

CITY OF ASHLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

(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. GASB Codification Section 2100 establishes criteria for determining which, if any, component units should be considered part of the City for financial reporting purposes. The basic criterion for including a potential component unit within the reporting entity is financial accountability, which includes:

1. Appointing a voting majority of an organization's governing body, and:
 - a. The ability of the government to impose its will on that organization and/or
 - b. The potential for the organization to provide specific financial benefits to or impose specific financial burdens on the government.
2. Organizations for which the government does not appoint a voting majority but are fiscally dependent on the government.
3. Organizations for which the reporting entity's financial statements would be misleading if data of the organization is not included because of the nature and significance of the relationship.

Based on the previous criteria, the City has determined that the following component unit should be considered as part of the City reporting unit:

Pollard Mills Homes, Ltd. ("Pollard Mills") is a legally separate entity. The City is the managing general partner of Pollard Mills. The governing body of the City is considered to have complete control over Pollard Mills and, therefore, considered to be a component unit of the City. As a result, Pollard Mills is included in the City's financial statements as a blended component unit. Pollard Mills Homes, Ltd. does not issue separate financial statements.

(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, 2008, there were no 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, 2007 information to conform with the 2008 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.

(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, 2008, the carrying amounts of the City's deposits were \$9,083,262 and the bank balances were \$11,562,028. 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, 2008, the City had the following investments and maturities:

Investment Type - U.S. Government Securities	Investment Maturities (in years)				
	Fair Value	Less than 1	1 - 5	6 - 10	More than 10
	\$ 3,108,912	\$ 661,812	\$ 2,447,100	-	-

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 2008 assessed value for real property was \$793,565,014. Assessed value of tangible property was \$105,144,114. The tax rate adopted was \$.3372 per \$100 valuation.

(5) GRANTS RECEIVABLE

Grants receivable from other governmental units as of June 30, 2008, are as follows:

General Fund -	
Special Purpose Grant	\$ 1,314
Kentucky Transportation Cabinet	324,167
Homeless Shelter Grant	16,214
	<u>341,695</u>
Special Revenue Funds -	
Municipal Aid Road Fund	62,476
Community Development Fund, program allocation	240,377
	<u>302,853</u>
Enterprise Funds -	
Ashland Bus System - FTA operations	121,707
Ashland Bus System - FTA capital	30,494
Utility Fund - capital	200,000
	<u>352,201</u>
	<u>\$ 996,749</u>

(6) CAPITAL ASSETS

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

	June 30, 2007	Increases	Decreases	June 30, 2008
Governmental Activities				
Capital Assets, Not Depreciated:				
Land	\$ 22,175,968	\$ 143,350	\$ (102,847)	\$ 22,216,471
Construcion in progress	33,143	310,112	(28,943)	314,312
Capital Assets, Depreciated:				
Buildings	3,937,171	-	-	3,937,171
Building improvements	2,003,419	-	-	2,003,419
Automotive equipment	3,596,034	524,687	(42,724)	4,077,997
Office furniture and equipment	550,184	-	-	550,184
Operating equipment	2,825,339	152,363	-	2,977,702
Capital improvements	354,740	-	-	354,740
Infrastructure	<u>55,250,724</u>	<u>1,045,521</u>	<u>-</u>	<u>56,296,245</u>
Totals	<u>90,726,722</u>	<u>2,176,033</u>	<u>(174,514)</u>	<u>92,728,241</u>
Accumulated Depreciation:				
Buildings	932,024	79,478	-	1,011,502
Building improvements	1,493,107	35,937	-	1,529,044
Automotive equipment	2,786,646	191,144	(37,031)	2,940,759
Office furniture and equipment	480,324	21,144	-	501,468
Operating equipment	1,492,009	154,202	-	1,646,211
Capital improvements	42,367	15,056	-	57,423
Infrastructure	<u>32,456,137</u>	<u>1,686,951</u>	<u>-</u>	<u>34,143,088</u>
Totals	<u>39,682,614</u>	<u>2,183,912</u>	<u>(37,031)</u>	<u>41,829,495</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 51,044,108</u>	<u>\$ (7,879)</u>	<u>\$ (137,483)</u>	<u>\$ 50,898,746</u>

Business-type Activities**Capital Assets, Not Depreciated:**

Land	\$ 436,634	\$ -	\$ -	\$ 436,634
Construction in progress	378,682	432,859	(260,324)	551,217

Capital Assets, Depreciated:

Buildings	1,280,388	272,316	-	1,552,704
Building improvements	463,205	29,035	-	492,240
Utility and sewage plants	77,354,169	153,530	-	77,507,699
Automotive equipment	1,765,307	209,764	-	1,975,071
Office furniture and equipment	323,907	99,763	-	423,670
Operating equipment	1,974,545	218,533	-	2,193,078
Recreation equipment	295,644	-	-	295,644
Totals	<u>84,272,481</u>	<u>1,415,800</u>	<u>(260,324)</u>	<u>85,427,957</u>

Accumulated Depreciation:

Buildings	401,443	41,885	-	443,328
Building improvements	219,917	23,759	-	243,676
Utility and sewage plants	32,734,784	1,893,596	-	34,628,380
Automotive equipment	1,329,013	126,930	-	1,455,943
Office furniture and equipment	262,869	34,435	-	297,304
Operating equipment	1,504,046	110,806	-	1,614,852
Recreation equipment	253,228	7,460	-	260,688
Totals	<u>36,705,300</u>	<u>2,238,871</u>	<u>-</u>	<u>38,944,171</u>

Business-type Activities

Capital Assets, Net	<u>\$ 47,567,181</u>	<u>\$ (823,071)</u>	<u>\$ (260,324)</u>	<u>\$ 46,483,786</u>
----------------------------	----------------------	---------------------	---------------------	----------------------

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

Governmental activities:

General government	\$ 43,480
Public services	1,849,994
Planning and code enforcement	4,129
Police	124,316
Fire	141,834
Engineering	3,080
Community and cultural	17,079
	<u>\$ 2,183,912</u>

Business-type activities:

Utilities	\$ 2,121,065
Recreation	98,662
Bus	19,144
	<u>\$ 2,238,871</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, 2007.

Police and Firefighters Pension Fund (PFPF):

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, 2008, there were no active employees participating in PFPF. Unless otherwise indicated, PFPF 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:

	Utility Pension Fund City Ordinance and KRS	Police and Firefighters Pension Fund City Ordinance and KRS
Governing Authority		
Determination of contribution requirements	Actuarially	Actuarially
Contribution rates as a percentage of covered payroll:		
Employer	621.8 %	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
Active plan participants:		
Vested	-	-
Non-Vested	1	1
	<u>31</u>	<u>44</u>
		<u>Totals</u> <u>74</u>

Annual Required Contributions

Actuarial assumptions and other information used to determine the annual required contributions (ARC) are as follows:

	Utility Employees Pension Plan	Policemen And Firefighters Pension Plan
Valuation date	7-1-07	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, quoted market prices	Fair market value, quoted market prices
Actuarial assumptions		
Investment rate of return	7.50 %	5.00 %
Projected salary increases	5.00 %	None
Post retirement benefit increases	2.00 %	2.00 %

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:

	Utility Pension Fund	Police and Firefighters Pension Fund
Employer contributions made for fiscal year	\$ 507,860	\$ 355,128
Employer required annual contribution	325,015	293,551
Interest on net pension asset	(61,687)	(96,506)
Adjustment to annual contribution requirement	83,496	154,878
Annual pension cost	346,824	351,923
Increase (decrease) in net pension asset	161,036	3,205
Net pension asset, June 30, 2007	1,233,745	1,930,123
Net pension asset, June 30, 2008	\$ 1,394,781	\$ 1,933,328

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)
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)
2007	334,280	123%	(1,233,745)	2007	353,902	82%	(1,930,123)

The schedule of funding progress, presented as required supplemental information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing overtime relative to the actuarial accrued liability.

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 16.17% 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 33.87% 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, 2008, 2007, and 2006 were \$2,731,809, \$2,199,434, and \$1,879,318, 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, 2008:

	Balance June 30, 2007	Additions	Reductions	Balance June 30, 2008
<u>Governmental Activities</u>				
General Obligation Bond Series 2005	\$ 3,230,000	\$ -	\$ 85,000	\$ 3,145,000
Capital lease - Fire station	1,225,000	-	110,000	1,115,000
Capital leases - Equipment	77,725	410,594	39,750	448,569
General obligation Bond Series 1999	640,000	-	310,000	330,000
Compensated absences obligation	1,081,988	74,104	-	1,156,092
Total Governmental Activities	\$ 6,254,713	\$ 484,698	\$ 544,750	\$ 6,194,661
<u>Business-type Activities</u>				
Revenue & Improvement Bond Series 2004	\$ 7,160,000	\$ -	\$ 395,000	\$ 6,765,000
Kentucky Infrastructure Authority Loan	1,833,203	-	88,766	1,744,437
Kentucky Infrastructure Authority Loan	3,698,465	-	157,635	3,540,830
Total Business-type Activities	\$ 12,691,668	\$ -	\$ 641,401	\$ 12,050,267

At June 30, 2008, 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, 2008, the City had bond reserve funds of \$1,600,000.

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, 2008) 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>
2009	\$ 120,000	\$ 44,458	\$ 164,458
2010	120,000	37,049	157,049
2011	130,000	34,581	164,581
2012	135,000	29,291	164,291
2013	140,000	23,566	163,566
2014-2016	470,000	34,507	504,507
	<u>\$ 1,115,000</u>	<u>\$ 203,452</u>	<u>\$ 1,318,452</u>

Capital Leases - Equipment

The City entered into capital lease agreements with financing companies to purchase equipment. The interest rate on the leases vary between 3.99% - 5.04%.

Capital assets include the following under capital leases:

Operating equipment	\$ 568,319
Less accumulated depreciation	(18,216)
	<u>\$ 550,103</u>

Future minimum annual lease payments under the agreements are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 115,236	\$ 10,889	\$ 126,125
2010	111,391	14,734	126,125
2011	116,580	9,545	126,125
2012	100,012	4,113	104,125
2013	5,350	30	5,380
	<u>\$ 448,569</u>	<u>\$ 39,311</u>	<u>\$ 487,880</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, 2008, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 330,000	\$ 15,510	\$ 345,510

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, 2008, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 90,000	\$ 126,828	\$ 216,828
2010	90,000	123,993	213,993
2011	95,000	120,985	215,985
2012	95,000	117,803	212,803
2013	100,000	114,438	214,438
2014-2018	560,000	508,838	1,068,838
2019-2023	700,000	383,708	1,083,708
2024-2028	830,000	223,026	1,053,026
2029-2031	585,000	40,385	625,385
	<u>\$ 3,145,000</u>	<u>\$ 1,760,004</u>	<u>\$ 4,905,004</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, 2008, are as follows:

	Accrued Long-Term Obligation	Current Obligation	Total Compensated Absences
General Fund	\$ 1,130,441	\$ 222,382	\$ 1,352,823
Community Development Fund	7,223	1,421	8,644
Housing Assistance Fund	2,673	526	3,199
Utility Fund	-	226,259	226,259
Ashland Bus System	-	43,724	43,724
Recreation Fund	-	54,404	54,404
Floodwall Fund	15,755	3,099	18,854
	<u>\$ 1,156,092</u>	<u>\$ 551,815</u>	<u>\$ 1,707,907</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, 2008, \$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.

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, 2008 are as follows:

Year ending June 30,	Principal	Interest	Fees	Total
2009	\$ 92,168	\$ 65,421	\$ 4,304	\$ 161,893
2010	95,704	61,886	4,071	161,661
2011	99,376	58,214	3,830	161,420
2012	103,188	54,402	3,579	161,169
2013	107,146	50,444	3,319	160,909
2014-2018	600,629	187,319	12,324	800,272
2019-2023	646,226	62,931	4,140	713,297
	<u>\$1,744,437</u>	<u>\$ 540,617</u>	<u>\$ 35,567</u>	<u>\$ 2,320,621</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, 2008, are as follows:

Year ending June 30,	Principal	Interest	Fees	Total
2009	\$ 162,401	\$ 105,016	\$ 8,751	\$ 276,168
2010	167,307	100,107	8,342	275,756
2011	172,366	95,050	7,921	275,337
2012	177,576	89,841	7,485	274,902
2013	182,943	84,473	7,039	274,455
2014-2018	1,001,078	336,006	28,001	1,365,085
2019-2020	1,161,792	175,292	14,608	1,351,692
2024-2025	515,367	19,470	1,623	536,460
	<u>\$3,540,830</u>	<u>\$ 1,005,255</u>	<u>\$ 83,770</u>	<u>\$ 4,629,855</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, 2008, are as follows:

Year ending June 30,	Principal	Interest	Total
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	320,000	198,071	518,071
2014-2018	1,840,000	810,894	2,650,894
2019-2023	2,355,000	413,663	2,768,663
2024-2024	550,000	22,687	572,687
	<u>\$ 6,765,000</u>	<u>\$ 2,366,275</u>	<u>\$ 9,131,275</u>

(9) INTERFUND TRANSACTIONS

Interfund Receivable and Payables

The composition of interfund balances as of June 30, 2008 is as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General Fund	Ashland Bus System	\$ 149,739
General Fund	Municipal Aid Fund	12,023
General Fund	Utility Fund	3,246,169
General Fund	Recreation Fund	20,247
General Fund	Community Development	159,835
General Fund	Floodwall Operating Fund	124,409
Housing Assistance Fund	General Fund	219,676
Capital Project	General Fund	51,008
Internal Service Fund	General Fund	1,021,365
Utility Pension Fund	Utility Fund	823,880
Police and Fire Fighters Pension	General Fund	32,150
Total		<u>\$ 5,860,501</u>

Interfund Transfers

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Operating	General	Ashland Bus System	Matching	\$ 384,067
Operating	General	Recreation	Operations	875,259
Operating	General	Capital Projects	Capital Purchases	730,841

(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, 2008, the City paid \$384,067 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 \$121,707 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, 2008. A summary of the commitments is as follows:

Fund	Project Description	Total Approved Contract	Paid or Accrued to Date	Out- standing Commitment
General Fund	New Police Station	\$ 300,000	\$ 260,700	\$ 39,300
Utility Fund	Sanitary Sewer Line Installation	519,348	393,552	125,796
		<u>\$ 819,348</u>	<u>\$ 654,252</u>	<u>\$ 165,096</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 \$336,417 reported in the Internal Service fund at June 30, 2008, 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 2007 and 2008 were:

	Beginning of Fiscal Year Liability	Current Year Claims	Claim Payments	Balance At Fiscal Year End
2007	\$ 222,736	\$ 3,021,453	\$ 3,004,561	\$ 239,628
2008	239,628	3,117,120	3,020,331	336,417

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, 2008 totaled \$457,578.

(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 \$50,166 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, 2007, the date of the latest actuarial valuation, the plan had 95,464 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, 2007 was as follows:

Total medical benefit obligation	000's omitted \$ 4,980,426
Net assets available for benefits at actuarial value	(1,473,212) \$ <u>3,507,214</u>

(14) PRIOR PERIOD ADJUSTMENTS

Upon retirement from the City, an eligible employee will receive from the City an amount equal to the value of accumulated sick leave. During the current fiscal year, the City became aware that an accrual for earned sick leave had not been recorded. Under the termination payment method, sick leave benefits are accrued to the extent that it is probable that the benefits will result in termination payments. At June 30, 2007, the City had \$796,024 in accumulated sick leave benefits that were probable to result in termination payments.

At June 30, 2007, the City's financial statements included an accrued pension liability of \$539,717. Due to the implementation of GASB 34, this amount should no longer be recorded due to the City having a negative net pension obligation related to the Utility Pension Fund.

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

	Governmental Activities As Previously Reported	As Restated
Statement of Net Assets		
Total assets	\$ 65,847,756	\$ 65,847,756
Total liabilities	9,045,548	9,667,362

Net Assets:		
Invested in capital assets, net of related debt	49,741,383	49,741,383
Restricted	4,115,665	4,115,665
Unrestricted	2,945,160	2,323,346
Total net assets	<u>56,802,208</u>	<u>56,180,394</u>
General Fund		
Total assets	11,911,910	11,911,910
Total liabilities	3,083,332	3,183,657
Fund Balances:		
Unreserved	<u>8,828,578</u>	<u>8,728,253</u>
Total fund balances	<u>8,828,578</u>	<u>8,728,253</u>
Floodwall Operating Fund		
Total assets	124,535	124,535
Total liabilities	60,726	62,617
Fund Balances:		
Unreserved	<u>63,809</u>	<u>61,918</u>
Total fund balances	<u>63,809</u>	<u>61,918</u>
	Business-Type Activities	
	As Previously Reported	As Restated
Statement of Net Assets		
Total assets	\$ 49,898,525	\$ 49,898,525
Total liabilities	15,123,925	14,758,418
Net Assets:		
Invested in capital assets, net of related debt	34,704,680	34,704,680
Restricted	662,246	662,246
Unrestricted	<u>(592,326)</u>	<u>(226,819)</u>
Total net assets	<u>34,774,600</u>	<u>35,140,107</u>
Utility Fund		
Total assets	52,163,764	52,163,764
Total liabilities	18,894,307	18,471,432
Net Assets:		
Invested in capital assets, net of related debt	33,282,753	33,282,753
Restricted for debt payment	662,246	662,246
Unrestricted	<u>(675,542)</u>	<u>(252,667)</u>
Total net assets	<u>33,269,457</u>	<u>33,692,332</u>
Ashland Bus System		
Total assets	1,465,787	1,465,787
Total liabilities	244,058	268,926
Net Assets:		
Invested in capital assets, net of related debt	1,260,663	1,260,663
Restricted for debt payment	-	-
Unrestricted	<u>(38,934)</u>	<u>(63,802)</u>
Total net assets	<u>1,221,729</u>	<u>1,196,861</u>
Recreation Fund		
Total assets	390,502	390,502
Total liabilities	107,088	139,588
Net Assets:		
Invested in capital assets, net of related debt	161,264	161,264
Restricted for debt payment	-	-
Unrestricted	<u>122,150</u>	<u>89,650</u>
Total net assets	<u>283,414</u>	<u>250,914</u>

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF ASHLAND

DEFINED BENEFIT PENSION TRUSTS

SCHEDULES OF FUNDING PROGRESS

JUNE 30, 2008

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)
7/1/03	\$ 1,973,013	\$ 6,023,608	\$ 4,050,595	32.8%	\$ 161,912	2,501.7 %
7/1/05	3,094,984	8,027,969	4,932,985	38.6%	72,829	6,773.4 %
7/1/07	2,832,267	7,978,693	5,146,426	35.5%	40,408	12,736.2 %

POLICEMEN AND FIREFIGHTERS PENSION PLAN

7/1/02	2,748,691	5,718,327	2,969,636	48.1%	** N/A	** N/A
7/1/04	3,105,371	6,799,386	3,646,015	45.7%	** N/A	** N/A
7/1/06	2,412,459	6,253,647	3,841,188	38.6%	** N/A	** N/A

*Actuarial valuations performed bi-annually

**No active employees or covered payroll.

SUPPLEMENTAL INFORMATION

CITY OF ASHLAND

GENERAL FUND

BALANCE SHEET

JUNE 30, 2008

ASSETS

Cash	\$ 5,818,961
Taxes receivable	3,329,685
Allowance for uncollectible taxes	(283,904)
Grants receivable	341,695
Due from other funds	3,712,422
Other receivables	263,082
Allowance for uncollectible accounts	(27,797)
Inventories - supplies	<u>92,240</u>

Total assets \$ 13,246,384

LIABILITIES AND FUND BALANCE

Liabilities:

Cash overdraft	\$ 850,592
Accounts payable	926,573
Due to other funds	1,324,199
Due to Board of Education	23,957
Accrued compensated absences	222,382
Accrued expenses	333,329
Deferred revenue	<u>20,781</u>

Total liabilities 3,701,813

Fund Balance:

Reserved for capital projects	3,612,081
Reserved for inventories	92,240
Reserved for grant programs	341,695
Unreserved/undesignated	<u>5,498,555</u>
Total fund balance	<u>9,544,571</u>

Total liabilities and fund balance \$ 13,246,384

CITY OF ASHLAND

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2008

	Budget	Actual	Variance
REVENUES:			
Taxes -			
General property taxes	\$ 2,791,125	\$ 2,851,491	\$ 60,366
Penalties and interest	28,150	29,188	1,038
Bank franchise taxes	101,000	99,633	(1,367)
Other franchise taxes	195,000	70,759	(124,241)
Delinquent taxes	150,000	203,402	53,402
Vehicle property taxes	400,000	491,817	91,817
Insurance premiums taxes	4,500,000	4,247,736	(252,264)
Total taxes	<u>8,165,275</u>	<u>7,994,026</u>	<u>(171,249)</u>
Licenses and permits -			
Occupational license fees	6,325,000	6,992,638	667,638
Business privilege licenses	975,000	1,200,598	225,598
Alcoholic beverage licenses	525,000	531,887	6,887
Construction permit fees	102,700	108,587	5,887
Other licenses and permits	8,875	3,121	(5,754)
Total licenses and permits	<u>7,936,575</u>	<u>8,836,831</u>	<u>900,256</u>
Charge for services -			
Garbage collection fee	1,485,000	1,500,669	15,669
Rental revenue	44,495	41,995	(2,500)
Total charges for services	<u>1,529,495</u>	<u>1,542,664</u>	<u>13,169</u>
Fees, fines and reimbursements -			
Parking meter fees and fines	58,000	76,573	18,573
Taxes collection fees	86,200	84,240	(1,960)
State rebate - District Court	40,000	87,086	47,086
Street lighting franchise	63,500	59,598	(3,902)
Telecommunication franchise	229,773	230,159	386
Other	445,647	452,434	6,787
Total fees, fines and reimbursements	<u>923,120</u>	<u>990,090</u>	<u>66,970</u>
Other revenues -			
Police grants	75,860	77,485	1,625
Homeless shelter grant	180,000	97,095	(82,905)
Miscellaneous grants	682,150	337,105	(345,045)
Transportation grant	-	-	-
Riverfront appropriation	7,085,403	483,494	(6,601,909)
Coal severance - LGEA	34,000	35,612	1,612
Interest earned	242,000	173,834	(68,166)
Other	809,642	489,393	(320,249)
Total other revenues	<u>9,109,055</u>	<u>1,694,018</u>	<u>(7,415,037)</u>
Total revenues	<u>27,663,520</u>	<u>21,057,629</u>	<u>(6,605,891)</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, 2008

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
EXPENDITURES:			
General Government -			
Mayor and Commissioners	103,171	100,263	2,908
City Manager	107,084	106,932	152
Legal	136,378	138,104	(1,726)
Economic Development	95,709	97,101	(1,392)
City Clerk/ABC Administrator	178,517	188,868	(10,351)
Grants and projects	9,680,780	1,670,969	8,009,811
Unclassified	<u>1,531,284</u>	<u>1,355,920</u>	<u>175,364</u>
	<u>11,832,923</u>	<u>3,658,157</u>	<u>8,174,766</u>
 Department of Finance -			
Director of Finance	546,092	545,795	297
Data Processing	<u>24,855</u>	<u>21,157</u>	<u>3,698</u>
	<u>570,947</u>	<u>566,952</u>	<u>3,995</u>
 Department of Public Services -			
Director of Public Services	174,774	96,422	78,352
Street maintenance	1,846,032	1,761,070	84,962
Sanitation services	1,293,781	1,200,276	93,505
Central garage	352,928	319,387	33,541
Animal control	<u>105,554</u>	<u>92,017</u>	<u>13,537</u>
	<u>3,773,069</u>	<u>3,469,172</u>	<u>303,897</u>
 Department of Planning and Code Enforcement	<u>468,742</u>	<u>477,918</u>	<u>(9,176)</u>
 Department of Police -			
Technical services	1,350,641	1,317,277	33,364
Field operations	<u>2,965,613</u>	<u>3,126,797</u>	<u>(161,184)</u>
	<u>4,316,254</u>	<u>4,444,074</u>	<u>(127,820)</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, 2008

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Department of Fire	<u>4,633,712</u>	<u>4,941,826</u>	<u>(308,114)</u>
Department of Engineering	<u>138,923</u>	<u>147,027</u>	<u>(8,104)</u>
Debt Service - 1999 Bonds	<u>340,080</u>	<u>332,795</u>	<u>7,285</u>
Debt Service - 2005 Bonds	<u>213,363</u>	<u>213,223</u>	<u>140</u>
Total expenditures	<u>26,288,013</u>	<u>18,251,144</u>	<u>8,036,869</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>1,375,507</u>	<u>2,806,485</u>	<u>1,430,978</u>
OTHER FINANCING SOURCES (USES):			
Transfer to Capital Projects Fund	(604,326)	(730,841)	(126,515)
Transfer to Recreation Fund	(826,744)	(875,259)	(48,515)
Transfer to Ashland Bus Fund	<u>(305,187)</u>	<u>(384,067)</u>	<u>(78,880)</u>
Total other financing sources (uses)	<u>(1,736,257)</u>	<u>(1,990,167)</u>	<u>(253,910)</u>
NET CHANGE IN FUND BALANCE	(360,750)	816,318	1,177,068
FUND BALANCE, June 30, 2007, as restated	<u>8,728,253</u>	<u>8,728,253</u>	<u>-</u>
FUND BALANCE, June 30, 2008	<u>\$ 8,367,503</u>	<u>\$ 9,544,571</u>	<u>\$ 1,177,068</u>

CITY OF ASHLAND
FIDUCIARY FUNDS
COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2008

	<u>PENSION TRUST FUNDS</u>		<u>Total</u>
	<u>Utility Pension Fund</u>	<u>Policemen & Firefighters Pension Fund</u>	
ASSETS			
Cash and cash equivalents	\$ 704,261	\$ 127,802	\$ 832,063
Accrued interest receivable	9,677	10,819	20,496
Due from other funds	823,880	32,150	856,030
Investments, at fair value - U.S. Government obligations	<u>1,274,223</u>	<u>1,834,689</u>	<u>3,108,912</u>
Total assets	<u>2,812,041</u>	<u>2,005,460</u>	<u>4,817,501</u>
LIABILITIES			
Deferred revenue	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u>\$ 2,812,041</u>	<u>\$ 2,005,460</u>	<u>\$ 4,817,501</u>

CITY OF ASHLAND

FIDUCIARY FUNDS

COMBINING STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2008

	PENSION TRUST FUNDS		Total
	Utility Pension Fund	Policemen & Firefighters Pension Fund	
ADDITIONS:			
Contributions -			
Employer	\$ 507,860	\$ 355,128	\$ 862,988
Plan members	<u>3,240</u>	<u>-</u>	<u>3,240</u>
Total contributions	<u>511,100</u>	<u>355,128</u>	<u>866,228</u>
Investment income -			
Net appreciation in fair value of investments	56,458	87,124	143,582
Interest income	<u>81,314</u>	<u>84,167</u>	<u>165,481</u>
Total investment income	<u>137,772</u>	<u>171,291</u>	<u>309,063</u>
Total additions	<u>648,872</u>	<u>526,419</u>	<u>1,175,291</u>
DEDUCTIONS:			
Benefits	652,013	640,725	1,292,738
Administrative expenses	<u>17,085</u>	<u>13,936</u>	<u>31,021</u>
Total deductions	<u>669,098</u>	<u>654,661</u>	<u>1,323,759</u>
NET DECREASE	(20,226)	(128,242)	(148,468)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:			
Beginning of year	<u>2,832,267</u>	<u>2,133,702</u>	<u>4,965,969</u>
End of year	<u>\$ 2,812,041</u>	<u>\$ 2,005,460</u>	<u>\$ 4,817,501</u>

CITY OF ASHLAND

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

JUNE 30, 2008

	Land and Building	Building Improvements	Automotive Equipment	Operating Equipment	Furniture and Equipment	Capital Improvements	Infrastructure	Construction in Progress	Total
Department of General Government	\$ 2,559,834	\$ 1,064,962	\$ -	\$ 144,317	\$ 244,810	\$ 20,215	\$ -	\$ -	\$ 4,034,138
Department of Finance	-	-	-	64,920	13,520	-	-	-	78,440
Department of Public Services	19,387,153	652,249	952,275	1,918,036	-	334,525	56,185,392	-	79,429,630
Department of Planning and Community Development	-	13,033	87,637	6,799	-	-	-	-	107,469
Department of Police	-	-	965,325	548,354	157,630	-	-	283,689	1,954,998
Department of Fire	3,655,959	152,017	1,945,875	169,584	33,831	-	-	-	5,957,266
Department of Engineering	-	-	48,104	-	39,240	-	-	-	87,344
Floodwall Operations	15,121	5,150	52,856	125,692	-	-	-	-	198,819
Community Development	385,542	103,058	13,335	-	18,623	-	110,853	30,623	662,034
Housing Assistance Programs	150,033	12,950	12,590	-	42,530	-	-	-	218,103
Totals	<u>\$ 26,153,642</u>	<u>\$ 2,003,419</u>	<u>\$ 4,077,997</u>	<u>\$ 2,977,702</u>	<u>\$ 550,184</u>	<u>\$ 354,740</u>	<u>\$ 56,296,245</u>	<u>\$ 314,312</u>	<u>\$ 92,728,241</u>

CITY OF ASHLAND

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

JUNE 30, 2008

Land and buildings	\$ 26,153,642
Building improvements	2,003,419
Automotive equipment	4,077,997
Operating equipment	2,977,702
Office furniture and equipment	550,184
Capital improvements	354,740
Infrastructure	56,296,245
Construction in progress	<u>314,312</u>
Total	<u>\$ 92,728,241</u>
Investment in capital assets by source	
General Fund	\$ 76,029,237
Special Revenue Funds	4,026,225
Capital Projects Fund	<u>12,672,779</u>
Total	<u>\$ 92,728,241</u>

CITY OF ASHLAND HOUSING AUTHORITY

STATEMENT OF NET ASSETS

JUNE 30, 2008

	<u>Rental Vouchers</u>
ASSETS	
Cash	\$ 232,385
Due from other funds	219,676
Building and equipment, net	<u>130,702</u>
Total assets	<u>\$ 582,763</u>
LIABILITIES AND SURPLUS	
LIABILITIES:	
Accounts payable	\$ 361
Accrued expenses	6,175
Accrued compensated absences	<u>526</u>
Total liabilities	<u>7,062</u>
NET ASSETS:	
Invested in capital assets	130,702
Unrestricted	<u>444,999</u>
	<u>575,701</u>
Total liabilities and net assets	<u>\$ 582,763</u>

CITY OF ASHLAND HOUSING AUTHORITY
STATEMENT OF REVENUES AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Rental Vouchers</u>
REVENUES	
ACC required	\$ 2,718,396
Interest income	1,063
Other income	<u>730</u>
Total revenues	<u>2,720,189</u>
EXPENDITURES	
Housing assistance payments	2,269,743
Audit	7,757
Salaries	167,690
Travel	2,125
Depreciation	8,747
Administrative general	13,908
Maintenance	7,970
Insurance	2,551
Employee benefits	65,530
Other general	<u>20,116</u>
Total expenditures	<u>2,566,137</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u><u>\$ 154,052</u></u>

CITY OF ASHLAND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2008

	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
<u>U.S. Department of HUD</u>			
Direct Programs -			
CDBG Entitlement	14.218	B07MC2-10003	\$ 544,664
CDBG Entitlement	14.218	B06MC2-10003	207,521
Voucher	14.871	KY142VO	2,557,389
Passed through Kentucky Housing Corporation -			
Kentucky Emergency Shelter Grants Program	14.231	ES06-0001-01	18,437
Kentucky Emergency Shelter Grants Program	14.231	ES07-0001-01	78,657
Home Investment Partnership Program	14.239	HM281	320,799
Total U.S. Department of HUD			<u>3,727,467</u>
<u>U.S. Department of Transportation</u>			
Direct Programs -			
FTA - Operating Assistance Grant	20.507	KY-90-X154	173,702
FTA - Operating Assistance Grant	20.507	KY-90-X168	188,315
FTA - Capital Assistance Grant	20.507	KY-90-X139	62,064
FTA - Capital Assistance Grant	20.507	KY-90-X154	177,166
FTA - Capital Assistance Grant	20.507	KY-90-X168	78,834
Passed through Kentucky Transportation Cabinet -			
SAFETEA-LU	20.205	79495 02 D	483,494
TEA-21 - Streetscape Grant	20.205	C-03461235	53,875
Total U.S. Department of Transportation			<u>1,217,450</u>
<u>U.S. Department of Homeland Security</u>			
Passed through Kentucky Homeland Security			
Homeland Security Grant	97.067	6160L	38,543
Total U.S. Department of Homeland Security			<u>38,543</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	6,361
Total National Transportation Safety Board			<u>6,361</u>
 TOTAL EXPENDITURES OF FEDERAL AWARDS			 <u>\$ 4,989,821</u>

CITY OF ASHLAND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONCLUDED)

FOR THE YEAR ENDED JUNE 30, 2008

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 U.S. 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**

Kevin Gunderson, Presiding Commissioner
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, 2008, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 18, 2008. 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, Galtbrun + Company, PSC

November 18, 2008



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**

Kevin Gunderson, Presiding Commissioner
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, 2008. 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, 2008. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2008-01, 2008-02, 2008-03 and 2008-04.

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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2008-01, 2008-02, 2008-03 and 2008-04 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We do not consider any of the deficiencies described in the accompanying schedule of findings and questions costs to be material weaknesses.

The City's responses to the findings identified in our audit are described in the accompanying Corrective Action Plan. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the entity, 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 parties.

Kelley, Galtman & Company, PSC

November 18, 2008

CITY OF ASHLAND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

A. SUMMARY OF AUDIT RESULTS

1. Unqualified opinions were issued on the basic financial statements.
2. The audit of the basic financial statements of the City of Ashland as of and for the year ended June 30, 2008, disclosed no internal control related significant deficiencies.
3. The audit did not disclose any noncompliance material to the basic financial statements of the City of Ashland as of and for the year ended June 30, 2008.
4. The audit of the basic financial statements of the City of Ashland as of and for the year ended June 30, 2008, disclosed internal control related significant deficiencies over the major programs. However, the significant deficiencies reported were not considered to be material weaknesses.
5. An unqualified opinion was issued on compliance over major programs.
6. The audit did not disclose any question costs related to federal awards for the year ended June 30, 2008.
7. The programs tested as major programs for the year ended June 30, 2008 were as follows:

	<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
Home Investment Partnership Program	14.239

8. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
9. City of Ashland 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.

CITY OF ASHLAND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2008

C. FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

2008-01 Federal Compliance - Rehabilitation Projects

Federal Program Information: Community Development Block Grant, Federal Catalog No. 14.218, U.S. Department of Housing and Urban Development.

Condition: Rehabilitation projects performed with Community Development Block Grant (CDBG) funds were not assured by the grantee that the work was properly completed.

Criteria: According to 24 CFR section 570.506, when CDBG funds are used for a rehabilitation project, the grantee must assure that work was properly completed.

Effect: Noncompliance with program requirements.

Recommendation: We recommend the City implement procedures to ensure that the grantee of a rehabilitation project performed with CDBG funds inspects and assures that the work was properly completed.

2008-02 Federal Compliance - Performance Reporting

Federal Program Information: Community Development Block Grant, Federal Catalog No. 14.218, U.S. Department of Housing and Urban Development.

Condition: Form HUD 60002, Section 3 Summary Report, Economic Opportunities for Low-and Very Low-Income Persons, was not submitted to the Department of Housing and Urban Development for the Community Development Block Grant.

Criteria: According to 24 CFR Sections 135.3(a), 135-90 and 570.607, for each grant over \$200,000 that involves housing rehabilitation, housing construction, or other public construction, the prime recipient must submit Form HUD 60002.

Effect: Noncompliance with program reporting requirements.

Recommendation: We recommend the City implement procedures to ensure that Form HUD 60002 is completed and submitted to the Department of Housing and Urban Development by the required date.

2008-03 Federal Compliance - Drawdowns

Federal Program Information: Home Investment Partnership Program (HOME), Federal Catalog No. 14.239, U.S. Department of Housing and Urban Development.

CITY OF ASHLAND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONCLUDED)

FOR THE YEAR ENDED JUNE 30, 2008

Condition: The City does not maintain adequate separation of duties over the setting up of projects using HOME funds and the drawing down of funds.

Criteria: Jurisdictions participating in the HOME program are required to have different staffs setting up projects and drawing down funds.

Effect: Required separation of duties is not being maintained.

Recommendation: We recommend the City require an appropriate employee drawdown HOME funds separate from the employee who set up the projects.

2008-04 Federal Compliance - Subrecipients

Federal Program Information: Community Development Block Grant, Federal Catalog No. 14.218, U.S. Department of Housing and Urban Development.

Condition: The City did not execute a written agreement with a subrecipient of Community Development Block Grant (DCBG) funds.

Criteria: According to CFR section 570.503, before disbursing CDBG funds to a subrecipient, a written agreement will be executed. The agreement shall include provisions concerning: the statement of work, records and reports, program income and uniform administrative requirements.

Effect: Noncompliance with program requirements.

Recommendation: We recommend the City implement procedures to ensure that a written agreement is executed with all subrecipients prior to disbursing any CDBG funds.

CITY OF ASHLAND
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008

There were no findings in the prior year.

CITY OF ASHLAND
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2008

NAME OF CONTACT PERSON

Tony Grubb (606) 327-2009

CORRECTIVE ACTION PLANNED

2008-01 Federal Compliance - Rehabilitation Projects

City will have grantee approve completed work and sign form to the fact before payment is released.

2008-02 Federal Compliance - Performance Reporting

HUD 60002 will be completed on every applicable project and submitted in a timely manner.

2008-03 Federal Compliance - Drawdowns

One employee will set up the project and a separate employee will review and draw down the funds.

2008-04 Federal Compliance - Subrecipients

A subrecipient agreement will be drafted before commencement of the project.

ANTICIPATED COMPLETION DATE

Immediately