

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, 2012 information to conform with the 2013 presentation.

Q. Recent Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has recently issued GASB No. 62, *Codification of Accounting and Financial Reporting Guidance*, that incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The requirements of GASB No. 62 are effective for fiscal year 2013 and thereafter. As a result of implementing this statement, the City was not required to change the reporting of current or past transactions.

The Governmental Accounting Standards Board (GASB) has recently issued GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, that provides financial reporting guidance for deferred outflows and inflows of resources. While these elements were introduced and defined by Concepts Statement No. 4, *Elements of Financial Statements*, as a consumption and acquisition of net assets by the government that is applicable to a future reporting period, respectively, these elements have not been included in previous reporting guidance. The requirements of GASB No. 63 are effective for fiscal year 2013 and thereafter. As a result of implementing this statement, the computation of equity on the Statement of Net Position was changed and equity was retitled as "net position".

The Governmental Accounting Standards Board (GASB) has recently issued GASB No. 65, *Items Previously Reported as Assets and Liabilities* which clarifies the use of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. This statement requires certain items which were previously reported as assets and liabilities to be reported as deferred outflows of resources, deferred inflows of resources and as revenues or expenses. The City has not completed the process of the evaluation of GASB No. 65; however, the City does expect it to have an impact on its future financial statements.

The Governmental Accounting Standards Board (GASB) issued GASB Statement No. 67, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25* in August 2012. The standard addresses new accounting and financial reporting standards for the activities of certain pension plans that are administered through trusts. In particular, Statement No. 67 establishes (1) certain standards of financial reporting for defined benefit pension plans, including specifying the approach of contributing entities to measure pension liabilities for benefits provided through the pension plan, and (2) note disclosure requirements for certain defined contribution pension plans administered through trusts. The requirements of GASB No. 67 are effective for fiscal year 2015 and thereafter. The City has not completed the process of the evaluation of GASB No. 67.

The Governmental Accounting Standards Board (GASB) has issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* in August 2012. This standard addresses new accounting and financial reporting standards for the activities of certain pension plans that are administered through trusts. In particular, Statement No. 68 establishes:

- Standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures;
- For defined benefit pensions, the methods and assumptions that should be used for employee benefits when projecting those benefits, discounting the projections, and attributing the discounted projections to certain periods;
- Note disclosures and supplementary information based on (1) the number of employers with employees covered by the plan, and (2) whether pension obligations and plan assets are shared; and
- Details of recognition and disclosure requirements for employers (1) with liabilities to defined benefit pension plans, and (2) whose employees are provided with defined contribution pensions.

The requirements of GASB No. 68 are effective for fiscal year 2015 and thereafter. The City has not completed the process of the evaluation of GASB No. 68.

(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, 2013, the carrying amounts of the City's deposits were \$5,859,453 and the bank balances were \$7,024,639. 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, 2013, 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 | \$ 509,740 | \$ 509,740 | - | - | - |

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 2013 assessed value for real property and tangible property was \$800,895,756 and \$98,253,559, respectively. The tax rate adopted was \$.3550 per \$100 valuation.

(5) GRANTS RECEIVABLE

Grants receivable from other governmental units as of June 30, 2013, are as follows:

| | |
|--|-------------------|
| General Fund - | |
| Kentucky Transportation Cabinet | \$ 20,764 |
| Special Revenue Funds - | |
| Municipal Aid Road Fund | 50,139 |
| Community Development Fund, program allocation | 116,177 |
| | <u>166,316</u> |
| Enterprise Funds - | |
| Ashland Bus System - FTA operations | 19,853 |
| Ashland Bus System - KYDOT capital | 23,603 |
| | <u>43,456</u> |
| | <u>\$ 230,536</u> |

(6) CAPITAL ASSETS

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

| <u>Governmental Activities</u> | <u>June 30,</u> <u>2012</u> | <u>Increases</u> | <u>Decreases</u> | <u>June 30,</u> <u>2013</u> |
|---|--------------------------------|-----------------------|--------------------|--------------------------------|
| Capital Assets, Not Depreciated: | | | | |
| Land | \$ 18,936,298 | \$ - | \$ - | \$ 18,936,298 |
| Construction in progress | 71,952 | 108,278 | (61,464) | 118,766 |
| Capital Assets, Depreciated: | | | | |
| Buildings | 8,872,607 | - | - | 8,872,607 |
| Building improvements | 3,006,086 | - | - | 3,006,086 |
| Automotive equipment | 3,810,059 | 25,000 | - | 3,835,059 |
| Office furniture and equipment | 723,715 | 7,299 | (17,535) | 713,479 |
| Operating equipment | 3,745,173 | 190,817 | - | 3,935,990 |
| Capital improvements | 477,935 | 95,231 | - | 573,166 |
| Infrastructure | 74,767,785 | 319,241 | - | 75,087,026 |
| Totals | <u>114,411,610</u> | <u>745,866</u> | <u>(78,999)</u> | <u>115,078,477</u> |
| Accumulated Depreciation: | | | | |
| Buildings | 1,527,395 | 178,469 | - | 1,705,864 |
| Building improvements | 1,715,386 | 81,348 | - | 1,796,734 |
| Automotive equipment | 2,701,895 | 195,582 | - | 2,897,477 |
| Office furniture and equipment | 608,145 | 28,605 | (17,535) | 619,215 |
| Operating equipment | 2,340,929 | 204,214 | - | 2,545,143 |
| Capital improvements | 142,761 | 25,894 | - | 168,655 |
| Infrastructure | 41,036,666 | 1,934,683 | - | 42,971,349 |
| Totals | <u>50,073,177</u> | <u>2,648,795</u> | <u>(17,535)</u> | <u>52,704,437</u> |
| Governmental Activities | | | | |
| Capital Assets, Net | <u>\$ 64,338,433</u> | <u>\$ (1,902,929)</u> | <u>\$ (61,464)</u> | <u>\$ 62,374,040</u> |

Business-type Activities

Capital Assets, Not Depreciated:

| | | | | |
|--------------------------|------------|-----------|----------|------------|
| Land | \$ 382,087 | \$ 1,014 | \$ - | \$ 383,101 |
| Construction in progress | 7,400,109 | 1,005,761 | (63,923) | 8,341,947 |

Capital Assets, Depreciated:

| | | | | |
|--------------------------------|-------------------|------------------|-----------------|-------------------|
| Buildings | 3,846,513 | - | - | 3,846,513 |
| Building improvements | 708,634 | - | - | 708,634 |
| Utility and sewage plants | 79,808,291 | 137,732 | - | 79,946,023 |
| Automotive equipment | 1,852,314 | 89,910 | - | 1,942,224 |
| Office furniture and equipment | 463,532 | - | - | 463,532 |
| Operating equipment | 3,024,824 | 95,575 | - | 3,120,399 |
| Capital improvement | 418,280 | - | - | 418,280 |
| Recreation equipment | 312,638 | - | - | 312,638 |
| Totals | <u>98,217,222</u> | <u>1,329,992</u> | <u>(63,923)</u> | <u>99,483,291</u> |

Accumulated Depreciation:

| | | | | |
|--------------------------------|-------------------|------------------|----------|-------------------|
| Buildings | 752,276 | 89,645 | - | 841,921 |
| Building improvements | 360,639 | 30,204 | - | 390,843 |
| Utility and sewage plants | 42,013,009 | 1,820,017 | - | 43,833,026 |
| Automotive equipment | 1,264,119 | 130,546 | - | 1,394,665 |
| Office furniture and equipment | 398,801 | 18,118 | - | 416,919 |
| Operating equipment | 1,855,973 | 128,396 | - | 1,984,369 |
| Capital improvements | 96,974 | 25,239 | - | 122,213 |
| Recreation equipment | 269,986 | 3,116 | - | 273,102 |
| Totals | <u>47,011,777</u> | <u>2,245,281</u> | <u>-</u> | <u>49,257,058</u> |

Business-type Activities

| | | | | |
|----------------------------|----------------------|---------------------|--------------------|----------------------|
| Capital Assets, Net | <u>\$ 51,205,445</u> | <u>\$ (915,289)</u> | <u>\$ (63,923)</u> | <u>\$ 50,226,233</u> |
|----------------------------|----------------------|---------------------|--------------------|----------------------|

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

Governmental activities:

| | |
|-------------------------------|---------------------|
| General government | \$ 477,234 |
| Finance | 367 |
| Public services | 1,700,214 |
| Planning and code enforcement | 7,803 |
| Police | 233,521 |
| Fire | 159,633 |
| Engineering | 56,852 |
| Community and cultural | 13,171 |
| | <u>\$ 2,648,795</u> |

Business-type activities:

| | |
|------------|---------------------|
| Utilities | \$ 2,021,021 |
| Recreation | 35,610 |
| Bus | 136,611 |
| Cemetery | 52,039 |
| | <u>\$ 2,245,281</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

and at June 30, 2013, there were no active employees participating in UPF. Unless otherwise indicated, UPF information in this Note is provided as of the latest actuarial valuation, July 1, 2011.

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, 2013, 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, 2012.

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

| | PENSION TRUST FUNDS | | Total |
|--|----------------------|---------------------------------------|---------------------|
| | Utility Pension Fund | Policemen & Firefighters Pension Fund | |
| ASSETS | | | |
| Cash and cash equivalents | \$ 50,251 | \$ 8,018 | \$ 58,269 |
| Accrued interest receivable | 2,078 | 2,078 | 4,156 |
| Due from other funds | 2,813,418 | 734,927 | 3,548,345 |
| Investments, at fair value - | | | |
| U.S. Government obligations | 254,870 | 254,870 | 509,740 |
| Total assets | <u>3,120,617</u> | <u>999,893</u> | <u>4,120,510</u> |
| LIABILITIES | | | |
| Due to other funds | <u>671,245</u> | <u>-</u> | <u>671,245</u> |
| Total liabilities | <u>671,245</u> | <u>-</u> | <u>671,245</u> |
| NET POSITION - RESTRICTED FOR PENSION BENEFITS | <u>\$ 2,449,372</u> | <u>\$ 999,893</u> | <u>\$ 3,449,265</u> |
| ADDITIONS | | | |
| Contributions - | | | |
| Employer | \$ 567,529 | \$ 367,165 | \$ 934,694 |
| Plan members | - | - | - |
| Total contributions | <u>567,529</u> | <u>367,165</u> | <u>934,694</u> |
| Investment income - | | | |
| Net (depreciation) appreciation in fair value of investments | (5,601) | (5,601) | (11,202) |
| Interest income | <u>6,897</u> | <u>7,057</u> | <u>13,954</u> |
| Total investment income | <u>1,296</u> | <u>1,456</u> | <u>2,752</u> |
| Total additions | <u>568,825</u> | <u>368,621</u> | <u>937,446</u> |
| DEDUCTIONS | | | |
| Benefits | 733,800 | 607,944 | 1,341,744 |
| Administrative expenses | <u>3,670</u> | <u>6,856</u> | <u>10,526</u> |
| Total deductions | <u>737,470</u> | <u>614,800</u> | <u>1,352,270</u> |
| NET DECREASE | (168,645) | (246,179) | (414,824) |
| NET POSITION - RESTRICTED FOR PENSION BENEFITS: | | | |
| Beginning of year | <u>2,618,017</u> | <u>1,246,072</u> | <u>3,864,089</u> |
| End of year | <u>\$ 2,449,372</u> | <u>\$ 999,893</u> | <u>\$ 3,449,265</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:

| Governing Authority | <u>Utility Pension Fund</u> City Ordinance and KRS | <u>Police and Firefighters Pension Fund</u> City Ordinance and KRS | |
|---|---|---|---------------------|
| Determination of contribution requirements | Actuarially | Actuarially | |
| Contribution rates as a percentage of covered payroll: | | | |
| Employer | 549.42% | N/A | |
| Plan Members | 8.00% | N/A | |
| Funding of administrative costs | Investment Earnings | Investment Earnings | |
| Period required to vest | 20 | 10 | |
| Post retirement benefit increases | As approved by City Commission | As approved by City Commission | |
| Eligibility for distribution | Age 50, with 20 years | N/A | |
| Provisions for: | | | |
| Disability benefits | Yes | Yes | |
| Death benefits | Yes | Yes | |
| Membership of the plans are as follows: | | | |
| Retirees and beneficiaries currently receiving benefits | 29 | 34 | <u>Totals</u> 63 |
| Active plan participants: | | | |
| Vested | - | - | - |
| Non-Vested | <u>1</u> | <u>-</u> | <u>1</u> |
| | <u>30</u> | <u>34</u> | <u>64</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 | 7-1-11 | 7-1-12 |
| Actuarial cost method | Entry age normal | Entry age normal |
| Amortization method | Level % of payroll Closed | Level % of payroll Closed |
| Amortization | 30 years | 20 years |
| Actuarial asset valuation method | Fair market value, quoted market prices | Fair market value, quoted market prices |
| Actuarial assumptions | | |
| Investment rate of return | 5.00 % | 5.00 % |
| Projected salary increases | 5.00 % | None |
| Post retirement benefit increases | 0.00 % | 3.00 % |
| Inflation rate | 5.00 % | 5.00 % |

Annual Pension Cost, Net Pension Obligation, and Reserves

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

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

| | Utility Pension Fund | Police and Firefighters Pension Fund |
|---|----------------------------|--|
| Employer contributions made for fiscal year | \$ 567,529 | \$ 367,165 |
| Employer required annual contribution | 567,529 | 342,502 |
| Interest on net pension asset | (123,594) | (113,303) |
| Adjustment to annual contribution requirement | 188,671 | 181,834 |
| Annual pension cost | 632,606 | 411,033 |
| Decrease in net pension asset | (65,077) | (43,868) |
| Net pension asset, June 30, 2012 | 2,471,883 | 2,266,048 |
| Net pension asset, June 30, 2013 | \$ 2,406,806 | \$ 2,222,180 |

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 | | | |
|----------------------|---------------------------|------------------------|---------------------------------------|---|---------------------------|------------------------|---------------------------------------|
| | Annual Pension Cost | Percent Contributed | Net Pension Obligation (NPO) | | Annual Pension Cost | Percent Contributed | Net Pension Obligation (NPO) |
| Year | | | | Year | | | |
| 2011 | \$ 310,308 | 184% | (2,284,263) | 2011 | \$ 337,425 | 109% | \$ (2,237,207) |
| 2012 | 379,908 | 149% | (2,471,883) | 2012 | 338,324 | 109% | (2,266,048) |
| 2013 | 632,606 | 90% | (2,406,806) | 2013 | 411,033 | 89% | (2,222,180) |

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 |
|-------------------------------------|--|---|------------------------------------|--------------------------|---------------------------|---|
| 7/1/07 | \$ 2,832,267 | \$ 7,978,693 | \$ 5,146,426 | 35.5% | \$ 40,408 | 12,736.2% |
| 7/1/09 | 2,882,283 | 7,776,949 | 4,894,666 | 37.1% | 43,264 | 11,313.5% |
| 7/1/11 | 2,761,148 | 7,744,771 | 4,983,623 | 35.7% | 44,541 | 11,188.8% |

POLICEMEN AND FIREFIGHTERS PENSION PLAN

| | | | | | | |
|--------|-----------|-----------|-----------|-------|--------|--------|
| 7/1/08 | 2,005,460 | 5,499,260 | 3,493,800 | 36.5% | ** N/A | ** N/A |
| 7/1/10 | 1,775,017 | 5,316,734 | 3,541,717 | 33.4% | ** N/A | ** N/A |
| 7/1/12 | 1,246,072 | 4,693,041 | 3,446,969 | 26.6% | ** 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 or from the KRS website at <https://kyret.ky.gov>.

Plan members in non-hazardous positions are required to contribute 5% of their annual creditable compensation, and the City is required to contribute 19.55% 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 37.60% 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, 2013, 2012, and 2011 were \$3,727,668, \$3,544,530, and \$3,188,070, 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, 2013:

| | Balance June 30, 2012 | Additions | Reductions | Balance June 30, 2013 |
|---|--------------------------|---------------|-------------------|--------------------------|
| <u>Governmental Activities</u> | | | | |
| General Obligation Bond Series 2005 | \$ 2,775,000 | \$ - | \$ 100,000 | \$ 2,675,000 |
| Capital leases - Equipment | 48,150 | - | 16,318 | 31,832 |
| Capital lease - Police Station | 4,534,574 | - | 140,978 | 4,393,596 |
| Capital lease | 694,167 | - | 301,667 | 392,500 |
| Compensated absences obligation | <u>938,385</u> | <u>639</u> | <u>72,115</u> | <u>866,909</u> |
| Total Governmental Activities | <u>\$ 8,990,276</u> | <u>\$ 639</u> | <u>\$ 631,078</u> | <u>\$ 8,359,837</u> |
| <u>Business-type Activities</u> | | | | |
| Revenue & Improvement Bond Series 2004 | \$ 5,065,000 | \$ - | \$ 5,065,000 | \$ - |
| Revenue & Improvement Bond Series 2013 | - | 4,890,000 | - | 4,890,000 |
| Capital leases - Equipment | 17,780 | - | 6,024 | 11,756 |
| Kentucky Infrastructure Authority Loan | 1,354,001 | - | 107,147 | 1,246,854 |
| Kentucky Infrastructure Authority Loan | 2,861,177 | - | 182,943 | 2,678,234 |
| Kentucky Infrastructure Authority Loan | 6,644,995 | - | - | 6,644,995 |

| | | | | |
|-----------------------------------|----------------------|---------------------|---------------------|----------------------|
| Discount on bonds | (95,191) | (29,668) | (95,191) | (29,668) |
| Deferred amount on refunding | - | (269,378) | - | (269,378) |
| Total Business-type Activities | <u>\$ 15,847,762</u> | <u>\$ 4,590,954</u> | <u>\$ 5,265,923</u> | <u>\$ 15,172,793</u> |

At June 30, 2013, the City was required to have \$521,475 for the Revenue and Improvement Bonds of 2013, in sinking fund reserve accounts. Additionally, under the KIA loan agreements, the City was required to have \$300,000 set aside for the costs of extensions, improvements, renewals and replacements to the sewer system. As of June 30, 2013, the City had reserve funds of \$990,438.

Governmental Activities

Capital Lease

On August 25, 2010, the City entered into an agreement with the Kentucky League of Cities Funding Trust Program to consolidate capital leases for equipment and the central fire station. Proceeds of the fixed rate (2.00%) lease agreement totaled \$1,675,000.

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> |
|-----------------------------|-------------------|--------------------------|-------------------|
| 2014 | \$ 150,000 | \$ 9,669 | \$ 159,669 |
| 2015 | 152,083 | 6,294 | 158,377 |
| 2016 | 90,417 | 2,523 | 92,940 |
| | <u>\$ 392,500</u> | <u>\$ 18,486</u> | <u>\$ 410,986</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> |
|-----------------------------|---------------------|--------------------------|---------------------|
| 2014 | \$ 146,259 | \$ 165,939 | \$ 312,198 |
| 2015 | 151,760 | 160,283 | 312,043 |
| 2016 | 157,404 | 154,476 | 311,880 |
| 2017 | 163,320 | 148,392 | 311,712 |
| 2018 | 169,439 | 142,099 | 311,538 |
| 2019-2023 | 947,314 | 607,523 | 1,554,837 |
| 2024-2028 | 1,138,527 | 410,859 | 1,549,386 |
| 2029-2033 | 1,368,383 | 174,450 | 1,542,833 |
| 2034 | 151,190 | 2,684 | 153,874 |
| | <u>\$ 4,393,596</u> | <u>\$ 1,966,705</u> | <u>\$ 6,360,301</u> |

Capital Leases - Equipment

The City entered into a capital lease agreement with a financing company to purchase a phone system. The interest rate on the lease is approximately 16%.

Capital assets include the following under capital leases:

| | |
|--------------------------------|------------------|
| Operating equipment | \$ 78,291 |
| Less: accumulated depreciation | (23,487) |
| | <u>\$ 54,804</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> |
|-----------------------------|------------------|-----------------|------------------|
| 2014 | \$ 19,147 | \$ 3,760 | \$ 22,907 |
| 2015 | 12,685 | 691 | 13,376 |
| | <u>\$ 31,832</u> | <u>\$ 4,451</u> | <u>\$ 36,283</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, 2013, are as follows:

| <u>Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------------|---------------------|---------------------|---------------------|
| 2014 | \$ 105,000 | \$ 110,588 | \$ 215,588 |
| 2015 | 110,000 | 106,288 | 216,288 |
| 2016 | 110,000 | 101,888 | 211,888 |
| 2017 | 115,000 | 97,388 | 212,388 |
| 2018 | 120,000 | 92,688 | 212,688 |
| 2019-2023 | 700,000 | 383,709 | 1,083,709 |
| 2024-2028 | 830,000 | 223,027 | 1,053,027 |
| 2029-2031 | 585,000 | 40,389 | 625,389 |
| | <u>\$ 2,675,000</u> | <u>\$ 1,155,965</u> | <u>\$ 3,830,965</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, 2013, are as follows:

| | <u>Accrued Long-Term Obligation</u> | <u>Current Obligation</u> | <u>Total Compensated Absences</u> |
|----------------------------|---|-------------------------------|---|
| General Fund | \$ 852,169 | \$ 167,640 | \$ 1,019,809 |
| Community Development Fund | 8,727 | 1,717 | 10,444 |
| Housing Assistance Fund | 3,983 | 784 | 4,767 |
| Floodwall Fund | 2,030 | 399 | 2,429 |
| Ashland Bus System | - | 31,435 | 31,435 |
| Recreation Fund | - | 51,489 | 51,489 |
| Cemetery Fund | - | 4,486 | 4,486 |
| Utility Fund | - | 220,311 | 220,311 |
| | <u>\$ 866,909</u> | <u>\$ 478,261</u> | <u>\$ 1,345,170</u> |

Refer to Note 2 for additional information regarding compensated absences.

Conduit Debt Obligations

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

As of June 30, 2013, there was one series of Industrial Revenue Bonds outstanding, with an aggregate principal amount payable of approximately \$28 million.

Business-Type Activities

Kentucky Infrastructure Authority Loan

On May 1, 2010, the City entered into an Assistance Agreement with the Kentucky Infrastructure Authority ("KIA") to finance capacity upgrades at the Roberts Drive Pump Station and the Sixth Street Pump Station as part of the CSO abatement projects in the Long-Term Control Plan (See Note 11). The loan bears interest at a rate of 2.0% with a maturity date of December 1, 2034. A loan serving fee of 0.001% 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, 2013 are as follows:

| Year ending June 30, | Principal | Interest | Fees | Total |
|-------------------------|---------------------|---------------------|-------------------|---------------------|
| 2014 | \$ 135,927 | \$ 66,450 | \$ 6,645 | \$ 209,022 |
| 2015 | 275,946 | 128,808 | 12,881 | 417,635 |
| 2016 | 281,493 | 123,262 | 12,326 | 417,081 |
| 2017 | 287,151 | 117,604 | 11,760 | 416,515 |
| 2018 | 292,922 | 111,832 | 11,183 | 415,937 |
| 2019-2023 | 1,555,330 | 468,443 | 46,844 | 2,070,617 |
| 2024-2028 | 1,718,052 | 305,720 | 30,572 | 2,054,344 |
| 2029-2033 | 1,897,800 | 125,975 | 12,598 | 2,036,373 |
| 2034 | 200,374 | 2,003 | 200 | 202,577 |
| | <u>\$ 6,644,995</u> | <u>\$ 1,450,097</u> | <u>\$ 145,009</u> | <u>\$ 8,240,101</u> |

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, 2023. 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, 2013 are as follows:

| Year ending June 30, | Principal | Interest | Fees | Total |
|-------------------------|---------------------|-------------------|------------------|---------------------|
| 2014 | \$ 111,257 | \$ 46,333 | \$ 3,048 | \$ 160,638 |
| 2015 | 115,522 | 42,066 | 2,767 | 160,355 |
| 2016 | 119,956 | 37,634 | 2,476 | 160,066 |
| 2017 | 124,558 | 33,032 | 2,173 | 159,763 |
| 2018 | 129,336 | 28,254 | 1,859 | 159,449 |
| 2019-2023 | 646,225 | 62,932 | 4,140 | 713,297 |
| | <u>\$ 1,246,854</u> | <u>\$ 250,251</u> | <u>\$ 16,463</u> | <u>\$ 1,513,568</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, 2013, are as follows:

| Year ending June 30, | Principal | Interest | Fees | Total |
|-------------------------|---------------------|-------------------|------------------|---------------------|
| 2014 | \$ 188,473 | \$ 78,944 | \$ 6,579 | \$ 273,996 |
| 2015 | 194,169 | 73,247 | 6,104 | 273,520 |
| 2016 | 200,038 | 67,379 | 5,615 | 273,032 |
| 2017 | 206,084 | 61,332 | 5,111 | 272,527 |
| 2018 | 212,313 | 55,104 | 4,592 | 272,009 |
| 2019-2023 | 1,161,792 | 175,292 | 14,608 | 1,351,692 |
| 2024-2025 | 515,365 | 19,470 | 1,623 | 536,458 |
| | <u>\$ 2,678,234</u> | <u>\$ 530,768</u> | <u>\$ 44,232</u> | <u>\$ 3,253,234</u> |

Capital Leases - Equipment

The City entered into a capital lease agreement with a financing company to purchase a phone system. The interest rate on the lease is 16%.

Capital assets include the following under the capital lease:

| | |
|--------------------------------|------------------|
| Operating equipment | \$ 28,915 |
| Less: accumulated depreciation | (8,674) |
| | <u>\$ 20,241</u> |

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

| Year ending June 30, | Principal | Interest | Total |
|-------------------------|------------------|-----------------|------------------|
| 2014 | \$ 7,082 | \$ 1,391 | \$ 8,473 |
| 2015 | 4,674 | 255 | 4,929 |
| | <u>\$ 11,756</u> | <u>\$ 1,646</u> | <u>\$ 13,402</u> |

Revenue Refunding and Improvement Bonds Series 2013

On April 1, 2013, the City issued \$4,890,000 in Revenue & Improvement Bonds with interest rates ranging from 0.75% to 2.25% to advance refund \$4,745,000 of outstanding 2004 Series bonds with interest rates ranging from 2.0% to 4.125%. The net proceeds of \$4,795,314 (after payment of \$94,686 in underwriting fees and other issuance costs) plus an additional \$131,352 of 2004 Series sinking fund monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2004 Series bonds. As a result, the 2004 Series bonds are considered to be defeased and the liability for those bonds has been removed from the government-wide statement of net position.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$269,378. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2024 using the straight-line method. The City completed the advance refunding to reduce its total debt service payments over the next 25 years by \$416,000 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$354,000.

The 2013 Series bonds were sold at a discount of \$29,668, which is being amortized over the life of the bonds.

The annual requirements to amortize the indebtedness at June 30, 2013, are as follows:

| Year ending June 30, | Principal | Interest | Total |
|-------------------------|---------------------|-------------------|---------------------|
| 2014 | \$ 400,000 | \$ 72,180 | \$ 472,180 |
| 2015 | 405,000 | 71,243 | 476,243 |
| 2016 | 410,000 | 68,205 | 478,205 |
| 2017 | 420,000 | 65,130 | 485,130 |
| 2018 | 430,000 | 61,980 | 491,980 |
| 2019-2023 | 2,315,000 | 204,075 | 2,519,075 |
| 2024 | 510,000 | 11,475 | 521,475 |
| | <u>\$ 4,890,000</u> | <u>\$ 554,288</u> | <u>\$ 5,444,288</u> |

(9) INTERFUND TRANSACTIONS

Interfund Receivable and Payables

The composition of interfund balances as of June 30, 2013 is as follows:

Due to/from other funds:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|----------------------------------|--------------------------|---------------------|
| General Fund | Ashland Bus System | \$ 278,879 |
| General Fund | Utility Fund | 735,282 |
| General Fund | Recreation Fund | 222,812 |
| General Fund | Floodwall Operating Fund | 138,775 |
| General Fund | Utility Pension Fund | 671,245 |
| General Fund | Cemetery Fund | 302,327 |
| General Fund | Community Development | 32,566 |
| General Fund | Housing Assistance | 13,642 |
| Municipal Aid Fund | General Fund | 260,543 |
| Capital Project | General Fund | 17,598 |
| Internal Service Fund | General Fund | 1,852,462 |
| Utility Pension Fund | Utility Fund | 2,813,418 |
| Police and Fire Fighters Pension | General Fund | 734,927 |
| Total | | <u>\$ 8,074,476</u> |

Interfund Transfers

The following transfers were made during the year:

| <u>Type</u> | <u>From Fund</u> | <u>To Fund</u> | <u>Purpose</u> | <u>Amount</u> |
|-------------|------------------|--------------------|-------------------|---------------|
| Operating | General | Ashland Bus System | Matching | \$ 521,694 |
| Operating | General | Recreation | Operations | 1,002,206 |
| Operating | General | Capital Projects | Capital Purchases | 231,940 |
| Operating | General | Floodwall | Operations | 83,383 |

(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 AND CONTINGENCIES

Ashland Bus System

The City is committed to provide financial assistance to the Ashland Bus System (ABS). During the year ended June 30, 2013, the City paid \$521,694 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 \$19,853 from DOT for the current year's operating grant. It is management's opinion that all operating grants due from DOT will be received in full. City management does not expect its cost of operating the ABS to decrease in the near future.

Combined Sewer Overflow Improvements

In 2007, the City entered into an agreement with the Kentucky Energy and Environment Cabinet to comply with federal Clean Water Act standards that are applicable to the City's sewer system. The City's system is considered a combined sewer system due to the sewers collecting rainwater, runoff, domestic sewage and industrial wastewater. During heavy rains or melting snow, the system can create Combined Sewer Overflow (CSO), when waste and storm water overflow from the sewer system into local bodies of water and the Ohio River. Under the agreement, the City is required to create a Long Term Control Plan to reduce the number of overflows and complete improvements to the sewer system by December 26, 2017. The improvements are expected to cost approximately \$60 million. At June 30, 2013, the City has incurred costs of approximately \$8,200,000 in relation to the required sewer improvements.

On February 18, 2010, the Board of Commissioners approved an additional surcharge for sewer customers of the City to pay for the improvements. Beginning April 1, 2010, sewer customers are charged a \$2.50 fee per 1,000 gallons of water used. The charge will increase to \$3.50 per 1,000 gallons in 2015 and end in 2035. All monies collected for this surcharge are placed in a separate account and only used for CSO improvements as outlined in the City's Long Term Control Plan. At June 30, 2013, the City has \$4,109,419 restricted for the sewer improvements.

Floodwall Certification

As a result of the Risk MAP program undertaken by the Federal Emergency Management Agency (FEMA), the Ashland floodwall is now considered a Provisionally Accredited Levee (PAL). In effect, the City has until May 1, 2014 to obtain certification of the floodwall or FEMA will initiate a revision to the Flood Insurance Rate Map to re-designate the areas protected by the floodwall as flood-prone. In fiscal year 2013, the City started the certification process and anticipates the total cost to be approximately \$250,000.

Construction Projects

The City is obligated on commitments for various contracts in progress at June 30, 2013. 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> |
|-----------------|---------------------------------------|--|--|---|
| Utility Fund | CSO-Roberts and 6th | \$ 3,674,515 | \$ 3,517,276 | \$ 157,239 |
| Utility Fund | CSO-37 th St. Pump Station | 3,060,300 | 902,369 | 2,157,931 |
| Comm. Dev. Fund | Curb Replacement | 234,165 | - | 234,165 |
| Floodwall Fund | Floodwall Certification | 81,000 | - | 81,000 |
| General Fund | Comprehensive Plan | 44,620 | 32,715 | 11,905 |
| | | <u>\$ 7,094,600</u> | <u>\$ 4,452,360</u> | <u>\$ 2,642,240</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 \$100,000 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 \$455,858 reported in the Internal Service Fund at June 30, 2013, 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 2012 and 2013 were:

| | <u>Beginning of Fiscal Year Liability</u> | <u>Current Year Claims</u> | <u>Claim Payments</u> | <u>Balance At Fiscal Year End</u> |
|------|---|--------------------------------|---------------------------|---|
| 2012 | \$ 455,774 | \$ 6,061,465 | \$ 5,895,430 | \$ 621,809 |
| 2013 | 621,809 | 5,534,500 | 5,700,451 | 455,858 |

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, 2013 totaled \$385,511.

(13) OTHER POST EMPLOYMENT BENEFITS

In addition to UPF and PFPF pension benefits described in Note 7, the City provides pursuant to City ordinance, post retirement health care benefits to all employees who retire from the City and are receiving benefits from a retirement plan which the City sponsors. The City has determined the post employment health care benefits provided to retirees are immaterial. Therefore, the City has elected not to adopt the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*.

Currently four retirees and eligible survivors meet the eligibility requirements. The City pays claims up to \$100,000 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 \$59,794 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, 2012, the date of the latest actuarial valuation, the plan had 92,685 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, 2012 was as follows:

| | |
|---|-------------------------------|
| Total medical benefit obligation | 000's omitted \$ 3,735,614 |
| Net position available for benefits at actuarial value | 2,341,895 |
| Unfunded medical benefit obligation | <u>\$ 1,393,719</u> |

(14) NOTE RECEIVABLE

On September 23, 2008, the City entered into an agreement with Harbor Hill, LLLP to loan \$150,000 from its Community Development Block Grant Funds for the rehabilitation of a building to increase the number of affordable rental housing units available for the benefit of low and very low income persons. The note bears no interest and is due and payable on September 30, 2038.

REQUIRED SUPPLEMENTAL INFORMATION

**CITY OF ASHLAND
 DEFINED BENEFIT PENSION TRUSTS
 SCHEDULE OF EMPLOYER CONTRIBUTIONS
 JUNE 30, 2013**

| | UTILITY EMPLOYEES PENSION PLAN | | | POLICE AND FIREFIGHTERS PENSION PLAN | | |
|------|-----------------------------------|------------|----------------------------------|--|------------|----------------------------------|
| | Amount Contributed | ARC | Percent of ARC Contributed | Amount Contributed | ARC | Percent of ARC Contributed |
| 2008 | \$ 504,621 | \$ 325,015 | 155% | \$ 355,128 | \$ 293,551 | 121% |
| 2009 | 684,266 | 325,025 | 211% | 481,553 | 267,003 | 180% |
| 2010 | 608,977 | 309,647 | 197% | 448,250 | 267,003 | 168% |
| 2011 | 570,018 | 309,647 | 184% | 367,165 | 270,665 | 136% |
| 2012 | 567,529 | 316,165 | 180% | 367,165 | 270,665 | 136% |
| 2013 | 567,529 | 567,529 | 100% | 367,165 | 342,502 | 107% |

**CITY OF ASHLAND
DEFINED BENEFIT PENSION TRUSTS
SCHEDULE OF FUNDING PROGRESS
JUNE 30, 2013**

UTILITY EMPLOYEES PENSION PLAN

| * | Actuarial | Actuarial | Unfunded | Funded | Covered | UAAL As |
|-----------|--------------|-----------------|--------------|--------|-----------|--------------|
| Actuarial | Value of | Accrued | AAL | Ratio | Payroll | A Percentage |
| Valuation | Assets | Liability (AAL) | (UAAL) | (a/b) | (c) | Of Covered |
| Date | (a) | Entry Age | (b-a) | | | Payroll |
| | | (b) | | | | ((b-a)/c) |
| 7/1/07 | \$ 2,832,267 | \$ 7,978,693 | \$ 5,146,426 | 35.5% | \$ 40,408 | 12,736.2% |
| 7/1/09 | 2,882,283 | 7,776,949 | 4,894,666 | 37.1% | 43,264 | 11,313.5% |
| 7/1/11 | 2,761,148 | 7,744,771 | 4,983,623 | 35.7% | 44,541 | 11,188.8% |

POLICEMEN AND FIREFIGHTERS PENSION PLAN

| | | | | | | |
|--------|-----------|-----------|-----------|-------|-------|-------|
| 7/1/08 | 2,005,460 | 5,499,260 | 3,493,800 | 36.5% | **N/A | **N/A |
| 7/1/10 | 1,775,017 | 5,316,734 | 3,541,717 | 33.4% | **N/A | **N/A |
| 7/1/12 | 1,246,072 | 4,693,041 | 3,446,969 | 26.6% | **N/A | **N/A |

*Actuarial valuations performed bi-annually.

**No active employees or covered payroll.

SUPPLEMENTAL INFORMATION

CITY OF ASHLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
CAPITAL PROJECTS FUND
FOR THE YEAR ENDED JUNE 30, 2013

| | Original Budget | Revisions | Revised Budget | Actual | Variance Positive (Negative) |
|---|--------------------|------------------|-------------------|----------------|------------------------------------|
| Revenues | | | | | |
| Property and other local taxes | \$ - | \$ - | \$ - | \$ - | \$ - |
| Licenses and permits | - | - | - | - | - |
| Charges for services | - | - | - | - | - |
| Fees, fines and reimbursements | - | - | - | - | - |
| Grant income | - | - | - | - | - |
| Administration fee income | - | - | - | - | - |
| Interest income | - | - | - | - | - |
| Other income | - | 25,000 | 25,000 | 25,000 | - |
| Total revenues | - | 25,000 | 25,000 | 25,000 | - |
| Expenditures | | | | | |
| General government | 1,000 | - | 1,000 | 1,229 | (229) |
| Finance | - | - | - | - | - |
| Public services | - | - | - | - | - |
| Planning and code enforcement | - | - | - | - | - |
| Police | - | - | - | - | - |
| Fire | - | - | - | - | - |
| Engineering | - | - | - | - | - |
| Community and cultural | - | - | - | - | - |
| Other | - | - | - | - | - |
| Capital outlay | 590,000 | (198,416) | 391,584 | 241,884 | 149,700 |
| Debt service: | | | | | |
| Principal retirement | - | - | - | - | - |
| Interest and fiscal charges | - | - | - | - | - |
| Total expenditures | 591,000 | (198,416) | 392,584 | 243,113 | 149,471 |
| Excess of Revenues Over (Under) Expenditures | (591,000) | 223,416 | (367,584) | (218,113) | 149,471 |
| Other Financing Sources (Uses) | | | | | |
| Transfers in | 591,000 | (223,416) | 367,584 | 231,940 | (135,644) |
| Total other financing sources (uses) | 591,000 | (223,416) | 367,584 | 231,940 | (135,644) |
| Net change in fund balance | - | - | - | 13,827 | 13,827 |
| Fund balance beginning of year | - | - | - | 3,141 | 3,141 |
| Fund balance end of year | \$ - | \$ - | \$ - | \$ 16,968 | \$ 16,968 |

CITY OF ASHLAND

GENERAL FUND

BALANCE SHEET

JUNE 30, 2013

ASSETS

| | | |
|--------------------------------------|----|------------------|
| Cash | \$ | 17,490 |
| Taxes receivable | | 3,496,308 |
| Allowance for uncollectible taxes | | (494,992) |
| Grants receivable | | 20,764 |
| Due from other funds | | 2,395,528 |
| Other receivables | | 494,132 |
| Allowance for uncollectible accounts | | (29,307) |
| Inventories - supplies | | 70,360 |
| Prepaid items | | 147,534 |
| | | <hr/> |
| Total assets | \$ | <u>6,117,817</u> |

LIABILITIES AND FUND BALANCE

Liabilities:

| | | |
|------------------------------|----|-----------|
| Cash overdraft | \$ | 410,539 |
| Accounts payable | | 421,972 |
| Due to other funds | | 2,865,529 |
| Due to Board of Education | | 39,292 |
| Accrued compensated absences | | 167,640 |
| Accrued expenses | | 583,655 |
| Deferred revenue | | 20,781 |
| | | <hr/> |

Total liabilities 4,509,408

Fund Balance:

| | | |
|-------------------------------|--|-----------|
| Restricted for grant programs | | 41,545 |
| Non-spendable | | 217,894 |
| Unassigned | | 1,348,970 |
| | | <hr/> |
| Total fund balance | | 1,608,409 |

Total liabilities and fund balance \$ 6,117,817

CITY OF ASHLAND

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2013

| | Budget | Actual | Variance |
|--------------------------------------|-------------------|-------------------|------------------|
| REVENUES: | | | |
| Taxes - | | | |
| General property taxes | \$ 3,395,618 | \$ 3,423,363 | \$ 27,745 |
| Penalties and interest | 35,748 | 33,626 | (2,122) |
| Bank franchise taxes | 99,993 | 96,508 | (3,485) |
| Other franchise taxes | 197,333 | 197,679 | 346 |
| Delinquent taxes | 173,115 | 189,404 | 16,289 |
| Vehicle property taxes | 512,445 | 613,882 | 101,437 |
| Insurance premiums taxes | 3,733,790 | 3,738,270 | 4,480 |
| Total taxes | <u>8,148,042</u> | <u>8,292,732</u> | <u>144,690</u> |
| Licenses and permits - | | | |
| Occupational license fees | 7,882,894 | 7,812,466 | (70,428) |
| Business privilege licenses | 1,247,633 | 1,213,204 | (34,429) |
| Alcoholic beverage licenses | 560,964 | 572,450 | 11,486 |
| Construction permit fees | 90,890 | 97,867 | 6,977 |
| Other licenses and permits | 900 | 736 | (164) |
| Total licenses and permits | <u>9,783,281</u> | <u>9,696,723</u> | <u>(86,558)</u> |
| Charge for services - | | | |
| Garbage collection fee | 1,895,500 | 1,910,841 | 15,341 |
| Greyhound ticket sales | 23,865 | 23,706 | (159) |
| Rental revenue | 16,200 | 19,632 | 3,432 |
| Total charges for services | <u>1,935,565</u> | <u>1,954,179</u> | <u>18,614</u> |
| Fees, fines and reimbursements - | | | |
| Parking meter fees and fines | 22,795 | 25,288 | 2,493 |
| Taxes collection fees | 116,417 | 118,875 | 2,458 |
| State rebate - District Court | 35,324 | 37,520 | 2,196 |
| Street lighting franchise | 863,743 | 899,128 | 35,385 |
| Telecommunication franchise | 252,425 | 273,162 | 20,737 |
| Other | 400,954 | 347,834 | (53,120) |
| Total fees, fines and reimbursements | <u>1,691,658</u> | <u>1,701,807</u> | <u>10,149</u> |
| Other revenues - | | | |
| Police grants | 142,606 | 110,181 | (32,425) |
| Homeless shelter grant | 84,000 | 18,024 | (65,976) |
| Miscellaneous grants | 8,070 | 31,064 | 22,994 |
| Coal severance - LGEA | 39,196 | 14,680 | (24,516) |
| Interest earned | 4,125 | 2,464 | (1,661) |
| Other | 149,165 | 123,718 | (25,447) |
| Total other revenues | <u>427,162</u> | <u>300,131</u> | <u>(127,031)</u> |
| Total revenues | <u>21,985,708</u> | <u>21,945,572</u> | <u>(40,136)</u> |

CITY OF ASHLAND

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2013

| | <u>Budget</u> | <u>Actual</u> | <u>Variance</u> |
|---------------------------------|------------------|------------------|-----------------|
| EXPENDITURES: | | | |
| General Government - | | | |
| Mayor and Commissioners | 111,867 | 108,756 | 3,111 |
| City Manager | 134,842 | 133,781 | 1,061 |
| Legal | 157,220 | 156,882 | 338 |
| Economic Development | 145,724 | 132,255 | 13,469 |
| City Clerk/ABC Administrator | 197,113 | 198,054 | (941) |
| Grants and projects | 91,500 | 26,447 | 65,053 |
| Unclassified | 1,427,373 | 1,480,500 | (53,127) |
| | <u>2,265,639</u> | <u>2,236,675</u> | <u>28,964</u> |
| | | | |
| Department of Finance - | | | |
| Director of Finance | 561,614 | 561,827 | (213) |
| Data Processing | 29,742 | 26,931 | 2,811 |
| | <u>591,356</u> | <u>588,758</u> | <u>2,598</u> |
| | | | |
| Department of Public Services - | | | |
| Director of Public Services | 231,721 | 234,842 | (3,121) |
| Street maintenance | 2,045,302 | 2,028,423 | 16,879 |
| Sanitation services | 1,415,199 | 1,434,618 | (19,419) |
| Central garage | 348,298 | 366,329 | (18,031) |
| Animal control | 142,052 | 102,918 | 39,134 |
| | <u>4,182,572</u> | <u>4,167,130</u> | <u>15,442</u> |
| | | | |
| Department of Planning and | | | |
| Code Enforcement | <u>564,204</u> | <u>598,623</u> | <u>(34,419)</u> |
| | | | |
| Department of Police - | | | |
| Technical services | 1,554,904 | 1,540,384 | 14,520 |
| Field operations | 3,865,519 | 3,810,236 | 55,283 |
| | <u>5,420,423</u> | <u>5,350,620</u> | <u>69,803</u> |

CITY OF ASHLAND

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2013

| | <u>Budget</u> | <u>Actual</u> | <u>Variance</u> |
|---|---------------------|---------------------|-------------------|
| Department of Fire | 5,779,929 | 5,683,338 | 96,591 |
| Department of Engineering | 277,858 | 201,685 | 76,173 |
| Debt Service | 844,910 | 844,910 | - |
| Total expenditures | <u>19,926,891</u> | <u>19,671,739</u> | <u>255,152</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | <u>2,058,817</u> | <u>2,273,833</u> | <u>215,016</u> |
| OTHER FINANCING SOURCES (USES): | | | |
| Transfer to Capital Projects Fund | (367,584) | (231,940) | 135,644 |
| Transfer to Recreation Fund | (1,016,057) | (1,002,206) | 13,851 |
| Transfer to Ashland Bus Fund | (480,368) | (521,694) | (41,326) |
| Transfer to Floodwall Fund | (135,766) | (83,383) | 52,383 |
| Transfer to Ashland Cemetery Fund | (39,378) | - | 39,378 |
| Total other financing sources (uses) | <u>(2,039,153)</u> | <u>(1,839,223)</u> | <u>199,930</u> |
| NET CHANGE IN FUND BALANCE | 19,664 | 434,610 | 414,946 |
| FUND BALANCE, June 30, 2012 | <u>1,173,799</u> | <u>1,173,799</u> | <u>-</u> |
| FUND BALANCE, June 30, 2013 | <u>\$ 1,193,463</u> | <u>\$ 1,608,409</u> | <u>\$ 414,946</u> |

CITY OF ASHLAND

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

JUNE 30, 2013

| | Land & Buildings | Building Improvements | Automotive Equipment | Operating Equipment | Office Furniture & Equip | Capital Improvements | Infrastructure | CIP | Total |
|---|----------------------|--------------------------|-------------------------|------------------------|--------------------------------|-------------------------|----------------------|-------------------|-----------------------|
| Dept of General Gov't | \$ 2,822,024 | \$ 1,781,975 | \$ 48,000 | \$ 144,317 | \$ 298,056 | \$ 39,275 | \$ 11,591,668 | \$ 118,766 | \$ 16,844,081 |
| Dept of Finance | - | - | - | 64,920 | 22,706 | - | - | - | 87,626 |
| Dept of Public Services | 15,978,343 | 682,840 | 628,654 | 2,780,527 | 6,299 | 470,084 | 62,045,969 | - | 82,592,716 |
| Dept of Planning & Community Development | - | 13,033 | 87,637 | 6,799 | - | - | - | - | 107,469 |
| Department of Police | 4,949,556 | 246,711 | 879,823 | 571,882 | 190,538 | 19,350 | - | - | 6,857,860 |
| Department of Fire | 3,655,959 | 160,369 | 2,115,396 | 241,853 | 53,246 | - | - | - | 6,226,823 |
| Department of Engineering | - | - | 20,718 | - | 86,230 | 44,457 | 1,257,664 | - | 1,409,069 |
| Floodwall Operations | 15,121 | 5,150 | 42,241 | 125,692 | - | - | - | - | 188,204 |
| Community Development | 237,869 | 103,058 | - | - | 18,623 | - | 191,725 | - | 551,275 |
| Housing Assistance Programs | 150,033 | 12,950 | 12,590 | - | 37,781 | - | - | - | 213,354 |
| | <u>\$ 27,808,905</u> | <u>\$ 3,006,086</u> | <u>\$ 3,835,059</u> | <u>\$ 3,935,990</u> | <u>\$ 713,479</u> | <u>\$ 573,166</u> | <u>\$ 75,087,026</u> | <u>\$ 118,766</u> | <u>\$ 115,078,477</u> |

CITY OF ASHLAND

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

JUNE 30, 2013

| | |
|--|-----------------------|
| Land and buildings | \$ 27,808,905 |
| Building improvements | 3,006,086 |
| Automotive equipment | 3,835,059 |
| Operating equipment | 3,935,990 |
| Office furniture and equipment | 713,479 |
| Capital improvements | 573,166 |
| Infrastructure | 75,087,026 |
| Construction in progress | <u>118,766</u> |
| Total | <u>\$ 115,078,477</u> |
| Investment in capital assets by source | |
| General Fund | \$ 90,239,668 |
| Special Revenue Funds | 4,786,830 |
| Capital Projects Fund | <u>20,051,979</u> |
| Total | <u>\$ 115,078,477</u> |

CITY OF ASHLAND HOUSING AUTHORITY

STATEMENT OF NET POSITION

JUNE 30, 2013

| | <u>Rental Vouchers</u> |
|---|----------------------------|
| ASSETS | |
| Cash - restricted | \$ 250,147 |
| Cash - unrestricted | 23,543 |
| Accounts receivable | 2,356 |
| Building and equipment, net | <u>97,137</u> |
| Total assets | <u>\$ 373,183</u> |
| LIABILITIES AND NET POSITION | |
| LIABILITIES: | |
| Accounts payable | \$ 435 |
| Accounts payable - other governmental | 13,642 |
| Accrued expenses | 2,490 |
| Accrued compensated absences - current | 784 |
| Accrued compensated absences - noncurrent | <u>3,983</u> |
| Total liabilities | <u>21,334</u> |
| NET POSITION: | |
| Invested in capital assets | 97,137 |
| Unrestricted | 4,565 |
| Restricted | <u>250,147</u> |
| | <u>351,849</u> |
| Total liabilities and net position | <u>\$ 373,183</u> |

CITY OF ASHLAND HOUSING AUTHORITY
STATEMENT OF REVENUES AND EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013

| | <u>Rental Vouchers</u> |
|---|----------------------------|
| REVENUES | |
| Housing assistance payments | \$ 2,335,021 |
| Administrative fee revenue | 233,945 |
| Interest income | <u>569</u> |
| Total revenues | <u>2,569,535</u> |
| EXPENSES | |
| Administrative salaries | 128,264 |
| Audit | 6,892 |
| Employee benefit contributions | 22,175 |
| Travel | 6,726 |
| Other administrative | 9,916 |
| Utilities | 1,563 |
| Maintenance | 13,962 |
| Property insurance | 338 |
| General liability insurance | 1,310 |
| Workers compensation | 726 |
| Other insurance | 32,888 |
| Other general | 9,185 |
| Compensated absences | 639 |
| Housing assistance payments | 2,395,268 |
| Depreciation | <u>4,583</u> |
| Total expenses | <u>2,634,435</u> |
| EXCESS OF EXPENSES OVER REVENUES | <u>\$ (64,900)</u> |

CITY OF ASHLAND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2013

| Federal Grantor/Pass-through Grantor/Program Title | Federal CFDA Number | Pass-Through Grantor's Number | Federal Expenditures |
|--|---------------------------|-------------------------------------|-------------------------|
| <u>U.S. Department of HUD</u> | | | |
| Direct Programs - | | | |
| CDBG Entitlement | 14.218 | B10MC2-10003 | \$ 302,139 * |
| Housing Choice Voucher Program | 14.871 | KY142VO | 2,648,394 * |
| Pass through Kentucky Housing Corporation - Kentucky Emergency Shelter Grants Program | 14.231 | ES007-0001-01 | <u>18,024</u> |
| Total U.S. Department of HUD | | | <u>2,968,557</u> |
| <u>U.S. Department of Transportation</u> | | | |
| Direct Programs - | | | |
| Federal Transit Cluster | | | |
| FTA - Operating Assistance Grant | 20.507 | KY-90-X199 | 526,336 * |
| FTA - Capital Assistance Grant | 20.507 | KY-90-X210 | <u>188,826 *</u> |
| | | | 715,162 |
| Passed through Kentucky Transportation Cabinet - | | | |
| Department of State Police Highway Safety | | | |
| Program | 20.600 | AL-13-01 | 3,443 |
| Department of State Police Highway Safety | 20.600 | AL-12-05 | <u>6,703</u> |
| Program | | | <u>10,146</u> |
| Total U.S. Department of Transportation | | | <u>725,308</u> |
| <u>U.S. Department of Homeland Security</u> | | | |
| Pass through Kentucky Homeland Security | | | |
| Hazard Mitigation Grant | 97.039 | FEMA-1976-DR-KY | <u>8,070</u> |
| Total U.S. Department of Homeland Security | | | <u>8,070</u> |
| <u>U.S. Department of Justice</u> | | | |
| Direct Programs - | | | |
| ARRA, Recovery Act Edward Byrne | | | |
| Memorial Justice Assistance Grant | 16.804 | 2009-SB-B9-3196 | 60,491 |
| Edward Byrne Memorial Justice | 16.738 | 2009-DJ-BX-1231 | <u>12,932</u> |
| Assistance Grant | | | <u>73,423</u> |
| Total U.S. Department of Justice | | | <u>73,423</u> |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | <u>\$ 3,775,358</u> |

* Denotes major program.

CITY OF ASHLAND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONCLUDED)

FOR THE YEAR ENDED JUNE 30, 2013

Notes to Schedule of Expenditures of Federal Awards

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Ashland's programs of the federal government for the year ended June 30, 2013. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Government, and Non-Profit Organizations. Because the schedule presents only a selected portion of operations of the City, it is not intended to, and does not present the financial position, changes in net position or cash flows of the City.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE C - SUBRECIPIENTS

Of the federal expenditures presented in the schedule, the City provided federal awards to subrecipients as follows:

| CFDA Number | Program Name | Amount Provided to Subrecipients |
|--------------------|---|---|
| 16.804 | ARRA, Recovery Act Edward Byrne Memorial Justice Assistance Grant | \$13,017 |
| 14.218 | CDBG Entitlement | \$58,941 |



Kelley,
Galloway &
Company, PSC

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

Chuck D. Charles, Mayor
City Commissioners and City Manager
City of Ashland
Ashland, Kentucky

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Ashland, Kentucky (the "City"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 18, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kellie, Ballouay + Company, PSC

December 18, 2013

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, 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 2013-01, 2013-02 and 2013-03. Our opinion on each major federal program is not modified with respect to these matters.

The City's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Kelley, Gallaway + Company, PSC

December 18, 2013



Kelley,
Galloway &
Company, PSC

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

Chuck D. Charles, Mayor
City Commissioners and City Manager
City of Ashland
Ashland, Kentucky

Report on Compliance for Each Major Federal Program

We have audited the City of Ashland, Kentucky's (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2013. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

CITY OF ASHLAND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2013

A. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes No

Significant deficiency(ies) identified? _____ Yes No

Noncompliance material to the financial statements noted? _____ Yes None reported

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ Yes No

Significant deficiency(ies) identified? _____ Yes None reported

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? Yes _____ No

| Identification of Major Programs | CFDA No. |
|----------------------------------|----------|
| Housing Choice Voucher Program | 14.871 |
| CDBG Entitlement | 14.218 |
| Federal Transit Cluster | 20.507 |

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

Auditee qualified as low risk auditee? _____ Yes No

CITY OF ASHLAND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2013

B. FINANCIAL STATEMENT FINDINGS

None noted in current year.

C. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

2013-01 FEDERAL COMPLIANCE - TENANT FILES

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

Condition: During our testing of compliance with Section 8 requirements, we noted several errors while reviewing 40 tenant files. These include the following:

- No documentation of utility allowance
- Missing or unsigned Housing Vouchers
- Missing or incorrectly completed HAP agreement
- Unsigned Housing Voucher and Certification of Relationship

Criteria: HUD requires Public Housing Authorities (PHA) to properly document the eligibility of tenants and properly calculate utility allowances based on tenant income.

Effect: Noncompliance with HUD requirements.

Recommendation: We recommend that the missing documentation be obtained at the next tenant certification and utility allowance calculations be reviewed for accuracy and properly documented prior to final approval.

Management's Response and Corrective Action Plan: To ensure files have proper documentation and all forms are properly completed, a systematic procedure has been implemented to verify all information is present and correct at each annual re-certification. This method establishes that the Housing Specialists complete an annual checklist to eliminate any further issue.

Contact Person Responsible for Corrective Action: Tony Grubb, Finance Director

Anticipated Completion Date: June 30, 2014

2013-02 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: During our review of the waiting list of individuals seeking participation in the Section 8 program, we noted that a letter of eligibility was not provided to one applicant within the required time period.

Criteria: The Administrative Plan adopted by the City requires a written response to be sent within 10 business days of the application date.

Effect: Noncompliance with the Administrative Plan.

CITY OF ASHLAND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONCLUDED)

FOR THE YEAR ENDED JUNE 30, 2013

Recommendation: We recommend the City implement procedures to ensure letters of eligibility and denial be provided to applicants within the time period required by the Administrative Plan.

Management's Response and Corrective Action Plan: The letter was mailed but accidentally copied over on the computer because another letter was sent due to a preference code change of homeless. In the future, copies will be printed in addition to the one maintained in the computer.

Contact Person Responsible for Corrective Action: Tony Grubb, Finance Director

Anticipated Completion Date: June 30, 2014

2013-03 FEDERAL COMPLIANCE - TRANSPARENCY ACT REPORTING

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

Condition: During our review of compliance with CDBG reporting requirements, we noted that Transparency Act reports were not been submitted for the fiscal year until we requested copies of the reports.

Criteria: The Federal Funding Accountability and Transparency Act (FFATA), which was signed on September 26, 2006, requires prime grant recipients awarded a federal grant after October 1, 2010 to file FFATA sub-award reports by the end of the month following the month in which the prime recipient awards any sub-grant greater than or equal to \$25,000.

Effect: Noncompliance with the FFATA.

Recommendation: We recommend that the City implement policies and procedures to ensure that all federal reports are submitted by the required due date.

Management's Response and Corrective Action Plan: The CDBG Grant administrator is aware of this requirement and will ensure that the report is completed by the due date in the future.

Contact Person Responsible for Corrective Action: Michael D. Miller, Planning and Community Development Director

Anticipated Completion Date: June 30, 2014

CITY OF ASHLAND

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED JUNE 30, 2013

| <u>Findings</u> | <u>Findings/Noncompliance</u> |
|-----------------|---|
| 2012-02 | We recommend that the program administrator, all program staff and a representative from the Finance Department obtain extensive training on CDBG program requirements. Additionally, the City should implement adequate procedures to document compliance with CDBG national objectives. |
| Status | Corrected. The City transferred the requested reimbursement for ineligible activities during the year. |
| 2012-03 | We recommended obtain the missing documentation from tenant files. |
| Status | Repeat finding - 2013-01. |
| 2012-04 | We recommend that the City document research to answers on the Tenant Information Form that could disqualify the individual from participating in the Section 8 program. |
| Status | Corrected. |
| 2012-05 | We recommend the City implement procedures to ensure HAP payments cease when a tenant moves to a new location or no longer participates in the program. |
| Status | Corrected. |
| 2012-06 | We recommend the City implement procedures to ensure letters of eligibility and denial be provided to applicants within the time period required by the Administrative Plan. |
| Status | Repeat finding - 2013-02. |
| 2012-07 | We recommend that the City transfer the appropriate amount to the Housing Assistance Fund to pay the interfund receivable from the General Fund. Additionally, future transfers from the Housing Assistance Fund to the General Fund should be made for only the reimbursement of allowable expenditures. |
| Status | Corrected. |
| 2012-08 | We recommend that the City implement policies and procedures to ensure that all federal reports required as part of the ARRA, FTA - Capital Assistance Grant are submitted by the required due date. |
| Status | This grant has been closed and no further funds have been received. |

CITY OF ASHLAND

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONCLUDED)

FOR THE YEAR ENDED JUNE 30, 2013

| | |
|---------|---|
| 2012-09 | We recommend that the City obtain all required certified payrolls from the contractor paid with Capitalization Grants for Clean Water State Revolving Funds. Additionally, the City should consider withholding payment to the contractor until they have achieved compliance with contract requirements. |
| Status | This grant has been closed and no further funds have been received. |