

CITY OF ASHLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

(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 as of June 30, 2010 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.

Cemetery Fund - The Cemetery Fund is used to account for the operation and maintenance of the Ashland Cemetery.

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, 2010, there were General Fund encumbrances outstanding of \$92,348.

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, 2009 information to conform with the 2010 presentation.

Q. Recent Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has recently issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* which the City will be required to implement in the fiscal year beginning July 1, 2010. This Statement establishes fund balance

classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds, as well as clarifying the definitions of the various governmental fund types. The City does not anticipate that the adoption of GASB Statement No. 54 will have a material impact on its future financial statements.

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. It requires that an intangible asset be recognized in the statement of net assets only if it is considered identifiable. Additionally, this Statement establishes a specified-conditions approach to recognizing intangible assets that are internally generated. It also provides guidance on recognizing internally generated computer software as an intangible asset. This Statement also establishes guidance on amortization of intangible assets. The provisions of this Statement generally are required to be applied retroactively. GASB Statement No. 51 is required to be effective for the City's fiscal year ending June 30, 2010. The adoption of this Statement had no impact on the City's financial statements.

In June 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement defines derivative instruments and requires governmental entities to measure most derivative instruments at fair value and report them on the financial statements as assets or liabilities. Changes in the fair value of derivative instruments would be reported in the financial statements as investment gains and losses, unless certain criteria are met for investing the derivative instrument as a hedge, in which case a deferred inflow or outflow would be reported on the statement of net assets. This statement also requires note disclosure that includes summary information about derivative instruments used as hedges and investments, and disclosure of the risk exposures resulting from the derivative instruments. GASB Statement No. 53 is required to be effective for the City's fiscal year ending June 30, 2010. The adoption of this statement had no impact on the City's financial statements.

(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, 2010, the carrying amounts of the City's deposits were \$5,011,176 and the bank balances were \$7,729,538. 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, 2010, the City had the following investments and maturities included in Fiduciary Funds:

Investment Type -	Investment Maturities (in years)				
	Fair Value	Less than 1	1 - 5	6 - 10	More than 10
U.S. Government Securities	\$ 1,367,396	\$ -	\$ 1,367,396	-	-

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 and tangible property taxes were 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 2010 assessed value for real property was \$807,905,514. The tax rate adopted was \$.3474 per \$100 valuation.

(5) GRANTS RECEIVABLE

Grants receivable from other governmental units as of June 30, 2010, are as follows:

General Fund -	
Kentucky State Police Grant	\$ 5,208
Kentucky Transportation Cabinet	730,296
HEARTH Grant	3,210
	<u>738,714</u>
Special Revenue Funds -	
Municipal Aid Road Fund	39,408
Community Development Fund, program allocation	157,027
	<u>196,435</u>
Enterprise Funds -	
Ashland Bus System - FTA operations	244,712
Ashland Bus System - FTA capital	250,480
Ashland Bus System - FTA DOT capital	16,649
	<u>511,841</u>
	<u>\$ 1,446,990</u>

(6) CAPITAL ASSETS

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

<i><u>Governmental Activities</u></i>	June 30, 2009	Increases	Decreases	June 30, 2010
Capital Assets, Not Depreciated:				
Land	\$ 18,943,290	\$ -	\$ -	\$ 18,943,290
Construction in progress	3,850,537	7,984,603	(1,230,304)	10,604,836
Capital Assets, Depreciated:				
Buildings	3,937,171	4,996,977	(61,541)	8,872,607
Building improvements	2,029,175	270,757	-	2,299,932
Automotive equipment	3,860,924	260,370	(78,338)	4,042,956
Office furniture and equipment	603,724	110,805	-	714,529
Operating equipment	3,302,578	311,941	(14,093)	3,600,426
Capital improvements	395,068	82,867	-	477,935
Infrastructure	60,469,076	1,068,633	-	61,537,709
Totals	<u>97,391,543</u>	<u>15,086,953</u>	<u>(1,384,276)</u>	<u>111,094,220</u>

Accumulated Depreciation:				
Buildings	1,090,980	79,477	-	1,170,457
Building improvements	1,559,453	31,963	-	1,591,416
Automotive equipment	2,850,819	218,961	(73,797)	2,995,983
Office furniture and equipment	521,237	24,556	-	545,793
Operating equipment	1,781,934	181,589	(12,136)	1,951,387
Capital improvements	73,824	17,476	-	91,300
Infrastructure	35,812,786	1,637,825	-	37,450,611
Totals	<u>43,691,033</u>	<u>2,191,847</u>	<u>(85,933)</u>	<u>45,796,947</u>

Governmental Activities

Capital Assets, Net	<u>\$ 53,700,510</u>	<u>\$ 12,895,106</u>	<u>\$ (1,298,343)</u>	<u>\$ 65,297,273</u>
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Business-type Activities

Capital Assets, Not Depreciated:

Land	\$ 311,634	\$ 66,453	\$ -	\$ 378,087
Construction in progress	130,851	99,340	(27,878)	202,313

Capital Assets, Depreciated:

Buildings	1,552,704	2,293,809	-	3,846,513
Building improvements	577,503	64,166	-	641,669
Utility and sewage plants	78,343,743	963,548	-	79,307,291
Automotive equipment	1,883,192	259,686	(308,297)	1,834,581
Office furniture and equipment	434,617	28,915	-	463,532
Operating equipment	2,127,489	704,893	(19,633)	2,812,749
Capital improvement	358,222	60,058	-	418,280
Recreation equipment	295,644	8,799	-	304,443
Totals	<u>86,015,599</u>	<u>4,549,667</u>	<u>(355,808)</u>	<u>90,209,458</u>

Accumulated Depreciation:

Buildings	490,660	81,597	-	572,257
Building improvements	267,285	31,094	-	298,379
Utility and sewage plants	36,538,445	1,866,083	-	38,404,528
Automotive equipment	1,297,475	118,098	(280,361)	1,135,212
Office furniture and equipment	332,198	21,572	-	353,770
Operating equipment	1,681,785	83,619	(19,633)	1,745,771
Capital improvements	23,224	23,272	-	46,496
Recreation equipment	262,671	2,130	-	264,801
Totals	<u>40,893,743</u>	<u>2,227,465</u>	<u>(299,994)</u>	<u>42,821,214</u>

Business-type Activities

Capital Assets, Net	<u>\$ 45,121,856</u>	<u>\$ 2,322,202</u>	<u>\$ (55,814)</u>	<u>\$ 47,388,244</u>
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Depreciation expense was allocated to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 48,109
Public services	1,821,902
Planning and code enforcement	10,420
Police	122,932
Fire	164,581
Engineering	8,746
Community and cultural	15,157
	<u>\$ 2,191,847</u>

Business-type activities:

Utilities	\$ 2,021,480
Recreation	33,364
Bus	134,290
Cemetery	38,331
	<u>\$ 2,227,465</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, 2009.

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, 2010, 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, 2008.

The following is the statement of net assets and the statement of changes in net assets for the UPF and PFPF:

	<u>PENSION TRUST FUNDS</u>		
	<u>Utility Pension Fund</u>	<u>Policemen & Firefighters Pension Fund</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 474,548	\$ 691,164	\$ 1,165,712
Accrued interest receivable	3,063	4,030	7,093
Due from other funds	2,086,303	74,710	2,161,013
Investments, at fair value -			
U.S. Government obligations	362,283	1,005,113	1,367,396
Total assets	<u>2,926,197</u>	<u>1,775,017</u>	<u>4,701,214</u>
LIABILITIES			
Due to other funds	58,462	-	58,462
Total liabilities	<u>58,462</u>	<u>-</u>	<u>58,462</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u>\$ 2,867,735</u>	<u>\$ 1,775,017</u>	<u>\$ 4,642,752</u>
ADDITIONS			
Contributions -			
Employer	\$ 608,977	\$ 448,250	\$ 1,057,227
Plan members	3,432	-	3,432
Total contributions	<u>612,409</u>	<u>448,250</u>	<u>1,060,659</u>
Investment income -			
Net (depreciation) appreciation in fair value of investments	(3,664)	6,067	2,403
Interest income	40,154	55,774	95,928
Total investment income	<u>36,490</u>	<u>61,841</u>	<u>98,331</u>
Total additions	<u>648,899</u>	<u>510,091</u>	<u>1,158,990</u>

DEDUCTIONS			
Benefits	657,123	640,027	1,297,150
Administrative expenses	<u>6,324</u>	<u>9,715</u>	<u>16,039</u>
Total deductions	<u>663,447</u>	<u>649,742</u>	<u>1,313,189</u>
 NET INCREASE (DECREASE)	 (14,548)	 (139,651)	 (154,199)
 NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:			
Beginning of year	<u>2,882,283</u>	<u>1,914,668</u>	<u>4,796,951</u>
End of year	<u>\$ 2,867,735</u>	<u>\$ 1,775,017</u>	<u>\$ 4,642,752</u>

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:

	<u>Utility Pension Fund</u> <u>City Ordinance and KRS</u>	<u>Police and Firefighters</u> <u>Pension Fund</u> <u>City Ordinance and KRS</u>	
Governing Authority			
Determination of contribution requirements	Actuarially	Actuarially	
Contribution rates as a percentage of covered payroll:			
Employer	553.35 %	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	29	38	<u>Totals</u> <u>67</u>
Active plan participants:			
Vested	-	-	-
Non-Vested	<u>1</u>	<u>-</u>	<u>1</u>
	<u>30</u>	<u>38</u>	<u>68</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	7-1-09	7-1-08
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level % of payroll Closed	Level % of payroll Closed
Amortization	30 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	5.00 %	5.00 %
Projected salary increases	5.00 %	None
Post retirement benefit increases	0.00 %	0.00 %

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	\$ 608,977	\$ 448,250
Employer required annual contribution	309,647	267,002
Interest on net pension asset	(87,579)	(104,470)
Adjustment to annual contribution requirement	101,888	167,660
Annual pension cost	323,956	330,192
Increase (decrease) in net pension asset	285,021	118,058
Net pension asset, June 30, 2009	1,739,532	2,089,409
Net pension asset, June 30, 2010	\$ 2,024,553	\$ 2,207,467

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)
2008	\$ 343,585	147%	\$ (1,394,781)	2008	\$ 351,923	101%	\$ (1,933,328)
2009	339,515	202%	(1,739,532)	2009	325,472	148%	(2,089,409)
2010	323,956	188%	(2,024,553)	2010	330,192	136%	(2,207,467)

The schedule of funding progress, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing overtime relative to the actuarial accrued liability.

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)
7/1/05	\$ 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%
7/1/09	2,882,283	7,776,949	4,894,666	37.1%	43,264	11,313.5%

POLICEMEN AND FIREFIGHTERS PENSION PLAN

7/1/04	3,105,371	6,799,386	3,694,015	45.7%	** N/A	** N/A
7/1/06	2,412,459	6,253,647	3,841,188	38.6%	** N/A	** N/A
7/1/08	2,005,460	5,499,260	3,493,800	36.5%	** N/A	** N/A

*Actuarial valuations performed bi-annually

**No active employees or covered payroll.

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 16.16% 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 32.97% of the employees' compensation. Additionally, plan members hired on or after September 1, 2008 contribute an additional 1% non-refundable health insurance contribution. 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, 2010, 2009, and 2008 were \$2,908,402, \$2,426,729, and \$2,731,809, 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, 2010:

<u>Governmental Activities</u>	Balance June 30, 2009	Additions	Reductions	Balance June 30, 2010
General Obligation Bond Series 2005	\$ 3,055,000	\$ -	\$ 90,000	\$ 2,965,000
Capital lease - Fire station	995,000	-	120,000	875,000
Capital leases - Equipment	597,330	189,971	234,029	553,272
Capital lease - Police Station	4,917,309	-	115,864	4,801,445

Accrued Expenses	-	338,614	-	338,614
Compensated absences obligation	<u>1,080,140</u>	<u>1,125</u>	<u>155,371</u>	<u>925,894</u>
Total Governmental Activities	<u>\$ 10,644,779</u>	<u>\$ 529,710</u>	<u>\$ 715,264</u>	<u>\$ 10,459,225</u>
	Balance			Balance
<u>Business-type Activities</u>	<u>June 30, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2010</u>
Revenue & Improvement Bond Series 2004	\$ 6,365,000	\$ -	\$ 415,000	\$ 5,950,000
Capital leases - Equipment	105,585	96,187	47,638	154,134
Note payable	-	226,646	30,311	196,335
Kentucky Infrastructure Authority Loan	1,652,269	-	95,705	1,556,564
Kentucky Infrastructure Authority Loan	<u>3,378,429</u>	<u>-</u>	<u>167,309</u>	<u>3,211,120</u>
Total Business-type Activities	<u>\$ 11,501,283</u>	<u>\$ 322,833</u>	<u>\$ 755,963</u>	<u>\$ 11,068,153</u>

At June 30, 2010, 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, 2010, the City had bond reserve funds of \$1,680,236.

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, 2010) 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>
2011	\$ 130,000	\$ 34,580	\$ 164,580
2012	135,000	29,291	164,291
2013	140,000	23,566	163,566
2014	150,000	17,758	167,758
2015	155,000	11,603	166,603
2016	165,000	5,147	170,147
	<u>\$ 875,000</u>	<u>\$ 121,945</u>	<u>\$ 996,945</u>

Capital Lease - Police Station

On December 23, 2008, the City entered into an agreement with the Kentucky League of Cities Funding Trust Program to finance the construction of a police station. Proceeds of the fixed rate (3.035%) lease agreement totaled \$5,000,000.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest and fees</u>	<u>Total</u>
2011	\$ 131,005	\$ 181,629	\$ 312,634
2012	135,866	176,628	312,494
2013	140,978	171,371	312,349
2014	146,259	165,939	312,198
2015	151,760	160,283	312,043
2016-2020	848,324	709,334	1,557,658
2021-2025	1,019,604	533,172	1,552,776
2026-2030	1,225,438	321,470	1,546,908
2031-2034	1,002,211	76,508	1,078,719
	<u>\$ 4,801,445</u>	<u>\$ 2,496,334</u>	<u>\$ 7,297,779</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	\$ 1,094,820
Less accumulated depreciation	(138,539)
	<u>\$ 956,281</u>

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

Year Ending June 30,	Principal	Interest	Total
2011	\$ 226,567	\$ 33,122	\$ 259,689
2012	220,284	19,036	239,320
2013	70,738	8,514	79,252
2014	22,982	3,781	26,763
2015	12,701	691	13,392
	<u>\$ 553,272</u>	<u>\$ 65,144</u>	<u>\$ 618,416</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, 2010, are as follows:

Year Ending June 30,	Principal	Interest	Total
2011	\$ 95,000	\$ 120,985	\$ 215,985
2012	95,000	117,803	212,803
2013	100,000	114,438	214,438
2014	105,000	110,588	215,588
2015	110,000	106,288	216,288
2016-2020	600,000	462,438	1,062,438
2021-2025	760,000	323,463	1,083,463
2026-2030	895,000	148,571	1,043,571
2031-2032	205,000	4,613	209,613
	<u>\$ 2,965,000</u>	<u>\$ 1,509,187</u>	<u>\$ 4,474,187</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, 2010, are as follows:

	Accrued Long-Term Obligation	Current Obligation	Total Compensated Absences
General Fund	\$ 910,372	\$ 179,089	\$ 1,089,461
Community Development Fund	7,201	1,417	8,618
Housing Assistance Fund	4,050	797	4,847
Utility Fund	-	255,926	255,926
Ashland Bus System	-	27,654	27,654
Recreation Fund	-	59,774	59,774
Floodwall Fund	4,271	840	5,111
	<u>\$ 925,894</u>	<u>\$ 525,497</u>	<u>\$ 1,451,391</u>

Refer to Note 2 for additional information regarding compensated absences.

Other Accrued Expenses

On October 19, 2010, the Kentucky Labor Cabinet notified the City of additional amounts due to the City fire department employees for overtime on firefighters incentive pay. This was a result of a ruling by the Jefferson Circuit Court that overruled the Secretary of Labor's position of calculating overtime. This amount is not expected to be paid in fiscal year 2011. Therefore, the City has accrued \$338,614 in the government-wide financial statements to provide back-pay to those affected.

Conduit Debt Obligations

From time to time, the City has issued Industrial Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying loan agreements. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, the state, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of June 30, 2010, there was one series of Industrial Revenue Bonds outstanding, with an aggregate principal amount payable of approximately \$40 million.

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, 2010, \$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, 2010 are as follows:

Year ending June 30,	Principal	Interest	Fees	Total
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	111,257	46,333	3,048	160,638
2015	115,522	42,066	2,767	160,355
2016-2020	647,596	140,354	9,234	797,184
2021-2023	372,479	21,498	1,414	395,391
	<u>\$ 1,556,564</u>	<u>\$ 413,311</u>	<u>\$ 27,191</u>	<u>\$ 1,997,066</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, 2010, are as follows:

Year ending June 30,	Principal	Interest	Fees	Total
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	188,473	78,944	6,579	273,996
2015	194,169	73,247	6,104	273,520
2016-2020	1,062,508	274,576	22,881	1,359,965
2021-2025	1,233,085	104,000	8,667	1,345,752
	<u>\$ 3,211,120</u>	<u>\$ 800,131</u>	<u>\$ 66,676</u>	<u>\$ 4,077,927</u>

Capital Leases - Equipment

The City entered into capital lease agreements with a financing companies to purchase equipment. The interest rate on the lease is 5.04%.

Capital assets include the following under the capital lease:

Operating equipment	\$ 229,548
Less accumulated depreciation	(37,679)
	<u>\$ 191,869</u>

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

Year ending June 30,	Principal	Interest	Total
2011	\$ 46,512	\$ 11,402	\$ 57,914
2012	52,800	6,392	59,192
2013	43,083	3,381	46,464
2014	7,082	1,391	8,473
2015	4,657	256	4,913
	<u>\$ 154,134</u>	<u>\$ 22,822</u>	<u>\$ 176,956</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, 2010, are as follows:

Year ending June 30,	Principal	Interest	Total
2011	\$ 435,000	\$ 225,296	\$ 660,296
2012	450,000	212,246	662,246
2013	320,000	198,071	518,071
2014	335,000	187,351	522,351
2015	350,000	175,794	525,794
2016-2020	2,025,000	668,891	2,693,891
2021-2024	2,035,000	215,208	2,250,208
	<u>\$ 5,950,000</u>	<u>\$ 1,882,857</u>	<u>\$ 7,832,857</u>

Note Payable

As part of the transfer of assets and liabilities from the Ashland Cemetery Company (See Note 14), the City assumed the outstanding mortgage held by PNC Bank against the mausoleum. The interest rate on the note is 8.75%.

The annual requirements to amortize the loan as of June 30, 2010 are as follows:

Year Ending June 30,	Principal	Interest	Total
2011	\$ 9,604	\$ 16,796	\$ 26,400
2012	186,731	4,065	190,796
	<u>\$ 196,335</u>	<u>\$ 20,861</u>	<u>\$ 217,196</u>

(9) INTERFUND TRANSACTIONS

Interfund Receivable and Payables

The composition of interfund balances as of June 30, 2010 is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Ashland Bus System	\$ 704,815
General Fund	Municipal Aid Fund	5,049
General Fund	Utility Fund	2,486,848
General Fund	Recreation Fund	203,282
General Fund	Community Development	240,676
General Fund	Floodwall Operating Fund	82,450
General Fund	Housing Assistance Fund	12,979
General Fund	Utility Pension Fund	58,462
General Fund	Cemetery Fund	197,148
Capital Project	General Fund	146,716
Internal Service Fund	General Fund	1,230,286
Utility Pension Fund	Utility Fund	2,086,303
Police and Fire Fighters Pension	General Fund	74,710
Total		<u>\$ 7,529,724</u>

Interfund Transfers

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	General	Ashland Bus System	Matching	\$ 531,786
Operating	General	Recreation	Operations	907,401
Operating	General	Capital Projects	Capital Purchases	5,078,915

(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, 2010, the City paid \$525,908 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 \$238,832 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.

Combined Sewer Overflow Improvements

In 2007, the City entered into an agreement with the Kentucky Energy and Environment Cabinet to comply with federal Clean Water Act standards that are applicable to the City's sewer system. The City's system is considered a combined sewer system due to the sewers collecting rainwater, runoff, domestic sewage and industrial wastewater. During heavy rains or melting snow, the system can create Combined Sewer Overflow (CSO), when waste and storm water overflow from the sewer system into local bodies of water and the Ohio River. Under the agreement, the City is required to create a Long Term Control Plan to reduce the number of overflows and complete improvements to the sewer system by December 26, 2017. The improvements are expected to cost approximately \$60 million. At June 30, 2010, the City has incurred costs of \$296,597 in relation to the required sewer improvements.

On February 18, 2010, the Board of Commissioners approved an additional surcharge for sewer customers of the City to pay for the improvements. Beginning April 1, 2010, sewer customers are

charged a \$2.50 fee per 1,000 gallons of water used. The charge will increase to \$3.50 per 1,000 gallons in 2015 and end in 2035. All monies collected for this surcharge are placed in a separate account and only used for CSO improvements as outlined in the City's Long Term Control Plan. At June 30, 2010, the City has \$217,958 restricted for the sewer improvements.

Additionally, the City has obtained two loans from the Kentucky Infrastructure Authority approximating \$6.25 million to finance a portion of the improvements. As of June 30, 2010, the City has not drawdown any funds under the agreements.

Construction Projects

The City is obligated on commitments for various contracts in progress at June 30, 2010. A summary of these commitments is as follows:

<u>Fund</u>	<u>Project Description</u>	<u>Total Approved Contract</u>	<u>Paid or Accrued to Date</u>	<u>Out- standing Commitment</u>
General Fund	Transportation Center	\$ 228,375	\$ 137,242	\$ 91,133
General Fund	Riverfront Project	8,528,857	8,383,043	145,814
		<u>\$ 8,757,232</u>	<u>\$ 8,520,285</u>	<u>\$ 236,947</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 \$85,000 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 \$346,901 reported in the Internal Service fund at June 30, 2010, 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 2009 and 2010 were:

	<u>Beginning of Fiscal Year Liability</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>Balance At Fiscal Year End</u>
2009	\$ 336,417	\$ 3,944,971	\$ 4,006,821	\$ 274,567
2010	274,567	4,936,418	4,864,084	346,901

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, 2010 totaled \$395,877.

(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. The City currently believes the post employment health care benefits provided to retirees are immaterial. Therefore, the City has elected not to adopt the

provisions of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*.

Currently four retirees and eligible survivors meet the eligibility requirements. The City pays claims up to \$85,000 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 \$126,810 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, 2009, the date of the latest actuarial valuation, the plan had 93,481 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, 2009 was as follows:

Total medical benefit obligation	000's omitted \$ 4,663,934
Net assets available for benefits at actuarial value unfunded medical benefit obligation	 (1,867,763) \$ 2,796,171

(14) ASHLAND CEMETERY

On September 18, 2009, the City entered into an agreement with the Ashland Cemetery Company ("the Cemetery") to transfer the assets of the Cemetery to the City. In consideration of the transfer of assets, the City assumed all liabilities of the Cemetery and agreed to operate and maintain the cemetery in perpetuity for the benefit of the community and current and future lot owners. Additionally, the City agreed to assume the full-time employees of the Cemetery as employees of the City.

The City created the Cemetery Fund to record the assets acquired and liabilities assumed based upon fair values determined by management's estimates and third-party inquiries. A summary of the fair values assigned are as follows:

Current assets	\$ 2,804,554
Property, plant and equipment	2,355,937
Other assets	268,003
Total assets	<u>5,428,494</u>
Current liabilities	30,096
Long-term debt	226,646
Total liabilities	<u>256,742</u>
Net assets contributed	<u>\$ 5,171,752</u>

(15) SUBSEQUENT EVENT

On December 28, 2010, AK Steel, a major employer within the City, announced that it will permanently close its Ashland Coke Plant, a move that will result in the loss of 263 hourly and salaried jobs. The Coke Plant is also a large utility customer of the City. City management is currently evaluating the impact the plant closing will have on its future finances.

REQUIRED SUPPLEMENTAL INFORMATION

**CITY OF ASHLAND
DEFINED BENEFIT PENSION TRUSTS
SCHEDULE OF EMPLOYER CONTRIBUTIONS
JUNE 30, 2010**

UTILITY EMPLOYEES PENSION PLAN				POLICE AND FIREFIREFIGHTERS PENSION PLAN			
	<u>Amount Contributed</u>	<u>ARC</u>	<u>Percent of ARC Contributed</u>		<u>Amount Contributed</u>	<u>ARC</u>	<u>Percent of ARC Contributed</u>
2004	\$ 608,668	\$ 329,604	185%		\$ 402,291	\$ 270,976	148%
2005	369,028	329,604	112%		288,463	282,302	102%
2006	410,483	316,858	130%		288,463	282,302	102%
2007	410,483	316,858	130%		288,463	293,551	98%
2008	504,621	325,015	155%		355,128	293,551	121%
2009	684,266	325,025	211%		481,553	267,003	180%
2010	608,977	309,647	197%		448,250	267,003	168%

SUPPLEMENTAL INFORMATION

CITY OF ASHLAND

GENERAL FUND

BALANCE SHEET

JUNE 30, 2010

ASSETS

Cash	\$ 657,619
Taxes receivable	2,922,464
Allowance for uncollectible taxes	(362,049)
Grants receivable	738,714
Due from other funds	3,991,709
Other receivables	320,997
Allowance for uncollectible accounts	(42,086)
Inventories - supplies	77,236
Prepaid expenses	<u>685,353</u>
Total assets	<u>\$ 8,989,957</u>

LIABILITIES AND FUND BALANCE

Liabilities:

Cash overdraft	\$ 190,907
Accounts payable	1,509,098
Due to other funds	1,451,712
Due to Board of Education	21,993
Accrued compensated absences	179,089
Accrued expenses	399,051
Deferred revenue	<u>20,781</u>
Total liabilities	<u>3,772,631</u>

Fund Balance:

Reserved for capital projects	236,355
Reserved for inventories	77,236
Reserved for encumbrances	92,348
Reserved for grant programs	759,495
Unreserved/undesignated	<u>4,051,892</u>
Total fund balance	<u>5,217,326</u>

Total liabilities and fund balance \$ 8,989,957

CITY OF ASHLAND

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2010

	Budget	Actual	Variance
REVENUES:			
Taxes -			
General property taxes	\$ 2,965,550	\$ 2,962,623	\$ (2,927)
Penalties and interest	35,050	18,687	(16,363)
Bank franchise taxes	100,900	105,430	4,530
Other franchise taxes	150,250	154,006	3,756
Delinquent taxes	155,620	176,765	21,145
Vehicle property taxes	405,052	485,774	80,722
Insurance premiums taxes	4,102,670	3,691,721	(410,949)
Total taxes	7,915,092	7,595,006	(320,086)
Licenses and permits -			
Occupational license fees	7,235,000	8,260,245	1,025,245
Business privilege licenses	1,200,600	1,103,549	(97,051)
Alcoholic beverage licenses	531,885	541,127	9,242
Construction permit fees	57,930	101,144	43,214
Other licenses and permits	2,950	1,001	(1,949)
Total licenses and permits	9,028,365	10,007,066	978,701
Charge for services -			
Garbage collection fee	1,591,915	1,650,220	58,305
Rental revenue	33,425	33,919	494
Total charges for services	1,625,340	1,684,139	58,799
Fees, fines and reimbursements -			
Parking meter fees and fines	48,500	41,147	(7,353)
Taxes collection fees	91,500	94,925	3,425
State rebate - District Court	48,000	20,289	(27,711)
Street lighting franchise	62,500	62,886	386
Telecommunication franchise	230,160	220,443	(9,717)
Other	459,710	338,553	(121,157)
Total fees, fines and reimbursements	940,370	778,243	(162,127)
Other revenues -			
Police grants	109,554	49,518	(60,036)
Homeless shelter grant	100,000	62,000	(38,000)
Miscellaneous grants	1,075,237	464,759	(610,478)
Riverfront appropriation	8,290,918	6,246,734	(2,044,184)
Coal severance - LGEA	35,610	40,368	4,758
Interest earned	67,500	21,933	(45,567)
Other	248,530	376,617	128,087
Total other revenues	9,927,349	7,261,929	(2,665,420)
Total revenues	29,436,516	27,326,383	(2,110,133)

CITY OF ASHLAND

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2010

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
EXPENDITURES:			
General Government -			
Mayor and Commissioners	100,216	113,133	(12,917)
City Manager	119,244	128,069	(8,825)
Legal	134,349	146,916	(12,567)
Economic Development	121,748	131,176	(9,428)
City Clerk/ABC Administrator	179,818	192,139	(12,321)
Grants and projects	11,126,984	8,502,588	2,624,396
Unclassified	<u>2,270,652</u>	<u>1,892,813</u>	<u>377,839</u>
	<u>14,053,011</u>	<u>11,106,834</u>	<u>2,946,177</u>
Department of Finance -			
Director of Finance	550,565	574,287	(23,722)
Data Processing	<u>25,740</u>	<u>28,503</u>	<u>(2,763)</u>
	<u>576,305</u>	<u>602,790</u>	<u>(26,485)</u>
Department of Public Services -			
Director of Public Services	153,533	152,826	707
Street maintenance	1,605,908	1,708,300	(102,392)
Sanitation services	1,340,991	1,314,948	26,043
Central garage	315,939	392,978	(77,039)
Animal control	112,502	117,581	(5,079)
Equipment lease purchase	<u>-</u>	<u>111,680</u>	<u>(111,680)</u>
	<u>3,528,873</u>	<u>3,798,313</u>	<u>(269,440)</u>
Department of Planning and Code Enforcement	<u>491,440</u>	<u>520,260</u>	<u>(28,820)</u>
Department of Police -			
Technical services	1,340,487	1,339,370	1,117
Field operations	<u>3,189,473</u>	<u>3,395,026</u>	<u>(205,553)</u>
	<u>4,529,960</u>	<u>4,734,396</u>	<u>(204,436)</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, 2010

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Department of Fire	<u>5,001,246</u>	<u>5,226,734</u>	<u>(225,488)</u>
Department of Engineering	<u>814,899</u>	<u>727,338</u>	<u>87,561</u>
Debt Service	<u>526,869</u>	<u>500,693</u>	<u>26,176</u>
Total expenditures	<u>29,522,603</u>	<u>27,217,358</u>	<u>2,305,245</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(86,087)</u>	<u>109,025</u>	<u>195,112</u>
OTHER FINANCING SOURCES (USES):			
Transfer to Capital Projects Fund	(4,743,440)	(5,078,915)	(335,475)
Transfer to Recreation Fund	(992,194)	(907,401)	84,793
Transfer to Ashland Bus Fund	(405,062)	(531,786)	(126,724)
Transfer to Floodwall Fund	(106,415)	-	106,415
Proceeds from long-term debt	<u>3,450,290</u>	<u>189,971</u>	<u>(3,260,319)</u>
Total other financing sources (uses)	<u>(2,796,821)</u>	<u>(6,328,131)</u>	<u>(3,531,310)</u>
NET CHANGE IN FUND BALANCE	<u>(2,882,908)</u>	<u>(6,219,106)</u>	<u>(3,336,198)</u>
FUND BALANCE, June 30, 2009	<u>11,436,432</u>	<u>11,436,432</u>	<u>-</u>
FUND BALANCE, June 30, 2010	<u>\$ 8,553,524</u>	<u>\$ 5,217,326</u>	<u>\$ (3,336,198)</u>

CITY OF ASHLAND

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

JUNE 30, 2010

	Land & Buildings	Building Improvements	Automotive Equipment	Operating Equipment	Office Furniture & Equip	Capital Improvements	Infrastructure	CIP	Total
Dept of General Gov't	\$ 2,822,024	\$ 1,075,821	\$ 48,000	\$ 144,317	\$ 296,993	\$ 39,275	\$ -	\$ 174,896	\$ 4,601,326
Dept of Finance	-	-	-	64,920	13,520	-	-	-	78,440
Dept of Public Services	15,978,343	682,840	861,582	2,497,034	6,299	374,853	60,865,073	10,429,940	91,695,964
Dept of Planning & Community Development	-	13,033	87,637	6,799	-	-	-	-	107,469
Department of Police	4,949,556	246,711	1,028,676	560,240	190,538	19,350	-	-	6,995,071
Department of Fire	3,655,959	160,369	1,914,126	201,424	53,246	-	-	-	5,985,124
Department of Engineering	-	-	48,104	-	86,230	44,457	561,783	-	740,574
Floodwall Operations	15,121	5,150	42,241	125,692	-	-	-	-	188,204
Community Development	244,861	103,058	-	-	18,623	-	110,853	-	477,395
Housing Assistance Programs	150,033	12,950	12,590	-	49,080	-	-	-	224,653
	<u>\$ 27,815,897</u>	<u>\$ 2,299,932</u>	<u>\$ 4,042,956</u>	<u>\$ 3,600,426</u>	<u>\$ 714,529</u>	<u>\$ 477,935</u>	<u>\$ 61,537,709</u>	<u>\$ 10,604,836</u>	<u>\$ 111,094,220</u>

CITY OF ASHLAND

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

JUNE 30, 2010

Land and buildings	\$ 27,815,897
Building improvements	2,299,932
Automotive equipment	4,042,956
Operating equipment	3,600,426
Office furniture and equipment	714,529
Capital improvements	477,935
Infrastructure	61,537,709
Construction in progress	<u>10,604,836</u>

Total	<u>\$ 111,094,220</u>
-------	-----------------------

Investment in capital assets by source

General Fund	\$ 87,780,710
Special Revenue Funds	4,664,055
Capital Projects Fund	<u>18,649,455</u>

Total	<u>\$ 111,094,220</u>
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CITY OF ASHLAND HOUSING AUTHORITY

STATEMENT OF NET ASSETS

JUNE 30, 2010

	<u>Rental Vouchers</u>
ASSETS	
Cash - unrestricted	\$ 37,931
Cash - restricted	245,187
Accounts receivable - HUD	24,552
Building and equipment, net	<u>118,913</u>
Total assets	<u>\$ 426,583</u>
LIABILITIES AND NET ASSETS	
LIABILITIES:	
Accounts payable	\$ 2,861
Accrued expenses	6,943
Other governmental payable	9,020
Accrued compensated absences - current	797
Accrued compensated absences - noncurrent	<u>4,050</u>
Total liabilities	<u>23,671</u>
NET ASSETS:	
Invested in capital assets	118,913
Unrestricted	38,812
Restricted	<u>245,187</u>
	<u>402,912</u>
Total liabilities and net assets	<u>\$ 426,583</u>

CITY OF ASHLAND HOUSING AUTHORITY
STATEMENT OF REVENUES AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Rental Vouchers</u>
REVENUES	
Housing assistance payments	\$ 2,331,915
Administrative fee revenue	331,281
Interest income	373
Other income	<u>935</u>
Total revenues	<u>2,664,504</u>
EXPENDITURES	
Administrative salaries	171,890
Audit	5,969
Employee benefit contributions	24,618
Travel	1,467
Other administrative	13,196
Utilities	2,913
Maintenance	16,714
Property insurance	466
General liability insurance	2,083
Workers compensation	610
Other insurance	63,621
Other general	17,556
Compensated absences	(50)
Housing assistance payments	2,515,642
Depreciation	<u>9,265</u>
Total expenditures	<u>2,845,960</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>\$ (181,456)</u>

CITY OF ASHLAND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2010

	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of HUD</u>			
Direct Programs -			
CDBG Entitlement	14.218	B08MC2-10003	\$ 349,049
CDBG Entitlement	14.218	B09MC2-10003	184,407
ARRA, CDBG Entitlement	14.218	B09MC2-10003	85,217
Housing Choice Voucher Program	14.871	KY142VO	2,836,745
 Pass through Kentucky Housing Corporation -			
Kentucky Emergency Shelter Grants Program	14.231	ES07-0001-01	62,000
ARRA, Homeless Prevention and Rapid Rehousing Program	14.257	KH09-0001-01	184,868
Home Investment Partnership Program	14.239	HM281	<u>87,113</u>
Total U.S. Department of HUD			<u>3,789,399</u>
 <u>U.S. Department of Transportation</u>			
Direct Programs -			
Federal Transit Cluster			
FTA - Operating Assistance Grant	20.507	KY-90-X168	85,517
FTA - Operating Assistance Grant	20.507	KY-90-X179	398,000
FTA - Operating Assistance Grant	20.507	KY-90-X190	22,278
FTA - Capital Assistance Grant	20.507	KY-90-X145	170,284
FTA - Capital Assistance Grant	20.507	KY-90-X168	1,509
FTA - Capital Assistance Grant	20.507	KY-90-X179	31,329
FTA - Capital Assistance Grant	20.507	KY-90-X190	122,810
ARRA, FTA - Capital Assistance Grant	20.500	KY-96-X006	<u>169,156</u>
			1,000,883
 Passed through Kentucky Transportation Cabinet -			
SAFETEA-LU	20.205	79495 01 C	6,246,734
TEA-21 - Transportation Enhancement	20.205	C-04672426	<u>79,965</u>
			6,326,699
 Passed through Kentucky Department of State Police			
Department of State Police Highway Safety Program	20.600	AL-09-09	<u>6,202</u>
 Total U.S. Department of Transportation			<u>7,333,784</u>
 <u>U.S. Department of Homeland Security</u>			
Direct Programs -			
Assistance to Firefighters Grant	97.044	EMW-2008-FO-11793	50,878
 Pass through Kentucky Homeland Security			
Hazard Mitigation Grant	97.039	FEMA-DR-1818-KY	<u>69,535</u>
 Total U.S. Department of Homeland Security			<u>120,413</u>
 TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 11,243,596</u>

CITY OF ASHLAND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONCLUDED)

FOR THE YEAR ENDED JUNE 30, 2010

Notes to Schedule of Expenditures of Federal Awards

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Ashland's programs of the federal government for the year ended June 30, 2010. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Government, and Non-Profit Organizations. Because the schedule presents only a selected portion of operations of the City, it is not and does not present the financial position, changes in net assets or cash flows of the City.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, Cost Principles for State and Local Governments, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity indentifying numbers are presented where available.



Kelley,
Galloway &
Company, PSC

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**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**

Thomas E. Kelley, 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, 2010, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 30, 2010. 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 *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. (2010-01 through 2010-05). A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questions costs. We did not audit the City's responses and, accordingly, we express no opinion on the responses.

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, Hallway & Company, PSC
December 30, 2010



Kelley,
Galloway &
Company, PSC

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**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

Thomas E. Kelley, Mayor
City Commissioners and City Manager
City of Ashland
Ashland, Kentucky

Compliance

We have audited the City of Ashland's (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2010. 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 City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The results of our auditing procedures disclosed other 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 2010-06 and 2010-07.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the 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 the 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, 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 *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questions costs. We did not audit the City's responses and, accordingly, we express no opinion on the responses.

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, Goffman & Company, P.C.

December 30, 2010

CITY OF ASHLAND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2010

A. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

☐ Material weakness(es) identified? _____ Yes X No

☐ Significant deficiency(ies) identified
that are not considered to be
material weaknesses? X Yes _____ No

Noncompliance material to the
financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

☐ Material weakness(es) identified? _____ Yes X No

☐ Significant deficiency(ies) identified
that are not considered to be
material weaknesses? _____ Yes X None reported

Type of auditor's report issued on
compliance for major programs: Unqualified

Any audit findings disclosed that are
required to be reported in accordance with
section 501(a) of OMB Circular A-133? X Yes _____ No

Identification of Major Programs	CFDA No.
SAFETEA	20.205
Housing Choice Voucher Program	14.871
CDBG Entitlement	14.218
Federal Transit Cluster	20.500 and 20.507

Dollar threshold used to distinguish between type A
and type B programs: \$300,000

Auditee qualified as low risk auditee? _____ Yes X No

CITY OF ASHLAND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2010

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

2010-01 PROPERTY TAXES

Condition: During our review of property tax payments, we noted several allocation errors between the General Fund and the Floodwall Fund. Of the 60 payments reviewed, we noted 4 payments for floodwall taxes totaling \$6,819 that were improperly allocated to the General Fund. Additionally, we noted that a reconciliation between the property tax subsidiary ledger and the general ledger is not being performed.

Criteria: The internal structure should be designed to ensure property tax payments are allocated to the appropriate fund.

Effect: Taxes designated for the Floodwall Fund were improperly allocated to the General Fund.

Recommendation: We recommend that management develop procedures to periodically reconcile the property tax subsidiary ledger to the general ledger. This will ensure that differences are identified, researched, and resolved on a timely basis.

Response: The City has procedures for periodic reconciliation of the subsidiary ledger to the general ledger. The Accounts Receivable Supervisor and Billing Clerks did not properly do the property tax adjustments. When these adjustments were approved by the Accounts Receivable Supervisor, these discrepancies should have been realized. They needed to properly allocate the adjustment to the respective fund. The Accounts Receivable Supervisor should analyze the revenues and compare it to the monthly report that she creates using the subsidiary ledger.

2010-02 PROPERTY TAX EXONERATIONS

Condition: During our review of property tax payments, we noted several tax bills that were adjusted without obtaining an exoneration of property tax from the Boyd County PVA.

Criteria: The property tax roll used by the City to generate tax bills is provided by the Boyd County PVA. In order to exempt a property from taxes due to being outside the City's jurisdiction, an exoneration should be obtained from the Boyd County PVA.

Effect: The City exempted some property owners from paying taxes prior to obtaining an exoneration from the Boyd County PVA.

Recommendation: We recommend that management implement procedures to ensure exoneration is obtained from the Boyd County PVA prior to adjusting the property owner's tax bill.

Response: The City has had a policy that no adjustments are done before exoneration from the Boyd County PVA office is received and all adjustments are approved by supervisor before being posted. Also, another member of Finance management approves adjustments over \$1,000. The Accounts Receivable supervisor approved adjustments without exoneration and did not forward to supervision for secondary approval on larger adjustments. Finance management is reviewing their work more closely and frequently due to these issues to ensure that established internal control procedures are being followed.

CITY OF ASHLAND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2010

2010-03 UTILITY ADJUSTMENTS

Condition: While reviewing controls surrounding adjustments to utility bills, we noted that a reconciliation is not performed between adjustments posted to customer accounts in the utility billing subsidiary ledger and adjustments posted to the general ledger. We noted adjustments totaling \$16,237 in the utility billing subsidiary ledger that could not be traced to a posting in the general ledger. Additionally, supporting documentation displaying approval for these adjustments could not be located.

Criteria: The internal control structure should be designed to ensure all adjustments posted to customer accounts in the subsidiary ledger are properly approved and posted to the general ledger.

Effect: Internal controls are not adequate to timely identify differences between the utility billing subsidiary ledger and the general ledger.

Recommendation: We recommend management develop procedures to periodically reconcile the adjustments posted to the utility billing subsidiary ledger to adjustments posted to the general ledger. This will ensure differences are identified, researched, and resolved in a timely manner.

Response: The City has had a policy that no adjustments are done without proper paperwork being completed and all adjustments are approved by supervisor before being posted. Also, another member of Finance management approves adjustments over \$1,000. The Accounts Receivable supervisor approved or staff completed adjustments without proper paperwork and did not forward to supervision for secondary approval on larger adjustments. Finance management is reviewing their work more closely and frequently due to these issues to ensure that established internal control procedures are being followed.

2010-04 LATE DEPOSITS

Condition: We noted several deposits that were made more than three days after the close of the business day. Of the 25 days reviewed, 7 days' deposits were made three or more days later, including weekends.

Criteria: The internal control structure should be designed to reduce the risk of misappropriation of assets. Deposits should be made no later than the next business day.

Effect: Increased risk of misappropriation of assets

Recommendation: We recommend that all cash receipts be deposited no later than the next business day.

Response: Our internal control policy concerning cash management states that all deposits should be taken to the bank daily. The supervisor in the cashier's office ignored this policy despite being counseled and instructed to do so by Finance Management. The City will ensure that all deposits are made the next business day and will continually monitor this situation.

CITY OF ASHLAND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2010

2010-05 PETTY CASH

Condition: While reviewing cash disbursements, we noted 9 items that were not properly supported by documentation and 1 payment that was duplicated.

Criteria: The internal control structure should be designed to ensure all payments made by the City are supported by proper documentation to prevent the misappropriation of assets.

Effect: Adequate documentation of petty cash payments could not be provided.

Recommendation: We recommend that supporting documentation for all petty cash disbursements be maintained and stamped "Paid" to prevent misuse and duplicate payments.

Response: Accounts Receivable supervisor was not following the internal control procedures established for Petty Cash disbursement. Clerks were allowed to disburse petty cash from their cash drawers without supervisor approval. Also, the Accounts Receivable supervisor failed to reconcile petty cash each month per policy and ensure that the proper receipts / documentation were attached. Finance management has instructed staff to cease these practices as soon as they became aware of them.

C. FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

2010-06 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: During our testing of compliance with the Community Development Block Grant requirements of environmental reviews, we noted that there was not adequate documentation of the reason the project is exempt from having an environmental review.

Criteria: According to the 24 CFR section 58.35, projects must have an environmental review unless they meet criteria specified in the regulations that would exempt or exclude them from environmental certification requirements. Written determination of the exemption must be maintained.

Effect: Noncompliance with 24 CFR section 58.35.

Recommendation: We recommend proper documentation of the exemption from environmental reviews be maintained in the project folder.

Response: The City will include written determination of the exemption reason(s) in each project folder.

2010-07 FEDERAL COMPLIANCE - DEPOSITORY AGREEMENT

Federal Program Information: Section 8 Housing Choice Vouchers, Federal Catalog No. 14.871, U.S. Department of Housing and Urban Development

CITY OF ASHLAND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONCLUDED)

FOR THE YEAR ENDED JUNE 30, 2010

Condition: The City has not executed a depository agreement with the financial institution selected to deposit Section 8 funds.

Criteria: HUD requires Public Housing Authorities (PHA) to execute a depository agreement with their financial institution in the form required by HUD. The agreements serve as safeguards for Federal funds and provide third-party rights to HUD.

Effect: Noncompliance with HUD requirements

Recommendation: We recommend a depository agreement that meets HUD requirements be executed with the financial institution selected for deposit of Section 8 funds.

Response: The City will execute a depository agreement with our financial institution for our Section 8 account and was previously unaware of this requirement.

CITY OF ASHLAND

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED JUNE 30, 2010

<u>Findings</u>	<u>Findings/Noncompliance</u>
2009-01	We recommend the City implement procedures to periodically review the eligibility determinations performed by the Section 8 Housing Choice Voucher Program specialists and that this review be adequately documented.
<u>Status</u>	Corrected.
2009-02	We recommend a knowledgeable individual independent of the eligibility determination process prepare the SEMAP Certification of the Section 8 Housing Choice Voucher Program.
<u>Status</u>	Corrected.
2009-03	We recommend lease amendments be obtained for any change in contract rent to a land owner participating in the Section 8 Housing Choice Voucher Program and the new rent amount be evaluated for reasonableness prior to approval.
<u>Status</u>	Corrected.
2009-04	We recommend that the calculation of the maximum fair market rent (FMR) of units be performed by an individual independent of the eligibility determination process and the calculation be reviewed for accuracy by another employee prior to implementation.
<u>Status</u>	Corrected.
2009-05	We recommend that the waiting list of the Section 8 Housing Choice Voucher Program be periodically reviewed and compared to applications on file.
<u>Status</u>	Corrected.
2009-06	We recommend that a procedure be implemented for the periodic review of applicant preference codes of the Housing Choice Voucher Program.
<u>Status</u>	Corrected.

CITY OF ASHLAND

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONCLUDED)

FOR THE YEAR ENDED JUNE 30, 2010

2009-07 We recommend the City include policies and procedures related to the homeownership option of the Housing Choice Voucher Program in future Administrative Plans and obtain additional training of HUD requirements for Section 8 Housing Choice Voucher Program specialists.

Status Corrected.

2009-08 We recommend that homes purchased under the homeownership option of the Section 8 Housing Choice Voucher Program be inspected by an independent inspector that is selected by, and paid for, by the participant.

Status Corrected.

2009-09 We recommend proper documentation of the exemption from environmental reviews be maintained in the project folder of Community Development Block Grant expenditures.

Status Uncorrected. See 2010-06

2009-10 We recommend the City implement procedures for the oversight of the processes for participant selections and award determinations performed by subrecipients under the HOME program. Additionally, we recommend that employees receive adequate training of program requirements.

Status Corrected.

CITY OF ASHLAND
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2010

NAME OF CONTACT PERSON

Tony Grubb (606) 327-2010

CORRECTIVE ACTION PLANNED

Finding Responses
Fiscal Year 2010 Audit

2010-01 Property Taxes

Condition: During our review of property tax payments, we noted several allocation errors between the General Fund and the Floodwall Fund. Of the 60 payments reviewed, we noted 4 payments for floodwall taxes totaling \$6,819 that were improperly allocated to the General Fund. Additionally, we noted that a reconciliation between the property tax subsidiary ledger and the general ledger is not being performed.

Response: The City has procedures for periodic reconciliation of the subsidiary ledger to the general ledger. The Accounts Receivable Supervisor and Billing Clerks did not properly do the property tax adjustments. When these adjustments were approved by the Accounts Receivable Supervisor, these discrepancies should have been realized. They needed to properly allocate the adjustment to the respective fund. The Accounts Receivable Supervisor should analyze the revenues and compare it to the monthly report that she creates using the subsidiary ledger.

2010-02 Property Tax Exonerations

Condition: During our review of property tax payments, we noted several tax bills that were adjusted without obtaining an exoneration of property tax from the Boyd County PVA.

Response: The City has had a policy that no adjustments are done before exoneration from the Boyd County PVA office is received and all adjustments are approved by supervisor before being posted. Also, another member of Finance management approves adjustments over \$1,000. The Accounts Receivable supervisor approved adjustments without exonerations and did not forward to supervision for secondary approval on larger adjustments. Finance management is reviewing their work more closely and frequently due to these issues to ensure that established internal control procedures are being followed.

2010-03 Utility Adjustments

Condition: While reviewing controls surrounding adjustments to utility bills, we noted that a reconciliation is not performed between adjustments posted to customer accounts in the utility billing subsidiary ledger and adjustments posted to the general ledger. We noted adjustments totaling \$16,237 in the utility billing subsidiary ledger that could not be traced to a posting in the general ledger. Additionally, supporting documentation displaying approval for these adjustments could not be located.

Response: The City has had a policy that no adjustments are done without proper paperwork being completed and all adjustments are approved by supervisor before being posted. Also, another member of Finance management approves adjustments over \$1,000. The Accounts Receivable supervisor approved or staff completed adjustments without proper paperwork and did not forward

to supervision for secondary approval on larger adjustments. Finance management is reviewing their work more closely and frequently due to these issues to ensure that established internal control procedures are being followed.

2010-04 Late Deposits

Condition: We noted several deposits that were made more than three days after the close of the business day. Of the 25 days reviewed, 7 days' deposits were made three or more days later, including weekends.

Response: Our internal control policy concerning cash management states that all deposits should be taken to the bank daily. The supervisor in the cashier's office ignored this policy despite being counseled and instructed to do so by Finance Management. The City will ensure that all deposits are made the next business day and will continually monitor this situation.

2010-05 Petty Cash

Condition: While reviewing cash disbursements, we noted 9 items that were not properly supported by documentation and 1 payment that was duplicated.

Response: Accounts Receivable supervisor was not following the internal control procedures established for Petty Cash disbursement. Clerks were allowed to disburse petty cash from their cash drawers without supervisor approval. Also, the Accounts Receivable supervisor failed to reconcile petty cash each month per policy and ensure that the proper receipts / documentation were attached. Finance management has instructed staff to cease these practices as soon as they became aware of them.

2010-06 Federal Compliance - Performance Reporting

Condition: During our testing of compliance with the Community Development Block Grant requirements of environmental reviews, we noted that there was not adequate documentation of the reason the project is exempt from having an environmental review.

Response: The City will include written determination of the exemption reason(s) in each project folder.

2010-07 Federal Compliance - Depository Agreement

Condition: The City has not executed a depository agreement with the financial institution selected to deposit Section 8 funds.

Response: The City will execute a depository agreement with our financial institution for our Section 8 account and was previously unaware of this requirement.

ANTICIPATED COMPLETION DATE

Immediately