

**CITY OF ASHLAND**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTAL INFORMATION**

**FOR THE YEAR ENDED JUNE 30, 2009**

**TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS**



Kelley,  
Galloway &  
Company, PSC

CERTIFIED PUBLIC ACCOUNTANTS

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Kelley,  
Galloway &  
Company, PSC

CERTIFIED PUBLIC ACCOUNTANTS

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

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Ashland, Kentucky as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the City of Ashland's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City of Ashland, Kentucky, as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund and Special Revenue Funds for the year then ended, in conformity with accounting principles generally accepted the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2009 on our consideration of the City of Ashland's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis information and Schedules of Employer Contributions on pages 5 through 15 and page 51, is not a required part of the basic financial statements but is supplemental information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ashland's basic financial statements. The supplemental information contained on pages 52 through 59, is presented for purposes of additional analysis and are not a required part of the basic financial statements. Additionally, the accompanying schedule of expenditures of federal awards contained on pages 60 and 61 is presented for purposes of additional analysis as required by *U. S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

*Kelley, Bellamy & Company, PSC*

November 2, 2009

## **MANAGEMENT DISCUSSION AND ANALYSIS**

The management discussion and analysis (MD&A) gives readers an overview and analysis of the financial position and activities of the City of Ashland ("Government") for the fiscal year ended June 30, 2009. This information should be read in conjunction with the financial statements immediately following the analysis.

### **FINANCIAL HIGHLIGHTS**

- ⇒ The assets of the Government exceeded its liabilities at the end of the fiscal year by \$91,911,201 (net assets). Governmental activities' unrestricted net assets were \$7,007,286. Business type activities' unrestricted net assets were \$125,265.
- ⇒ The Government's total net assets decreased by \$(1,319,863). Net assets of governmental activities decreased by \$(707,112), and net assets of business-type activities decreased by \$(612,751).
- ⇒ At June 30, 2009, the governmental activities had \$72,483,503 in assets and \$14,895,386 in liabilities. Business type activities had \$49,708,856 in assets and \$15,385,772 in liabilities.

### **OVERVIEW OF FINANCIAL STATEMENTS**

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

### **REPORTING THE GOVERNMENT AS A WHOLE**

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

These statements present a financial picture of the Government as a whole through the use of a consolidated statement of all funds and eliminating interfund transfers. The value of fixed assets of governmental type operations is presented. The infrastructure assets for governmental type funds, including roads, bridges, sidewalks, etc., are reported and depreciated under these reporting standards. These reporting standards provide improved information to the reader.

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

The Statement of Net Assets presents information on all the Government's assets and liabilities as of June 30, 2009. The net assets are the differences between assets and liabilities. Over time an increase or decrease in net assets is one indicator of whether financial health is improving or deteriorating. Information on other factors such as changes in the revenue structure and the condition of the Government's assets is also needed to assess the overall financial position of the Government.

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

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

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

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

### **REPORTING THE CITY'S MOST SIGNIFICANT FUNDS**

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

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

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

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

**Notes to the financial statements** - The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.

**Other information** - In addition to the basic financial statements and accompanying notes, this report also presents certain *Required Supplemental Information* concerning the City's contributions to certain employees' pension plans. Additionally, *Supplemental Information* includes more detail on the City's General Fund, and details of the City's capital assets, and statement of net assets and revenue and expenditures for Ashland's Housing Authority.

## **THE GOVERNMENT AS A TRUSTEE**

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

## **ANALYSIS OF THE GOVERNMENT AS A WHOLE**

### **NET ASSETS**

As of June 30, 2009, the Government as a whole had net assets greater than its liabilities by \$91,911,201. Net assets of governmental activities were \$57,588,117 and decreased by \$(707,112) over the prior year. This decrease was due to the Riverfront Project and the start of the new Police Station building construction. Fiscal year 2008 ending governmental net assets increased by \$906,517 due to a prior period adjustment on the Riverfront Project. See Note (14). Of ending Governmental Activities Net Assets, \$44,135,871, or 77%, is invested in capital assets net of related debt, \$6,444,960, or 11%, is restricted assets and unrestricted net assets are \$7,007,286, or 12%.

The net assets of the Government's business-type activities are \$34,323,084 and decreased by \$(612,751) over the prior year. Of these net assets, \$33,535,573, is invested in capital assets net of related debt, \$662,246 is restricted for debt service and \$125,265 is unrestricted. The largest portion of the City's combined net assets (85%) reflects its investment in capital assets (i.e., land, buildings, machinery and equipment) less outstanding related debt used to acquire those assets. The City uses these capital assets to provide services to citizens and as a result, these assets are not available for future spending. The City's capital asset investment is reported net of related debt, but the resources to pay this debt must be provided from other sources, since the capital assets cannot be used to liquidate the liabilities.

An additional portion of City net assets, \$7,107,206, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$7,132,551, may be used to meet the City's ongoing obligation to citizens and creditors.

At the end of this fiscal year, June 30, 2009, the City has positive unrestricted net assets in its business-type activities. The City raised the utility rates significantly in all rate classes this fiscal year. This factor brought the business-type activities to a positive unrestricted net asset position.

# ANALYSIS OF THE CITY'S NET ASSETS

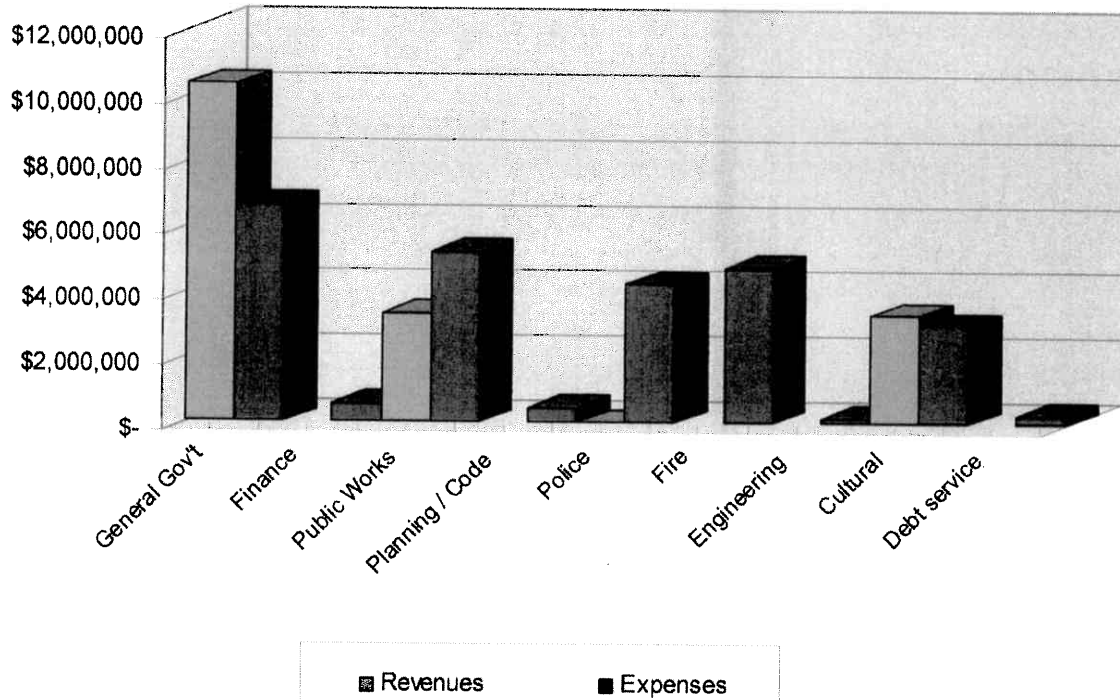
	Governmental Activities 2009	2008 (as restated)	Business- Type Activities 2009	2008	Total Primary Government 2009	2008 (as restated)
Current and other assets	\$18,782,993	\$16,442,904	\$ 4,587,000	\$ 3,440,314	\$23,369,993	\$19,883,218
Capital assets	<u>53,700,510</u>	<u>51,805,263</u>	<u>45,121,856</u>	<u>46,483,786</u>	<u>98,822,366</u>	<u>98,289,049</u>
Total assets	<u>72,483,503</u>	<u>68,248,167</u>	<u>49,708,856</u>	<u>49,924,100</u>	<u>122,192,359</u>	<u>118,172,267</u>
Liabilities	4,762,844	4,413,513	4,589,150	3,592,567	9,351,994	8,006,080
Long-term liabilities	<u>10,132,542</u>	<u>5,539,425</u>	<u>10,796,622</u>	<u>11,395,698</u>	<u>20,929,164</u>	<u>16,935,123</u>
Total liabilities	<u>14,895,386</u>	<u>9,952,938</u>	<u>15,385,772</u>	<u>14,988,265</u>	<u>30,281,158</u>	<u>24,941,203</u>
Net assets						
Invested in capital assets net of related debt	44,135,871	46,766,694	33,535,573	34,348,519	77,671,444	81,115,213
Restricted	6,444,960	4,398,775	662,246	662,246	7,107,206	5,061,021
Unrestricted	<u>7,007,286</u>	<u>7,129,760</u>	<u>125,265</u>	<u>(74,930)</u>	<u>7,132,551</u>	<u>7,054,830</u>
Total net assets	<u>\$57,588,117</u>	<u>\$58,295,229</u>	<u>\$34,323,084</u>	<u>\$34,935,835</u>	<u>\$91,911,201</u>	<u>\$93,231,064</u>

## ANALYSIS OF THE CITY'S OPERATIONS

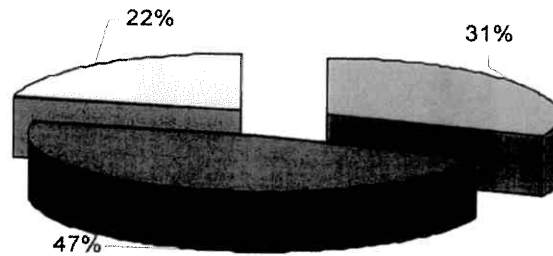
Revenues	Governmental Activities		Business-Type Activities		Total Primary Government	
	2009	2008 (as restated)	2009	2008	2009	2008 (as restated)
Taxes	\$ 8,006,100	\$ 8,127,228	\$ -	\$ -	\$ 8,006,100	\$ 8,127,228
Charges for services	12,230,447	11,661,049	11,334,963	10,773,449	23,565,410	22,434,498
Grant/other income	<u>5,560,173</u>	<u>5,641,879</u>	<u>1,652,850</u>	<u>1,730,871</u>	<u>7,213,023</u>	<u>7,372,750</u>
Total revenue	<u>\$25,796,720</u>	<u>\$25,430,156</u>	<u>\$12,987,813</u>	<u>\$12,504,320</u>	<u>\$38,784,533</u>	<u>\$37,934,476</u>
Expenses	Governmental Activities		Business-Type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
General government	\$ 6,668,670	\$ 2,442,331	\$ -	\$ -	\$ 6,668,670	\$ 2,442,331
Finance	572,342	568,660	-	-	572,342	568,660
Public services	5,252,264	6,381,288	-	-	5,252,264	6,381,288
Planning/CE	438,336	438,445	-	-	438,336	438,445
Police	4,272,709	4,150,927	-	-	4,272,709	4,150,927
Fire	4,803,590	5,059,304	-	-	4,803,590	5,059,304
Engineering	140,193	152,156	-	-	140,193	152,156
Community/cultural	3,036,757	2,495,250	-	-	3,036,757	2,495,250
Debt service	269,507	259,095	-	-	269,507	259,095
Other	-	108,539	-	-	-	108,539
Utility fund	-	-	12,562,956	12,042,313	12,562,956	12,042,313
Ashland bus system	-	-	1,084,078	931,995	1,084,078	931,995
Recreation operating fund	<u>-</u>	<u>-</u>	<u>1,002,994</u>	<u>993,610</u>	<u>1,002,994</u>	<u>993,610</u>
Total expense	<u>\$25,454,368</u>	<u>\$22,055,995</u>	<u>\$14,650,028</u>	<u>\$13,967,918</u>	<u>\$40,104,396</u>	<u>\$36,023,913</u>
Changes before transfers	342,352	3,374,161	(1,662,215)	(1,463,598)	(1,319,863)	1,910,563
Transfers	(1,049,464)	(1,259,326)	1,049,464	1,259,326	-	-
Change in net assets	(707,112)	2,114,835	(612,751)	(204,272)	(1,319,863)	1,910,563
Net asset beginning of year (as restated)	<u>58,295,229</u>	<u>56,180,394</u>	<u>34,935,835</u>	<u>35,140,107</u>	<u>93,231,064</u>	<u>91,320,501</u>
Net asset end of year	<u>\$57,588,117</u>	<u>\$58,295,229</u>	<u>\$34,323,084</u>	<u>\$34,935,835</u>	<u>\$91,911,201</u>	<u>\$93,231,064</u>

## GOVERNMENTAL ACTIVITIES

### EXPENDITURES AND PROGRAM REVENUES-GOVERNMENTAL ACTIVITIES

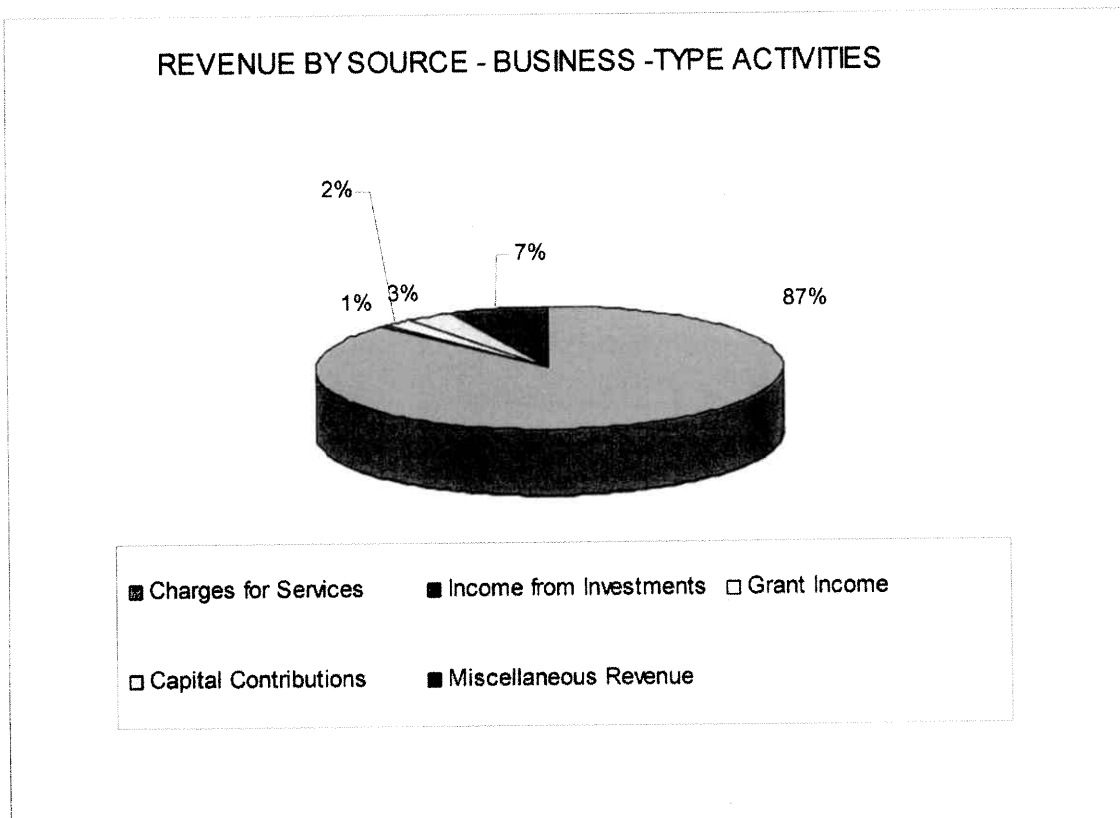
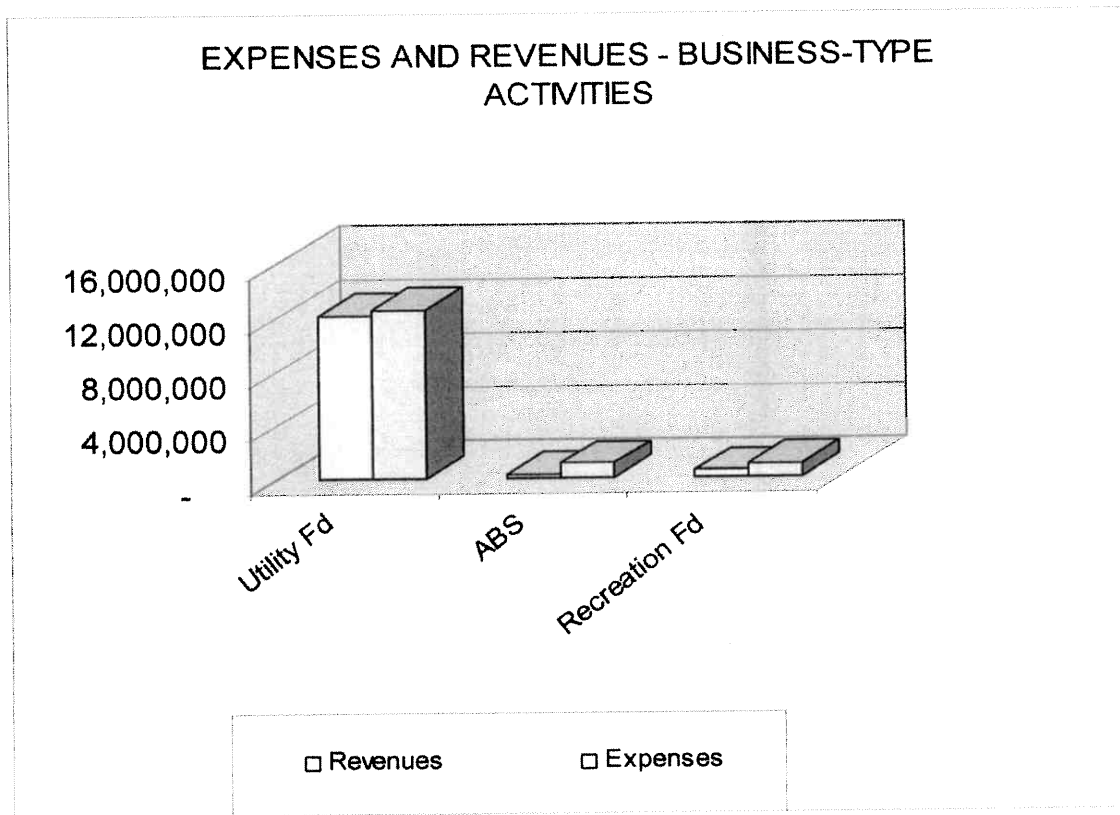


### REVENUE BY SOURCE - GOVERNMENT ACTIVITIES



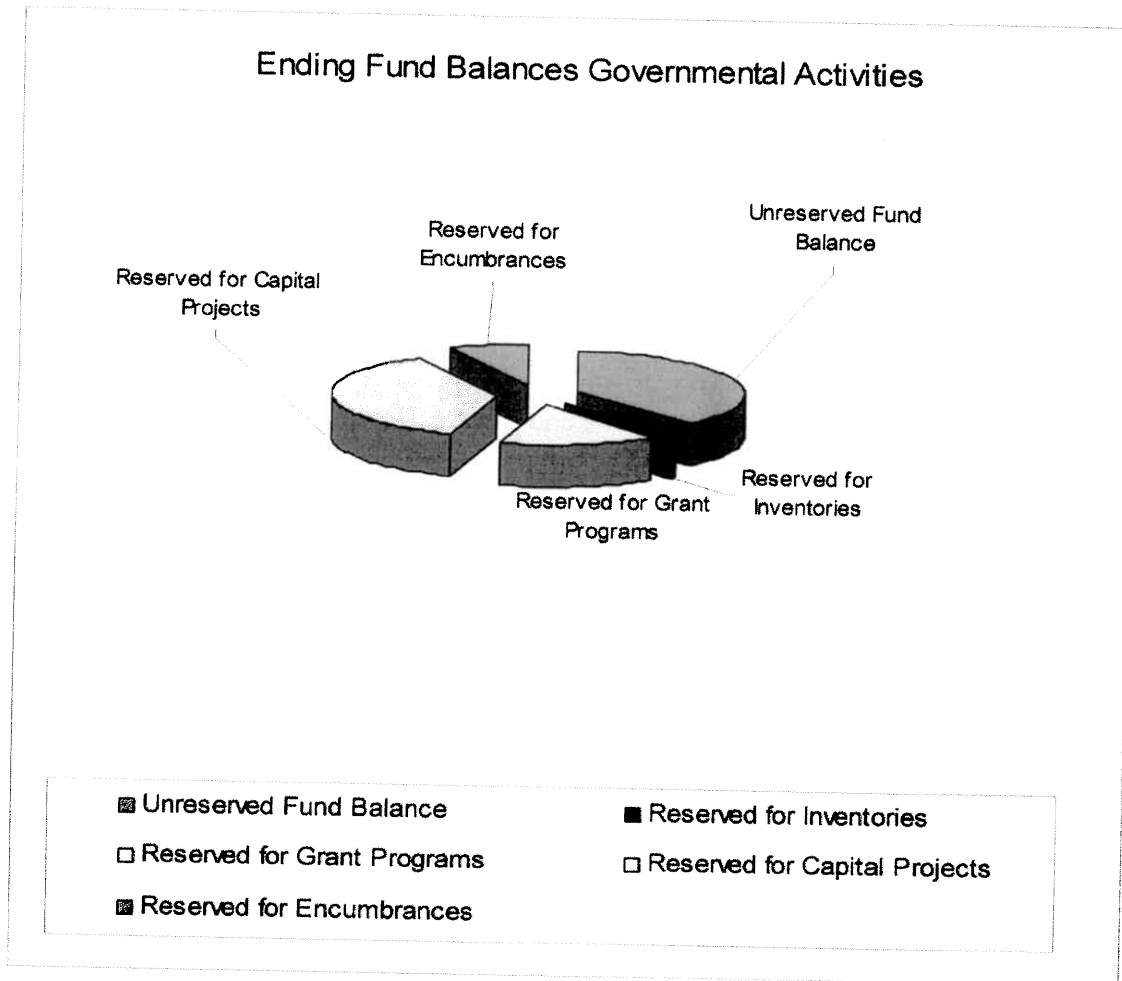
■ Taxes ■ Charges for Services □ Grant Income / Other Income

## BUSINESS-TYPE ACTIVITIES



## FINANCIAL ANALYSIS OF THE CITY'S FUNDS

- A. The focus of the City's governmental funds is to provide information on near-term inflows or outflows and balances of spendable resources which are useful in determining the City's financing requirements. Unreserved fund balance serves as a useful measure of the City's net resources available for spending at the end of the fiscal year. At the end of the fiscal year, the City's governmental funds reported combined ending fund balances of \$12,143,980. Of this total, \$4,666,377, or 38%, is unreserved fund balance. The remainder of fund balance is reserved to indicate it is not available for new spending because it has already been committed for inventories @ \$76,031, grant programs @ \$1,879,305, encumbrances @ \$956,612 and capital projects @ \$4,565,655. The significant increase in the governmental funds reserve for capital projects is the police station construction funds received in fiscal year 2009.



## MAJOR GOVERNMENTAL FUNDS

For the year ending June 30, 2009, the major governmental funds reported as follows:

The General Fund had revenues of \$21,839,801 and expenditures of \$22,471,415. The total fund balance was \$11,436,432.

The Municipal Aid Road Fund had revenues of \$407,027 and expenditures of \$376,024. The total fund balance was \$179,578.

The Floodwall Operating Fund had revenues of \$135,246 and expenditures of \$155,827. The total fund balance was \$2,637.

The Community Development Fund had revenues of \$494,251 and expenditures of \$495,789. The total fund balance was \$65,043.

The Housing Assistance Fund had revenues of \$2,610,451 and expenditures of \$2,595,160. The total fund balance was \$460,290.

The Capital Purchase Improvement Fund had revenues of \$10,947, other financing sources of \$1,763,591, and expenditures of \$1,770,338. The total fund balance was \$0.

### **PROPRIETARY FUNDS**

The City's proprietary funds, or business-type activities, had total assets of \$51,797,966 and total liabilities of \$17,474,882, leaving net assets of \$34,323,084. Of the total proprietary fund's net assets, the Utility Fund had \$463,750 in unrestricted net assets, the Ashland Bus Fund had \$(217,460) in unrestricted net assets and the Recreation Fund had \$(121,025) in unrestricted net assets. All proprietary funds are considered major funds. Total growth in unrestricted net assets for the three proprietary funds was \$125,265.

### **BUDGETARY HIGHLIGHTS**

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

- ⇒ \$7,304,323 increase in net expenditures of the General Fund. This increase was for Melody Mountain developer repayment, police repairs and maintenance, transfers to the Capital Purchase Improvement Fund for the Homeland Security Grants for police & fire, police station bond proceeds, new police truck, city building improvements, and City Manager's hybrid vehicle.

The net increase in appropriations and transfers were taken from various line item reductions and available fund balance.

Significant budget versus actual variances include the following:

- ⇒ The General Fund is the primary operating governmental fund of the City. General Fund actual revenues were \$21,839,801 versus budgeted revenues of \$29,178,699. This was due to the Riverfront Project not being completed. Projected Riverfront revenues were \$8,314,736 and actual revenues were \$1,370,486 for a variance of \$6,944,250. Net Profit Revenue & Occupational Tax Revenue had a positive budget variance of \$291,994, which was accomplished by continued focus on enforcing compliance and growth. Insurance premium taxes had a negative budget variance of \$290,977. Budget projections exceeded actual insurance policies sold in the City. Real, delinquent and vehicle property taxes had a negative budget variance of \$407,186 due to tangible tax assessments not being received before June 30, 2009.
- ⇒ General Fund significant expenditure variances include the Riverfront grant budgeted expenditures of \$9,573,915, and actual expenditures of \$1,713,718, which is a budget variance of \$7,860,197 in the General Government department. Also, the Police Department budget was \$4,346,765, and actual expenditures were \$4,168,260, for a positive budget variance of \$178,505, or 4.11%. This was mostly attributed to the technical services division utilizing only 83.20% of their annual budget.

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

The City's investment in capital assets for governmental and business-type activities as of June 30, 2009 is \$98,822,366 (net of accumulated depreciation). This investment in capital assets

includes land, buildings and system improvements, machinery and equipment, park facilities, roads and construction in progress. See Note (6) for additional discussion of the City's capital assets.

Major construction projects through June 30, 2009 include:

<u>Project</u>	<u>Cost</u>	<u>Outstanding Balance</u>	<u>Amount Expended</u>
Police Station	\$ 4,430,378	\$ 3,279,950	\$ 1,150,428
Riverfront Development	6,204,000	5,425,259	778,741
	<u>\$10,634,378</u>	<u>\$ 8,705,209</u>	<u>\$ 1,929,169</u>

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

<u>Asset</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total 2009</u>
Land	\$ 3,904,381	\$ 311,634	\$ 4,216,015
Buildings and improvements	3,315,913	1,372,262	4,688,175
Automotive equipment	1,010,105	585,717	1,595,822
Operating equipment	1,520,644	780,702	2,301,346
Office equipment	82,487	102,419	184,906
Capital improvements	321,244	-	321,244
Right-of-way	15,038,909	-	15,038,909
Infrastructure	24,656,290	-	24,656,290
Utility plant	-	41,805,298	41,805,298
Construction (CIP)	3,850,537	130,851	3,981,388
Recreation	-	32,973	32,973
Total	<u>\$53,700,510</u>	<u>\$45,121,856</u>	<u>\$98,822,366</u>

**DEBT**

At the end of fiscal year 2009 the City had governmental activities debt of \$10,644,779 compared to \$6,194,661 at June 30, 2008, which represents an increase of \$4,450,118. Business-type activities had debt of \$11,501,283 compared to \$12,050,267 at June 30, 2008, which represents a decrease of \$548,984. See Note (8) for additional discussion of the City's long term debt. The following chart summarizes governmental and business-type activities debt.

<u>Governmental Activities Debt</u>	<u>Amount</u>
General obligation bond series 2005	\$ 3,055,000
Capital lease - fire station	995,000
Capital leases - equipment	597,330
Capital leases - police station	4,917,309
Compensated absences obligation	1,080,140
Total	<u>\$10,644,779</u>
 <u>Business-Type Activities Debt</u>	 <u>Amount</u>
Utility bonds 04	\$ 6,365,000
Kentucky infrastructure authority loans	5,030,698
Capital leases - equipment	105,585
Total	<u>\$11,501,283</u>

## **DESCRIPTION OF MUNICIPAL DEBT**

- ⇒ General Obligation Bonds 2005 Melody Mountain \$3,055,000.
- ⇒ Capital Lease to construct Central Fire station at \$995,000.
- ⇒ Capital Leases for 2 packer trucks @ \$128,276, a street sweeper @ \$94,972, a rescue fire pumper @ \$197,546, a backhoe @ \$52,581, an aerial truck @ \$65,673 and a dump truck @ \$58,282, totaling \$597,330.
- ⇒ Capital Lease to construct Police station at \$4,917,309.
- ⇒ Employee compensated absences payable after 60 days at \$1,080,140.
- ⇒ Utility Revenue bond issue 2004 for phase II upgrade of the water plant \$6,365,000.
- ⇒ Kentucky Infrastructure Authority Loans used to upgrade the utility system at \$5,030,698.
- ⇒ Capital Leases for a backhoe @ \$55,648, and a heavy duty utility truck @ \$49,937, totaling \$105,585.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

Unemployment rate for the City of Ashland as of June 2009 is 9.0%. This rate is lower than the State of Kentucky rate at 10.9% and the national rate of 9.5%.

The following table summarizes the 2010 fiscal year budgeted expenses.

- ⇒ General Fund - \$34,743,989
- ⇒ Municipal Aid Program - \$540,770
- ⇒ Community Development Block Grant Fund - \$688,137
- ⇒ Section 8 Voucher - \$2,901,766
- ⇒ Floodwall Operating Fund - \$250,785
- ⇒ Utility Fund - \$12,641,374
- ⇒ Ashland Bus System - \$1,127,745
- ⇒ Recreation Operating Fund - \$1,016,644
- ⇒ Capital Purchase Improvement Fund - \$4,222,446

Fiscal year 2010 continues with one significant budget item. The construction phase of the Ashland Riverfront project has begun. This project is funded by the Kentucky Transportation Cabinet regarding the Federal Highway Administration SAFETEA-LU funds and is budgeted for \$9,983,647 for the fiscal year.

## **REQUEST FOR INFORMATION**

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

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

**CITY OF ASHLAND  
STATEMENT OF NET ASSETS  
JUNE 30, 2009**

	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and cash equivalents	\$ 3,732,978	\$ 286,373	\$ 4,019,351
Accounts receivable	95,616	1,800,014	1,895,630
Allowance for uncollectible accounts	-	(53,341)	(53,341)
Taxes receivable	3,583,559	-	3,583,559
Allowance for uncollectible taxes	(302,265)	-	(302,265)
Grants receivable	1,490,844	291,225	1,782,069
Internal balances, net	2,089,110	(2,089,110)	-
Receivable from fiduciary fund	355,616	-	355,616
Program receivables	67,347	-	67,347
Allowance for uncollectible accounts	(44,484)	-	(44,484)
Other receivables	313,081	-	313,081
Allowance for uncollectible accounts	(64,433)	-	(64,433)
Prepaid expenses	734,929	-	734,929
Inventories	76,031	408,968	484,999
Restricted assets -			
Cash and cash equivalents	4,565,655	2,083,671	6,649,326
Net pension asset	2,089,409	1,739,532	3,828,941
Nondepreciable capital assets	22,793,827	442,485	23,236,312
Depreciable capital assets	74,597,716	85,573,114	160,170,830
Accumulated depreciation	(43,691,033)	(40,893,743)	(84,584,776)
Deferred bond issuance costs	-	119,668	119,668
Total assets	<u>72,483,503</u>	<u>49,708,856</u>	<u>122,192,359</u>
Liabilities:			
Cash overdraft	256,586	-	256,586
Accounts payable	1,908,326	513,853	2,422,179
Due to Board of Education	74,043	-	74,043
Payable to fiduciary fund	-	1,492,986	1,492,986
Accrued compensated absences, current	212,487	357,133	569,620
Other accrued expenses and liabilities	1,799,165	434,257	2,233,422
Deposits	-	1,001,260	1,001,260
Matured revenue bonds and notes	-	85,000	85,000
Current portion of long-term debt	512,237	704,661	1,216,898
Accrued compensated absences, non-current	1,080,140	-	1,080,140
Capital lease obligations, non-current	6,087,402	78,935	6,166,337
Revenue and improvement bonds	-	5,950,000	5,950,000
Kentucky Infrastructure Authority loans, non-current	-	4,767,687	4,767,687
General obligation bonds, non-current	2,965,000	-	2,965,000
Total liabilities	<u>14,895,386</u>	<u>15,385,772</u>	<u>30,281,158</u>
Net Assets:			
Invested in capital assets, net of related debt	44,135,871	33,535,573	77,671,444
Restricted:			
Capital projects	4,565,655	-	4,565,655
Debt service	-	662,246	662,246
Grant programs	1,879,305	-	1,879,305
Unrestricted	7,007,286	125,265	7,132,551
Total net assets	<u>\$ 57,588,117</u>	<u>\$ 34,323,084</u>	<u>\$ 91,911,201</u>

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

**CITY OF ASHLAND**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2009**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Governmental Activities:</b>							
General government	\$ 6,668,670	\$ 10,385,365	\$ -	\$ -	\$ 3,716,695	\$ -	\$ 3,716,695
Finance	572,342	-	-	-	(572,342)	-	(572,342)
Public Services	5,252,264	1,594,264	1,769,058	-	(1,888,942)	-	(1,888,942)
Planning and code enforcement	438,336	-	-	-	(438,336)	-	(438,336)
Police	4,272,709	-	9,114	-	(4,263,595)	-	(4,263,595)
Fire	4,803,590	-	-	-	(4,803,590)	-	(4,803,590)
Engineering	140,193	-	-	-	(140,193)	-	(140,193)
Community and cultural	3,036,757	250,818	3,079,848	-	293,909	-	293,909
Debt service-interest	269,507	-	-	-	(269,507)	-	(269,507)
Total governmental activities	<u>25,454,368</u>	<u>12,230,447</u>	<u>4,858,020</u>	<u>-</u>	<u>(8,365,901)</u>	<u>-</u>	<u>(8,365,901)</u>
<b>Business-Type Activities:</b>							
Utilities	12,562,956	11,204,613	-	-	-	(1,358,343)	(1,358,343)
Recreation	1,002,994	68,302	-	-	-	(934,692)	(934,692)
Bus	1,084,078	62,048	238,528	425,071	-	(358,431)	(358,431)
Total business-type activities	<u>14,650,028</u>	<u>11,334,963</u>	<u>238,528</u>	<u>425,071</u>	<u>-</u>	<u>(2,651,466)</u>	<u>(2,651,466)</u>
Total primary government	<u>\$ 40,104,396</u>	<u>\$ 23,565,410</u>	<u>\$ 5,096,548</u>	<u>\$ 425,071</u>	<u>\$ (8,365,901)</u>	<u>\$ (2,651,466)</u>	<u>\$ (11,017,367)</u>
<b>General Revenues:</b>							
Property and other local taxes					\$ 8,006,100	\$ -	\$ 8,006,100
Interest income					71,307	77,135	148,442
Other revenues					630,846	912,116	1,542,962
Total general revenues					8,708,253	989,251	9,697,504
Transfers, within primary government					(1,049,464)	1,049,464	-
Total general revenues and transfers					7,658,789	2,038,715	9,697,504
Change in net assets					(707,112)	(612,751)	(1,319,863)
Net assets, June 30, 2008, as restated (Note 14)					58,295,229	34,935,835	93,231,064
Net assets, June 30, 2009					<u>\$ 57,588,117</u>	<u>\$ 34,323,084</u>	<u>\$ 91,911,201</u>

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

**CITY OF ASHLAND  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2009**

Special Revenue Funds							
Assets	General	Municipal Aid Road	Floodwall Operating	Community Development	Housing Assistance	Capital Projects	Total Governmental Funds
Cash	\$ 6,685,940	\$ 233,669	\$ 13,972	\$ 57,157	\$ 493,350	\$ -	\$ 7,484,088
Taxes receivable	3,128,966	-	155,596	-	-	-	3,284,562
Allowance for uncollectible taxes	(283,762)	-	(18,503)	-	-	-	(302,265)
Grants receivable	1,398,234	38,013	-	54,597	-	-	1,490,844
Due from other funds	2,695,117	-	-	-	-	60,087	2,755,204
Program receivables	59,298	-	-	8,049	-	-	67,347
Allowance for uncollectible accounts	(36,435)	-	-	(8,049)	-	-	(44,484)
Other receivables	248,648	-	-	-	64,433	-	313,081
Allowance for uncollectible accounts	-	-	-	-	(64,433)	-	(64,433)
Prepaid expenses	734,929	-	-	-	-	-	734,929
Inventories - supplies	76,031	-	-	-	-	-	76,031
Total assets	<u>\$ 14,706,966</u>	<u>\$ 271,682</u>	<u>\$ 151,065</u>	<u>\$ 111,754</u>	<u>\$ 493,350</u>	<u>\$ 60,087</u>	<u>\$ 15,794,904</u>
<b>Liabilities and Fund Balances</b>							
Liabilities:							
Cash overdraft	\$ 256,586	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 256,586
Accounts payable	1,545,064	8,481	1,606	12,346	6,175	60,087	1,633,759
Due to other funds	531,596	83,623	118,780	29,596	18,392	-	781,987
Due to Board of Education	74,043	-	-	-	-	-	74,043
Accrued compensated absences	209,618	-	619	1,443	807	-	212,487
Accrued expenses	359,665	-	1,607	3,326	7,686	-	372,284
Deferred revenue	293,962	-	25,816	-	-	-	319,778
Total liabilities	<u>3,270,534</u>	<u>92,104</u>	<u>148,428</u>	<u>46,711</u>	<u>33,060</u>	<u>60,087</u>	<u>3,650,924</u>
<b>Fund Balances:</b>							
Reserved for capital projects	4,565,655	-	-	-	-	-	4,565,655
Reserved for inventories	76,031	-	-	-	-	-	76,031
Reserved for encumbrances	956,612	-	-	-	-	-	956,612
Reserved for grant programs	1,419,015	-	-	-	460,290	-	1,879,305
Unreserved/undersignated, reported in:							
General fund	4,419,119	-	-	-	-	-	4,419,119
Special revenue funds	-	179,578	2,637	65,043	-	-	247,258
Capital projects fund	-	-	-	-	-	-	-
Total fund balances	<u>11,436,432</u>	<u>179,578</u>	<u>2,637</u>	<u>65,043</u>	<u>460,290</u>	<u>-</u>	<u>12,143,980</u>
Total liabilities and fund balances	<u>\$ 14,706,966</u>	<u>\$ 271,682</u>	<u>\$ 151,065</u>	<u>\$ 111,754</u>	<u>\$ 493,350</u>	<u>\$ 60,087</u>	<u>\$ 15,794,904</u>

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

**CITY OF ASHLAND**  
**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2009**

Total fund balance - governmental funds	\$ 12,143,980
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets of \$97,391,543, net of accumulated depreciation of \$43,691,033 used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	53,700,510
Net pension asset of \$2,089,409 reported in the statement of net assets is not a financial resource and therefore is not reported in the governmental funds.	2,089,409
Internal service fund is used by management to charge the costs of certain activities to individual funds. Assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	-
Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the governmental funds property taxes	298,997
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.	<u>(10,644,779)</u>
Net assets, end of year - Governmental Activities	<u>\$ 57,588,117</u>

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

**CITY OF ASHLAND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2009**

	Special Revenue Funds						Total Governmental Funds
	General	Municipal Aid Road	Floodwall Operating	Community Development	Housing Assistance	Capital Projects	
<b>Revenues</b>	\$	\$	\$	\$	\$	\$	\$
Property and other local taxes	7,571,928	-	135,175	-	-	-	7,707,103
Licenses and permits	9,430,244	-	-	-	-	-	9,430,244
Charges for services	1,594,264	-	-	-	-	-	1,594,264
Fees, fines and reimbursements	955,121	-	-	-	-	-	955,121
Grant income	1,606,855	398,572	-	494,251	2,358,342	-	4,858,020
Administration fee income	-	-	-	-	250,818	-	250,818
Program income	-	-	-	-	-	-	-
Interest income	69,814	529	71	-	893	-	71,307
Other income	611,575	7,926	-	-	398	10,947	630,846
<b>Total revenues</b>	<b>21,839,801</b>	<b>407,027</b>	<b>135,246</b>	<b>494,251</b>	<b>2,610,451</b>	<b>10,947</b>	<b>25,497,723</b>
<b>Expenditures</b>							
General government	7,770,130	-	-	-	-	863	7,770,993
Finance	574,583	-	-	-	-	-	574,583
Public services	4,007,731	376,024	155,827	-	-	-	4,539,582
Planning and code enforcement	428,075	-	-	-	-	-	428,075
Police	4,168,260	-	-	-	-	-	4,168,260
Fire	4,678,186	-	-	-	-	-	4,678,186
Engineering	139,846	-	-	-	-	-	139,846
Community and cultural	-	-	-	495,789	2,588,610	-	3,084,399
Capital outlay	-	-	-	-	6,550	1,394,112	1,400,662
Debt service:	-	-	-	-	-	-	-
Principal retirement	502,691	-	-	-	-	307,769	810,460
Interest charges	201,913	-	-	-	-	67,594	269,507
<b>Total expenditures</b>	<b>22,471,415</b>	<b>376,024</b>	<b>155,827</b>	<b>495,789</b>	<b>2,595,160</b>	<b>1,770,338</b>	<b>27,864,553</b>
Excess of Revenues Over (Under) Expenditures	(631,614)	31,003	(20,581)	(1,538)	15,291	(1,759,391)	(2,366,830)
<b>Other Financing Sources (Uses)</b>							
Proceeds from the issuance of debt	5,336,530	-	-	-	-	-	5,336,530
Transfers in	-	-	-	-	-	1,763,591	1,763,591
Transfers out	(2,813,055)	-	-	-	-	-	(2,813,055)
<b>Total other financing sources (uses)</b>	<b>2,523,475</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,763,591</b>	<b>4,287,066</b>
Net change in fund balances	1,891,861	31,003	(20,581)	(1,538)	15,291	4,200	1,920,236
Fund balances beginning of year	9,544,571	148,575	23,218	66,581	444,999	(4,200)	10,223,744
Fund balances end of year	\$ 11,436,432	\$ 179,578	\$ 2,637	\$ 65,043	\$ 460,290	\$ -	\$ 12,143,980

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

**CITY OF ASHLAND**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2009**

Net change in fund balances - total governmental funds		\$ 1,920,236
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlay	4,294,350	
Depreciation expense	<u>(2,192,109)</u>	2,102,241
Bond and capital lease proceeds are recognized as revenues in the fund financial statement, but are increases in liabilities in the statement of net assets.		
		(5,336,530)
Generally, expenditures recognized in the fund financial statements are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred for the following:		
Long-term portion of accrued sick leave		75,952
Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statements, but are reductions of liabilities in the statement of net assets.		
		810,460
Expenditures relating to the net pension asset in the statement of activities are not provided by current financial resources and therefore are not reported in the fund financial statements.		
		156,081
Internal service fund is used by management to charge the costs of certain activities to individual funds. Change in net assets of the internal service fund is included in governmental activities in the statement of activities.		
		(527,555)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
Property taxes		298,997
Losses on disposal of capital assets are not recognized in the fund financial statements. However, in the statement of activities, these losses are recognized.		
		<u>(206,994)</u>
Change in net assets of governmental activities		<u>\$ (707,112)</u>

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

**CITY OF ASHLAND  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2009**

	Business-Type Activities				Governmental Activity - Internal Service Fund
	Utility Fund	Ashland Bus Fund	Recreation Fund	Total	
<b>ASSETS</b>					
Current Assets:					
Cash and cash equivalents	\$ 229,435	\$ 23,695	\$ 33,243	\$ 286,373	\$ 814,545
Accounts receivable	1,793,845	-	6,169	1,800,014	95,616
Allowance for doubtful accounts	(53,341)	-	-	(53,341)	-
Due from other funds	-	-	-	-	471,509
Grants receivable - capital	-	282,415	-	282,415	-
Grants receivable - operating	-	8,810	-	8,810	-
Inventories -					
Repair parts and supplies	375,772	23,440	9,756	408,968	-
Total current assets	2,345,711	338,360	49,168	2,733,239	1,381,670
Restricted Assets:					
Cash and cash equivalents	1,893,671	-	190,000	2,083,671	-
Total restricted assets	1,893,671	-	190,000	2,083,671	-
Total current assets	4,239,382	338,360	239,168	4,816,910	1,381,670
Capital Assets:					
Land and easements	305,911	-	5,723	311,634	-
Utility plants	78,343,743	-	-	78,343,743	-
Buildings and improvements	639,310	1,390,368	100,529	2,130,207	-
Operating equipment	3,015,508	970,619	678,420	4,664,547	-
Office and computer equipment	400,061	34,556	-	434,617	-
Construction in progress	102,973	-	27,878	130,851	-
	82,807,506	2,395,543	812,550	86,015,599	-
Less: Accumulated depreciation	(39,575,936)	(929,696)	(388,111)	(40,893,743)	-
Total capital assets - net	43,231,570	1,465,847	424,439	45,121,856	-
Other Assets:					
Net pension asset	1,739,532	-	-	1,739,532	-
Deferred bond issuance costs	119,668	-	-	119,668	-
	1,859,200	-	-	1,859,200	-
Total noncurrent assets	45,090,770	1,465,847	424,439	46,981,056	-
Total assets	\$ 49,330,152	\$ 1,804,207	\$ 663,607	\$ 51,797,966	\$ 1,381,670

	Business-Type Activities				Governmental Activity - Internal Service Fund
	Utility Fund	Ashland Bus Fund	Recreation Fund	Total	
<b>LIABILITIES</b>					
Current liabilities (payable from current assets):					
Accounts payable	\$ 394,281	\$ 72,799	\$ 46,773	\$ 513,853	\$ 274,567
Due to other funds	2,954,007	398,445	229,644	3,582,096	-
Accrued compensated absences	250,103	47,387	59,643	357,133	-
Other accrued liabilities	372,935	37,189	24,133	434,257	1,107,103
Customer deposits	134,293	-	-	134,293	-
Total current liabilities (payable from current assets)	4,105,619	555,820	360,193	5,021,632	1,381,670
Current liabilities (payable from restricted assets):					
Matured revenue bonds and notes	85,000	-	-	85,000	-
Customer deposits	866,967	-	-	866,967	-
Current portion of capital lease obligations	26,650	-	-	26,650	-
Current portion of revenue and improvement bonds	415,000	-	-	415,000	-
Current portion of Kentucky Infrastructure Authority loans	263,011	-	-	263,011	-
Total current liabilities (payable from restricted assets)	1,656,628	-	-	1,656,628	-
Total current liabilities	5,762,247	555,820	360,193	6,678,260	1,381,670
Long-term liabilities:					
Capital lease obligations	78,935	-	-	78,935	-
Revenue and improvement bonds	5,950,000	-	-	5,950,000	-
Kentucky Infrastructure Authority loans	4,767,687	-	-	4,767,687	-
Total long-term liabilities	10,796,622	-	-	10,796,622	-
Total liabilities	16,558,869	555,820	360,193	17,474,882	1,381,670
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	31,645,287	1,465,847	424,439	33,535,573	-
Restricted for debt service	662,246	-	-	662,246	-
Unrestricted	463,750	(217,460)	(121,025)	125,265	-
Total net assets	\$ 32,771,283	\$ 1,248,387	\$ 303,414	\$ 34,323,084	\$ -

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

**CITY OF ASHLAND  
STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2009**

	Business-Type Activities				Governmental Activity - Internal Service
	Utility Fund	Ashland Bus Fund	Recreation Fund	Total	Fund
<b>OPERATING REVENUES</b>					
Residential and commercial meter sales	\$ 3,260,751	\$ -	\$ -	\$ 3,260,751	\$ -
Sewer service	3,601,668	-	-	3,601,668	-
Industrial meter sales	3,357,504	-	-	3,357,504	-
Other municipalities	872,389	-	-	872,389	-
Industrial pretreatment	43,495	-	-	43,495	-
Water and sewer taps	68,806	-	-	68,806	-
Concession sales	-	-	30,722	30,722	-
Passenger fares	-	62,048	-	62,048	-
Admission fees	-	-	37,580	37,580	-
Premium charges	-	-	-	-	3,482,271
Miscellaneous	881,463	-	28,153	909,616	30
Total operating revenues	12,086,076	62,048	96,455	12,244,579	3,482,301
<b>OPERATING EXPENSES</b>					
Administration - Director	84,020	-	-	84,020	-
Administration - Cashier	511,752	-	-	511,752	-
Administration - Customer Service	428,391	-	-	428,391	-
Water - Production	2,108,058	-	-	2,108,058	-
Water - Distribution	2,619,641	-	-	2,619,641	-
Sewer - Pretreatment	1,361,405	-	-	1,361,405	-
Sewer - Collection	1,312,035	-	-	1,312,035	-
Depreciation	2,096,800	101,651	28,108	2,226,559	-
Insurance	283,857	12,416	34,103	330,376	-
Other operating expenses	1,340,020	333,692	329,092	2,002,804	3,870
Salaries	-	428,226	409,569	837,795	-
Utilities	-	23,195	113,493	136,688	-
Operating supplies	-	184,898	88,629	273,527	-
Premiums and claims	-	-	-	-	4,006,821
Total operating expenses	12,145,979	1,084,078	1,002,994	14,233,051	4,010,691
<b>OPERATING INCOME (LOSS)</b>	<b>(59,903)</b>	<b>(1,022,030)</b>	<b>(906,539)</b>	<b>(1,988,472)</b>	<b>(528,390)</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>					
Gain on disposal of assets	-	2,500	-	2,500	-
Interest income	70,780	174	6,181	77,135	835
Grant income	-	238,528	-	238,528	-
Interest on revenue bonds and notes	(416,977)	-	-	(416,977)	-
Total non-operating revenues (expenses)	(346,197)	241,202	6,181	(98,814)	835
<b>INCOME (LOSS) BEFORE OPERATING TRANSFERS AND CAPITAL CONTRIBUTIONS</b>	<b>(406,100)</b>	<b>(780,828)</b>	<b>(900,358)</b>	<b>(2,087,286)</b>	<b>(527,555)</b>
<b>OPERATING TRANSFERS</b>					
From General Fund	-	238,528	795,358	1,033,886	-
Total operating transfers in	-	238,528	795,358	1,033,886	-
<b>CAPITAL CONTRIBUTIONS</b>					
Federal/state grants	-	425,071	-	425,071	-
City of Ashland	-	15,578	-	15,578	-
Total capital contributions	-	440,649	-	440,649	-
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>(406,100)</b>	<b>(101,651)</b>	<b>(105,000)</b>	<b>(612,751)</b>	<b>(527,555)</b>
<b>NET ASSETS, JUNE 30, 2008</b>	<b>33,177,383</b>	<b>1,350,038</b>	<b>408,414</b>	<b>34,935,835</b>	<b>527,555</b>
<b>NET ASSETS, JUNE 30, 2009</b>	<b>\$ 32,771,283</b>	<b>\$ 1,248,387</b>	<b>\$ 303,414</b>	<b>\$ 34,323,084</b>	<b>\$ -</b>

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

**CITY OF ASHLAND  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2009**

	Business-Type Activities				Governmental Activity - Internal Service Fund
	Utility Fund	Ashland Bus Fund	Recreation Fund	Total	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Cash received from customers	\$ 11,254,278	\$ 62,948	\$ 72,816	\$ 11,390,042	\$ -
Cash payments to suppliers for goods and services	(7,949,193)	(117,527)	(257,520)	(8,324,240)	(3,870)
Cash payments to employees	(2,594,269)	(424,191)	(400,491)	(3,418,951)	-
Other operating revenues	881,463	-	28,153	909,616	30
Payments for internal services	(777,707)	(114,871)	(91,708)	(984,286)	-
Cash received for internal services	-	-	-	-	4,547,786
Payments for premiums and claims	-	-	-	-	(3,849,347)
Net cash provided by (used for) operating activities	<u>814,572</u>	<u>(593,641)</u>	<u>(648,750)</u>	<u>(427,819)</u>	<u>694,599</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Grant income	-	351,425	-	351,425	-
Transfers from other funds	-	238,528	795,358	1,033,886	-
Net cash provided by noncapital financial activities	<u>-</u>	<u>589,953</u>	<u>795,358</u>	<u>1,385,311</u>	<u>-</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Proceeds from sale of assets	125,000	2,500	-	127,500	-
Acquisition and construction of capital assets	(573,916)	(173,926)	(136,202)	(884,044)	-
Principal paid on bonds, notes and lease obligations	(654,569)	-	-	(654,569)	-
Interest paid on bonds, notes and lease obligations	(416,977)	-	-	(416,977)	-
Capital contributions	-	15,578	-	15,578	-
Capital grants received	200,000	173,150	-	373,150	-
Net cash provided by (used for) capital and related financing activities	<u>(1,320,462)</u>	<u>17,302</u>	<u>(136,202)</u>	<u>(1,439,362)</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Investment income	70,780	174	6,181	77,135	835
Net cash provided by investing activities	<u>70,780</u>	<u>174</u>	<u>6,181</u>	<u>77,135</u>	<u>835</u>
Net increase (decrease) in cash and cash equivalents	(435,110)	13,788	16,587	(404,735)	695,434
Cash and cash equivalents, June 30, 2008	<u>2,558,216</u>	<u>9,907</u>	<u>206,656</u>	<u>2,774,779</u>	<u>119,111</u>
Cash and cash equivalents, June 30, 2009	<u>\$ 2,123,106</u>	<u>\$ 23,695</u>	<u>\$ 223,243</u>	<u>\$ 2,370,044</u>	<u>\$ 814,545</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>					
Operating income (loss)	\$ (59,903)	\$ (1,022,030)	\$ (906,539)	\$ (1,988,472)	\$ (528,390)
Adjustments:					
Depreciation	2,096,800	101,651	28,108	2,226,559	-
Amortization	8,159	-	-	8,159	-
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable	4,605	900	4,514	10,019	515,659
(Increase) decrease in inventories	32,452	6,545	2,224	41,221	-
(Increase) decrease in due from other funds	-	-	-	-	549,856
(Increase) decrease in pension asset	(344,751)	-	-	(344,751)	-
Increase (decrease) in accounts payable	100,233	66,552	4,468	171,253	(61,850)
Increase (decrease) in due to other funds	(1,116,042)	248,706	209,397	(657,939)	-
Increase (decrease) in compensated absences	23,844	3,663	5,239	32,746	-
Increase in other accrued liabilities	24,115	372	3,839	28,326	219,324
Increase in customer deposits	45,060	-	-	45,060	-
Net cash provided by (used for) operating activities	<u>\$ 814,572</u>	<u>\$ (593,641)</u>	<u>\$ (648,750)</u>	<u>\$ (427,819)</u>	<u>\$ 694,599</u>

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

**CITY OF ASHLAND  
STATEMENT OF NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2009**

	<u>Pension Trust Funds</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 1,032,049
Accrued interest receivable	21,090
Due from other funds	1,492,986
Investments, at fair value - U.S. Government obligations	<u>2,606,442</u>
Total assets	<u>5,152,567</u>
<b>LIABILITIES</b>	
Due to other funds	<u>355,616</u>
Total liabilities	<u>355,616</u>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>	<u>\$ 4,796,951</u>

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

**CITY OF ASHLAND  
STATEMENT OF CHANGES IN NET ASSETS  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2009**

	<u>Pension Trust Funds</u>
ADDITIONS:	
Contributions -	
Employer	\$ 1,165,819
Plan members	<u>3,322</u>
Total contributions	<u>1,169,141</u>
Investment income -	
Interest income	<u>155,512</u>
Total investment income	<u>155,512</u>
Total additions	<u>1,324,653</u>
DEDUCTIONS:	
Net depreciation in fair value of investments	9,198
Benefits	1,312,769
Administrative expenses	<u>23,236</u>
Total deductions	<u>1,345,203</u>
NET DECREASE	(20,550)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:	
Beginning of year	<u>4,817,501</u>
End of year	<u>\$ 4,796,951</u>

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

**CITY OF ASHLAND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2009**

<b>Revenues</b>	<b>Original Budget</b>	<b>Revisions</b>	<b>Revised Budget</b>	<b>Actual</b>	<b>Variance</b>
Property and other local taxes	\$ 8,175,033	\$ -	\$ 8,175,033	\$ 7,571,928	\$ (603,105)
Licenses and permits	9,131,546	-	9,131,546	9,430,244	298,698
Charges for services	1,573,973	-	1,573,973	1,594,264	20,291
Fees, fines and reimbursements	906,969	-	906,969	955,121	48,152
Interest income	100,000	-	100,000	69,814	(30,186)
Grant income	9,073,973	5,897	9,079,870	1,606,855	(7,473,015)
Other income	163,450	47,858	211,308	611,575	400,267
<b>Total revenues</b>	<b>29,124,944</b>	<b>53,755</b>	<b>29,178,699</b>	<b>21,839,801</b>	<b>(7,338,898)</b>
<b>Expenditures</b>					
General government	12,600,666	3,003,107	15,603,773	7,770,130	7,833,643
Finance	595,608	-	595,608	574,583	21,025
Public services	4,040,770	-	4,040,770	4,007,731	33,039
Planning and code enforcement	459,673	-	459,673	428,075	31,598
Police	4,340,739	6,026	4,346,765	4,168,260	178,505
Fire	4,824,494	(4,810)	4,819,684	4,678,186	141,498
Engineering	144,319	-	144,319	139,846	4,473
Debt service:					
Principal retirement	420,000	-	420,000	502,691	(82,691)
Interest and fiscal charges	142,338	-	142,338	201,913	(59,575)
<b>Total expenditures</b>	<b>27,568,607</b>	<b>3,004,323</b>	<b>30,572,930</b>	<b>22,471,415</b>	<b>8,101,515</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,556,337	(2,950,568)	(1,394,231)	(631,614)	762,617
<b>Other Financing Sources (Uses)</b>					
Proceeds from issuance of debt	-	4,300,000	4,300,000	5,336,530	1,036,530
Transfer in	-	-	-	-	-
Transfers out	(2,087,154)	(4,552,885)	(6,640,039)	(2,813,055)	3,826,984
<b>Total other financing sources (uses)</b>	<b>(2,087,154)</b>	<b>(252,885)</b>	<b>(2,340,039)</b>	<b>2,523,475</b>	<b>4,863,514</b>
<b>Net change in fund balance</b>	<b>(530,817)</b>	<b>(3,203,453)</b>	<b>(3,734,270)</b>	<b>1,891,861</b>	<b>5,626,131</b>
<b>Fund balance beginning of year</b>	<b>9,544,571</b>	<b>-</b>	<b>9,544,571</b>	<b>9,544,571</b>	<b>-</b>
<b>Fund balance end of year</b>	<b>\$ 9,013,754</b>	<b>\$ (3,203,453)</b>	<b>\$ 5,810,301</b>	<b>\$ 11,436,432</b>	<b>\$ 5,626,131</b>

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

**CITY OF ASHLAND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**MUNICIPAL AID ROAD FUND**  
**FOR THE YEAR ENDED JUNE 30, 2009**

	Original Budget	Revisions	Revised Budget	Actual	Variance
<b>Revenues</b>					
Property and other local taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-
Charges for services	-	-	-	-	-
Fees, fines and reimbursements	-	-	-	-	-
Grant income	348,148	-	348,148	398,572	50,424
Administration fee income	-	-	-	-	-
Program income	-	-	-	-	-
Interest income	175	-	175	529	354
Other income	14,000	-	14,000	7,926	(6,074)
Total revenues	<u>362,323</u>	<u>-</u>	<u>362,323</u>	<u>407,027</u>	<u>44,704</u>
<b>Expenditures</b>					
General government	-	-	-	-	-
Finance	-	-	-	-	-
Public services	361,823	-	361,823	376,024	(14,201)
Planning and code enforcement	-	-	-	-	-
Police	-	-	-	-	-
Fire	-	-	-	-	-
Engineering	-	-	-	-	-
Community and cultural	-	-	-	-	-
Other	500	-	500	-	500
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	<u>362,323</u>	<u>-</u>	<u>362,323</u>	<u>376,024</u>	<u>(13,701)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>31,003</u>	<u>31,003</u>
<b>Other Financing Sources (Uses)</b>					
Transfers out	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	-	-	-	31,003	31,003
Fund balance beginning of year	<u>148,575</u>	<u>-</u>	<u>148,575</u>	<u>148,575</u>	<u>-</u>
Fund balance end of year	<u>\$ 148,575</u>	<u>\$ -</u>	<u>\$ 148,575</u>	<u>\$ 179,578</u>	<u>\$ 31,003</u>

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

**CITY OF ASHLAND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**COMMUNITY DEVELOPMENT FUND**  
**FOR THE YEAR ENDED JUNE 30, 2009**

<b>Revenues</b>	<b>Original Budget</b>	<b>Revisions</b>	<b>Revised Budget</b>	<b>Actual</b>	<b>Variance</b>
Property and other local taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-
Charges for services	-	-	-	-	-
Fees, fines and reimbursements	-	-	-	-	-
Grant income	678,344	163,751	842,095	494,251	(347,844)
Administration fee income	-	-	-	-	-
Program income	-	-	-	-	-
Interest income	100	-	100	-	(100)
Other income	-	-	-	-	-
<b>Total revenues</b>	<b>678,444</b>	<b>163,751</b>	<b>842,195</b>	<b>494,251</b>	<b>(347,944)</b>
<b>Expenditures</b>					
General government	-	-	-	-	-
Finance	-	-	-	-	-
Public services	-	-	-	-	-
Planning and code enforcement	-	-	-	-	-
Police	-	-	-	-	-
Fire	-	-	-	-	-
Engineering	-	-	-	-	-
Community and cultural	678,444	163,751	842,195	495,789	346,406
Other	-	-	-	-	-
Capital outlay	-	-	-	-	-
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
<b>Total expenditures</b>	<b>678,444</b>	<b>163,751</b>	<b>842,195</b>	<b>495,789</b>	<b>346,406</b>
Excess of Revenues Over (Under) Expenditures	-	-	-	(1,538)	(1,538)
<b>Other Financing Sources (Uses)</b>					
Transfers out	-	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net change in fund balance	-	-	-	(1,538)	(1,538)
Fund balance beginning of year	66,581	-	66,581	66,581	-
Fund balance end of year	\$ 66,581	\$ -	\$ 66,581	\$ 65,043	\$ (1,538)

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

**CITY OF ASHLAND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**HOUSING ASSISTANCE FUND**  
**FOR THE YEAR ENDED JUNE 30, 2009**

	Original Budget	Revisions	Revised Budget	Actual	Variance
<b>Revenues</b>					
Property and other local taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-
Charges for services	-	-	-	-	-
Fees, fines and reimbursements	-	-	-	-	-
Grant income	2,356,818	-	2,356,818	2,358,342	1,524
Administration fee income	285,363	18,750	304,113	250,818	(53,295)
Program income	-	-	-	-	-
Interest income	1,000	-	1,000	893	(107)
Other income	450	-	450	398	(52)
Total revenues	<u>2,643,631</u>	<u>18,750</u>	<u>2,662,381</u>	<u>2,610,451</u>	<u>(51,930)</u>
<b>Expenditures</b>					
General government	-	-	-	-	-
Finance	-	-	-	-	-
Public services	-	-	-	-	-
Planning and code enforcement	-	-	-	-	-
Police	-	-	-	-	-
Fire	-	-	-	-	-
Engineering	-	-	-	-	-
Community and cultural	2,643,631	18,750	2,662,381	2,588,610	73,771
Other	-	-	-	-	-
Capital outlay	-	-	-	6,550	(6,550)
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	<u>2,643,631</u>	<u>18,750</u>	<u>2,662,381</u>	<u>2,595,160</u>	<u>67,221</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,291</u>	<u>15,291</u>
<b>Other Financing Sources (Uses)</b>					
Transfers out	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	-	-	-	15,291	15,291
Fund balance beginning of year	<u>444,999</u>	<u>-</u>	<u>444,999</u>	<u>444,999</u>	<u>-</u>
Fund balance end of year	<u>\$ 444,999</u>	<u>\$ -</u>	<u>\$ 444,999</u>	<u>\$ 460,290</u>	<u>\$ 15,291</u>

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

**CITY OF ASHLAND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**FLOODWALL OPERATING FUND**  
**FOR THE YEAR ENDED JUNE 30, 2009**

<b>Revenues</b>	<b>Original Budget</b>	<b>Revisions</b>	<b>Revised Budget</b>	<b>Actual</b>	<b>Variance</b>
Property and other local taxes	\$ 147,698	\$ -	\$ 147,698	\$ 135,175	\$ (12,523)
Licenses and permits	-	-	-	-	-
Charges for services	-	-	-	-	-
Fees, fines and reimbursements	-	-	-	-	-
Grant income	-	-	-	-	-
Administration fee income	-	-	-	-	-
Program income	-	-	-	-	-
Interest income	350	-	350	71	(279)
Other income	-	-	-	-	-
<b>Total revenues</b>	<b>148,048</b>	<b>-</b>	<b>148,048</b>	<b>135,246</b>	<b>(12,802)</b>
<b>Expenditures</b>					
General government	-	-	-	-	-
Finance	-	-	-	-	-
Public services	172,736	-	172,736	155,827	16,909
Planning and code enforcement	-	-	-	-	-
Police	-	-	-	-	-
Fire	-	-	-	-	-
Engineering	-	-	-	-	-
Community and cultural	-	-	-	-	-
Other	-	-	-	-	-
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
<b>Total expenditures</b>	<b>172,736</b>	<b>-</b>	<b>172,736</b>	<b>155,827</b>	<b>16,909</b>
Excess (Deficiency) of Revenues (Under) Expenditures	(24,688)	-	(24,688)	(20,581)	4,107
<b>Other Financing Sources (Uses)</b>					
Transfers out	-	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net change in fund balance	(24,688)	-	(24,688)	(20,581)	4,107
Fund balance beginning of year	24,688	-	24,688	23,218	(1,470)
Fund balance end of year	\$ -	\$ -	\$ -	\$ 2,637	\$ 2,637

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

**CITY OF ASHLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

**(1) REPORTING ENTITY**

The City of Ashland (the "City") is a political subdivision of the Commonwealth of Kentucky. It is governed and operated under the City Manager/Commission form of government and provides such services as public safety, transportation, recreation, streets, water, sewer, and refuse removal. The City evaluates separately administered organizations in order to determine if they are controlled by, or dependent upon the City. GASB Codification Section 2100 establishes criteria for determining which, if any, component units should be considered part of the City for financial reporting purposes. The basic criterion for including a potential component unit within the reporting entity is financial accountability, which includes:

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

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

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

**(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Presentation**

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

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

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

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

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

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

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

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

The City reports the following major Governmental Funds:

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

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

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

The City reports the following major Proprietary Funds:

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

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

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

Additionally, the City reports the following fund types:

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

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

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

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

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

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

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

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

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

### **C. Budget and Budgetary Accounting**

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

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

#### **D. Deposits and Investments**

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

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

#### **E. Inventories**

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

#### **F. Capital Assets and Depreciation**

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

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

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

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

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

#### **G. Encumbrances**

Encumbrance accounting is used by the City whereby purchase orders, contracts, and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrances outstanding at year-end are reported as reservations of fund balances or retained earnings in the General, Special Revenue, Enterprise and Capital Projects Funds, since the encumbrances do not constitute expenditures or liabilities, even though the City intends to honor those commitments. At June 30, 2009, there were encumbrances outstanding of \$956,612.

## **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, 2008 information to conform with the 2009 presentation.

## **Q. Recent Accounting Pronouncements**

The Governmental Accounting Standards Board (GASB) has issued Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. This pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The City currently believes the other post employment benefits provided to retirees, as described in Note (13), are immaterial. Therefore, the provisions of GASB Statement No. 45 have not been adopted.

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. It requires that when any one of five specified obligating events occurs, a government is required to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability and, if appropriate, capitalized when goods and services are acquired. Obligating events include the following:

- The government is compelled to take pollution remediation action because of an imminent endangerment.
- The government violates a pollution prevention-related permit or license.
- The government is named, or evidence indicates that it will be named, by a regulator as a responsible party or potentially responsible party for remediation, or as a government responsible for sharing costs.
- The government is named, or evidence indicates that it will be named, in a lawsuit to compel participation in pollution remediation.
- The government commences or legally obligates itself to commence pollution remediation.

GASB Statement No. 49 is required to be effective for the City's fiscal year ending June 30, 2009. The adoption of this Statement did not affect the City's 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 is not expected to affect 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 is not expected to affect the City's financial statements.

In March 2009, GASB issued Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which was effective upon issuance. The objective of GASB No. 55 is to incorporate the hierarchy of generally accepted accounting principles for state and local governments into GASB authoritative literature such that they derive from a single source. The adoption of GASB Statement No. 55 had no impact on the City's financial statements.

In March 2009, the GASB issued Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. The objective of this Statement is to incorporate into the Governmental Accounting Standards Board's (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards. This Statement addresses three issues not included in the authoritative literature that establishes accounting principles - related party transactions, going concern considerations, and subsequent events. The presentation of principles used in the preparation of financial statements is more appropriately included in accounting and financial reporting standards rather than in the auditing literature. This Statement does not establish new accounting standards but rather incorporates the existing guidance (to the extent appropriate in a governmental environment) into the GASB standards. The adoption of GASB Statement No. 56 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, 2009, the carrying amounts of the City's deposits were \$11,439,340 and the bank balances were \$15,406,517. 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, 2009, 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	\$ 2,606,442	\$ 507,345	\$ 2,099,097	-	-

**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 2009 assessed value for real property was \$800,261,684. The tax rate adopted was \$.3389 per \$100 valuation.

## (5) GRANTS RECEIVABLE

Grants receivable from other governmental units as of June 30, 2009, are as follows:

General Fund -		
Homeland Security Grant	\$	5,346
Kentucky Transportation Cabinet		1,391,249
Homeless Shelter Grant		1,639
		<u>1,398,234</u>
Special Revenue Funds -		
Municipal Aid Road Fund		38,013
Community Development Fund, program allocation		54,597
		<u>92,610</u>
Enterprise Funds -		
Ashland Bus System - FTA operations		8,810
Ashland Bus System - FTA capital		282,415
		<u>291,225</u>
		<u>\$ 1,782,069</u>

## (6) CAPITAL ASSETS

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

	June 30, 2008, as restated	Increases	Decreases	June 30, 2009
<b><u>Governmental Activities</u></b>				
<b>Capital Assets, Not Depreciated:</b>				
Land	\$ 18,807,661	\$ 301,676	\$ (166,047)	\$ 18,943,290
Construction in progress	1,220,829	2,660,331	(30,623)	3,850,537
<b>Capital Assets, Depreciated:</b>				
Buildings	3,937,171	-	-	3,937,171
Building improvements	2,003,419	25,756	-	2,029,175
Automotive equipment	4,077,997	125,791	(342,864)	3,860,924
Office furniture and equipment	550,184	53,540	-	603,724
Operating equipment	2,977,702	353,530	(28,654)	3,302,578
Capital improvements	354,740	40,328	-	395,068
Infrastructure	<u>59,705,055</u>	<u>764,021</u>	<u>-</u>	<u>60,469,076</u>
Totals	<u>93,634,758</u>	<u>4,324,973</u>	<u>(568,188)</u>	<u>97,391,543</u>
<b>Accumulated Depreciation:</b>				
Buildings	1,011,502	79,478	-	1,090,980
Building improvements	1,529,044	30,409	-	1,559,453
Automotive equipment	2,940,759	211,977	(301,917)	2,850,819
Office furniture and equipment	501,468	19,769	-	521,237
Operating equipment	1,646,211	164,377	(28,654)	1,781,934
Capital improvements	57,423	16,401	-	73,824
Infrastructure	<u>34,143,088</u>	<u>1,669,698</u>	<u>-</u>	<u>35,812,786</u>
Totals	<u>41,829,495</u>	<u>2,192,109</u>	<u>(330,571)</u>	<u>43,691,033</u>
<b>Governmental Activities</b>				
<b>Capital Assets, Net</b>	<u>\$ 51,805,263</u>	<u>\$ 2,132,864</u>	<u>\$ (237,617)</u>	<u>\$ 53,700,510</u>

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

Land	\$ 436,634	\$ -	\$ (125,000)	\$ 311,634
Construction in progress	551,218	22,673	(443,040)	130,851

**Capital Assets, Depreciated:**

Buildings	1,552,704	78,298	-	1,631,002
Building improvements	492,240	6,965	-	499,205
Utility and sewage plants	77,507,698	836,045	-	78,343,743
Automotive equipment	1,975,071	185,108	(276,987)	1,883,192
Office furniture and equipment	423,670	10,947	-	434,617
Operating equipment	2,193,078	292,633	-	2,485,711
Recreation equipment	295,644	-	-	295,644
Totals	<u>85,427,957</u>	<u>1,432,669</u>	<u>(845,027)</u>	<u>86,015,599</u>

**Accumulated Depreciation:**

Buildings	443,328	47,332	-	490,660
Building improvements	243,676	23,609	-	267,285
Utility and sewage plants	34,628,380	1,910,065	-	36,538,445
Automotive equipment	1,455,943	118,519	(276,987)	1,297,475
Office furniture and equipment	297,304	34,894	-	332,198
Operating equipment	1,614,852	90,157	-	1,705,009
Recreation equipment	260,688	1,983	-	262,671
Totals	<u>38,944,171</u>	<u>2,226,559</u>	<u>(276,987)</u>	<u>40,893,743</u>

**Business-type Activities**

<b>Capital Assets, Net</b>	<u>\$ 46,483,786</u>	<u>\$ (793,890)</u>	<u>\$ (568,040)</u>	<u>\$ 45,121,856</u>
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Depreciation expense was allocated to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 39,798
Public services	1,839,623
Planning and code enforcement	10,944
Police	122,826
Fire	161,138
Engineering	2,813
Community and cultural	14,967
	<u>\$ 2,192,109</u>
Business-type activities:	
Utilities	\$ 2,096,800
Recreation	28,108
Bus	101,651
	<u>\$ 2,226,559</u>

**(7) RETIREMENT PLANS****Single Employer Plans****Plan Descriptions, Contribution Information and Funding Policies**

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

**Utility Pension Fund (UPF):**

The City of Ashland Utilities Employee's Pension Plan provides retirement benefits to City utility department employees in classified positions under civil service. The plan is closed to new participants. Unless otherwise indicated, UPF information in this Note is provided as of the latest actuarial valuation, July 1, 2007.

### Police and Firefighters Pension Fund (PFPF):

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

The plan was frozen effective August 1, 1988. Policemen and firefighters hired after that date are required to participate in CERS. The plan is closed to new participants and at June 30, 2009, 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:

	PENSION TRUST FUNDS		
	Utility Pension Fund	Policemen & Firefighters Pension Fund	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 566,664	\$ 465,385	\$ 1,032,049
Accrued interest receivable	12,433	8,657	21,090
Due from other funds	1,492,986	-	1,492,986
Investments, at fair value -			
U.S. Government obligations	<u>1,091,867</u>	<u>1,514,575</u>	<u>2,606,442</u>
Total assets	<u>3,163,950</u>	<u>1,988,617</u>	<u>5,152,567</u>
<b>LIABILITIES</b>			
Due to other funds	<u>281,667</u>	<u>73,949</u>	<u>355,616</u>
Total liabilities	<u>281,667</u>	<u>73,949</u>	<u>355,616</u>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>	<u>\$ 2,882,283</u>	<u>\$ 1,914,668</u>	<u>\$ 4,796,951</u>
<b>ADDITIONS</b>			
Contributions -			
Employer	\$ 684,266	\$ 481,553	\$ 1,165,819
Plan members	<u>3,322</u>	<u>-</u>	<u>3,322</u>
Total contributions	<u>687,588</u>	<u>481,553</u>	<u>1,169,141</u>
Investment income -			
Interest income	<u>72,912</u>	<u>82,600</u>	<u>155,512</u>
Total investment income	<u>72,912</u>	<u>82,600</u>	<u>155,512</u>
Total additions	<u>760,500</u>	<u>564,153</u>	<u>1,324,653</u>
<b>DEDUCTIONS</b>			
Net depreciation (appreciation) in fair value of investments	10,512	(1,314)	9,198
Benefits	669,562	643,207	1,312,769
Administrative expenses	<u>10,184</u>	<u>13,052</u>	<u>23,236</u>
Total deductions	<u>690,258</u>	<u>654,945</u>	<u>1,345,203</u>
<b>NET INCREASE (DECREASE)</b>	70,242	(90,792)	(20,550)
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:</b>			
Beginning of year	<u>2,812,041</u>	<u>2,005,460</u>	<u>4,817,501</u>
End of year	<u>\$ 2,882,283</u>	<u>\$ 1,914,668</u>	<u>\$ 4,796,951</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> City Ordinance and KRS	<u>Police and Firefighters Pension Fund</u> City Ordinance and KRS	
Governing Authority			
Determination of contribution requirements	Actuarially	Actuarially	
Contribution rates as a percentage of covered payroll:			
Employer	621.8 %	N/A	
Plan Members	8.00 %	N/A	
Funding of administrative costs	Investment Earnings	Investment Earnings	
Period required to vest	20	10	
Post retirement benefit increases	As approved by City Commission	As approved by City Commission	
Eligibility for distribution	Age 50, with 20 years	N/A	
Provisions for:			
Disability benefits	Yes	Yes	
Death benefits	Yes	Yes	
Membership of the plans are as follows:			
Retirees and beneficiaries currently receiving benefits	30	38	<u>Totals</u> 68
Active plan participants:			
Vested	-	-	-
Non-Vested	<u>1</u>	<u>-</u>	<u>1</u>
	<u>31</u>	<u>38</u>	<u>69</u>

#### Annual Required Contributions

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

	<u>Utility Employees Pension Plan</u>	<u>Policemen And Firefighters Pension Plan</u>
Valuation date	7-1-07	7-1-08
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level % of payroll Closed	Level % of payroll Closed
Amortization	20 years	20 years
Actuarial asset valuation method	Fair market value, quoted market prices	Fair market value, quoted market prices
Actuarial assumptions		
Investment rate of return	5.00 %	5.00 %
Projected salary increases	5.00 %	None
Post retirement benefit increases	0.01 %	0.01 %

### 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	\$ 684,266	\$ 481,553
Employer required annual contribution	325,025	267,003
Interest on net pension asset	(69,739)	(96,666)
Adjustment to annual contribution requirement	84,229	155,135
Annual pension cost	<u>339,515</u>	<u>325,472</u>
Increase (decrease) in net pension asset	344,751	156,081
Net pension asset, June 30, 2008	1,394,781	1,933,328
Net pension asset, June 30, 2009	<u>\$ 1,739,532</u>	<u>\$ 2,089,409</u>

#### Reserves

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

#### Trend Information

Utility Pension Fund				Police and Firefighters Pension Fund			
Year	Annual Pension Cost	Percent Contributed	Net Pension Obligation (NPO)	Year	Annual Pension Cost	Percent Contributed	Net Pension Obligation (NPO)
2006	\$ 333,116	123%	\$ (1,157,542)	2006	\$ 344,343	84%	\$ (1,995,562)
2007	334,280	123%	(1,233,745)	2007	353,902	82%	(1,930,123)
2008	343,585	147%	(1,394,781)	2008	351,923	101%	(1,933,328)

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

#### POLICEMEN AND FIREFIGHTERS PENSION PLAN

7/1/04	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 13.50% 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 29.50% 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, 2009, 2008, and 2007 were \$2,426,729, \$2,731,809, and \$2,199,434, 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, 2009:

	Balance June 30, 2008	Additions	Reductions	Balance June 30, 2009
<b><u>Governmental Activities</u></b>				
General Obligation Bond Series 2005	\$ 3,145,000	\$ -	\$ 90,000	\$ 3,055,000
Capital lease - Fire station	1,115,000	-	120,000	995,000
Capital leases - Equipment	448,569	336,530	187,769	597,330
Capital lease - Police Station	-	5,000,000	82,691	4,917,309
General obligation Bond Series 1999	330,000	-	330,000	-
Compensated absences obligation	1,156,092	-	75,952	1,080,140
Total Governmental Activities	<u>\$ 6,194,661</u>	<u>\$ 5,336,530</u>	<u>\$ 886,412</u>	<u>\$ 10,644,779</u>
	Balance	Additions	Reductions	Balance
<b><u>Business-type Activities</u></b>	June 30, 2008			June 30, 2009
Revenue & Improvement Bond Series 2004	\$ 6,765,000	\$ -	\$ 400,000	\$ 6,365,000
Capital leases - Equipment	-	133,360	27,775	105,585
Kentucky Infrastructure Authority Loan	1,744,437	-	92,168	1,652,269
Kentucky Infrastructure Authority Loan	3,540,830	-	162,401	3,378,429
Total Business-type Activities	<u>\$ 12,050,267</u>	<u>\$ 133,360</u>	<u>\$ 682,344</u>	<u>\$ 11,501,283</u>

At June 30, 2009, 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, 2009, the City had bond reserve funds of \$1,645,658.

### **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, 2009) 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>
2010	\$ 120,000	\$ 37,049	\$ 157,049
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
2015-2016	320,000	16,750	336,750
	<u>\$ 995,000</u>	<u>\$ 158,994</u>	<u>\$ 1,153,994</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>
2010	\$ 115,864	\$ 170,837	\$ 286,701
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
2015-2019	817,728	740,803	1,558,531
2020-2024	982,772	571,053	1,553,825
2025-2029	1,181,189	366,980	1,548,169
2030-2034	1,265,648	121,929	1,387,577
	<u>\$ 4,917,309</u>	<u>\$ 2,667,169</u>	<u>\$ 7,584,478</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	\$ 904,849
Less accumulated depreciation	71,391
	<u>\$ 833,458</u>

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 186,373	\$ 25,813	\$ 212,186
2011	195,216	16,970	212,186
2012	184,108	7,710	191,818
2013	27,799	712	28,511
2014	3,834	20	3,854
	<u>\$ 597,330</u>	<u>\$ 51,225</u>	<u>\$ 648,555</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, 2009, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 90,000	\$ 123,993	\$ 213,993
2011	95,000	120,985	215,985
2012	95,000	117,803	212,803
2013	100,000	114,438	214,438
2014	105,000	110,588	215,588
2015-2019	580,000	486,038	1,066,038
2020-2024	730,000	354,363	1,084,363
2025-2029	860,000	186,746	1,046,746
2030-2032	400,000	18,225	418,225
	<u>\$ 3,055,000</u>	<u>\$ 1,633,179</u>	<u>\$ 4,688,179</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, 2009, are as follows:

	<u>Accrued Long-Term Obligation</u>	<u>Current Obligation</u>	<u>Total Compensated Absences</u>
General Fund	\$ 1,065,558	\$ 209,618	\$ 1,275,176
Community Development Fund	7,335	1,443	8,778
Housing Assistance Fund	4,101	807	4,908
Utility Fund	-	250,103	250,103
Ashland Bus System	-	47,387	47,387
Recreation Fund	-	59,643	59,643
Floodwall Fund	3,146	619	3,765
	<u>\$ 1,080,140</u>	<u>\$ 569,620</u>	<u>\$ 1,649,760</u>

Refer to Note 2 for additional information regarding compensated absences.

### Business-Type Activities

#### Utility Revenue Bonds

During 2001, the City appropriated \$3,225,000 to fully retire all outstanding revenue bonds prior to scheduled maturity. At June 30, 2009, \$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, 2009 are as follows:

Year ending June 30,	Principal	Interest	Fees	Total
2010	\$ 95,704	\$ 61,886	\$ 4,071	\$ 161,661
2011	99,376	58,214	3,830	161,420
2012	103,188	54,402	3,579	161,169
2013	107,146	50,444	3,319	160,909
2014	111,257	46,333	3,048	160,638
2015-2019	623,669	164,279	10,808	798,756
2020-2023	511,929	39,638	2,608	554,175
	<u>\$ 1,652,269</u>	<u>\$ 475,196</u>	<u>\$ 31,263</u>	<u>\$ 2,158,728</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, 2009, are as follows:

Year ending June 30,	Principal	Interest	Fees	Total
2010	\$ 167,307	\$ 100,107	\$ 8,342	\$ 275,756
2011	172,366	95,050	7,921	275,337
2012	177,576	89,841	7,485	274,902
2013	182,943	84,473	7,039	274,455
2014	188,473	78,944	6,579	273,996
2015-2019	1,031,336	305,748	25,479	1,362,563
2020-2021	1,196,907	140,177	11,681	1,348,765
2025-2025	261,521	5,899	492	267,912
	<u>\$ 3,378,429</u>	<u>\$ 900,239</u>	<u>\$ 75,018</u>	<u>\$ 4,353,686</u>

#### Capital Leases - Equipment

During the 2009 fiscal year, the City entered into two capital lease agreements with a financing company to purchase equipment in the amount of \$133,361. The interest rate on the lease is 5.04%.

Capital assets include the following under the capital lease:

Operating equipment	\$ 133,361
Less accumulated depreciation	(12,313)
	<u>\$ 121,048</u>

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

Year ending June 30,	Principal	Interest	Total
2010	\$ 26,650	\$ 4,577	\$ 31,227
2011	29,194	3,441	32,635
2012	30,577	2,059	32,636
2013	19,164	795	19,959
	<u>\$ 105,585</u>	<u>\$ 10,872</u>	<u>\$ 116,457</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, 2009, are as follows:

Year ending June 30,	Principal	Interest	Total
2010	\$ 415,000	\$ 236,709	\$ 651,709
2011	435,000	225,296	660,296
2012	450,000	212,246	662,246
2013	320,000	198,071	518,071
2014	335,000	187,351	522,351
2015-2019	1,930,000	742,614	2,672,614
2020-2024	2,480,000	317,279	2,797,279
	<u>\$ 6,365,000</u>	<u>\$ 2,119,566</u>	<u>\$ 8,484,566</u>

## (9) INTERFUND TRANSACTIONS

### Interfund Receivable and Payables

The composition of interfund balances as of June 30, 2009 is as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General Fund	Ashland Bus System	\$ 398,445
General Fund	Municipal Aid Fund	83,623
General Fund	Utility Fund	1,461,021
General Fund	Recreation Fund	229,644
General Fund	Community Development	29,596
General Fund	Floodwall Operating Fund	118,780
General Fund	Housing Assistance Fund	18,392
General Fund	Utility Pension Fund	281,667
General Fund	Police and Fire Fighters Pension	73,949
Capital Project	General Fund	60,087
Internal Service Fund	General Fund	471,509
Utility Pension Fund	Utility Fund	1,492,986
Total		<u>\$ 4,719,699</u>

### Interfund Transfers

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Operating	General	Ashland Bus System	Matching	\$ 254,106
Operating	General	Recreation	Operations	795,358
Operating	General	Capital Projects	Capital Purchases	1,763,591

## (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, 2009, the City paid \$238,528 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 \$8,810 from DOT for the current year's operating grant. It is management's opinion that all operating grants due from DOT will be received in full. City management does not expect its cost of operating the ABS to decrease in the near future.

## Construction Projects

The City is obligated on commitments for various contracts in progress at June 30, 2009. 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	New Police Station	\$ 4,430,378	\$ 1,150,428	\$ 3,279,950
Utility Fund	Pump Station	114,000	-	114,000
General Fund	Riverfront Project	6,204,000	778,741	5,425,259
		<u>\$ 10,748,378</u>	<u>\$ 1,929,169</u>	<u>\$ 8,819,209</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 \$274,567 reported in the Internal Service fund at June 30, 2009, 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 2008 and 2009 were:

	<u>Beginning of Fiscal Year Liability</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>Balance At Fiscal Year End</u>
2008	\$ 239,628	\$ 3,117,120	\$ 3,020,331	\$ 336,417
2009	336,417	3,944,971	4,006,821	274,567

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, 2009 totaled \$488,081.

## (13) OTHER POST EMPLOYMENT BENEFITS

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

Currently four retirees and eligible survivors meet these 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 \$66,947 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, 2008, the date of the latest actuarial valuation, the plan had 95,394 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, 2008 was as follows:

Total medical benefit obligation	000's omitted \$ 5,352,976
Net assets available for benefits at actuarial value unfunded medical benefit obligation	 (1,782,409) <u>\$ 3,570,567</u>

#### (14) PRIOR PERIOD ADJUSTMENTS

The City is currently developing land along the riverfront of the Ohio River to increase commerce in the downtown area. At June 30, 2009, the City had \$2,620,234 in construction in process related to the project. Of this amount, \$906,517 was spent during the years ending June 30, 2007 and 2008. These amounts were not capitalized due to the uncertainty of the project continuing. However, at June 30, 2009, the project has been determined by City management to be ongoing and these amounts should be capitalized in the proper period in the Government-wide financial statements.

Beginning net assets have been restated as follows:

	Governmental Activities	
	As Previously Reported	As Restated
<b>Statement of Net Assets</b>		
Total assets	\$ 67,341,650	\$ 68,248,167
Total liabilities	9,952,938	9,952,938
Net Assets:		
Invested in capital assets, net of related debt	45,860,177	46,766,694
Restricted	4,398,775	4,398,775
Unrestricted	7,129,760	7,129,760
Total net assets	<u>57,388,712</u>	<u>58,295,229</u>

## **REQUIRED SUPPLEMENTAL INFORMATION**

**CITY OF ASHLAND**  
**DEFINED BENEFIT PENSION TRUSTS**  
**SCHEDULES OF EMPLOYER CONTRIBUTIONS**

**JUNE 30, 2009**

	Utility Employees <u>Pension Plan</u>	Police and Fire fighters <u>Pension Plan</u>
2004	\$ 608,668	\$ 402,291
2005	369,028	288,463
2006	410,483	288,463
2007	410,483	288,463
2008	504,621	355,128
2009	684,266	481,553

## **SUPPLEMENTAL INFORMATION**

**CITY OF ASHLAND**

**GENERAL FUND**

**BALANCE SHEET**

**JUNE 30, 2009**

**ASSETS**

Cash	\$ 6,685,940
Taxes receivable	3,128,966
Allowance for uncollectible taxes	(283,762)
Grants receivable	1,398,234
Due from other funds	2,695,117
Other receivables	307,946
Allowance for uncollectible accounts	(36,435)
Inventories - supplies	76,031
Prepaid expenses	<u>734,929</u>
Total assets	<u>\$ 14,706,966</u>

**LIABILITIES AND FUND BALANCE**

Liabilities:

Cash overdraft	\$ 256,586
Accounts payable	1,545,064
Due to other funds	531,596
Due to Board of Education	74,043
Accrued compensated absences	209,618
Accrued expenses	359,665
Deferred revenue	<u>293,962</u>
Total liabilities	<u>3,270,534</u>

Fund Balance:

Reserved for capital projects	4,565,655
Reserved for inventories	76,031
Reserved for encumbrances	956,612
Reserved for grant programs	1,419,015
Unreserved/undesignated	<u>4,419,119</u>
Total fund balance	<u>11,436,432</u>

Total liabilities and fund balance \$ 14,706,966

## CITY OF ASHLAND

## GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2009

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES:			
Taxes -			
General property taxes	\$ 2,992,460	\$ 2,538,144	\$ (454,316)
Penalties and interest	30,198	33,709	3,511
Bank franchise taxes	99,625	100,898	1,273
Other franchise taxes	150,250	240,524	90,274
Delinquent taxes	175,500	203,969	28,469
Vehicle property taxes	412,000	430,661	18,661
Insurance premiums taxes	4,315,000	4,024,023	(290,977)
Total taxes	<u>8,175,033</u>	<u>7,571,928</u>	<u>(603,105)</u>
Licenses and permits -			
Occupational license fees	7,255,346	7,527,606	272,260
Business privilege licenses	1,250,000	1,269,734	19,734
Alcoholic beverage licenses	520,000	566,793	46,793
Construction permit fees	103,250	64,663	(38,587)
Other licenses and permits	2,950	1,448	(1,502)
Total licenses and permits	<u>9,131,546</u>	<u>9,430,244</u>	<u>298,698</u>
Charge for services -			
Garbage collection fee	1,531,035	1,554,143	23,108
Rental revenue	42,938	40,121	(2,817)
Total charges for services	<u>1,573,973</u>	<u>1,594,264</u>	<u>20,291</u>
Fees, fines and reimbursements -			
Parking meter fees and fines	76,000	51,083	(24,917)
Taxes collection fees	87,850	94,157	6,307
State rebate - District Court	48,000	45,668	(2,332)
Street lighting franchise	62,500	64,690	2,190
Telecommunication franchise	230,000	220,393	(9,607)
Other	402,619	479,130	76,511
Total fees, fines and reimbursements	<u>906,969</u>	<u>955,121</u>	<u>48,152</u>
Other revenues -			
Police grants	25,897	9,114	(16,783)
Homeless shelter grant	100,000	117,870	17,870
Miscellaneous grants	639,237	109,385	(529,852)
Riverfront appropriation	8,314,736	1,370,486	(6,944,250)
Coal severance - LGEA	34,600	44,610	10,010
Interest earned	100,000	69,814	(30,186)
Other	176,708	566,965	390,257
Total other revenues	<u>9,391,178</u>	<u>2,288,244</u>	<u>(7,102,934)</u>
Total revenues	<u>29,178,699</u>	<u>21,839,801</u>	<u>(7,338,898)</u>

**CITY OF ASHLAND**

**GENERAL FUND**

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

**FOR THE YEAR ENDED JUNE 30, 2009**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
EXPENDITURES:			
General Government -			
Mayor and Commissioners	104,274	82,485	21,789
City Manager	114,918	109,822	5,096
Legal	145,967	145,111	856
Economic Development	93,430	99,772	(6,342)
City Clerk/ABC Administrator	173,770	172,008	1,762
Grants and projects	10,335,752	2,078,765	8,256,987
Unclassified	4,635,662	5,082,167	(446,505)
	<u>15,603,773</u>	<u>7,770,130</u>	<u>7,833,643</u>
 Department of Finance -			
Director of Finance	570,069	553,285	16,784
Data Processing	25,539	21,298	4,241
	<u>595,608</u>	<u>574,583</u>	<u>21,025</u>
 Department of Public Services -			
Director of Public Services	138,615	86,496	52,119
Street maintenance	2,147,995	2,008,087	139,908
Sanitation services	1,334,333	1,136,711	197,622
Central garage	313,863	340,439	(26,576)
Animal control	105,964	99,468	6,496
Equipment lease purchase	-	336,530	(336,530)
	<u>4,040,770</u>	<u>4,007,731</u>	<u>33,039</u>
 Department of Planning and Code Enforcement	<u>459,673</u>	<u>428,075</u>	<u>31,598</u>
 Department of Police -			
Technical services	1,292,293	1,075,219	217,074
Field operations	3,054,472	3,093,041	(38,569)
	<u>4,346,765</u>	<u>4,168,260</u>	<u>178,505</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, 2009

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Department of Fire	<u>4,819,684</u>	<u>4,678,186</u>	<u>141,498</u>
Department of Engineering	<u>144,319</u>	<u>139,846</u>	<u>4,473</u>
Debt Service - 1999 Bonds	<u>345,510</u>	<u>337,755</u>	<u>7,755</u>
Debt Service - 2005 Bonds	<u>216,828</u>	<u>184,772</u>	<u>32,056</u>
Debt Service - Other	<u>-</u>	<u>182,077</u>	<u>(182,077)</u>
Total expenditures	<u>30,572,930</u>	<u>22,471,415</u>	<u>8,101,515</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,394,231)</u>	<u>(631,614)</u>	<u>762,617</u>
OTHER FINANCING SOURCES (USES):			
Transfer to Capital Projects Fund	(5,418,098)	(1,763,591)	3,654,507
Transfer to Recreation Fund	(886,509)	(795,358)	91,151
Transfer to Ashland Bus Fund	(335,432)	(254,106)	81,326
Proceeds from long-term debt	<u>4,300,000</u>	<u>5,336,530</u>	<u>1,036,530</u>
Total other financing sources (uses)	<u>(2,340,039)</u>	<u>2,523,475</u>	<u>4,863,514</u>
NET CHANGE IN FUND BALANCE	(3,734,270)	1,891,861	5,626,131
FUND BALANCE, June 30, 2008	<u>9,544,571</u>	<u>9,544,571</u>	<u>-</u>
FUND BALANCE, June 30, 2009	<u>\$ 5,810,301</u>	<u>\$ 11,436,432</u>	<u>\$ 5,626,131</u>

CITY OF ASHLAND

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

JUNE 30, 2009

	Land and Building	Building Improvements	Automotive Equipment	Operating Equipment	Office Furniture and Equipment	Capital Improvements	Infrastructure	Construction in Progress	Total
Department of General Government	\$ 2,697,024	\$ 1,075,821	\$ 48,000	\$ 144,317	\$ 244,810	\$ 20,215	\$ -	\$ -	\$ 4,230,187
Department of Finance	-	-	-	64,920	13,520	-	-	-	78,440
Department of Public Services	15,978,343	667,146	869,514	2,242,912	-	374,853	60,358,223	2,620,233	83,111,224
Department of Planning and Community Development	-	13,033	87,637	6,799	-	-	-	-	107,469
Department of Police	125,000	-	877,008	548,354	157,630	-	-	1,207,985	2,915,977
Department of Fire	3,655,959	152,017	1,875,830	169,584	33,831	-	-	-	5,887,221
Department of Engineering	-	-	48,104	-	86,230	-	-	-	134,334
Floodwall Operations	15,121	5,150	42,241	125,692	-	-	-	-	188,204
Community Development	258,981	103,058	-	-	18,623	-	110,853	22,319	513,834
Housing Assistance Programs	150,033	12,950	12,590	-	49,080	-	-	-	224,653
Totals	\$ 22,880,461	\$ 2,029,175	\$ 3,860,924	\$ 3,302,578	\$ 603,724	\$ 395,068	\$ 60,469,076	\$ 3,850,537	\$ 97,391,543

**CITY OF ASHLAND**

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

**JUNE 30, 2009**

Land and buildings	\$ 22,880,461
Building improvements	2,029,175
Automotive equipment	3,860,924
Operating equipment	3,302,578
Office furniture and equipment	603,724
Capital improvements	395,068
Infrastructure	60,469,076
Construction in progress	<u>3,850,537</u>
Total	<u>\$ 97,391,543</u>
Investment in capital assets by source	
General Fund	\$ 79,156,033
Special Revenue Funds	4,181,023
Capital Projects Fund	<u>14,054,487</u>
Total	<u>\$ 97,391,543</u>

**CITY OF ASHLAND HOUSING AUTHORITY**

**STATEMENT OF NET ASSETS**

**JUNE 30, 2009**

	<u>Rental Vouchers</u>
<b>ASSETS</b>	
Cash - unrestricted	\$ 65,697
Cash - restricted	427,653
Building and equipment, net	<u>128,178</u>
Total assets	<u>\$ 621,528</u>
<b>LIABILITIES AND NET ASSETS</b>	
<b>LIABILITIES:</b>	
Accounts payable	\$ 6,175
Accrued expenses	7,686
Other governmental payable	18,392
Accrued compensated absences - current	807
Accrued compensated absences - noncurrent	<u>4,100</u>
Total liabilities	<u>37,160</u>
<b>NET ASSETS:</b>	
Invested in capital assets	128,178
Unrestricted	28,537
Restricted	<u>427,653</u>
	<u>584,368</u>
Total liabilities and net assets	<u>\$ 621,528</u>

**CITY OF ASHLAND HOUSING AUTHORITY**  
**STATEMENT OF REVENUES AND EXPENDITURES**  
**FOR THE YEAR ENDED JUNE 30, 2009**

	<u>Rental Vouchers</u>
<b>REVENUES</b>	
Housing assistance payments	\$ 2,358,342
Administrative fee revenue	250,818
Interest income	893
Other income	399
Total revenues	<u>2,610,452</u>
<b>EXPENDITURES</b>	
Administrative salaries	138,526
Audit	6,080
Employee benefit contributions	15,457
Travel	8,571
Other administrative	13,387
Utilities	9,144
Maintenance	15,295
Property insurance	511
General liability insurance	2,296
Workers compensation	815
Other insurance	35,755
Other general	18,632
Compensated absences	1,183
Housing assistance payments	2,323,861
Depreciation	9,074
Total expenditures	<u>2,598,587</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>\$ 11,865</u>

# CITY OF ASHLAND

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2009

	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
<u>U.S. Department of HUD</u>			
Direct Programs -			
CDBG Entitlement	14.218	B07MC2-10003	\$ 163,751
CDBG Entitlement	14.218	B08MC2-10003	330,500
Housing Choice Voucher Program	14.871	KY142VO	2,595,161
Passed through Kentucky Housing Corporation -			
Kentucky Emergency Shelter Grants Program	14.231	ES07-0001-01	15,870
Kentucky Emergency Shelter Grants Program	14.231	ES08-0001-01	68,000
Home Investment Partnership Program	14.239	HM281	56,123
Total U.S. Department of HUD			<u>3,229,405</u>
<u>U.S. Department of Transportation</u>			
Direct Programs -			
FTA - Operating Assistance Grant	20.507	KY-90-X168	198,079
FTA - Operating Assistance Grant	20.507	KY-90-X179	40,449
FTA - Capital Assistance Grant	20.507	KY-90-X145	21,351
FTA - Capital Assistance Grant	20.507	KY-90-X154	23,226
FTA - Capital Assistance Grant	20.507	KY-90-X168	8,241
FTA - Capital Assistance Grant	20.507	KY-90-X179	343,615
Passed through Kentucky Transportation Cabinet -			
SAFETEA-LU	20.205	79495 02 D	98,015
SAFETEA-LU	20.205	79495 01 C	1,272,471
Total U.S. Department of Transportation			<u>2,005,447</u>
<u>U.S. Department of Homeland Security</u>			
Passed through Kentucky Homeland Security			
Homeland Security Grant	96.067	7127S	39,445
Homeland Security Grant	96.067	7124L	5,800
Total U.S. Department of Homeland Security			<u>45,245</u>
 TOTAL EXPENDITURES OF FEDERAL AWARDS			 <u>\$ 5,280,097</u>

**CITY OF ASHLAND**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONCLUDED)**  
**FOR THE YEAR ENDED JUNE 30, 2009**

**Notes to Schedule of Expenditures of Federal Awards**

**Note A - Significant Accounting Policies**

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



Kelley,  
Galloway &  
Company, PSC

CERTIFIED PUBLIC ACCOUNTANTS

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

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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, 2009, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 2, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

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

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

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

### Compliance and Other Matters

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

We noted a matter that we have reported to management of the City of Ashland in a separate letter dated November 2, 2009.

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, Sullivan & Company, PSC*

November 2, 2009



Kelley,  
Galloway &  
Company, PSC

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▪ Phone (606) 329-1811 ▪ Fax (606) 329-8756 ▪ E-mail [contact@kelleygalloway.com](mailto:contact@kelleygalloway.com) ▪ Web site [www.kelleygalloway.com](http://www.kelleygalloway.com) ▪

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

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

Compliance

We have audited the compliance of the City of Ashland (the "City") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

As described in items 2009-03 through 2009-08 in the accompanying schedule of findings and questioned costs, the City did not comply with several rental guidelines, tenant selection procedures, and administrative procedures that are applicable to its Section 8 Housing Choice Voucher Program (CFDA 14.871). Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City of Ashland complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009. 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 2009-09, 2009-10.

### Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2009-01 and 2009-02, to be significant deficiencies.

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

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

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

*Kelley, Sullivan & Company, PSC*

November 2, 2009

CITY OF ASHLAND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2009

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? \_\_\_\_\_ Yes   X   None reported

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?   X   Yes \_\_\_\_\_ None reported

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

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.

Housing Choice Voucher Program	14.871
CDBG Entitlement	14.218
Home Investment Partnership	14.239

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

Auditee qualified as low risk auditee?   X   Yes \_\_\_\_\_ No

**CITY OF ASHLAND**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**FOR THE YEAR ENDED JUNE 30, 2009**

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

None in current year.

**C. FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS**

**2009-01 FEDERAL COMPLIANCE - ELIGIBILITY DETERMINATIONS**

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

*Condition:* During of our review of internal controls over the program, we noted that there is not a monitoring system in place over eligibility determinations. Currently, the eligibility determinations performed by the Section 8 specialists are not being reviewed by an independent party.

*Criteria:* Internal controls should be implemented to insure eligibility determinations are performed appropriately

*Effect:* Without a monitoring system in place, the risk of incorrect eligibility determinations increases. Of the 50 tenant files reviewed, we noted three instances where the incorrect income was used to calculate the tenant's eligibility and one instance where income used to determine eligibility was not verified.

*Recommendation:* We recommend the City implement procedures to periodically review the eligibility determinations performed by the Section 8 specialists and that this review be adequately documented.

**2009-02 FEDERAL COMPLIANCE - PERFORMANCE REPORTING**

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

*Condition:* During of our review of internal controls over the program, we noted that there is a lack of segregation of duties related to the annual Section 8 Management Assessment Program (SEMAP) Certification that is submitted to HUD. We noted that a Section 8 specialist, who is also responsible for eligibility determinations, is preparing the SEMAP Certification.

*Criteria:* The SEMAP Certification is essentially an internal review of the Housing Authority's compliance with program requirements. Internal controls should be implemented to insure that the performance reporting to HUD contains accurate information and that the specialists are following program requirements.

*Effect:* The lack of segregation of duties increases the risk that HUD is being supplied with inaccurate performance information and that a systemic noncompliance issue will not be discovered by the City's internal controls.

## **CITY OF ASHLAND**

### **SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2009**

*Recommendation:* We recommend a knowledgeable individual independent of the eligibility determination process prepare the SEMAP Certification to insure the Section 8 specialists are in compliance with program requirements.

#### **2009-03 FEDERAL COMPLIANCE - RENT REASONABLENESS**

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

*Condition:* During the review of the City's compliance with reasonable rent standards of the program, we noted in 6 of the 50 files reviewed, that there was no documentation a reasonable rent analysis was performed at the time of a rent increase. Additionally, we noted that an amendment to the lease documenting the new rent amount was not obtained.

*Criteria:* 24 CFR section 982.158(f) states that a Public Housing Authority (PHA) must maintain documentation a reasonable rent analysis was performed initially and before any rent increase for at least three years.

*Effect:* Noncompliance with 24 CFR section 982.158(f).

*Recommendation:* We recommend lease amendments be obtained for any change in contract rent to the land owner and the new rent amount be evaluated for reasonableness prior to approval.

#### **2009-04 FEDERAL COMPLIANCE - FAIR MARKET RENTS**

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

*Condition:* While performing our review of the calculation of the maximum fair market rent (FMR) of units, we noted that the maximum rent for a 4 bedroom unit was calculated incorrectly.

*Criteria:* The PHA's 2009 Annual and Administrative Plan states the maximum FMR will be based on 110% of the rate published by HUD in the federal register.

*Effect:* Incorrect calculations of FMR of units could result in material differences in the required payment by the PHA and the actual payment.

*Recommendation:* We recommend that the calculation of FMR be performed by an individual independent of the eligibility determination process and the calculation be reviewed for accuracy by another employee prior to implementation.

#### **2009-05 FEDERAL COMPLIANCE - WAITING LIST**

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

*Condition:* While performing our review of the waiting list utilized to select tenants, we noted several applications at the top of the waiting list that were a year older than other applications. This is due to the applications not being entered into the HAPPY software when received. The applications were discovered when the waiting list was compared to the applications on file.

## CITY OF ASHLAND

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2009

*Criteria:* According to 24 CFR 982.54(d), the PHA's administrative plan must include procedures for the "Selection and admission of applicants from the PHA waiting list, including any PHA admission preferences, procedures for removing applicant names from the waiting list, and procedures for closing and reopening the PHA waiting list."

*Effect:* Noncompliance with 24 CFR section 982.54(d) and the Administrative Plan

*Recommendation:* We recommend that the waiting list be periodically reviewed and compared to applications on file.

#### **2009-06 FEDERAL COMPLIANCE - WAITING LIST PREFERENCE CODES**

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

*Condition:* While performing our review of the waiting list utilized to select tenants, we noted that 1 of the 20 applicants selected was assigned an incorrect preference code. This resulted in an applicant being improperly selected for a voucher prior to other applicants.

*Criteria:* According to 24 CFR section 5.410 applicants are to be assigned preference codes based on guidelines outlined in the PHA's Administrative Plan.

*Effect:* Noncompliance with 24 CFR section 5.410 and the Administrative Plan

*Recommendation:* We recommend that a procedure be implemented for the periodic review of applicant preference codes to insure they are correct.

#### **2009-07 FEDERAL COMPLIANCE - HOMEOWNERSHIP OPTION**

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

*Condition:* During our review of the Housing Choice Voucher Program, we noted that there are two participants in the homeownership option of the program. However, the City does not include policies and procedures related to the homeownership option in the City's 2009 Annual Administrative Plan, in accordance with HUD requirements. Additionally, we noted through discussions with Section 8 specialists and review of participant files that they are not adequately trained in the requirements of the homeownership option.

*Criteria:* 24 CFR sections 982.625 and 982.635 require the City to include in the Annual Administrative Plan policies and procedures that are in accordance with HUD regulations for the homeownership option of the Housing Choice Voucher Program.

*Effect:* Noncompliance with 24 CFR sections 982.625 and 982.635 and lack of adequate training. None of the documents required at initial certification were signed by the Section 8 specialists or the participant

*Recommendation:* 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 specialists.

## **CITY OF ASHLAND**

### **SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**FOR THE YEAR ENDED JUNE 30, 2009**

#### **2009-08 FEDERAL COMPLIANCE - HOMEOWNERSHIP OPTION INSPECTIONS**

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

*Condition:* During our review of the homeownership option under Housing Choice Voucher Program, we noted that the homes purchased by the participants were not inspected by an independent inspector selected by, and paid for, by the participant.

*Criteria:* 24 CFR sections 982.631, requires all homes purchased under the homeownership option of the Housing Choice Voucher Program be inspected by an independent inspector selected by the participant, and paid for, by the participant.

*Effect:* Noncompliance with 24 CFR section 982.631

*Recommendation:* We recommend that homes purchased under the homeownership option of the Housing Choice Voucher Program be inspected by an independent inspector that is selected by, and paid for, by the participant.

#### **2009-9 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.

#### **2009-10 FEDERAL COMPLIANCE - HOME PROGRAM**

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

*Condition:* During our review of procedures for selecting participants for the Home Investment Partnership Program, we noted that there is not appropriate oversight of the participant selection and award determination process. Kentucky Housing Corporation and Frontier Housing determine the amount awarded to participants under a subrecipient agreement.

**CITY OF ASHLAND**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONCLUDED)**

**FOR THE YEAR ENDED JUNE 30, 2009**

*Criteria:* Due to the City being responsible for the appropriate disbursement of funds under program requirements, procedures should be implemented to insure participants are selected without bias and that award amounts are appropriate. Additionally, employees should be properly trained in program requirements.

*Effect:* During our review of transactions, we noted inconsistencies on the amounts paid during loan closing by the City as part of HOME program. These inconsistencies could be indicative of bias and/or lack of knowledge of the program by the employee responsible for reviewing transactions.

*Recommendation:* We recommend the City implement procedures for the oversight of the processes for participant selections and award determinations performed by the subrecipient under the HOME program. Additionally, we recommend that employees receive adequate training of program requirements.

**CITY OF ASHLAND**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2009**

<u>Findings</u>	<u>Findings/Noncompliance</u>
2008-01	We recommend the City implement procedures to ensure that the grantee of a rehabilitation project with CDBG funds inspects and assures that the work was properly completed.
<u>Status</u>	Corrected.
2008-02	We recommend the City require an appropriate employee drawdown HOME funds separate from the employee who sets up projects.
<u>Status</u>	Corrected.
2008-03	We recommend the City implement procedures to ensure that a written agreement is executed with all subrecipients prior to disbursing any CDBG funds.
<u>Status</u>	Corrected.

**CITY OF ASHLAND**  
**CORRECTIVE ACTION PLAN**  
**FOR THE YEAR ENDED JUNE 30, 2009**

NAME OF CONTACT PERSON

Tony Grubb (606) 327-2009

CORRECTIVE ACTION PLANNED

Finding Responses  
Fiscal Year 2009 Audit

***2009-01 Federal Compliance - Eligibility Determinations***

Condition: During our review of internal controls over the Section 8 Housing Choice Voucher program, we noted that there is not a monitoring system in place over eligibility determinations. Currently, the eligibility determinations performed by the Section 8 specialists are not being reviewed by an independent party.

Response: Since the Finance Department assumed the program management functions of this program, we have established procedures for the Section 8 Voucher Administrator to independently review 20% of the files. Section 8 specialists will continue to receive additional training in program regulations. Also, the job description of the Accountant has been amended to randomly perform internal auditing of the Section 8 program files. These independent reviews will be documented in the respective files.

***2009-02 Federal Compliance - Performance Reporting***

Condition: During our review of internal controls over the Section 8 Housing Choice Voucher program, we noted that there is lack of segregation of duties related to the annual Section 8 Management Assessment Program (SEMAP) Certification that is submitted to HUD. We noted that a Section 8 specialist, who is also responsible for eligibility determinations, is preparing the SEMAP Certification.

Response: Since the Finance Department assumed the program management functions of this program, the Section 8 Voucher / ABS Administrator has been made responsible for the annual submission of the SEMAP Certification. This position was not appointed until the latter portion of the Fiscal Year; therefore a Specialist had to prepare the annual SEMAP Certification. This has been corrected.

***2009-03 Federal Compliance - Rent Reasonableness Performance***

Condition: During the review of the City's compliance with reasonable rent standards of the program, we noted in 6 of the 50 files reviewed, that there was no documentation a reasonable rent analysis was performed at the time of a rent increase. Additionally, we noted that an amendment to the lease documenting the new rent was not obtained.

Response: Since the Finance Department assumed the program management functions of this program, we have ensured that the Section 8 Specialists amend any and all leases for changes in contract rent and a new rent reasonableness analysis will be performed at this time. Procedures have been put in place by Finance Management for random auditing of files to ensure that Specialists are properly completing rent reasonableness analysis and lease amendments. This issue has been corrected.

#### ***2009-04 Federal Compliance - Fair Market Rents***

Condition: While performing our review of the calculation of the maximum fair market rent (FMR) of units, we noted that the maximum rent for a 4 bedroom unit was calculated incorrectly.

Response: Since the Finance Department assumed the program management functions of this program, we discovered that there was a mathematical error on the FMR for a 4 bedroom unit. This was corrected immediately. Management instituted procedures where the information is printed and two people independently calculate the numbers. These rent calculations are submitted to the Section 8 Voucher / ABS Administrator for final review and implementation.

#### ***2009-05 Federal Compliance - Waiting List***

Condition: While performing our review of the calculation of the waiting list utilized to select tenants, we noted several applications at the top of the waiting list that were a year older than other applications. This is due to the applications not being entered into the HAPPY software when received. The applications were discovered when the waiting list was compared to the applications on file.

Response: Since the Finance Department assumed the program management functions of this program, we discovered when selecting applicants from the waiting list that all applications were not entered into the computer. Procedures were developed to compare that all applications have been entered into the computer before the selection of applicants.

#### ***2009-06 Federal Compliance - Waiting List Preference Codes***

Condition: While performing our review of the waiting list utilized to select tenants, we noted that 1 of the 20 applicants selected was assigned an incorrect preference code. This resulted in an applicant being improperly selected for a voucher prior to other applicants.

Response: Since the Finance Department assumed the program management functions of this program, we instituted a policy where Section 8 Specialists will review all preference codes for accuracy each time applicants are selected from the waiting list. Finance, when writing the Administrative Plan for Fiscal Year 2010 simplified the previously adopted preference codes. Also, Finance ceased the practice of a temporary worker taking and entering the applications into the computer. The Specialists have been assigned this task of accepting applications when the waiting list is open.

#### ***2009-07 Federal Compliance - Homeownership Option***

Condition: During our review of the Housing Choice Voucher Program, we noted that there are two participants in the homeownership option of the program. However, the City does not include policies and procedures related to the homeownership option in the City's 2009 Annual Administrative Plan, in accordance with HUD requirements. Additionally, we noted through discussions with Section 8 Specialists and review of participant files that they are not adequately trained in the requirements of the homeownership program.

Response: Since the Finance Department assumed the program management functions of this program, we have added policies and procedures to correct this deficiency when they submitted their Fiscal Year 2010 annual plan to HUD. Section 8 Specialists will receive the proper training in the HOME program as it applies to HUD requirements. The Section 8 division will work with Community Development staff to ensure that they are meeting all HUD requirements as they select prospective tenants for Housing.

***2009-08 Federal Compliance - Homeownership Option Inspections***

Condition: During our review of the homeownership option under the Housing Choice Voucher Program, we noted that homes purchased by the participants were not inspected by an independent inspector selected by, and paid for, by the participant.

Response: Inspections will be conducted before the paperwork is approved for participation in the Housing Choice Voucher homeownership program. HOME Program administrator will ensure that this requirement is divulged to the program participant. Finance has corrected this issue and has not added any additional houses to the program due to funding.

***2009-09 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 the project folder.

***2009-10 Federal Compliance - Home Program***

Condition: During our review of procedures for selecting participants for the Home Investment Partnership Program, we noted that there is not appropriate oversight of the participant selection and award determination process. Kentucky Housing Corporation and Frontier Housing determine the amount awarded to participants under a sub recipient agreement.

Response: The City will implement procedures for the oversight of the processes for participant selections and award determinations performed by the sub recipient under the HOME program. The staff will receive additional training regarding the program requirements.

ANTICIPATED COMPLETION DATE

Immediately

