types of errors could result in questions being raised regarding indirect cost allocation and could result in inaccurate amounts being reimbursed to the General Fund.

**CITY OF IRONTON
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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**FINDING NUMBER 2006-002
(Continued)**

Material Weakness (Continued)

We recommend City Council review the indirect cost allocation proposal to ensure it reflects current information. If it is determined that the indirect cost allocation is unreasonable, a new indirect cost allocation proposal should be developed.

Officials Response: We did not receive a response from officials' to this finding.

FINDING NUMBER 2006-003

Material Weakness

Sound financial reporting is the responsibility of the Finance Director and City Council and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

As a result of the audit procedures performed, the following errors were noted in the financial statements that required audit adjustment or reclassification:

- Revenues and expenditures were reduced by \$161,806 to prevent duplication of intergovernmental receipts and expenditures in the Capital Infrastructure Fund.
- A reclassification of \$150,050 was recorded to show fire fund expenditures properly made from this fund and not the General Fund.
- Notes receivable and deferred revenue were adjusted by \$25,517 due to an error in calculation of the receivable in the Revolving Loan Fund.
- Deferred revenue was increased by \$58,105 to correct a posting of intergovernmental receivable received after the available period.
- Taxes receivable was increased by \$347,913 to post unrecorded receivables.
- A reclassification of \$463,817 was recorded between Invested in Capital Assets, Net of Related Debt and Unrestricted Net Assets due to an error in the calculation of Invested in Capital Assets, Net of Related Debt.
- A reclassification of \$710,495 was recorded between Property Taxes, Other Revenues, and Charges for Services due to an error in the roll up of cash figures during the compilation process.
- A reclassification of \$123,000 was recorded between contractual services and other operating expenses due to an error in the roll up of cash figures during the compilation process.
- A reclassification of \$286,509 was recorded between Fines and Forfeitures and Charges for Services due to an error in the roll up of cash figures during the compilation process.
- Budgetary figures were adjusted for the General and Revolving Loan Funds to reflect the figures on the approved budgetary documents.

**CITY OF IRONTON
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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**FINDING NUMBER 2006-003
(Continued)**

Material Weakness (Continued)

- Charges for services and contractual services were reduced by \$95,000 in the General and Storm Utility Fund to remove unsupported indirect cost transfers made by the Storm Utility fund to the General Fund.
- Capital Assets (Net of Accumulated Depreciation) were reduced by \$10,540,907 due to errors in the original calculation of the infrastructure.
- Capital Assets (Net of Accumulated Depreciation) were increased by \$7,684,789 to record five bridges that were omitted from infrastructure.
- Capital Assets (Net of Accumulated Depreciation) were increased by \$55,425 to bring on an unrecorded asset.
- Accrued Wages and Benefits were increased by \$152,692 due to an error in the posting of the journal entries done by the compiler of the financial statements.
- Intergovernmental Receivable and Deferred Revenues were decreased by \$77,440 to record an adjustment from an estimate done by the compiler to actual receipts received after year end.

To ensure the City's financial statements and notes to the statements are complete and accurate, the City should adopt policies and procedures, including a final review of the statements and notes by the Finance Director and City Council, to identify and correct errors and omissions.

Official's Response: We did not receive a response from officials' to this finding.

**CITY OF IRONTON
LAWRENCE COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-001	Estimated receipts exceeded appropriations.	Yes	
2005-002	Sampling of materials was not properly done on federal construction projects.	No	Finding no longer valid since the projects are complete and sampling cannot be performed by the City.
2005-003	Proper prevailing wage was not paid for federal construction projects.	Yes	
2005-004	Federal project was not completed by federal grant agreement deadline and no extension was obtained.	No	Finding no longer valid since project is complete and no new federal projects were entered into in 2006.

**CITY OF IRONTON
LAWRENCE COUNTY**

**CORRECTIVE ACTION PLAN
DECEMBER 31, 2006**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2006-001	City plans to submit the next year's financial report by the required deadline.	12/31/07	Kathy Elam, Finance Director
2006-002	City plans to update their Cost Allocation Plan.	12/31/08	Kathy Elam, Finance Director
2006-003	City plans to closely monitor their postings and the compilation done by Independent Pubic Accountant.	12/31/07	Kathy Elam, Finance Director



Mary Taylor, CPA
Auditor of State

**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
JANUARY 22, 2008**