

CITY OF ASHLAND

**FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

FOR THE YEAR ENDED JUNE 30, 2007

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS



**Kelley,
Galloway &
Company, PSC**

CERTIFIED PUBLIC ACCOUNTANTS

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	3-4
MANAGEMENT'S DISCUSSION AND ANALYSIS	5-15
BASIC FINANCIAL STATEMENTS:	
Government-wide Financial Statements -	
Statement of Net Assets	16
Statement of Activities	17
Fund Financial Statements -	
Balance Sheet - Governmental Funds	18
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	19
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	20
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	21
Statement of Net Assets - Proprietary Funds	22
Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Funds	23
Statement of Cash Flows - Proprietary Funds	24
Statement of Net Assets - Fiduciary Funds	25
Statement of Changes in Net Assets - Fiduciary Funds	26
Statements of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	27
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Special Revenue Funds	28-31
Notes to Financial Statements	32-47
REQUIRED SUPPLEMENTAL INFORMATION:	
Defined Benefit Pension Trusts:	
Schedules of Funding Progress	48
Schedules of Employer Contributions	49
SUPPLEMENTAL INFORMATION - COMBINING, INDIVIDUAL AND OTHER STATEMENTS AND SCHEDULES	
General Fund:	
Balance Sheet	50
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	51-53
Fiduciary Funds:	
Combining Statement of Net Assets	54
Combining Statement of Changes in Net Assets	55

Capital Assets Used in the Operations of Governmental Funds:	
Schedule of Capital Assets Used in the Operation of Governmental Funds by Function and Activity	56
Schedule of Capital Assets Used in the Operation of Governmental Funds by Source	57
City of Ashland Housing Authority (HUD Schedules)	58-59
Schedule of Expenditures of Federal Awards	60-61
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	62-63
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	64-65
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	66
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	67
CORRECTIVE ACTION PLAN	68



Kelley,
Galloway &
Company, PSC

CERTIFIED PUBLIC ACCOUNTANTS

▪ 1200 BATH AVENUE ▪ P. O. BOX 990 ▪ ASHLAND, KENTUCKY 41105-0990 ▪
▪ Phone (606) 329-1811 ▪ Fax (606) 329-8756 ▪ E-mail contact@kelleygalloway.com ▪ Web site www.kelleygalloway.com ▪

Member of the Center for Public Company Audit Firms, the Private Companies Practice Section of the American Institute of Certified Public Accountants and PKF North American Network

INDEPENDENT AUDITOR'S REPORT

The Honorable Steve Gilmore, Mayor
City Commissioners and City Manager
City of Ashland
Ashland, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Ashland, Kentucky as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the City of Ashland's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City of Ashland, Kentucky, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund and Special Revenue Funds for the year then ended, in conformity with accounting principles generally accepted the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2007 on our consideration of the City of Ashland's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis information on pages 5 through 15, is not a required part of the basic financial statements but is supplemental information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of

measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ashland's basic financial statements. The supplemental information contained on pages 50 through 59 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Additionally, the accompanying schedule of expenditures of federal awards contained on pages 60 and 61 is presented for purposes of additional analysis as required by *U. S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Kelley, Gallaway & Company, PSC
November 27, 2007

MANAGEMENT DISCUSSION AND ANALYSIS

The management discussion and analysis (MD&A) gives readers an overview and analysis of the financial position and activities of the City of Ashland ("Government") for the fiscal year ended June 30, 2007. This information should be read in conjunction with the financial statements immediately following the analysis.

FINANCIAL HIGHLIGHTS

- ⇒ The assets of the Government exceeded its liabilities at the end of the fiscal year by \$91,576,808 (net assets). Governmental activities' unrestricted net assets were \$2,945,160. Business type activities' unrestricted net assets were \$(592,326).
- ⇒ The Government's total net assets decreased by \$559,835. Net assets of governmental activities increased by \$678,507, and net assets of business-type activities decreased by \$1,238,342.
- ⇒ At June 30, 2007, the governmental activities had \$65,847,756 in assets and \$9,045,548 in liabilities. Business type activities had \$49,898,525 in assets and \$15,123,925 in liabilities.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the city's basic financial statements, which consist of three components: (1) government-wide financial statements, (2) fund financial statements and (3) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements.

REPORTING THE GOVERNMENT AS A WHOLE

This report is published under the new standards for government financial reporting as prescribed by the Governmental Accounting Standards Board, Statement Number 34 (GASB 34). The reporting format consists of a series of financial statements that provide an overview of all services provided by or supported by the Government (the Government-wide Statements) and provides more detailed information about major programs of the Government ("the fund statements").

The reporting changes have been made in order to provide improved information to the reader. The new statements present a financial picture of the Government as a whole through the use of a consolidated statement of all funds and eliminating interfund transfers. The value of fixed assets of governmental type operations is presented. The infrastructure assets for governmental type funds, including roads, bridges, sidewalks, etc., were not reported or depreciated under the prior reporting standards. The Government reports these fixed asset additions from the fiscal year ended June 30, 1980 forward.

Government-wide financial statements include the Statement of Net Assets and the Statement of Activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All the revenues earned and expenses incurred in the fiscal year are taken into account regardless of when cash is received or paid.

The Statement of Net Assets presents information on all the Government's assets and liabilities as of June 30, 2007. The net assets are the differences between assets and liabilities. Over time an increase or decrease in net assets is one indicator of whether financial health is improving or deteriorating. Information on other factors such as changes in the revenue structure and the condition of the Government's assets is also needed to assess the overall financial position of the Government.

The Statement of Activities presents the Government's annual revenues and expenses, as well as any other transactions that increase or reduce net assets. Program revenues are offset by program expenses to provide better information as to program costs financed by general government revenues.

The government-wide statements divide the Government's activities into two kinds of activities:

Governmental activities - Most of the Government's basic services are reported here, including general government, police, fire, public services and engineering. Property taxes, insurance tax and occupational license fees finance most of these activities.

Business-type activities - Activities primarily paid for from charges and fees to cover the cost of services are reported here. This includes water production, sanitary sewer services, bus service and recreation.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

Fund financial statements report the Government's operations in more detail than the government-wide statements by providing information about the Government's most significant funds. Some funds are required to be established by local law or by bond covenants. Other funds are established to help control and manage money for a particular purpose. These types of funds are presented in the fund financial statements: governmental funds, proprietary funds and fiduciary funds.

Governmental funds - Most of the Government's basic services are reported in the governmental funds. These statements provide a short-term view of general government operations and how these services are financed as well as the balances left at year end that are available for future spending. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can be readily converted to cash.

Proprietary funds - The Government charges fees for business-type services which are intended to cover the cost of providing those services. The governing body decides that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The subcategories of the funds include enterprise funds, which are business-type activities, and internal service funds, which report services provided to internal units of government. The proprietary funds are reported in the same way that all activities are reported in the government-wide statements but the fund statements provide more detail. The City considers the Utility Fund, Ashland Bus System and Recreation Operating Fund to be its major proprietary funds.

Internal service funds - These funds are used to accumulate and allocate costs internally among the various functions or cost centers. The City uses an internal service fund to account for the employee health insurance and life insurance benefits.

Notes to the financial statements - The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial

statements. The notes to the financial statements begin immediately following the basic financial statements.

Other information - In addition to the basic financial statements and accompanying notes, this report also presents certain *Required Supplemental Information* concerning the City's progress in funding its obligation to provide pension benefits to certain employees. Additionally, *Supplemental Information* includes more detail on the City's General Fund, combining statements of the City's Fiduciary Funds and details of the City's capital assets.

THE GOVERNMENT AS A TRUSTEE

The Government is trustee, or fiduciary, for two employees' pension plans, the Police and Firefighter's pension fund and the Utility employee pension fund. The fiduciary activities are reported separately. These activities are excluded from the other government-wide and fund statements because the Government cannot use these assets to finance its operations.

ANALYSIS OF THE GOVERNMENT AS A WHOLE

NET ASSETS

As of June 30, 2007, the Government as a whole had net assets greater than its liabilities by \$91,576,808. Net assets of governmental activities were \$56,802,208 and increased by \$678,507 over the prior year. Fiscal year 2006 ending governmental net assets increased by \$2,193,659 due to prior period adjustments. See note 14. Of ending governmental activities net assets \$49,741,383, or 88%, is invested in capital assets net of related debt, \$4,115,665, or 7%, is restricted net assets and unrestricted net assets are \$2,945,160, or 5%.

The net assets of the Government's business-type activities are \$34,774,600 and decreased by \$1,238,342 from the prior year. Of these net assets \$34,704,680 is invested in capital assets net of related debt, \$662,246 is restricted for debt service and \$(592,326) is unrestricted. The largest portion of the City's combined net assets (92%) reflects its investment in capital assets (i.e., land, buildings, machinery and equipment) less outstanding related debt used to acquire those assets. The City uses these capital assets to provide services to citizens and as a result, these assets are not available for future spending. The City's capital asset investment is reported net of related debt, but the resources to pay this debt must be provided from other sources, since the capital assets cannot be used to liquidate the liabilities.

An additional portion of City net assets, \$4,777,911, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$2,352,834, may be used to meet the City's ongoing obligation to citizens and creditors.

At the end of this fiscal year, June 30, 2007, the City has negative unrestricted net assets in its business-type activities. All remaining net asset categories had positive balances.

ANALYSIS OF THE CITY'S NET ASSETS

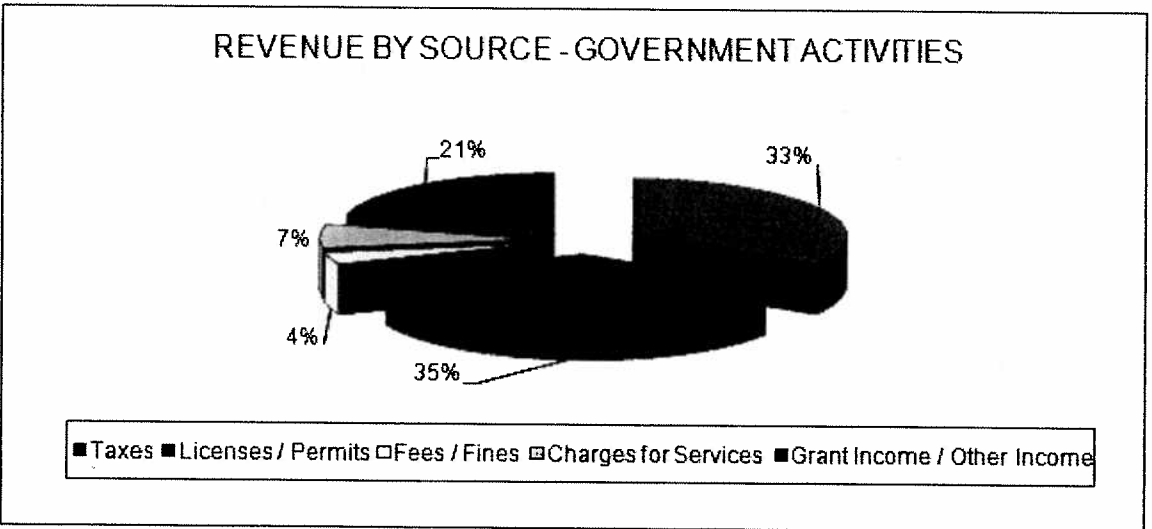
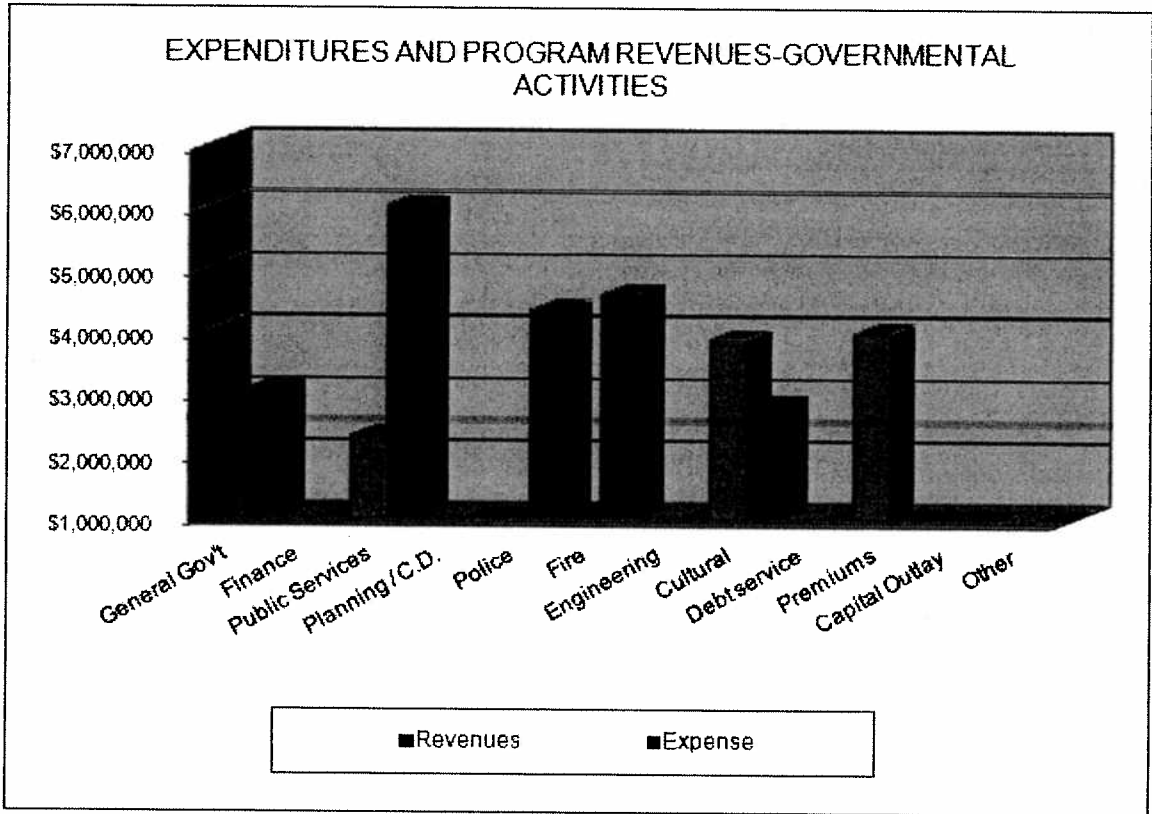
	Governmental Activities		Business- Type Activities		Total Primary Government	
	<u>2007</u>	<u>2006</u> (as restated)	<u>2007</u>	<u>2006</u> (as restated)	<u>2007</u>	<u>2006</u> (as restated)
Current and other assets	\$ 14,803,648	\$ 12,404,466	\$ 2,331,344	\$ 2,412,148	\$ 17,134,992	\$ 14,816,614
Capital assets	<u>51,044,108</u>	<u>52,180,853</u>	<u>47,567,181</u>	<u>49,429,754</u>	<u>98,611,289</u>	<u>101,610,607</u>
Total assets	<u>65,847,756</u>	<u>65,585,319</u>	<u>49,898,525</u>	<u>51,841,902</u>	<u>115,746,281</u>	<u>116,427,221</u>
Liabilities	3,833,424	2,720,890	2,533,940	2,597,575	6,367,364	5,318,465
Long-term Liabilities	<u>5,212,124</u>	<u>5,740,728</u>	<u>12,589,985</u>	<u>13,231,385</u>	<u>17,802,109</u>	<u>18,972,113</u>
Total liabilities	<u>9,045,548</u>	<u>8,461,618</u>	<u>15,123,925</u>	<u>15,828,960</u>	<u>24,169,473</u>	<u>24,290,578</u>
Net assets						
Invested in capital assets net of related debt	49,741,383	50,818,069	34,704,680	35,946,204	84,446,063	86,764,273
Restricted	4,115,665	3,933,528	662,246	662,246	4,777,911	4,595,774
Unrestricted	<u>2,945,160</u>	<u>1,372,104</u>	<u>(592,326)</u>	<u>(595,508)</u>	<u>2,352,834</u>	<u>776,596</u>
Total net assets	<u>\$ 56,802,208</u>	<u>\$ 56,123,701</u>	<u>\$ 34,774,600</u>	<u>\$ 36,012,942</u>	<u>\$ 91,576,808</u>	<u>\$ 92,136,643</u>

ANALYSIS OF THE CITY'S OPERATIONS

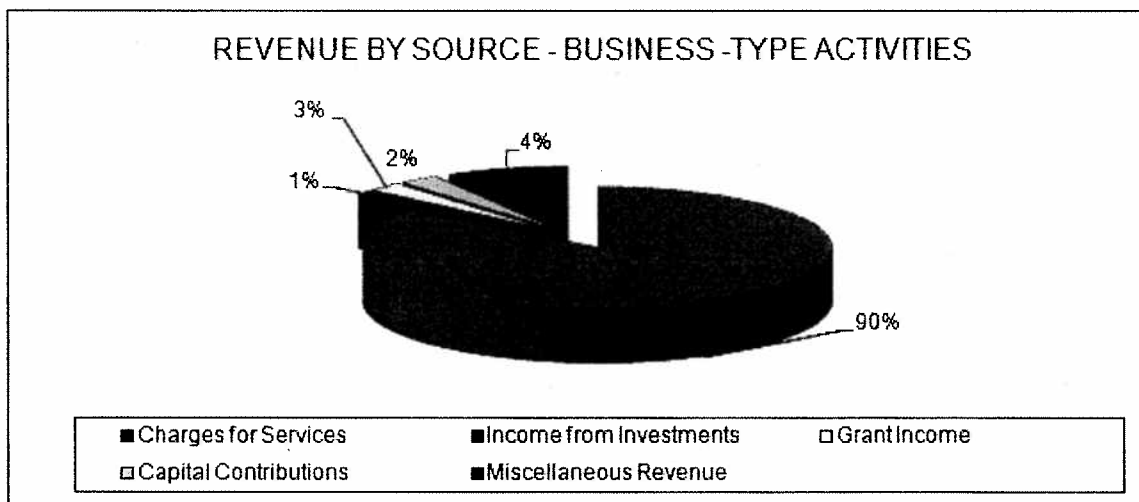
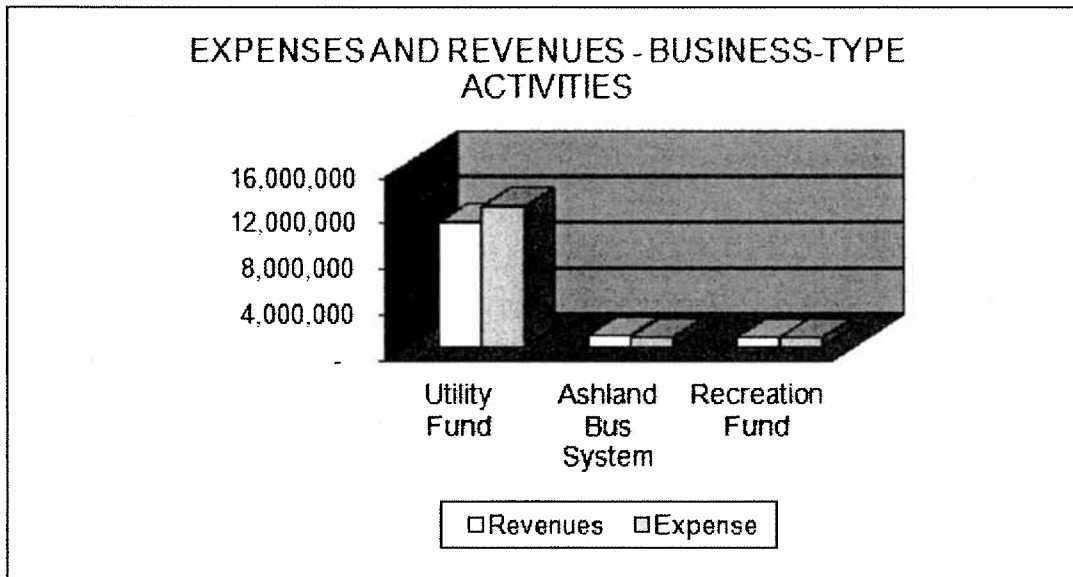
Revenues	Governmental Activities		Business-Type Activities		Total Primary Government	
	2007	2006 (as restated)	2007	2006 (as restated)	2007	2006 (as restated)
Taxes	\$ 8,109,826	\$ 8,040,454	\$ -	\$ -	\$ 8,109,826	\$ 8,040,454
Licenses/permits	8,408,948	7,965,545	-	-	8,408,948	7,965,545
Fees/fines	853,106	1,222,715	-	-	853,106	1,222,715
Charges for services	1,745,790	1,659,831	10,461,627	9,539,512	12,207,417	11,199,343
Grant/other income	5,133,413	5,263,814	1,157,378	1,101,331	6,290,791	6,365,415
Total revenue	\$ 24,251,083	\$ 24,152,359	\$ 11,619,005	\$ 10,640,843	\$ 35,870,088	\$ 34,793,472

Expenses	Governmental Activities		Business-Type Activities		Total Primary Government	
	2007	2006 (as restated)	2007	2006 (as restated)	2007	2006 (as restated)
General						
government	\$ 3,044,879	\$ 2,737,485	\$ -	\$ -	\$ 3,044,879	\$ 2,737,485
Finance	531,656	497,390	-	-	531,656	497,390
Public services	6,043,808	7,000,885	-	-	6,043,808	7,000,885
Planning/CD	635,512	537,919	-	-	635,512	537,919
Police	4,353,845	3,973,678	-	-	4,353,845	3,973,678
Fire	4,614,615	4,461,805	-	-	4,614,615	4,461,805
Engineering	137,622	123,426	-	-	137,622	123,426
Community/cultural	2,802,714	2,708,838	-	-	2,802,714	2,708,838
Debt service	220,224	195,881	-	-	220,224	195,881
Premiums/claims	(169,904)	312,624	-	-	(169,904)	312,624
Capital outlay	280,505	967,171	-	-	280,505	967,171
Other	15,938	84,024	-	-	15,938	84,024
Utility fund	-	-	12,243,598	11,784,287	12,243,598	11,784,287
Ashland bus system	-	-	863,039	843,006	863,039	843,006
Recreation operating fund	-	-	811,872	168,977	811,872	168,977
Total expense	\$ 22,511,414	\$ 23,601,126	\$ 13,918,509	\$ 12,796,270	\$ 36,429,923	\$ 36,397,396
Transfers	(1,061,162)	(426,683)	1,061,162	426,683	-	-
Change in net assets	678,507	124,550	(1,238,342)	(1,728,744)	(559,835)	(1,604,194)
Net asset beginning of year (as restated)	56,123,701	55,999,151	36,012,942	37,741,686	92,136,643	93,740,837
Net asset end of year	\$ 56,802,208	\$ 56,123,701	\$ 34,774,600	\$ 36,012,942	\$ 91,576,808	\$ 92,136,643

GOVERNMENTAL ACTIVITIES

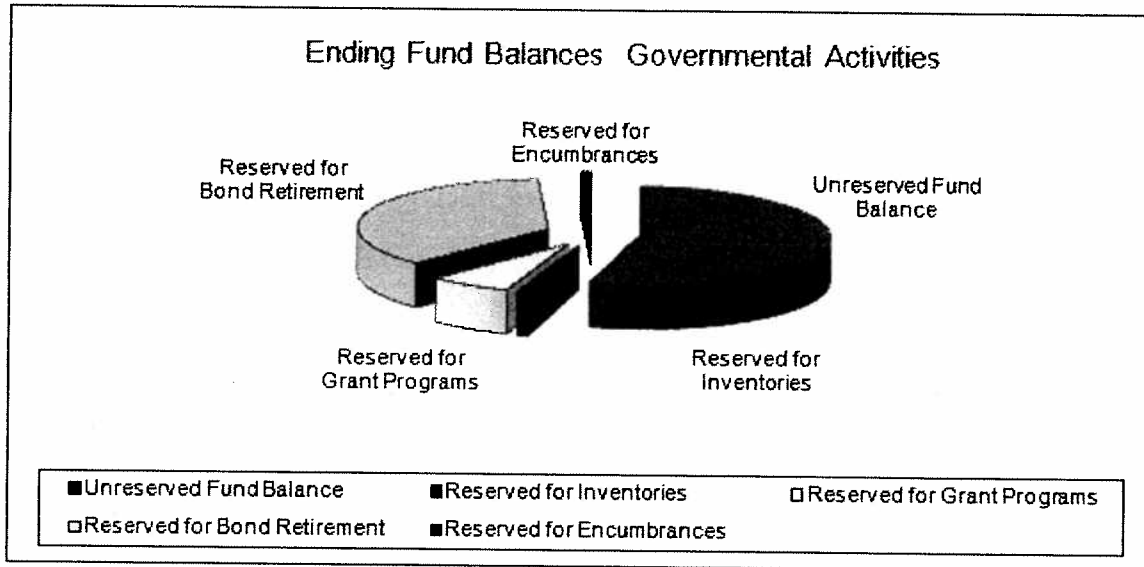


BUSINESS-TYPE ACTIVITIES



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The focus of the City's governmental funds is to provide information on near-term inflows or outflows and balances of spendable resources which are useful in determining the City's financing requirements. Unreserved fund balance serves as a useful measure of the City's net resources available for spending at the end of the fiscal year. At the end of the fiscal year, the City's governmental funds reported combined ending fund balances of \$9,385,559. Of this total, \$5,097,895 or 54% is unreserved fund balance. The remainder of fund balance is reserved to indicate it is not available for new spending because it has already been committed for inventories @ \$87,442, grant programs @ \$649,125, capital projects @ \$3,466,540 and encumbrances @ \$84,557.



MAJOR GOVERNMENTAL FUNDS

For the year ending June 30, 2007, the major governmental funds reported as follows:

The General Fund had revenues of \$19,717,120 and expenditures of \$17,090,394. The total fund balance was \$8,828,578.

The Municipal Aid Road Fund had revenues of \$468,470 and expenditures of \$461,130. The total fund balance was \$53,520.

The Floodwall Operating Fund had revenues of \$143,734 and expenditures of \$175,508. The total fund balance was \$63,809.

The Community Development Fund had revenues of \$1,106,884 and expenditures of \$1,104,338. The total fund balance was \$78,600.

The Housing Assistance Fund had revenues of \$2,656,808 and expenditures of \$2,594,355. The total fund balance was \$282,200.

The Capital Projects Fund had revenues of \$200,656, other financing sources of \$448,209, and expenditures of \$620,013. The total fund balance was \$78,852.

PROPRIETARY FUNDS

The City's proprietary funds, or business-type activities, had total assets of \$54,020,053 and total liabilities of \$19,245,453, leaving net assets of \$34,774,600. Of the total proprietary fund's net assets, the Utility fund had \$(675,542) in unrestricted net assets. The Ashland Bus System had (\$38,934) in unrestricted net assets and the Recreation Fund had \$122,150 in unrestricted net assets. All proprietary funds are considered major funds. Total decrease in net assets for the three proprietary funds was \$(1,238,342).

BUDGETARY HIGHLIGHTS

The budget was amended during the year to reflect the following:

- ⇒ \$969,300 increase in net expenditures of the General Fund.
- ⇒ \$300,000 increase in net expenditures of the Municipal Aid Fund.
- ⇒ \$285,000 decrease in the Utility Fund.
- ⇒ \$254,509 increase in the Ashland Bus System Fund.
- ⇒ \$250,121 increase in the Capital Purchase Improvement Fund.

The net increase in appropriations and transfers was taken from available fund balance.

CAPITAL ASSET AND DEBT ADMINISTRATION

The City's investment in capital assets for governmental and business-type activities as of June 30, 2007 is \$98,611,289 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, machinery and equipment, park facilities, roads and construction in progress. See note 6 for additional discussion of the City's capital assets.

Major construction projects through June 30, 2007 include:

<u>Project</u>	<u>Cost</u>	<u>Outstanding Balance</u>	<u>Amount Expended</u>
Riverfront KZF	\$ 500,000	\$ 226,015	\$ 273,985
	<u>\$ 500,000</u>	<u>\$ 226,015</u>	<u>\$ 273,985</u>

**CITY OF ASHLAND - CAPITAL ASSETS
(NET OF DEPRECIATION)**

<u>Asset</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total 2007</u>
Land	\$ 3,728,249	\$ 436,634	\$ 4,164,883
Buildings and improvements	3,515,459	1,122,232	4,637,691
Automotive equipment	809,388	436,294	1,245,682
Operating equipment	1,333,330	470,499	1,803,829
Office equipment	69,860	61,038	130,898
Capital improvements	312,373	-	312,373
Right-of-way	15,038,909	-	15,038,909
Infrastructure	26,203,397	-	26,203,397
Utility plant	-	44,619,386	44,619,386
Construction (CIP)	33,143	378,682	411,825
Recreation	-	42,416	42,416
Total	\$ 51,044,108	\$ 47,567,181	\$ 98,611,289

DEBT

At the end of fiscal year 2007 the City had governmental activities debt of \$5,735,115 compared to \$6,258,512 at June 30, 2006, which represents an decrease of \$523,397. Business-type activities had debt of \$13,231,385 compared to \$13,849,880 at June 30, 2006, which represents a decrease of \$618,495. The following chart summarizes governmental and business-type activities debt.

<u>Governmental Activities Debt</u>	<u>Amount</u>
General obligation bond series 2005	\$ 3,230,000
Capital lease - fire station	1,225,000
Capital leases - equipment	77,725
General obligation bond series 1999	640,000
Compensated absences obligation	562,390
Total	\$ 5,735,115
<u>Business-Type Activities Debt</u>	<u>Amount</u>
Utility bonds 04	\$ 7,160,000
Utility accrued pension liability	539,717
Kentucky infrastructure authority loans	5,531,668
Total	\$ 13,231,385

DESCRIPTION OF MUNICIPAL DEBT

- ⇒ General Obligation Bonds 2005 Melody Mountain \$3,230,000.
- ⇒ Capital Lease to construct Central Fire station at \$1,225,000.
- ⇒ Capital Leases for various equipment at \$77,725.
- ⇒ General Obligation bonds to advance refund Ashland Capital Project Corporation bonds at \$640,000.
- ⇒ Employee compensated absences payable after 60 days at \$562,390.
- ⇒ Utility Revenue bond issue 2004 for phase II upgrade of the water plant \$7,160,000.
- ⇒ Utility accrued pension liability represents the difference between the actuarially determined annual pension costs and the amount paid into the plan by the City at \$539,717.
- ⇒ Kentucky Infrastructure Authority Loans used to upgrade the utility system at \$5,531,668.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Unemployment rate for the City of Ashland as of June 2007 is 5.1%. This rate is lower than the State of Kentucky rate at 5.4% and higher than the national rate of 4.5%. Inflationary trends in the City compares favorably to the state and national trend of 2.5%.

The following table summarizes the 2008 fiscal year budgeted expenses.

- ⇒ General Fund - \$27,295,345
- ⇒ Municipal Aid Program - \$364,720
- ⇒ Community Development Block Grant Fund - \$895,227
- ⇒ Section 8 Voucher - \$2,261,036
- ⇒ Floodwall Operating Fund - \$161,828
- ⇒ Utility Fund - \$12,299,857
- ⇒ Ashland Bus System - \$764,171
- ⇒ Recreation Operating Fund - \$1,064,344
- ⇒ Capital Purchase Improvement Fund - \$558,966

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of financial data for the City of Ashland. Requests for additional information should be addressed to:

Tony D. Grubb
Director of Finance
City of Ashland
P.O. Box 1839
Ashland, KY 41105-1839
Email: Tdgrubb@Windstream.net

CITY OF ASHLAND
STATEMENT OF NET ASSETS
JUNE 30, 2007

Assets:	Governmental Activities	Business-Type Activities	Total
Cash and cash equivalents	\$ 198,863	\$ 494,560	\$ 693,423
Accounts receivable	321,029	2,464,252	2,785,281
Allowance for uncollectible accounts	-	(824,750)	(824,750)
Taxes receivable	3,289,916	-	3,289,916
Allowance for uncollectible taxes	(267,031)	-	(267,031)
Grants receivable	965,040	169,889	1,134,929
Internal balances, net	3,031,281	(3,031,281)	-
Receivable from fiduciary fund	1,329,991	(1,069,160)	260,831
Program receivables	17,362	-	17,362
Allowance for uncollectible accounts	(5,917)	-	(5,917)
Other receivables	538,318	-	538,318
Allowance for uncollectible accounts	(99,309)	-	(99,309)
Inventories	87,442	410,288	497,730
Restricted assets -			
Cash and cash equivalents	3,466,540	2,347,815	5,814,355
Net pension asset	1,930,123	1,233,745	3,163,868
Nondepreciable capital assets	22,209,111	815,316	23,024,427
Depreciable capital assets	68,517,611	83,457,165	151,974,776
Accumulated depreciation	(39,682,614)	(36,705,300)	(76,387,914)
Deferred bond issuance costs	-	135,986	135,986
Total assets	<u>65,847,756</u>	<u>49,898,525</u>	<u>115,746,281</u>
Liabilities:			
Cash overdraft	833,657	-	833,657
Accounts payable	1,312,739	385,177	1,697,916
Due to Board of Education	75,721	-	75,721
Accrued compensated absences, current	110,633	155,179	265,812
Other accrued expenses and liabilities	977,683	273,738	1,251,421
Deposits	-	907,613	907,613
Matured revenue bonds, notes and interest payable	-	170,833	170,833
Current portion of long-term debt	522,991	641,400	1,164,391
Accrued compensated absences, non-current	562,390	-	562,390
Capital lease obligations, non-current	1,174,734	-	1,174,734
Accrued pension liability, non-current	-	539,717	539,717
Revenue and improvement bonds	-	6,765,000	6,765,000
Kentucky Infrastructure Authority loan, non-current	-	5,285,268	5,285,268
General obligation bonds, non-current	3,475,000	-	3,475,000
Total liabilities	<u>9,045,548</u>	<u>15,123,925</u>	<u>24,169,473</u>
Net Assets:			
Invested in capital assets, net of related debt	49,741,383	34,704,680	84,446,063
Restricted	4,115,665	662,246	4,777,911
Unrestricted	2,945,160	(592,326)	2,352,834
Total net assets	<u>\$ 56,802,208</u>	<u>\$ 34,774,600</u>	<u>\$ 91,576,808</u>

The accompanying notes to financial statements
are an integral part of this statement.

**CITY OF ASHLAND
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
General government	\$ 3,044,879	\$ -	\$ -	\$ -	\$ (3,044,879)	\$ -	\$ (3,044,879)
Finance	531,656	-	-	-	(531,656)	-	(531,656)
Public services	6,043,808	1,471,184	853,098	-	(3,719,526)	-	(3,719,526)
Planning and code enforcement	635,512	-	-	-	(635,512)	-	(635,512)
Police	4,353,845	-	36,407	-	(4,317,438)	-	(4,317,438)
Fire	4,614,615	-	292,157	-	(4,322,458)	-	(4,322,458)
Engineering	137,622	-	-	-	(137,622)	-	(137,622)
Community and cultural	2,802,714	274,606	3,610,811	-	1,082,703	-	1,082,703
Premiums and claims	(169,904)	-	-	-	169,904	-	169,904
Capital outlay	280,505	-	-	-	(280,505)	-	(280,505)
Debt service-interest	220,224	-	-	-	(220,224)	-	(220,224)
Other	15,938	-	-	-	(15,938)	-	(15,938)
Total governmental activities	<u>22,511,414</u>	<u>1,745,790</u>	<u>4,792,473</u>	-	<u>(15,973,151)</u>	-	<u>(15,973,151)</u>
Business-Type Activities:							
Utilities	12,243,598	10,335,931	-	-	-	(1,907,667)	(1,907,667)
Recreation	811,872	73,036	-	-	-	(738,836)	(738,836)
Bus	863,039	52,660	302,670	312,565	-	(195,144)	(195,144)
Total business-type activities	<u>13,918,509</u>	<u>10,461,627</u>	<u>302,670</u>	<u>312,565</u>	-	<u>(2,841,647)</u>	<u>(2,841,647)</u>
Total primary government	<u>\$ 36,429,923</u>	<u>\$ 12,207,417</u>	<u>\$ 5,095,143</u>	<u>\$ 312,565</u>	<u>\$ (15,973,151)</u>	<u>\$ (2,841,647)</u>	<u>\$ (18,814,798)</u>
General Revenues:							
Property and other local taxes					\$ 8,109,826	\$ -	\$ 8,109,826
Licenses and permits					8,408,948	-	8,408,948
Fees, fines and reimbursements					853,106	-	853,106
Interest income					192,741	130,735	323,476
Gain on sale of assets					69,613	-	69,613
Other revenues					78,586	411,408	489,994
Total general revenues					<u>17,712,820</u>	<u>542,143</u>	<u>18,254,963</u>
Transfers, within primary government					(1,061,162)	1,061,162	-
Total general revenues and transfers					<u>16,651,658</u>	<u>1,603,305</u>	<u>18,254,963</u>
Change in net assets					678,507	(1,238,342)	(559,835)
Net assets, June 30, 2006, as restated (Note 14)					<u>56,123,701</u>	<u>36,012,942</u>	<u>92,136,643</u>
Net assets, June 30, 2007					<u>\$ 56,802,208</u>	<u>\$ 34,774,600</u>	<u>\$ 91,576,808</u>

The accompanying notes to financial statements are an integral part of this statement.

**CITY OF ASHLAND
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007**

Assets	Special Revenue Funds						Total Governmental Funds
	General	Municipal Aid Road	Floodwall Operating	Community Development	Housing Assistance	Capital Projects	
Cash	\$ 3,576,087	\$ 2,088	\$ 4,357	\$ 11,376	\$ 59,586	\$ -	\$ 3,653,494
Taxes receivable	3,158,180	-	131,736	-	-	-	3,289,916
Allowance for uncollectible taxes	(255,473)	-	(11,558)	-	-	-	(267,031)
Grants receivable	366,925	72,793	-	525,322	-	-	965,040
Due from other funds	4,830,438	4,687	-	-	231,121	79,539	5,145,785
Program receivables	-	-	-	17,362	-	-	17,362
Allowance for uncollectible accounts	-	-	-	(5,917)	-	-	(5,917)
Other receivables	182,789	-	-	90,043	64,831	200,655	538,318
Allowance for uncollectible accounts	(34,478)	-	-	-	(64,831)	-	(99,309)
Inventories - supplies	87,442	-	-	-	-	-	87,442
Total assets	\$ 11,911,910	\$ 79,568	\$ 124,535	\$ 638,186	\$ 290,707	\$ 280,194	\$ 13,325,100
Liabilities and Fund Balances							
Liabilities:							
Cash overdraft	\$ 833,657	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 833,657
Accounts payable	682,232	26,048	3,626	158,816	1,047	201,342	1,073,111
Due to other funds	1,104,134	-	53,550	394,530	-	-	1,552,214
Due to Board of Education	75,721	-	-	-	-	-	75,721
Accrued compensated absences	105,555	-	1,183	2,102	1,793	-	110,633
Accrued expenses	282,033	-	2,367	4,138	5,667	-	294,205
Total liabilities	3,083,332	26,048	60,726	559,586	8,507	201,342	3,939,541
Fund Balances:							
Reserved for capital projects	3,466,540	-	-	-	-	-	3,466,540
Reserved for inventories	87,442	-	-	-	-	-	87,442
Reserved for encumbrances	-	1,505	-	-	-	83,052	84,557
Reserved for grant programs	366,925	-	-	-	282,200	-	649,125
Unreserved/undersigned, reported in:							
General fund	4,907,671	-	-	-	-	-	4,907,671
Special revenue funds	-	52,015	63,809	78,600	-	-	194,424
Capital projects fund	-	-	-	-	-	(4,200)	(4,200)
Total fund balances	8,828,578	53,520	63,809	78,600	282,200	78,852	9,385,559
Total liabilities and fund balances	\$ 11,911,910	\$ 79,568	\$ 124,535	\$ 638,186	\$ 290,707	\$ 280,194	\$ 13,325,100

The accompanying notes to financial statements are an integral part of this statement.

CITY OF ASHLAND
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET ASSETS
JUNE 30, 2007

Total fund balance - governmental funds	\$ 9,385,559
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets of \$90,726,722, net of accumulated depreciation of \$39,682,614 used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	51,044,108
Net pension asset of \$1,930,123 reported in the statement of net assets is not a financial resource and therefore is not reported in the governmental funds.	1,930,123
Internal service fund is used by management to charge the costs of certain activities to individual funds. Assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	177,533
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds,	<u>(5,735,115)</u>
Net assets, end of year - Governmental Activities	<u>\$ 56,802,208</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF ASHLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	Special Revenue Funds						Total
	General	Municipal Aid Road	Floodwall Operating	Community Development	Housing Assistance	Capital Projects	Governmental Funds
Revenues							
Property and other local taxes	\$ 7,966,238	-	\$ 143,588	-	-	-	\$ 8,109,826
Licenses and permits	8,408,948	-	-	-	-	-	8,408,948
Charges for services	1,471,184	-	-	-	-	-	1,471,184
Fees, fines and reimbursements	853,106	-	-	-	-	-	853,106
Grant income	557,409	457,887	-	1,010,683	2,378,802	200,655	4,605,436
Administration fee income	-	-	-	-	274,606	-	274,606
Program income	-	-	-	95,535	-	-	95,535
Interest income	188,307	203	146	666	2,800	1	192,123
Other income	271,928	10,380	-	-	600	-	282,908
Total revenues	<u>19,717,120</u>	<u>468,470</u>	<u>143,734</u>	<u>1,106,884</u>	<u>2,656,808</u>	<u>200,656</u>	<u>24,293,672</u>
Expenditures							
General government	3,004,191	-	-	-	-	-	3,004,191
Finance	535,622	-	-	-	-	-	535,622
Public services	3,541,825	460,503	175,508	-	-	-	4,177,836
Planning and code enforcement	636,790	-	-	-	-	-	636,790
Police	4,180,426	-	-	-	-	-	4,180,426
Fire	4,505,768	-	-	-	-	-	4,505,768
Engineering	136,712	-	-	-	-	-	136,712
Community and cultural	-	-	-	192,553	2,594,355	-	2,786,908
Other	-	627	-	-	-	-	15,938
Capital outlay	-	-	-	911,785	-	15,311	1,360,323
Debt service:							
Principal retirement	380,000	-	-	-	-	105,000	485,000
Interest charges	169,060	-	-	-	-	51,164	220,224
Total expenditures	<u>17,090,394</u>	<u>461,130</u>	<u>175,508</u>	<u>1,104,338</u>	<u>2,594,355</u>	<u>620,013</u>	<u>22,045,738</u>
Excess of Revenues Over (Under) Expenditures	<u>2,626,726</u>	<u>7,340</u>	<u>(31,774)</u>	<u>2,546</u>	<u>62,453</u>	<u>(419,357)</u>	<u>2,247,934</u>
Other Financing Sources (Uses)							
Transfers in	-	-	-	-	-	448,209	448,209
Transfers out	-	-	-	-	-	-	-
Total other financing sources (uses)	<u>(1,509,371)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,509,371)</u>
Net change in fund balances	1,117,355	7,340	(31,774)	2,546	62,453	448,209	(1,061,162)
Fund balances beginning of year, as restated	7,711,223	46,180	95,583	76,054	219,747	50,000	8,198,787
Fund balances end of year	<u>\$ 8,828,578</u>	<u>\$ 53,520</u>	<u>\$ 63,809</u>	<u>\$ 78,600</u>	<u>\$ 282,200</u>	<u>\$ 78,852</u>	<u>\$ 9,385,559</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF ASHLAND
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

Net change in fund balances - total governmental funds	\$ 1,186,772
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 and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.	(1,206,358)
The issuance of long-term debt provides current financial resources to governmental funds, while repayment of the principal and interest consumes current financial resources of governmental funds. This amount is the net effect of these differences in the treatment of long-term debt and related items.	523,397
Expenditures relating to the net pension asset in the statement of activities are not provided by current financial resources and therefore are not reported in the fund financial statements.	(65,439)
Internal service fund is used by management to charge the costs of certain activities to individual funds. Net revenue of the internal service fund is included in governmental activities in the statement of activities.	170,522
Gains on disposal of capital assets are not recognized in the fund financial statements. However, in the statement of activities, these gains are recognized.	69,613
Change in net assets of governmental activities	<u> 69,613</u> <u>\$ 678,507</u>

The accompanying notes to financial statements
are an integral part of this statement.

**CITY OF ASHLAND
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2007**

	Business-Type Activities			Total	Governmental Activity - Internal Service Fund
	Utility Fund	Ashland Bus Fund	Recreation Fund		
ASSETS					
Current Assets:					
Cash and cash equivalents	\$ 488,288	\$ 3,574	\$ 2,698	\$ 494,560	\$ 11,909
Accounts receivable	2,454,178	-	10,074	2,464,252	321,029
Allowance for doubtful accounts	(824,750)	-	-	(824,750)	-
Due from other funds	-	-	21,087	21,087	767,701
Grants receivable	-	169,889	-	169,889	-
Inventories - Repair parts and supplies	373,248	31,661	5,379	410,288	-
Total current assets	2,490,964	205,124	39,238	2,735,326	1,100,639
Restricted Assets:					
Cash and cash equivalents	2,157,815	-	190,000	2,347,815	-
Total restricted assets	2,157,815	-	190,000	2,347,815	-
Capital Assets:					
Land and easements	430,911	-	5,723	436,634	-
Utility plant	77,354,168	-	-	77,354,168	-
Buildings and improvements	603,309	1,039,754	100,530	1,743,593	-
Operating equipment	2,724,965	960,388	350,142	4,035,495	-
Office and computer equipment	300,298	23,609	-	323,907	-
Construction in progress	118,360	214,597	45,727	378,684	-
	81,532,011	2,238,348	502,122	84,272,481	-
Less: Accumulated depreciation	(35,386,757)	(977,685)	(340,858)	(36,705,300)	-
Total capital assets - net	46,145,254	1,260,663	161,264	47,567,181	-
Other Assets:					
Net pension asset	1,233,745	-	-	1,233,745	-
Deferred bond issuance costs	135,986	-	-	135,986	-
	1,369,731	-	-	1,369,731	-
Total assets	\$ 52,163,764	\$ 1,465,787	\$ 390,502	\$ 54,020,053	\$ 1,100,639

	Business-Type Activities			Total	Governmental Activity - Internal Service Fund
	Utility Fund	Ashland Bus Fund	Recreation Fund		
LIABILITIES					
Current liabilities (payable from current assets):					
Accounts payable	\$ 265,768	\$ 42,942	\$ 76,467	\$ 385,177	\$ 239,628
Due to other funds	3,948,752	172,776	-	4,121,528	-
Accrued compensated absences	126,087	13,457	15,635	155,179	-
Other accrued liabilities	243,869	14,883	14,986	273,738	683,478
Customer deposits	153,142	-	-	153,142	-
Total current liabilities (payable from current assets)	4,737,618	244,058	107,088	5,088,764	923,106
Current liabilities (payable from restricted assets):					
Matured revenue bonds, notes and interest payable	170,833	-	-	170,833	-
Customer deposits	754,471	-	-	754,471	-
Current portion of Revenue and Improvement bond	395,000	-	-	395,000	-
Current portion of Kentucky Infrastructure Authority loan	246,400	-	-	246,400	-
Total current liabilities (payable from restricted assets)	1,566,704	-	-	1,566,704	-
Long-term liabilities:					
Utility pension liability	539,717	-	-	539,717	-
Revenue and Improvement bonds	6,765,000	-	-	6,765,000	-
Kentucky Infrastructure Authority loan	5,285,268	-	-	5,285,268	-
Total long-term liabilities	12,589,985	-	-	12,589,985	-
Total liabilities	18,894,307	244,058	107,088	19,245,453	923,106
NET ASSETS					
Invested in capital assets, net of related debt	33,282,753	1,260,663	161,264	34,704,680	-
Restricted for debt payment	662,246	-	-	662,246	-
Unrestricted	(675,542)	(38,934)	122,150	(592,326)	177,533
Total net assets	\$ 33,269,457	\$ 1,221,729	\$ 283,414	\$ 34,774,600	\$ 177,533

The accompanying notes to financial statements are an integral part of this statement.

**CITY OF ASHLAND
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2007**

	Business-Type Activities			Total	Governmental Activity - Internal Service Fund
	Utility Fund	Ashland Bus Fund	Recreation Fund		
OPERATING REVENUES					
Residential and commercial meter sales	\$ 2,745,693	\$ -	\$ -	\$ 2,745,693	\$ -
Sewer service	3,308,735	-	-	3,308,735	-
Industrial meter sales	3,075,571	-	-	3,075,571	-
Other municipalities	846,312	-	-	846,312	-
Industrial pretreatment	93,063	-	-	93,063	-
Water and sewer taps	103,795	-	-	103,795	-
Concession sales	-	-	-	-	-
Passenger fares	-	-	32,064	32,064	-
Admission fees	-	52,660	-	52,660	-
Premium charges	-	-	40,972	40,972	-
Miscellaneous	-	-	-	-	4,156,829
Miscellaneous	566,283	-	-	-	-
Total operating revenues	<u>10,739,452</u>	<u>52,660</u>	<u>78,573</u>	<u>10,870,685</u>	<u>4,156,829</u>
OPERATING EXPENSES					
Administration - Director	79,497	-	-	79,497	-
Administration - Cashier	475,909	-	-	475,909	-
Administration - Customer Service	451,063	-	-	451,063	-
Water - Production	1,720,510	-	-	1,720,510	-
Water - Distribution	2,327,246	-	-	2,327,246	-
Sewer - Pretreatment	170,291	-	-	170,291	-
Sewer - Collection	1,197,067	-	-	1,197,067	-
Sewer - Treatment	1,304,415	-	-	1,304,415	-
Depreciation	2,134,950	90,104	21,398	2,246,452	-
Insurance	239,308	152,761	28,835	420,904	-
Other operating expenses	1,696,188	190,298	279,233	2,165,719	117,338
Salaries	-	363,785	337,807	701,592	-
Utilities	-	14,458	79,372	93,830	-
Operating supplies	-	51,633	65,227	116,860	-
Premiums and claims	-	-	-	-	-
Total operating expenses	<u>11,796,444</u>	<u>863,039</u>	<u>811,872</u>	<u>13,471,355</u>	<u>3,869,587</u>
OPERATING INCOME (LOSS)	<u>(1,056,992)</u>	<u>(810,379)</u>	<u>(733,299)</u>	<u>(2,600,670)</u>	<u>3,986,925</u>
NON-OPERATING REVENUES (EXPENSES)					
Gain on disposal of assets	2,350	-	-	2,350	-
Interest income	119,365	1,233	10,137	130,735	618
Grant income	-	302,670	-	302,670	-
Interest on revenue bonds and notes	(447,154)	-	-	(447,154)	-
Total non-operating revenues (expenses)	<u>(325,439)</u>	<u>303,903</u>	<u>10,137</u>	<u>(11,399)</u>	<u>618</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS AND CAPITAL CONTRIBUTIONS	<u>(1,382,431)</u>	<u>(506,476)</u>	<u>(723,162)</u>	<u>(2,612,069)</u>	<u>170,522</u>
OPERATING TRANSFERS					
From General Fund	-	311,874	723,162	1,035,036	-
Total operating transfers in	<u>-</u>	<u>311,874</u>	<u>723,162</u>	<u>1,035,036</u>	<u>-</u>
CAPITAL CONTRIBUTIONS					
Federal/state grants	-	312,565	-	312,565	-
City of Ashland	-	26,126	-	26,126	-
Total capital contributions	<u>-</u>	<u>338,691</u>	<u>-</u>	<u>338,691</u>	<u>-</u>
INCREASE (DECREASE) IN NET ASSETS	<u>(1,382,431)</u>	<u>144,089</u>	<u>-</u>	<u>(1,238,342)</u>	<u>170,522</u>
NET ASSETS, JUNE 30, 2006, as restated (Note 14)	<u>34,651,888</u>	<u>1,077,640</u>	<u>283,414</u>	<u>36,012,942</u>	<u>7,011</u>
NET ASSETS, JUNE 30, 2007	<u>\$ 33,269,457</u>	<u>\$ 1,221,729</u>	<u>\$ 283,414</u>	<u>\$ 34,774,600</u>	<u>\$ 177,533</u>

The accompanying notes to financial statements
are an integral part of this statement.

**CITY OF ASHLAND
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2007**

	Business-Type Activities			Total	Governmental Activity - Internal Service Fund
	Utility Fund	Ashland Bus Fund	Recreation Fund		
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers	\$ 10,075,908	\$ 53,778	\$ 73,036	\$ 10,202,722	\$ -
Cash payments to suppliers for goods and services	(5,849,220)	(356,349)	(325,734)	(6,531,303)	(117,338)
Cash payments to employees	(2,399,484)	(366,084)	(311,603)	(3,077,171)	-
Other operating revenues	561,362	-	5,537	566,899	390
Payments for internal services	(961,012)	(137,917)	(87,222)	(1,186,151)	-
Cash received for internal services	-	-	-	-	3,277,704
Payments for premiums and claims	-	-	-	-	(3,169,218)
Net cash provided by (used for) operating activities	<u>1,427,554</u>	<u>(806,572)</u>	<u>(645,986)</u>	<u>(25,004)</u>	<u>(8,462)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Grant income	-	312,658	-	312,658	-
Transfers from other funds	-	338,000	723,162	1,061,162	-
Net cash provided by noncapital financial activities	<u>-</u>	<u>650,658</u>	<u>723,162</u>	<u>1,373,820</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from sale of assets	2,350	-	-	2,350	-
Acquisition and construction of capital assets	(82,086)	(214,597)	(87,197)	(383,880)	-
Principal paid on bonds, notes and lease obligations	(618,496)	-	-	(618,496)	-
Interest paid on bonds, notes and lease obligations	(449,707)	-	-	(449,707)	-
Capital contributions	-	37,547	-	37,547	-
Capital grants received	-	330,328	-	330,328	-
Net cash provided by (used for) capital and related financing activities	<u>(1,147,939)</u>	<u>153,278</u>	<u>(87,197)</u>	<u>(1,081,858)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Investment income	111,715	1,233	64	113,012	618
Net cash provided by investing activities	<u>111,715</u>	<u>1,233</u>	<u>64</u>	<u>113,012</u>	<u>618</u>
Net increase (decrease) in cash and cash equivalents	391,330	(1,403)	(9,957)	379,970	(7,844)
Cash and cash equivalents, June 30, 2006	2,254,773	4,977	202,655	2,462,405	19,753
Cash and cash equivalents, June 30, 2007	<u>\$ 2,646,103</u>	<u>\$ 3,574</u>	<u>\$ 192,698</u>	<u>\$ 2,842,375</u>	<u>\$ 11,909</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES					
Operating income (loss)	\$ (1,056,992)	\$ (810,379)	\$ (733,299)	\$ (2,600,670)	\$ 169,904
Adjustments:					
Depreciation	2,134,950	90,104	21,398	2,246,452	-
Amortization	8,159	-	-	8,159	-
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable	(82,398)	-	-	(82,398)	(214,168)
(Increase) decrease in inventories	(32,203)	(1,604)	2,595	(31,212)	-
(Increase) decrease in due from other funds	-	-	-	-	(664,568)
(Increase) decrease in pension asset	(76,202)	-	-	(76,202)	-
Increase (decrease) in accounts payable	(59,114)	(99,860)	66,924	(92,050)	700,370
Increase (decrease) in due to other funds	608,309	16,351	(29,807)	594,853	-
Increase (decrease) in compensated absences	(9,294)	(1,179)	15,635	5,162	-
Increase in other accrued liabilities	12,125	(5)	10,568	22,688	-
Increase in customer deposits	(19,786)	-	-	(19,786)	-
Net cash provided by (used for) operating activities	<u>\$ 1,427,554</u>	<u>\$ (806,572)</u>	<u>\$ (645,986)</u>	<u>\$ (25,004)</u>	<u>\$ (8,462)</u>

The accompanying notes to financial statements
are an integral part of this statement.

**CITY OF ASHLAND
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2007**

	<u>Pension Trust Funds</u>
ASSETS	
Cash and cash equivalents	\$ 717,550
Accrued interest receivable	28,827
Due from employer	539,717
Due from other funds	1,069,160
Investments, at fair value - U.S. Government obligations	<u>4,480,423</u>
Total assets	<u>6,835,677</u>
LIABILITIES	
Deferred revenue	539,717
Due to other funds	<u>1,329,991</u>
Total liabilities	<u>1,869,708</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u>\$ 4,965,969</u>

The accompanying notes to financial statements
are an integral part of this statement.

**CITY OF ASHLAND
STATEMENT OF CHANGES IN NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>Pension Trust Funds</u>
ADDITIONS:	
Contributions - Employer Plan members	\$ 698,946 3,967
Total contributions	<u>702,913</u>
Investment income - Net appreciation in fair value of investments Interest income	24,193 <u>219,081</u>
Total investment income	<u>243,274</u>
Total additions	<u>946,187</u>
DEDUCTIONS:	
Benefits Administrative expenses	1,299,629 <u>38,391</u>
Total deductions	<u>1,338,020</u>
NET DECREASE	(391,833)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:	
Beginning of year	<u>5,357,802</u>
End of year	<u>\$ 4,965,969</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF ASHLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2007

Revenues	Original Budget	Revisions	Revised Budget	Actual	Variance
Property and other local taxes	\$ 8,131,825	\$ -	\$ 8,131,825	\$ 7,966,238	\$ (165,587)
Licenses and permits	7,644,330	-	7,644,330	8,408,948	764,618
Charges for services	1,484,695	-	1,484,695	1,471,184	(13,511)
Fees, fines and reimbursements	1,310,115	(385,480)	924,635	853,106	(71,529)
Interest income	27,000	-	27,000	188,307	161,307
Grant income	6,495,120	49,466	6,544,586	557,409	(5,987,177)
Other income	220,250	201,895	422,145	271,928	(150,217)
Total revenues	<u>25,313,335</u>	<u>(134,119)</u>	<u>25,179,216</u>	<u>19,717,120</u>	<u>(5,462,096)</u>
Expenditures					
General government	9,136,376	538,662	9,675,038	3,004,191	6,670,847
Finance	544,408	(5,208)	539,200	535,622	3,578
Public services	3,520,548	(2,281)	3,518,267	3,541,825	(23,558)
Planning and code enforcement	938,673	50,000	988,673	636,790	351,883
Police	4,218,137	(28,486)	4,189,651	4,180,426	9,225
Fire	4,376,569	4,048	4,380,617	4,505,768	(125,151)
Engineering	135,041	-	135,041	136,712	(1,671)
Debt service:					
Principal retirement	380,000	-	380,000	380,000	-
Interest and fiscal charges	177,445	-	177,445	169,060	8,385
Total expenditures	<u>23,427,197</u>	<u>556,735</u>	<u>23,983,932</u>	<u>17,090,394</u>	<u>6,893,538</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>1,886,138</u>	<u>(690,854)</u>	<u>1,195,284</u>	<u>2,626,726</u>	<u>1,431,442</u>
Other Financing Sources (Uses)					
Transfer in	-	-	-	-	-
Transfers out	(1,886,138)	(278,446)	(2,164,584)	(1,509,371)	655,213
Total other financing sources (uses)	<u>(1,886,138)</u>	<u>(278,446)</u>	<u>(2,164,584)</u>	<u>(1,509,371)</u>	<u>655,213</u>
Net change in fund balance	<u>-</u>	<u>(969,300)</u>	<u>(969,300)</u>	<u>1,117,355</u>	<u>2,086,655</u>
Fund balance beginning of year	<u>7,711,223</u>	<u>-</u>	<u>7,711,223</u>	<u>7,711,223</u>	<u>-</u>
Fund balance end of year	<u>\$ 7,711,223</u>	<u>\$ (969,300)</u>	<u>\$ 6,741,923</u>	<u>\$ 8,828,578</u>	<u>\$ 2,086,655</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF ASHLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
MUNICIPAL AID ROAD FUND
FOR THE YEAR ENDED JUNE 30, 2007

Revenues	Original Budget	Revisions	Revised Budget	Actual	Variance
Property and other local taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-
Charges for services	-	-	-	-	-
Fees, fines and reimbursements	-	-	-	-	-
Grant income	353,145	76,747	429,892	457,887	27,995
Administration fee income	-	-	-	-	-
Program income	14,000	-	14,000	-	(14,000)
Interest income	125	-	125	203	78
Other income	-	-	-	10,380	10,380
Total revenues	<u>367,270</u>	<u>76,747</u>	<u>444,017</u>	<u>468,470</u>	<u>24,453</u>
Expenditures					
General government	-	-	-	-	-
Finance	-	-	-	-	-
Public services	366,770	376,747	743,517	460,503	283,014
Planning and code enforcement	-	-	-	-	-
Police	-	-	-	-	-
Fire	-	-	-	-	-
Engineering	-	-	-	-	-
Community and cultural	-	-	-	-	-
Other	500	-	500	627	(127)
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	<u>367,270</u>	<u>376,747</u>	<u>744,017</u>	<u>461,130</u>	<u>282,887</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>(300,000)</u>	<u>(300,000)</u>	<u>7,340</u>	<u>307,340</u>
Other Financing Sources (Uses)					
Transfers out	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>-</u>	<u>(300,000)</u>	<u>(300,000)</u>	<u>7,340</u>	<u>307,340</u>
Fund balance beginning of year	46,180	-	46,180	46,180	-
Fund balance end of year	<u>\$ 46,180</u>	<u>\$ (300,000)</u>	<u>\$ (253,820)</u>	<u>\$ 53,520</u>	<u>\$ 307,340</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF ASHLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
COMMUNITY DEVELOPMENT FUND
FOR THE YEAR ENDED JUNE 30, 2007

Revenues	Original Budget	Revisions	Revised Budget	Actual	Variance
Property and other local taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-
Charges for services	-	-	-	-	-
Fees, fines and reimbursements	-	-	-	-	-
Grant income	998,314	-	998,314	1,010,683	12,369
Administration fee income	-	-	-	-	-
Program income	-	-	-	95,535	95,535
Interest income	1,000	-	1,000	666	(334)
Other income	-	-	-	-	-
Total revenues	999,314	-	999,314	1,106,884	107,570
Expenditures					
General government	-	-	-	-	-
Finance	-	-	-	-	-
Public services	-	-	-	-	-
Planning and code enforcement	-	-	-	-	-
Police	-	-	-	-	-
Fire	-	-	-	-	-
Engineering	-	-	-	-	-
Community and cultural	190,314	-	190,314	192,553	(2,239)
Other	-	-	-	-	-
Capital outlay	809,000	-	809,000	911,785	(102,785)
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	999,314	-	999,314	1,104,338	(105,024)
Excess of Revenues Over (Under) Expenditures	-	-	-	2,546	2,546
Other Financing Sources (Uses)					
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balance	-	-	-	2,546	2,546
Fund balance beginning of year	76,054	-	76,054	76,054	-
Fund balance end of year	<u>\$ 76,054</u>	<u>\$ -</u>	<u>\$ 76,054</u>	<u>\$ 78,600</u>	<u>\$ 2,546</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF ASHLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
HOUSING ASSISTANCE FUND
FOR THE YEAR ENDED JUNE 30, 2007

Revenues	Original Budget	Revisions	Revised Budget	Actual	Variance
Property and other local taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-
Charges for services	-	-	-	-	-
Fees, fines and reimbursements	-	-	-	-	-
Grant income	2,399,133	-	2,399,133	2,378,802	(20,331)
Administration fee income	283,308	-	283,308	274,606	(8,702)
Program income	-	-	-	-	-
Interest income	1,000	-	1,000	2,800	1,800
Other income	-	-	-	600	600
Total revenues	2,683,441	-	2,683,441	2,656,808	(26,633)
Expenditures					
General government	-	-	-	-	-
Finance	-	-	-	-	-
Public services	-	-	-	-	-
Planning and code enforcement	-	-	-	-	-
Police	-	-	-	-	-
Fire	-	-	-	-	-
Engineering	-	-	-	-	-
Community and cultural	2,683,441	-	2,683,441	2,594,355	89,086
Other	-	-	-	-	-
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	2,683,441	-	2,683,441	2,594,355	89,086
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	-	62,453	62,453
Other Financing Sources (Uses)					
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balance	-	-	-	62,453	62,453
Fund balance beginning of year, as restated	21,650	-	21,650	219,747	198,097
Fund balance end of year	\$ 21,650	\$ -	\$ 21,650	\$ 282,200	\$ 260,550

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF ASHLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FLOODWALL OPERATING FUND
FOR THE YEAR ENDED JUNE 30, 2007

Revenues	Original Budget	Revisions	Revised Budget	Actual	Variance
Property and other local taxes	\$ 147,330	\$ -	\$ 147,330	\$ 143,588	\$ (3,742)
Licenses and permits	-	-	-	-	-
Charges for services	-	-	-	-	-
Fees, fines and reimbursements	-	-	-	-	-
Grant income	-	-	-	-	-
Administration fee income	-	-	-	-	-
Program income	-	-	-	-	-
Interest income	100	-	100	146	46
Other income	-	-	-	-	-
Total revenues	<u>147,430</u>	<u>-</u>	<u>147,430</u>	<u>143,734</u>	<u>(3,696)</u>
Expenditures					
General government	-	-	-	-	-
Finance	-	-	-	-	-
Public services	175,520	-	175,520	175,508	12
Planning and code enforcement	-	-	-	-	-
Police	-	-	-	-	-
Fire	-	-	-	-	-
Engineering	-	-	-	-	-
Community and cultural	-	-	-	-	-
Other	-	-	-	-	-
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	<u>175,520</u>	<u>-</u>	<u>175,520</u>	<u>175,508</u>	<u>12</u>
Excess (Deficiency) of Revenues (Under) Expenditures	<u>(28,090)</u>	<u>-</u>	<u>(28,090)</u>	<u>(31,774)</u>	<u>(3,684)</u>
Other Financing Sources (Uses)					
Transfers out	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>(28,090)</u>	<u>-</u>	<u>(28,090)</u>	<u>(31,774)</u>	<u>(3,684)</u>
Fund balance beginning of year	<u>95,583</u>	<u>-</u>	<u>95,583</u>	<u>95,583</u>	<u>-</u>
Fund balance end of year	<u>\$ 67,493</u>	<u>\$ -</u>	<u>\$ 67,493</u>	<u>\$ 63,809</u>	<u>\$ (3,684)</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF ASHLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

(1) REPORTING ENTITY

The City of Ashland (the "City") is a political subdivision of the Commonwealth of Kentucky. It is governed and operated under the City Manager/Commission form of government and provides such services as public safety, transportation, recreation, streets, water, sewer, and refuse removal. The City evaluates separately administered organizations in order to determine if they are controlled by, or dependent upon the City. This evaluation is performed in order to determine if these separate organizations meet established criteria, which would require their financial statements to be included with the City. Control or dependence is determined on the basis of funding and appointment of the voting majority of the governing board. Based upon the foregoing, the City has determined that there are no organizations meeting the criteria.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The basic financial statements of the City include both government-wide statements and fund financial statements.

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The City considers all governmental and proprietary funds to be major funds, due to their belief that all of these funds present financial information which is important to the financial statement users. Thus, individual governmental funds and individual proprietary funds are reported as separate columns in the fund financial statements.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary funds and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major Governmental Funds:

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

Capital Projects Fund - The Capital Projects Fund is used to account for financial resources to be used in acquiring, constructing and maintaining major capital facilities and assets.

The City reports the following major Proprietary Funds:

Utility Fund - The Utility Fund is used to account for water and wastewater (sewer) services for the City and surrounding communities.

Ashland Bus Fund - This fund is used to account for the City's mass transportation system which is partially subsidized by the Federal government (DOT).

Recreation Fund - The Recreation Fund is used to account for the City's swimming pool operations and other vending (concession) activities.

Additionally, the City reports the following fund types:

Internal Service Fund - This fund is used to account for the financing of health insurance premiums and claims payments for all eligible City employees and retirees on a premium cost only reimbursement basis.

Fiduciary Funds - These funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. The Police and Firefighters Pension Fund and the Utility Pension Fund are the City's two Fiduciary Funds.

Pension trust funds recognize employer and participant contributions in the period in which contributions are due and the City has made a formal commitment to provide the contributions. Retirement benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City Utility Fund and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's Enterprise Funds, are charges to customers for sales and services. The City also recognizes as operating revenue tap fees intended to recover the costs of connecting new customers to the utility system. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Revenues - Exchange and Non-exchange Transactions - Revenues resulting from exchange transactions, in which each party receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenues from non-exchange transactions must also be available before they can be recognized.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

C. Budget and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to May 1, the City Manager obtains estimates from the department heads in order to prepare the proposed budget.
2. Prior to June 30, the City Manager submits to the City Commission a proposed budget for the fiscal year commencing the following July 1: The proposed budget includes proposed operating and capital expenditures and the means of financing them.
3. Public hearings are conducted at commission meetings in order to review the proposed budget and to obtain comments from taxpayers and other interested parties.
4. Prior to the first day beginning the fiscal year, the budget is legally adopted through the passage of an ordinance for the General Fund, all Special Revenue Funds, Capital Projects Funds and all Enterprise Funds, and a separate budgetary report is prepared for utilization by the City, and for informational purposes for the general public.
5. The City Manager is authorized to transfer budgeted amounts within departments of any fund; however, any revisions that alter the total expenditures of any department or fund must be approved by the City Commission. Therefore, the level of control on budgetary items is maintained at the department level.
6. Budgets for the General, Special Revenue and Capital Projects Funds are adopted on the modified accrual basis. Budgets for all Enterprise Funds are adopted on the accrual basis. Both methods are consistent with Generally Accepted Accounting Principles (GAAP). Budgeted amounts are as originally adopted, or as amended periodically by the City Commission. Departmental revisions were not material in relation to the original appropriations which were amended. All appropriations lapse at the end of the fiscal year, even if encumbered.

D. Deposits and Investments

Investments, other than Pension Trust Fund investments, are stated at amortized cost which approximates fair value. Kentucky Revised Statute 66.480 permits the City to invest in U.S. Treasury obligations, U.S. Agency obligations, certain Federal instruments, repurchase agreements, commercial banks' certificates of deposit, savings and loan deposits, Commonwealth of Kentucky investment pool and the Kentucky League of Cities investment pool.

Short term investments are carried at cost which approximates fair value. Investments traded on a national exchange are valued at the last reported sales price at current exchange rates. Trust fund investments are carried at market value. Unrealized gains or losses are reflected in the Statement Of Changes In Fiduciary Net Assets.

E. Inventories

Inventories are valued at cost (first-in, first-out method). Inventory in the General and Enterprise-Utility Fund consists of expendable supplies held for consumption. Enterprise-Recreation Fund inventories consist of merchandise held for sale and consumable supplies. Costs are recorded as expenditures at the time individual inventory items are purchased.

F. Capital Assets and Depreciation

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of five thousand dollars. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

All reported capital assets are depreciated with the exception of land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Estimated Lives</u>
Utility plants in service	5-50 years
Buildings and improvements	5-20 years
Operating equipment	3-10 years
Automotive equipment	3-7 years
Office furniture and equipment	3-20 years
Bus system equipment	5-10 years
Recreation equipment	5-25 years
Infrastructure	20-30 years

The City is required by GASB 34 to retroactively report all major general infrastructure assets for fiscal years beginning after June 15, 2006. The City elected to adopt the requirements of GASB 34 concerning infrastructure assets in the 2006 fiscal year. General infrastructure assets acquired prior to March 10, 2006 are reported at historical estimated cost or deflated replacement cost. Infrastructure assets acquired after March 10, 2006 are reported at cost.

G. Encumbrances

Encumbrance accounting is used by the City whereby purchase orders, contracts, and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrances outstanding at year-end are reported as reservations of fund balances or retained earnings in the General, Special Revenue, Enterprise and Capital Projects Funds, since the encumbrances do not constitute expenditures or liabilities, even though the City intends to honor those commitments. At June 30, 2007, there was \$84,557 in encumbrances outstanding.

H. Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers.

I. Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

J. Compensated Absences

The City's accrued liabilities for future compensated absences are recorded to the extent the future leaves (1) relate to rights attributable to employee services already rendered, (2) relate to rights that vest or accumulate, (3) where payment is probable, and (4) where amounts can be reasonably estimated. Amounts that normally would be paid with expendable available financial resources are recorded in the Governmental Fund Financial Statements. Amounts paid or payable within 60 days are deemed to be payable from expendable available financial resources. Liabilities for compensated absences are recorded in full in the Government-wide and Proprietary Fund financial statements.

K. Fund Balances

The City's fund balances classified as reserved reflects the portion that is legally restricted to a specific future use or is not available for appropriation or expenditure.

L. Net Assets

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

M. Self-Insurance

The City is self-insured for health and accident claims for employees and eligible retirees as more fully described in Notes 12 and 13.

N. Cash and Cash Equivalents

For purposes of the statements of cash flows, the Proprietary and Internal Service Funds consider all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

O. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the recorded amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenditures during the reporting period. Material estimates that are particularly susceptible to significant changes relate to the determination of the allowance for uncollectible accounts and the useful lives used to depreciate capital assets. Actual results could differ from estimated amounts.

P. Reclassifications

Certain reclassifications have been made to June 30, 2006 information to conform with the 2007 presentation.

Q. Recent Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. This pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

Also, GASB has issued Statement No. 50, *Pension Disclosures*, which modifies the notes and required supplemental information (RSI) for pension benefits to make them more similar to the information required for OPEB. Management is evaluating what impact this statement will have on its future financial statements. This pronouncement is effective for the year ending June 30, 2008.

(3) DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. The City requires deposits to be 100% secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance (FDIC). The City does not have a formal policy regarding custodial credit risk.

At June 30, 2007, the carrying amounts of the City's deposits were \$6,386,720 and the bank balances were \$7,734,429. The total of the bank balances were insured or collateralized with securities held by the City's agents in the City's name, or by letters of credit.

Investments

At June 30, 2007, the City had the following investments and maturities:

Investment Type -	Fair Value	Investment Maturities (in years)			
		Less than 1	1 - 5	6 - 10	More than 10
U.S. Treasuries	\$ 4,480,423	-	\$ 4,480,423	-	-

Interest Rate Risk. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. The City may invest the monies in interest-bearing bonds of any county, urban-county government or city of the first, second or third class in the State of Kentucky, or in any securities in which trustees are permitted to invest trust funds under the laws of the State of Kentucky, including participation in a local government pension investment fund created pursuant to KRS 95.895.

(4) PROPERTY TAX REVENUES

Property taxes include amounts levied against all real, public utility and tangible (used in business) property located in the City.

Real property, tangible and public utility property taxes are levied prior to June 30 of each year based upon the assessed value as of January 1. Per KRS 91.487, the lien date for assessed taxes is January 1 of each fiscal year. The City imposes penalties of 10% and interest of ½ % per month on taxes not paid within thirty days of mailing tax bills.

Real property and tangible property taxes are due and payable by June 30 of each year. Public utility taxes are due and payable within thirty days from the date the bills are mailed.

Assessed values are established by State Law at 100% of fair value.

Real property and tangible property taxes are recognized as revenue on the modified accrual basis. Public utility taxes are not accrued at June 30, since assessed amounts are not available until the subsequent fiscal year.

Motor vehicle property taxes are assessed as of January 1 of each year and are collected by the County Clerk and remitted to the City. These taxes are not accrued, as amounts are payable upon the birth dates of the owners of the vehicles.

The 2007 assessed value for real property was \$755,592,391. Assessed value of tangible property was \$93,740,910. The tax rate adopted was \$.3295 per \$100 valuation.

(5) GRANTS RECEIVABLE

Grants receivable from other governmental units as of June 30, 2007, are as follows:

General Fund -	
Special Purpose Grant	\$ 1,314
Kentucky Transportation Cabinet	350,936
Homeless Shelter Grant	14,675
	<u>366,925</u>
Special Revenue Funds -	
Municipal Aid Road Fund	72,793
Community Development Fund, program allocation	525,322
	<u>598,115</u>
Enterprise Funds -	
Ashland Bus System - FTA operations	81,891
Ashland Bus System - FTA capital	79,201
Ashland Bus System - FTA DOT - Capital	8,797
	<u>169,889</u>
	<u>\$ 1,134,929</u>

(6) CAPITAL ASSETS

A summary of changes in the City's capital assets is as follows:

<i>Governmental Activities</i>	June 30, 2006	Increases	Decreases	June 30, 2007
Capital Assets, Not Depreciated:				
Land	\$ 22,014,997	\$ 168,971	\$ (8,000)	\$ 22,175,968
Construcion in progress	-	33,143	-	33,143
Capital Assets, Depreciated:				
Buildings	3,937,171	-	-	3,937,171
Building improvements	1,951,974	51,445	-	2,003,419
Automotive equipment	4,016,558	45,183	(465,707)	3,596,034
Office furniture and equipment	516,171	34,013	-	550,184
Operating equipment	2,631,419	202,218	(8,298)	2,825,339
Capital improvements	354,740	-	-	354,740
Infrastructure	54,660,936	589,788	-	55,250,724
Totals	<u>90,083,966</u>	<u>1,124,761</u>	<u>(482,005)</u>	<u>90,726,722</u>
Accumulated Depreciation:				
Buildings	852,546	79,478	-	932,024
Building improvements	1,456,529	36,578	-	1,493,107
Automotive equipment	3,002,578	214,567	(430,499)	2,786,646
Office furniture and equipment	461,194	19,130	-	480,324
Operating equipment	1,357,813	142,494	(8,298)	1,492,009
Capital improvements	27,311	15,056	-	42,367
Infrastructure	30,745,142	1,710,995	-	32,456,137
Totals	<u>37,903,113</u>	<u>2,218,298</u>	<u>(438,797)</u>	<u>39,682,614</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 52,180,853</u>	<u>\$ (1,093,537)</u>	<u>\$ (43,208)</u>	<u>\$ 51,044,108</u>
<i>Business-type Activities</i>				
Capital Assets, Not Depreciated:				
Land	\$ 436,634	\$ -	\$ -	\$ 436,634
Construction in progress	323,111	275,708	(220,137)	378,682
Capital Assets, Depreciated:				
Buildings	1,280,388	-	-	1,280,388
Building improvements	463,205	-	-	463,205
Utility and sewage plants	77,087,829	266,340	-	77,354,169
Automotive equipment	1,767,089	20,498	(22,280)	1,765,307
Office furniture and equipment	323,907	-	-	323,907
Operating equipment	1,933,075	41,470	-	1,974,545
Recreation equipment	295,644	-	-	295,644
Totals	<u>83,910,882</u>	<u>604,016</u>	<u>(242,417)</u>	<u>84,272,481</u>

Accumulated Depreciation:				
Buildings	359,558	41,885	-	401,443
Building improvements	195,055	24,862	-	219,917
Utility and sewage plants	30,847,914	1,886,870	-	32,734,784
Automotive equipment	1,225,925	125,368	(22,280)	1,329,013
Office furniture and equipment	231,122	31,747	-	262,869
Operating equipment	1,381,264	122,782	-	1,504,046
Recreation equipment	240,290	12,938	-	253,228
Totals	<u>34,481,128</u>	<u>2,246,452</u>	<u>(22,280)</u>	<u>36,705,300</u>

Business-type Activities

Capital Assets, Net	\$ 49,429,754	\$ (1,642,436)	\$ (220,137)	\$ 47,567,181
---------------------	---------------	----------------	--------------	---------------

Depreciation expense was allocated to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 46,581
Public services	1,877,232
Police	124,768
Fire	147,897
Engineering	3,080
Community and cultural	18,740
	<u>\$ 2,218,298</u>
Business-type activities:	
Utilities	\$ 2,134,950
Recreation	21,398
Bus	90,104
	<u>\$ 2,246,452</u>

(7) RETIREMENT PLANS

Single Employer Plans

Plan Descriptions, Contribution Information and Funding Policies

The City of Ashland contributes to two single-employer, public employee retirement plans. Assets are held separately and may be used only for the payment of benefits to the members of the respective plans, as follows:

Utility Pension Fund (UPF):

The City of Ashland Utilities Employee's Pension Plan provides retirement benefits to City utility department employees in classified positions under civil service. The plan is closed to new participants. Unless otherwise indicated, UPF information in this Note is provided as of the latest actuarial valuation, July 1, 2005.

Police and Firefighters Pension Fund (PFPP):

The City of Ashland Police and Firefighters Pension Plan provides retirement benefits to retirees and beneficiaries of policemen and firefighters hired prior to August 1, 1988.

The plan was frozen effective August 1, 1988. Policemen and firefighters hired after that date are required to participate in CERS. The plan is closed to new participants and at June 30, 2007, there were no active employees participating in PFPP. Unless otherwise indicated, PFPP information in this note is provided as of the latest actuarial valuation, July 1, 2006.

Actuarial valuations are performed bi-annually. For additional information relating to basis of accounting and reported investment values, see Notes 1 and 2. These plans are defined benefit plans. The following is a summary of funding policies, contribution methods, and benefit provisions:

Governing Authority	<u>Utility Pension Fund</u> City Ordinance and KRS	<u>Police and Firefighters Pension Fund</u> City Ordinance and KRS	
Determination of Contribution requirements	Actuarially	Actuarially	
Contribution rates as a percentage of covered payroll:			
Employer	338.0 %	N/A	
Plan Members	8.00 %	N/A	
Funding of administrative costs	Investment Earnings	Investment Earnings	
Period required to vest	20	10	
Post retirement benefit increases	As approved by City Commission	As approved by City Commission	
Eligibility for distribution	Age 50, with 20 years	N/A	
Provisions for:			
Disability benefits	Yes	Yes	
Death benefits	Yes	Yes	
Membership of the plans are as follows:			
Retirees and beneficiaries currently receiving benefits	30	44	<u>Totals</u> 79
Active plan participants:			
Vested	-	-	-
Non-Vested	2	-	2
	<u>32</u>	<u>44</u>	<u>81</u>

Annual Required Contributions

Actuarial assumptions and other information used to determine the annual required contributions (ARC) are located in the Required Supplemental Information Section of this report.

Annual Pension Cost, Net Pension Obligation, and Reserves

Current annual pension cost for the UPF and PFPF retirement plans are shown in the trend information below, as well as the percentage contributed and the net pension obligation, if any, for each plan. The City follows GASB Statement No. 27, "Accounting for Pensions by State and Local Governmental Employees" in accounting for pension costs and other required disclosure information.

The City's annual pension cost and net pension obligation for the current year were as follows:

	<u>Utility Pension Fund</u>	<u>Police and Firefighters Pension Fund</u>
Employer contributions made for fiscal year	\$ 410,483	\$ 288,463
Employer required annual contribution	316,858	293,551
Interest on net pension asset	(57,878)	(99,778)
Adjustment to annual contribution requirement	75,300	160,129
Annual pension cost	<u>334,280</u>	<u>353,902</u>
Increase (decrease) in net pension asset	76,203	(65,439)
Net pension asset, June 30, 2006	1,157,542	1,995,562
Net pension asset, June 30, 2007	<u>\$ 1,233,745</u>	<u>\$ 1,930,123</u>

Reserves

There are no assets legally reserved for purposes other than the payment of plan member benefits for either plan. The plans held no individual investments (other than U.S. Government and U.S. Government guaranteed obligations) whose market value exceeds five percent of net assets available for benefits. There are no long-term contracts for contributions.

Trend Information

Utility Pension Fund			Police and Firefighters Pension Fund				
Year	Annual Pension Cost	Percent Contributed	Net Pension Obligation (NPO)	Year	Annual Pension Cost	Percent Contributed	Net Pension Obligation (NPO)
2004	\$ 337,142	181%	\$(1,050,915)	2004	\$ 318,220	126%	\$(2,129,966)
2005	339,767	109%	(1,080,176)	2005	346,718	77%	(2,051,442)
2006	333,116	123%	(1,157,542)	2006	344,343	84%	(1,995,562)

Cost - Sharing, Multiple Employer Plan

Plan Description, Contribution Information and Funding Policies

The City contributes to the County Employee's Retirement System ("CERS"), a cost-sharing, multiple-employer defined benefit pension plan administered by the Kentucky General Assembly. It covers substantially all regular full-time members employed in hazardous and non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the CERS. CERS provides for retirement, disability, and death benefits to plan members. Cost of living adjustments are provided at the discretion of the State legislature.

The CERS issues a publicly available financial report included in the Kentucky Retirement System's Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or by calling (502) 564-4646.

Plan members in non-hazardous positions are required to contribute 5% of their annual creditable compensation, and the City is required to contribute 13.19% of the employee's total compensation. Plan members in hazardous positions are required to contribute 8% of their annual creditable compensation, and the City is required to contribute 28.21% of the employees' compensation. The contribution requirements of CERS members and the City are established and may be amended by the CERS Board of Trustees. The City's contributions to CERS for the years ending June 30, 2007, 2006, and 2005 were \$2,199,434, \$1,879,318, and \$1,599,474, respectively, equal to the required contributions for the year.

(8) DEBT

The following is a summary of changes in long-term debt (including current portions) of the City for the year ended June 30, 2007:

<i>Governmental Activities</i>	Balance June 30, 2006	Additions	Reductions	Balance June 30, 2007
General Obligation Bond Series 2005	\$ 3,315,000	\$ -	\$ 85,000	\$ 3,230,000
Capital lease - Fire station	1,330,000	-	105,000	1,225,000
Capital leases - Equipment	32,784	99,725	54,784	77,725
General obligation Bond Series 1999	935,000	-	295,000	640,000
Compensated absences obligation	645,728	-	83,338	562,390
Total Governmental Activities	\$ 6,258,512	\$ 99,725	\$ 623,122	\$ 5,735,115

<i>Business-type Activities</i>	Balance June 30, 2006	Additions	Reductions	Balance June 30, 2007
Revenue & Improvement Bond Series 2004	\$ 7,540,000	\$ -	\$ 380,000	\$ 7,160,000
Utility Accrued Pension Liability	539,717	-	-	539,717
Kentucky Infrastructure Authority Loan	1,918,685	-	85,482	1,833,203
Kentucky Infrastructure Authority Loan	3,851,478	-	153,013	3,698,465
Total Business-type Activities	<u>\$ 13,849,880</u>	<u>\$ -</u>	<u>\$ 618,495</u>	<u>\$ 13,231,385</u>

At June 30, 2007, the City was required to have \$662,246 for the Revenue and Improvement Bonds of 2004, in sinking fund reserve accounts. As of June 30, 2007, the City had bond reserve funds of \$1,891,045.

Governmental Activities

Capital Lease - Fire Station

On December 30, 1996, the City entered into an agreement with the Kentucky League of Cities Funding Trust Program to finance the construction of a central fire station. Proceeds of the variable rate (3.92% at June 30, 2007) lease agreement totaled \$2,200,000.

Future minimum annual lease payments under this agreement are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 110,000	\$ 48,845	\$ 158,845
2009	120,000	44,458	164,458
2010	120,000	37,049	157,049
2011	130,000	34,580	164,580
2012	135,000	29,291	164,291
2013-2016	610,000	58,074	668,074
	<u>\$ 1,225,000</u>	<u>\$ 252,297</u>	<u>\$ 1,477,297</u>

Capital Leases - Equipment

During the 2007 fiscal year, the City entered into a capital lease agreement with a financing company to purchase equipment in the amount of \$99,725. The interest rate on the lease is 5.04%.

Capital assets include the following under the capital lease:

Operating equipment	\$ 99,725
Less accumulated depreciation	(2,770)
	<u>\$ 96,955</u>

Two capital leases were paid off during the year.

Future minimum annual lease payments under the remaining agreement is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 17,991	\$ 4,009	\$ 22,000
2009	18,919	3,081	22,000
2010	19,895	2,105	22,000
2011	20,920	1,080	22,000
	<u>\$ 77,725</u>	<u>\$ 10,275</u>	<u>\$ 88,000</u>

General Obligation Bond Series 1999

On November 1, 2000, the City issued \$2,665,000 in general obligation bonds with interest rates ranging from 4.6% to 4.8%, to advance refund the Ashland Capital Project Corporation Tax Increment Revenue Bonds, Series of 1988, and to finance additional street, sidewalk and parking improvements.

The annual requirements to amortize the indebtedness at June 30, 2007, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 310,000	\$ 30,080	\$ 340,080
2009	330,000	15,510	345,510
	<u>\$ 640,000</u>	<u>\$ 45,590</u>	<u>\$ 685,590</u>

General Obligation Bond Series 2005

On October 1, 2005, the City issued \$3,315,000 in general obligation bonds with interest rates ranging from 3.0% to 4.5%, to finance additional infrastructure improvements.

The annual requirements to amortize the indebtedness at June 30, 2007, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 85,000	\$ 129,498	\$ 214,498
2009	90,000	126,828	216,828
2010	90,000	123,993	213,993
2011	95,000	120,985	215,985
2012	95,000	117,802	212,802
2013-2017	540,000	530,587	1,070,587
2018-2022	675,000	411,652	1,086,652
2023-2027	795,000	257,573	1,052,573
2028-2031	765,000	70,583	835,583
	<u>\$ 3,230,000</u>	<u>\$ 1,889,501</u>	<u>\$ 5,119,501</u>

Compensated Absences Obligation

Compensated absences of Governmental Fund Types payable within 60 days from the balance sheet date are deemed to be payable from expendable available financial resources. Compensated absences earned by employees which are payable after 60 days are reflected as general long-term obligations of the City.

The estimated liabilities for accrued compensated absences as of June 30, 2007, are as follows:

	<u>Accrued Long-Term Obligation</u>	<u>Current Obligation</u>	<u>Total Compensated Absences</u>
General Fund	\$ 536,572	\$ 105,555	\$ 642,127
Community Development Fund	10,687	2,102	12,789
Housing Assistance Fund	9,115	1,793	10,908
Utility Fund	-	126,087	126,087
Ashland Bus System	-	13,457	13,457
Recreation Fund	-	15,636	15,636
Floodwall Fund	6,016	1,183	7,199
	<u>\$ 562,390</u>	<u>\$ 265,813</u>	<u>\$ 828,203</u>

Refer to Note 2 for additional information regarding compensated absences.

Business-Type Activities

Utility Revenue Bonds

During 2001, the City appropriated \$3,225,000 to fully retire all outstanding revenue bonds prior to scheduled maturity. At June 30, 2007, \$35,000 of bonds called have not been presented for payment and are included in matured revenue bonds, notes and interest payable in the accompanying financial statements.

Utility Accrued Pension Liability

The Utility accrued pension liability represents the difference between the actuarially determined annual pension costs and the amount paid into the plan by the City. Below is a schedule of the activity in this account for the year ended June 30, 2007.

Balance June 30, 2006	Additions	Reductions	Balance June 30, 2007
\$ 539,717	\$ -	\$ -	\$ 539,717

Refer to Note 7 for additional information regarding the utility accrued pension liability.

Kentucky Infrastructure Authority Loan

On October 1, 2001, the City entered into an Assistance Agreement with the Kentucky Infrastructure Authority ("KIA") for a water system renovation project. The loan bears interest at a rate of 3.8% with a maturity date of December 1, 2022. A loan serving fee of 0.025% of the annual outstanding loan balance shall be payable to KIA as a part of each interest payment. In accordance with the Agreement, the City received the proceeds from the loan as eligible expenses were incurred.

The annual requirements to amortize the loan as of June 30, 2007 are as follows:

Year ending June 30,	Principal	Interest	Fees	Total
2008	\$ 88,764	\$ 68,826	\$ 4,528	\$ 162,118
2009	92,168	65,421	4,304	161,893
2010	95,705	61,886	4,071	161,662
2011	99,376	58,214	3,830	161,420
2012	103,188	54,402	3,579	161,169
2013-2017	578,439	209,509	13,783	801,731
2018-2022	698,239	89,716	5,902	793,857
2023	77,324	1,470	97	78,891
	<u>\$1,833,203</u>	<u>\$ 609,444</u>	<u>\$ 40,094</u>	<u>\$ 2,482,741</u>

Kentucky Infrastructure Authority Loan

On November 1, 2004, the City entered into an Assistance Agreement with the Kentucky Infrastructure Authority ("KIA") for a water system renovation project. The loan bears interest at a rate of 3.0%. A loan serving fee of 0.025% of the annual outstanding loan balance shall be payable to KIA as a part of each interest payment. In accordance with the Agreement, the City received the proceeds from the loan as eligible expenses were incurred.

The annual requirements to amortize the indebtedness at June 30, 2007, are as follows:

Year ending June 30,	Principal	Interest	Fees	Total
2008	\$ 157,636	\$ 109,781	\$ 9,148	\$ 276,565
2009	162,401	105,016	8,751	276,168
2010	167,307	100,107	8,342	275,756
2011	172,366	95,051	7,921	275,338
2012	177,576	89,841	7,485	274,902
2013-2017	971,708	365,376	30,448	1,367,532
2018-2022	1,127,707	209,377	17,448	1,354,532
2023-2025	761,764	40,489	3,374	805,627
	<u>\$3,698,465</u>	<u>\$ 1,115,038</u>	<u>\$ 92,917</u>	<u>\$ 4,906,420</u>

Revenue Refunding and Improvement Bonds Series 2004

On February 1, 2004, the City issued \$8,220,000 in revenue bonds with interest rates ranging from 2.0% to 4.125%, to pay off the capital lease agreement with the Kentucky Municipal Finance Corporation, and to finance improvements for the waterworks, water distribution, wastewater treatment and collection facilities.

The annual requirements to amortize the indebtedness at June 30, 2007, are as follows:

Year ending June 30,	Principal	Interest	Total
2008	\$ 395,000	\$ 255,596	\$ 650,596
2009	400,000	246,709	646,709
2010	415,000	236,709	651,709
2011	435,000	225,296	660,296
2012	450,000	212,246	662,246
2013-2017	1,755,000	874,099	2,629,099
2018-2022	2,240,000	504,391	2,744,391
2023-2024	1,070,000	66,825	1,136,825
	<u>\$ 7,160,000</u>	<u>\$ 2,621,871</u>	<u>\$ 9,781,871</u>

(9) INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of June 30, 2007 is as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General Fund	Ashland Bus System	\$ 172,776
General Fund	Police and Fire Fighters Pension	562,408
General Fund	Utility Fund	2,879,591
General Fund	Utility Pension Fund	767,583
General Fund	Community Development	394,530
Recreation Fund	Floodwall Operating Fund	53,550
Housing Assistance Fund	General Fund	21,087
Capital Project	General Fund	231,121
Internal Service Fund	General Fund	79,539
Utility Pension Fund	General Fund	767,701
Municipal Aid Fund	Utility Fund	1,069,160
Total	General Fund	4,687
		<u>\$ 7,003,733</u>

(10) LEGAL CONTINGENCIES

The City is a defendant in various legal actions arising from normal business operations. The City's legal counsel believes these actions are without merit, adequately covered by insurance, or that the ultimate liability, if any, will not materially effect the City's financial position or results of operations.

(11) COMMITMENTS

Ashland Bus System

The City is committed to provide financial assistance to the Ashland Bus System (ABS). During the year ended June 30, 2007, the City paid \$338,000 to the ABS under this agreement. Remaining operating costs are to be funded through grants from the U.S. Department of Transportation (DOT). The City has estimated it is due \$81,890 from DOT for the current year's operating grant. It is management's opinion that all operating grants due from DOT will be received in full. City management does not expect its cost of operating the ABS to decrease in the near future.

Construction Projects

The City is obligated on commitments for various contracts in progress at June 30, 2007. A summary of the commitments is as follows:

Fund	Project Description	Total Approved Contract	Paid or Accrued to Date	Out- standing Commitment
Community Development	CDBG Project	\$ 96,965	\$ 11,975	\$ 84,990
Community Development	CDBG Project	145,851	18,596	127,255
Ashland Bus System	Bus Storage Building	260,930	214,597	46,333
		<u>\$ 503,746</u>	<u>\$ 245,168</u>	<u>\$ 258,578</u>

(12) RISK MANAGEMENT

The City is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has established an employee's health insurance fund (an internal service fund) to account for and finance its uninsured risk of loss. Under this program, the employees health insurance fund provides coverage up to a maximum of \$80,000 per covered full-time employee and his or her dependents and eligible retirees. The City purchases commercial insurance for the health and accident claims in excess of coverage provided by the fund and for all other risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

All full-time employees are eligible to participate in the City's Health Benefit Plan. The claims liability of \$239,628 reported in the Internal Service fund at June 30, 2007, is based on the requirements of Governmental Accounting Standards Board Statement No. 10 which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount can be reasonably estimated.

Changes in the funds claims liability amount in fiscal years 2006 and 2007 were:

	Beginning of Fiscal Year Liability	Current Year Claims	Claim Payments	Balance At Fiscal Year End
2006	\$ 486,854	\$ 3,097,020	\$ 3,361,138	\$ 222,736
2007	222,736	3,021,453	3,004,561	239,628

Effective July 1, 2006, the City established a Health Reimbursement Arrangement (HRA) on behalf of employees enrolled in the Health Benefit Plan. Employees are eligible to participate in the HRA on the thirty-first day of employment. Participants enrolled in the Health Benefit Plan with single coverage are credited with \$900 per year into their HRA account, while participants enrolled in the Health Benefit Plan with family coverage are credited with \$1,800 per year. Participants in the HRA can use their account balances to reimburse the Health Benefit Plan deductibles and co-insurance expenses. Amounts charged to Internal Service Fund operating expenses under the provisions of the HRA for the year ended June 30, 2007 totaled \$848,134.

(13) OTHER POST EMPLOYMENT BENEFITS

In addition to UPF and PFPF pension benefits described in Note 7 the City provides pursuant to City ordinance, post retirement health care benefits to all employees who retire from the City and are receiving benefits from a retirement plan which the City sponsors.

Currently five retirees and eligible survivors meet these eligibility requirements. The City pays claims up to \$80,000 per individual. Funding is provided by billings to retirees. Expenditures for post retirement health care benefits are recognized as retirees report claims. Management has no knowledge of unreported claims incurred for which a liability has not been recognized. During the year, expenditures of \$95,975 were recognized for post retirement health care.

In addition to the CERS pension benefits described in Note 7, recipients of CERS retirement benefits may elect to participate in a voluntary hospital/medical group insurance plan for themselves and their dependents. The cost of participation for their dependents is borne by the retiree. The retirement system will pay a portion of the cost of participation for the retiree based on years of service as follows: Less than 4 years - 0%, 4-9 years - 25%, 10-14 years - 50%, 15-19 years - 75% and 20 or more years - 100%.

If a hazardous member is disabled in the line of duty, the retirement system will pay 100% of the insurance cost of the member, spouse and eligible dependents. If a hazardous member dies in the line of duty, the retirement system will pay 100% of the insurance cost of the beneficiary and eligible dependents as long as they remain eligible for a monthly benefit payment.

As of June 30, 2006, the date of the latest actuarial valuation, the plan had 93,329 active plan participants.

Contribution requirements for medical benefits are a portion of the actuarially determined rates of covered payroll for non-hazardous and hazardous employees, respectively, as disclosed in Note 7.

The unfunded medical benefit obligation of the CERS, based upon the entry age normal cost method, as of June 30, 2006 was as follows:

Total medical benefit obligation
 Net assets available for benefits
 at actuarial value

000's omitted
\$ 6,535,705

(1,200,512)
\$ 5,335,193

(14) PRIOR PERIOD ADJUSTMENTS

During the current year, the City became aware that the funds received for the Voucher Program from the U.S. Department of Housing and Urban Development (HUD) but not yet expended should be recorded as revenue and not deferred revenue. This was a policy change mandated by HUD. Therefore, the \$116,216 recorded as deferred revenue in the Housing Assistance Special Revenue Fund in fiscal year 2006 should have been reported as grant income. Additionally, during the current fiscal year, the City received \$81,881 from HUD for a previous program year. This should have been recorded as a receivable in fiscal year 2006.

During the current fiscal year, the City became aware of a misapplication of GASB 34 concerning net pension obligations for the Police & Firefighters Pension Fund and the Utility Pension Fund. GASB 34 requires that a negative balance in the NPO be recognized as an asset in the government-wide statement of net assets. At June 30, 2006, the Police & Firefighters Pension Fund had a net pension obligation of \$(1,995,562) and the Utility Pension Fund had a net pension obligation of \$(1,157,542). These amounts should have been recorded as a net pension asset in fiscal year 2006.

Beginning net assets and fund balances have been restated as follows:

	<u>Government Activities</u>		<u>Business-Type Activities</u>	
	<u>As Previously Reported</u>	<u>As Restated</u>	<u>As Previously Reported</u>	<u>As Restated</u>
Statement of Net Assets				
Total assets	\$ 62,507,876	\$ 64,585,319	\$ 50,684,359	\$ 51,841,902
Total liabilities	8,577,834	8,461,618	15,828,960	15,828,960
Net assets:				
Invested in capital assets, net of related debt	50,818,069	50,818,069	35,946,204	35,946,204
Restricted	3,735,431	3,933,528	662,246	662,246
Unrestricted	(623,458)	1,372,104	(1,753,051)	(595,508)
Total net assets	<u>53,930,042</u>	<u>56,123,701</u>	<u>34,855,399</u>	<u>36,012,942</u>
Housing Assistance Special Revenue Fund				
Total assets	\$ 145,348	\$ 227,229		
Total liabilities	123,698	7,482		
Fund balances:				
Reserved for grant programs	21,650	219,747		
Total net assets	<u>21,650</u>	<u>219,747</u>		

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF ASHLAND

DEFINED BENEFIT PENSION TRUSTS

SCHEDULES OF FUNDING PROGRESS

JUNE 30, 2007

UTILITY EMPLOYEES PENSION PLAN

* Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL As A Percentage Of Covered Payroll (b-a)/c
7/1/02	\$ 1,931,869	\$ 5,891,709	\$ 3,959,840	32.8%	\$ 155,846	2540.9 %
7/1/04	3,191,442	6,155,516	2,964,074	51.8%	171,784	1725.5 %
7/1/06	2,945,343	8,017,824	5,072,481	36.7%	75,902	6682.9 %

POLICEMEN AND FIREFIGHTERS PENSION PLAN

7/1/01	1,880,371	6,076,358	4,195,987	30.9%	** N/A	** N/A
7/1/03	3,036,647	5,697,084	2,660,437	53.3%	** N/A	** N/A
7/1/05	2,762,856	6,409,841	3,646,985	43.1%	** N/A	** N/A

*Actuarial valuations performed bi-annually

**No active employees or covered payroll.

CITY OF ASHLAND

DEFINED BENEFIT PENSION TRUSTS

SCHEDULES OF EMPLOYER CONTRIBUTIONS

JUNE 30, 2007

<u>Utility Employees Pension Plan</u>			<u>Policemen and Firefighters Pension Plan</u>		
<u>Fiscal Year</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>	<u>Fiscal Year</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2004	369,028	109.9%	2004	288,463	100.0%
2005	410,483	100.0%	2005	288,463	100.0%
2006	410,483	100.0%	2006	284,102	101.5%

Notes to Required Supplementary Information

	<u>Utility Employees Pension Plan</u>	<u>Policemen And Firefighters Pension Plan</u>
Valuation date	7-1-05	7-1-06
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level % of payroll Closed	Level % of payroll Closed
Amortization	20 years	20 years
Actuarial asset valuation method	Fair market value	Fair market value
Actuarial assumptions		
Investment rate of return	7.50 %	5.00 %
Projected salary increases	5.00 %	None
Post retirement benefit increases	2.00 %	2.00 %

SUPPLEMENTAL INFORMATION

CITY OF ASHLAND

GENERAL FUND

BALANCE SHEET

JUNE 30, 2007

ASSETS

Cash	\$ 3,576,087
Taxes receivable	3,158,180
Allowance for uncollectible taxes	(255,473)
Grants receivable	366,925
Due from other funds	4,830,438
Other receivables	182,789
Allowance for uncollectible accounts	(34,478)
Inventories - supplies	<u>87,442</u>
Total assets	<u>\$ 11,911,910</u>

LIABILITIES AND FUND BALANCE

Liabilities:

Cash overdraft	\$ 833,657
Accounts payable	682,232
Due to other funds	1,104,134
Due to Board of Education	75,721
Accrued compensated absences	105,555
Accrued expenses	<u>282,033</u>
Total liabilities	<u>3,083,332</u>

Fund Balance:

Reserved for capital projects	3,466,540
Reserved for inventories	87,442
Reserved for grant programs	366,925
Unreserved/undesignated	<u>4,907,671</u>
Total fund balance	<u>8,828,578</u>
Total liabilities and fund balance	<u>\$ 11,911,910</u>

CITY OF ASHLAND

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2007

REVENUES:	Budget	Actual	Variance
Taxes -			
General property taxes	\$ 2,672,500	\$ 2,786,354	\$ 113,854
Penalties and interest	26,200	28,212	2,012
Bank franchise taxes	105,725	101,322	(4,403)
Other franchise taxes	195,000	178,224	(16,776)
Delinquent taxes	250,000	173,738	(76,262)
Vehicle property taxes	382,400	383,321	921
Insurance premiums taxes	4,500,000	4,315,067	(184,933)
Total taxes	<u>8,131,825</u>	<u>7,966,238</u>	<u>(165,587)</u>
Licenses and permits -			
Occupational license fees	6,183,000	6,524,280	341,280
Business privilege licenses	875,000	1,264,660	389,660
Alcoholic beverage licenses	475,000	513,870	38,870
Building permits	95,000	94,895	(105)
Other licenses and permits	16,330	11,243	(5,087)
Total licenses and permits	<u>7,644,330</u>	<u>8,408,948</u>	<u>764,618</u>
Charge for services -			
Garbage collection fee	1,438,000	1,423,845	(14,155)
Other	46,695	47,339	644
Total charges for services	<u>1,484,695</u>	<u>1,471,184</u>	<u>(13,511)</u>
Fees, fines and reimbursements -			
Parking meter fees	45,000	35,105	(9,895)
Parking fines	35,000	21,272	(13,728)
School collection fees	81,835	86,087	4,252
Tourism tax collection	1,950	1,677	(273)
State rebate - District Court	40,000	50,931	10,931
Street lighting franchise	50,000	62,669	12,669
Cable TV franchise	209,520	210,380	860
Other	461,330	384,985	(76,345)
Total fees, fines and reimbursements	<u>924,635</u>	<u>853,106</u>	<u>(71,529)</u>
Other revenues -			
Police grants	74,966	36,407	(38,559)
Homeless shelter grant	90,000	112,840	22,840
Renaissance grant	150,000	150,000	-
State litter grant	14,000	12,952	(1,048)
Transportation grant	-	3,002	3,002
Riverfront appropriation	5,835,620	242,208	(5,593,412)
Home program	380,000	-	(380,000)
Coal severance - LGEA	21,250	34,606	13,356
Interest earned	27,000	188,307	161,307
AHA - Pilot	25,000	-	(25,000)
Sale of surplus property	7,500	23,919	16,419
Other	368,395	213,403	(154,992)
Total other revenues	<u>6,993,731</u>	<u>1,017,644</u>	<u>(5,976,087)</u>
Total revenues	<u>25,179,216</u>	<u>19,717,120</u>	<u>(5,462,096)</u>

CITY OF ASHLAND

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2007

EXPENDITURES:	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Government -			
Mayor and Commissioners	109,504	98,742	10,762
City Manager	131,562	143,422	(11,860)
Legal	147,298	134,699	12,599
Economic Development	138,220	137,531	689
City Clerk/ABC Administrator	120,004	126,428	(6,424)
Grants and projects	7,486,726	889,485	6,597,241
Unclassified	<u>1,541,724</u>	<u>1,473,884</u>	<u>67,840</u>
	<u>9,675,038</u>	<u>3,004,191</u>	<u>6,670,847</u>
Department of Finance -			
Director of Finance	443,490	438,586	4,904
City Cashier	67,715	73,628	(5,913)
Data Processing	<u>27,995</u>	<u>23,408</u>	<u>4,587</u>
	<u>539,200</u>	<u>535,622</u>	<u>3,578</u>
Department of Public Services -			
Director of Public Services	173,769	169,100	4,669
Street maintenance	1,224,996	1,174,647	50,349
Sanitation services	1,251,173	1,307,304	(56,131)
Central garage	264,051	262,173	1,878
Animal control	103,748	100,028	3,720
Traffic maintenance	427,269	436,546	(9,277)
Park maintenance	<u>73,261</u>	<u>92,027</u>	<u>(18,766)</u>
	<u>3,518,267</u>	<u>3,541,825</u>	<u>(23,558)</u>
Department of Planning and Code Enforcement -			
Planning Director	138,830	162,818	(23,988)
Risk/Safety Manager	38,071	9,810	28,261
Planning/CD Grants	499,000	139,116	359,884
Code enforcement	<u>312,772</u>	<u>325,046</u>	<u>(12,274)</u>
	<u>988,673</u>	<u>636,790</u>	<u>351,883</u>
Department of Police -			
Administration	358,675	251,998	106,677
Patrol	2,777,719	2,886,564	(108,845)
Criminal investigations	390,512	376,779	13,733
Staff services	<u>662,745</u>	<u>665,085</u>	<u>(2,340)</u>
	<u>4,189,651</u>	<u>4,180,426</u>	<u>9,225</u>

CITY OF ASHLAND

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (CONCLUDED)

FOR THE YEAR ENDED JUNE 30, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Department of Fire			
Central station	2,615,581	2,794,582	(179,001)
Station #2	885,768	847,786	37,982
Station #3	879,268	863,400	15,868
	<u>4,380,617</u>	<u>4,505,768</u>	<u>(125,151)</u>
Department of Engineering	<u>135,041</u>	<u>136,712</u>	<u>(1,671)</u>
Debt Service - 1999 Bonds	<u>338,945</u>	<u>332,013</u>	<u>6,932</u>
Debt Service - 2005 Bonds	<u>218,500</u>	<u>217,047</u>	<u>1,453</u>
Total expenditures	<u>23,983,932</u>	<u>17,090,394</u>	<u>6,893,538</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>1,195,284</u>	<u>2,626,726</u>	<u>1,431,442</u>
OTHER FINANCING SOURCES (USES):			
Transfer to Capital Projects Fund	(1,006,368)	(448,209)	558,159
Transfer to Recreation Fund	(830,573)	(723,162)	107,411
Transfer to Ashland Bus Fund	(327,643)	(338,000)	(10,357)
Total other financing sources (uses)	<u>(2,164,584)</u>	<u>(1,509,371)</u>	<u>655,213</u>
NET CHANGE IN FUND BALANCE	(969,300)	1,117,355	2,086,655
FUND BALANCE, June 30, 2006	<u>7,711,223</u>	<u>7,711,223</u>	<u>-</u>
FUND BALANCE, June 30, 2007	<u>\$ 6,741,923</u>	<u>\$ 8,828,578</u>	<u>\$ 2,086,655</u>

CITY OF ASHLAND

FIDUCIARY FUNDS

COMBINING STATEMENT OF NET ASSETS

JUNE 30, 2007

	<u>PENSION TRUST FUNDS</u>		<u>Total</u>
	<u>Utility Pension Fund</u>	<u>Policemen & Firefighters Pension Fund</u>	
ASSETS			
Cash and cash equivalents	\$ 365,131	\$ 352,419	\$ 717,550
Accrued interest receivable	16,794	12,033	28,827
Due from employer	539,717	-	539,717
Due from other funds	1,069,160	-	1,069,160
Investments, at fair value - U.S. Government obligations	<u>2,148,765</u>	<u>2,331,658</u>	<u>4,480,423</u>
Total assets	<u>4,139,567</u>	<u>2,696,110</u>	<u>6,835,677</u>
LIABILITIES			
Deferred revenue	539,717	-	539,717
Due to other funds	<u>767,583</u>	<u>562,408</u>	<u>1,329,991</u>
Total liabilities	<u>1,307,300</u>	<u>562,408</u>	<u>1,869,708</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u>\$ 2,832,267</u>	<u>\$ 2,133,702</u>	<u>\$ 4,965,969</u>

CITY OF ASHLAND

FIDUCIARY FUNDS

COMBINING STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2007

	<u>PENSION TRUST FUNDS</u>		<u>Total</u>
	<u>Utility Pension Fund</u>	<u>Policemen & Firefighters Pension Fund</u>	
ADDITIONS:			
Contributions -			
Employer	\$ 410,483	\$ 288,463	\$ 698,946
Plan members	<u>3,967</u>	<u>-</u>	<u>3,967</u>
Total contributions	<u>414,450</u>	<u>288,463</u>	<u>702,913</u>
Investment income -			
Net appreciation (depreciation) in fair value of investments	25,677	(1,484)	24,193
Interest income	<u>99,469</u>	<u>119,612</u>	<u>219,081</u>
Total investment income	<u>125,146</u>	<u>118,128</u>	<u>243,274</u>
Total additions	<u>539,596</u>	<u>406,591</u>	<u>946,187</u>
DEDUCTIONS:			
Benefits	633,876	665,753	1,299,629
Administrative expenses	<u>18,796</u>	<u>19,595</u>	<u>38,391</u>
Total deductions	<u>652,672</u>	<u>685,348</u>	<u>1,338,020</u>
NET DECREASE	(113,076)	(278,757)	(391,833)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:			
Beginning of year	<u>2,945,343</u>	<u>2,412,459</u>	<u>5,357,802</u>
End of year	<u>\$ 2,832,267</u>	<u>\$ 2,133,702</u>	<u>\$ 4,965,969</u>

CITY OF ASHLAND

SCHEDULE OF CAPITAL ASSETS USED IN THE OPERATION
OF GOVERNMENTAL FUNDS BY FUNCTION AND ACTIVITY

JUNE 30, 2007

	Land and Building	Building Improvements	Automotive Equipment	Operating Equipment	Furniture and Equipment	Capital Improvements	Infrastructure	Construction in Progress	Total
Department of General Government	\$ 2,549,834	\$ 1,064,962	\$ -	\$ 144,317	\$ 244,810	\$ 20,215	\$ -	\$ -	\$ 4,024,138
Department of Finance	-	-	-	64,919	13,520	-	-	-	78,439
Department of Public Services	19,387,154	652,249	952,274	1,765,673	-	334,525	55,243,805	28,943	78,364,623
Department of Planning and Community Development	-	13,033	43,536	6,799	-	-	-	-	63,368
Department of Police	-	-	852,093	548,354	157,630	-	-	4,200	1,562,277
Department of Fire	3,655,959	152,017	1,621,245	169,585	33,830	-	-	-	5,632,636
Department of Engineering	-	-	48,104	-	39,240	-	-	-	87,344
Floodwall Operations	15,120	5,150	52,856	125,692	-	-	-	-	198,818
Community Development	355,039	103,058	13,336	-	18,623	-	6,919	-	496,975
Housing Assistance Programs	150,033	12,950	12,590	-	42,531	-	-	-	218,104
Totals	\$ 26,113,139	\$ 2,003,419	\$ 3,596,034	\$ 2,825,339	\$ 550,184	\$ 354,740	\$ 55,250,724	\$ 33,143	\$ 90,726,722

CITY OF ASHLAND

SCHEDULE OF CAPITAL ASSETS USED IN THE OPERATION OF
GOVERNMENTAL FUNDS BY SOURCE

JUNE 30, 2007

Land and buildings	\$ 26,113,139
Building improvements	2,003,419
Automotive equipment	3,596,034
Operating equipment	2,825,339
Office furniture and equipment	550,184
Capital improvements	354,740
Infrastructure	55,250,724
Construction in progress	<u>33,143</u>
Total	<u>\$ 90,726,722</u>
Investment in capital assets by source	
General Fund	\$ 76,636,109
Special Revenue Funds	2,372,271
Capital Projects Fund	<u>11,718,342</u>
Total	<u>\$ 90,726,722</u>

CITY OF ASHLAND HOUSING AUTHORITY

STATEMENT OF NET ASSETS

JUNE 30, 2007

	<u>Rental Vouchers</u>
ASSETS	
Cash	
Due from other funds	\$ 59,586
Building and equipment, net	231,121
Total assets	<u>139,449</u>
	<u>\$ 430,156</u>
LIABILITIES AND SURPLUS	
LIABILITIES:	
Accounts payable	
Accrued expenses	\$ 1,047
Accrued compensated absences	5,667
	<u>1,793</u>
Total liabilities	<u>8,507</u>
NET ASSETS:	
Invested in capital assets	139,449
Unrestricted	<u>282,200</u>
	<u>421,649</u>
Total liabilities and net assets	<u>\$ 430,156</u>

CITY OF ASHLAND HOUSING AUTHORITY
STATEMENT OF REVENUES AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2007

	<u>Rental Vouchers</u>
REVENUES	
ACC required	\$ 2,653,408
Interest income	2,800
Other income	600
Total revenues	<u>2,656,808</u>
EXPENDITURES	
Housing assistance payments	2,264,651
Audit	5,074
Salaries	157,583
Travel	1,976
Depreciation	5,944
Administrative general	8,388
Maintenance	10,406
Insurance	3,161
Employee benefits	75,097
Other general	51,705
Total expenditures	<u>2,583,985</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ 72,823</u>

CITY OF ASHLAND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2007

<u>U.S. Department of HUD</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Expenditures</u>
Direct Programs -			
CDBG Entitlement	14.218	B06MC2-10003	\$ 502,677
CDBG Entitlement	14.218	B05MC2-10003	508,006
Voucher	14.871	KY142VO	2,594,355
Kentucky Emergency Shelter Grants Program	14.231	ES05-0001-01-02	39,277
Kentucky Emergency Shelter Grants Program	14.231	S06DC21-0001	71,563
Total U.S. Department of HUD			<u>3,715,878</u>
 <u>U.S. Department of Transportation</u>			
Direct Programs -			
FTA - Operating Assistance Grant	20.507	KY-90-X145	235,970
FTA - Operating Assistance Grant	20.507	KY-90-X154	66,298
FTA - Capital Assistance Grant	20.507	KY-90-X139	141,543
FTA - Capital Assistance Grant	20.507	KY-90-X145	48,762
FTA - Capital Assistance Grant	20.507	KY-90-X154	62,745
Passed through Kentucky Transportation Cabinet -- SAFETEA-LU	20.205	79495 02 D	242,208
TEA-21 - Streetscape Grant	20.205	C-03461235	240,221
TEA-21 - Transportation Enhancement	20.205	C-04672426	3,003
Total U.S. Department of Transportation			<u>1,040,750</u>
 <u>U.S. Department of Homeland Security</u>			
Direct Programs -			
Assistance to Firefighters Grant	97.044	EMW-2005-FG-20190	91,502
Passed through Kentucky Homeland Security			
Homeland Security Grant	97.067	6159L	200,655
Homeland Security Grant	97.067	M-045322754	9,498
Total U.S. Department of Homeland Security			<u>301,655</u>
 <u>National Transportation Safety Board</u>			
Passed through Kentucky Department of State Police			
Dept. of State Police Highway Safety Program	20.600	PT-07-08	3,111
Dept. of State Police Highway Safety Program	20.600	AL-06-06	24,744
Total National Transportation Safety Board			<u>27,855</u>
 TOTAL EXPENDITURES OF FEDERAL AWARDS			 <u>\$ 5,086,138</u>

CITY OF ASHLAND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONCLUDED)

FOR THE YEAR ENDED JUNE 30, 2007

Notes to Schedule of Expenditures of Federal Awards

Note A - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards is a summary of the activity of the City's federal award programs presented on the accrual basis of accounting in accordance with generally accepted accounting principles.



Kelley,
Galloway &
Company, PSC

CERTIFIED PUBLIC ACCOUNTANTS

- 1200 BATH AVENUE ▪ P. O. BOX 990 ▪ ASHLAND, KENTUCKY 41105-0990 ▪
- Phone (606) 329-1811 ▪ Fax (606) 329-8756 ▪ E-mail contact@kelleygalloway.com ▪ Web site www.kelleygalloway.com ▪

Member of the Center for Public Company Audit Firms, the Private Companies Practice Section of the American Institute of Certified Public Accountants and PKF North American Network

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

The Honorable Steve Gilmore, Mayor
City Commissioners and City Manager
City of Ashland
Ashland, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Ashland (the "City") as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 27, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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

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

Our consideration of 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 internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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

Kelley Auditing & Consulting, P.C.

November 27, 2007



Kelley,
Galloway &
Company, PSC

CERTIFIED PUBLIC ACCOUNTANTS

- 1200 BATH AVENUE ▪ P. O. BOX 990 ▪ ASHLAND, KENTUCKY 41105-0990 ▪
- Phone (606) 329-1811 ▪ Fax (606) 329-8756 ▪ E-mail contact@kelleygalloway.com ▪ Web site www.kelleygalloway.com ▪

Member of the Center for Public Company Audit Firms, the Private Companies Practice Section of the American Institute of Certified Public Accountants and PKF North American Network

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

The Honorable Steve Gilmore, Mayor
City Commissioners and City Manager
City of Ashland
Ashland, Kentucky

Compliance

We have audited the compliance of the City of Ashland (the "City") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City of Ashland complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

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

compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

Kelley, Anderson + Company, PSC

November 27, 2007

CITY OF ASHLAND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2007

A. SUMMARY OF AUDIT RESULTS

1. Unqualified opinions were issued on the financial statements of the City of Ashland for the year ended June 30, 2007.
2. The audit of the financial statements of the City of Ashland as of and for the year ended June 30, 2007, disclosed no internal control related significant deficiencies.
3. The audit disclosed no instances of noncompliance material to the financial statements of the City of Ashland.
4. There were no significant deficiencies in internal control over the major programs.
5. An unqualified opinion was issued on compliance over major programs.
6. The audit disclosed no findings and questioned costs.
7. The City had the following major programs for the year ended June 30, 2007:

	<u>CFDA NO.</u>
Voucher Program	14.871
CDBG Entitlement	14.218
FTA - Operating and Capital Assistance	20.507
SAFETEA and TEA-21-Streetscape Grant	20.205

8. The threshold used to distinguish between Type A and Type B programs was \$300,000.
9. The City qualified as a low-risk auditee under OMB Circular A-133, *Audits of States, Local Governments and Non-profit Organizations*.

B. FINDINGS RELATED TO THE FINANCIAL STATEMENTS IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENTAL AUDITING STANDARDS

None noted in the current year.

C. FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

None noted in the current year.

CITY OF ASHLAND
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2007

There were no findings in the prior year.

CITY OF ASHLAND
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2007

No findings or questioned costs in the current year.