

CITY OF ASHLAND

**FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

FOR THE YEAR ENDED JUNE 30, 2012

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS

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CERTIFIED PUBLIC ACCOUNTANTS

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CERTIFIED PUBLIC ACCOUNTANTS

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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, 2012, 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, 2012, 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 13, 2012 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 considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis information and schedule of employer contributions on pages 5 through 15 and page 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in the appropriate operational, economic, and historical context. We have applied

certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency in management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ashland's financial statements as a whole. The supplemental statements and schedules contained on pages 53 through 59 and the HUD schedules on pages 60 and 61, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards contained on pages 62 and 63 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 also not a required part of the basic financial statements. The supplemental statements and schedules and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Kelley, Galloway & Company, PSC

November 13, 2012

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, 2012. 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 \$99,875,267 (net assets). Governmental activities’ unrestricted net assets were \$2,560,801. Business type activities’ unrestricted net assets were \$1,310,597.
- ⇒ The Government’s total net assets decreased by \$2,160,123. Net assets of governmental activities decreased by \$2,622,296, and net assets of business-type activities increased by \$462,173.
- ⇒ At June 30, 2012, the governmental activities had \$74,813,379 in assets and \$15,428,289 in liabilities. Business type activities had \$61,853,538 in assets and \$21,363,361 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, 2012. 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, recreation operating fund and cemetery 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, Recreation Operating Fund and Ashland Cemetery 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, dental 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, 2012, the Government as a whole had net assets greater than its liabilities by \$99,875,267. Net assets of governmental activities were \$59,385,090 and decreased by \$2,622,296 over the prior year. This decrease was due to multiple factors. The most significant being the city's rising health care costs. In Fiscal Year 2012, the City experienced a staggering rise in our health insurance costs which exceeded our budget projections. Also, our Community Development Block Grant had grant findings which resulted in the unexpected payback of \$242,213. We also ended the fiscal year with unexpected costs associated with a torrential storm that left city-wide damage which included hundreds of downed trees, damage to our infrastructure and overtime costs. These issues were the driving factor for the decrease in our net assets. Of ending Governmental Activities Net Assets, \$56,286,542, or 95%, is invested in capital assets net of related debt, \$537,747, or 1%, is restricted assets and unrestricted net assets are \$2,560,801 or 4%.

The net assets of the Government's business-type activities are \$40,490,177 and increased by \$462,173 over the prior year. Of these net assets, \$35,212,492 is invested in capital assets net of related debt, \$3,967,088 is restricted and \$1,310,597 is unrestricted. The largest portion of the City's combined net assets (92%) reflects its investment in capital assets (i.e., land, buildings, machinery and equipment) less outstanding related debt used to acquire those assets. The City uses these capital assets to provide services to citizens and as a result, these assets are not available for future spending. The City's capital asset investment is reported net of related debt, but the resources to pay this debt must be provided from other sources, since the capital assets cannot be used to liquidate the liabilities.

An additional portion of City net assets, \$4,504,835 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$3,871,398 may be used to meet the City's ongoing obligation to citizens and creditors.

At the end of this fiscal year, June 30, 2012, the City has positive unrestricted net assets in its business-type activities. The City raised the utility rates in all rate classes again this fiscal year. This in conjunction with budgeting a planned surplus to correct a previous fiscal year deficit has created positive unrestricted net assets in our business-type activities.

ANALYSIS OF THE CITY'S NET ASSETS

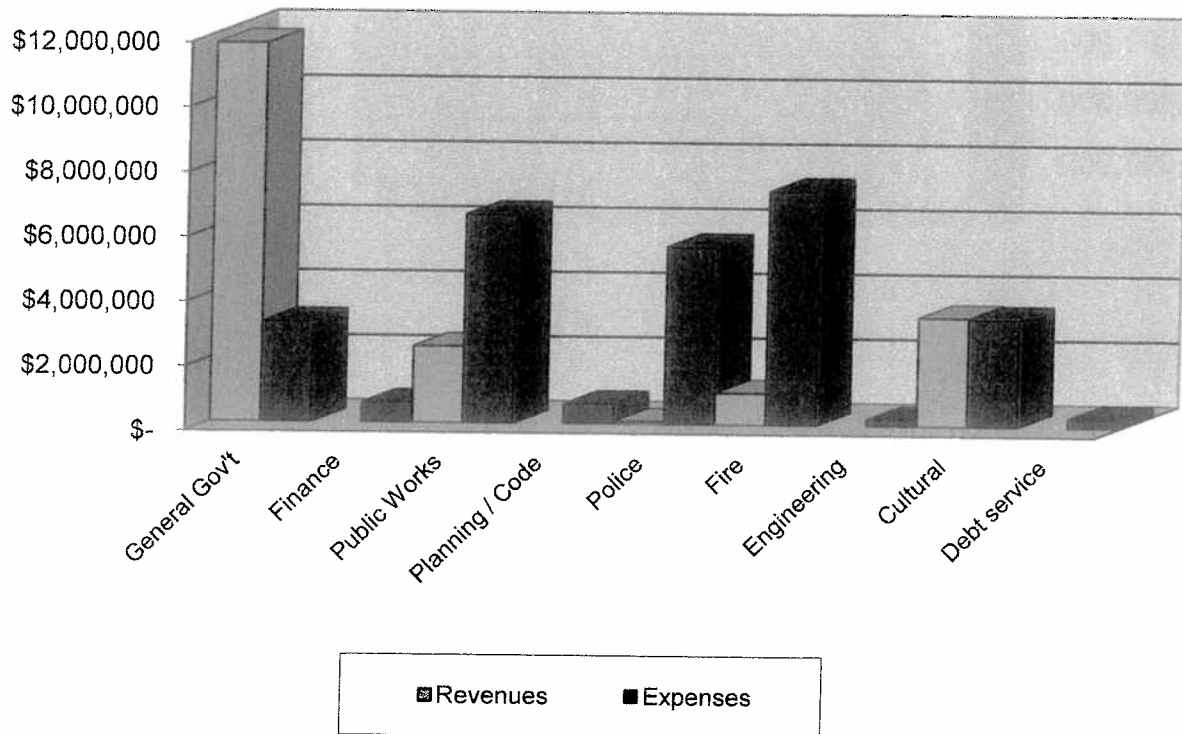
	Governmental Activities		Business- Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 10,474,946	\$ 12,053,194	\$ 10,648,093	\$ 9,122,030	\$ 21,123,039	\$ 21,175,224
Capital assets	<u>64,338,433</u>	<u>65,962,332</u>	<u>51,205,445</u>	<u>49,570,345</u>	<u>115,543,878</u>	<u>115,532,677</u>
Total assets	<u>74,813,379</u>	<u>78,015,526</u>	<u>61,853,538</u>	<u>58,692,375</u>	<u>136,666,917</u>	<u>136,707,901</u>
Current liabilities	6,996,969	6,993,754	6,036,530	6,048,181	13,033,499	13,041,935
Long-term liabilities	<u>8,431,320</u>	<u>9,014,386</u>	<u>15,326,831</u>	<u>12,616,190</u>	<u>23,758,151</u>	<u>21,630,576</u>
Total liabilities	<u>15,428,289</u>	<u>16,008,140</u>	<u>21,363,361</u>	<u>18,664,371</u>	<u>36,791,650</u>	<u>34,672,511</u>
Net assets						
Invested in capital assets net of related debt	56,286,542	57,272,690	35,212,492	35,983,988	91,499,034	93,256,678
Restricted	537,747	717,917	3,967,088	2,536,674	4,504,835	3,251,591
Unrestricted	<u>2,560,801</u>	<u>4,019,779</u>	<u>1,310,597</u>	<u>1,507,342</u>	<u>3,871,398</u>	<u>5,527,121</u>
Total net assets	<u>\$ 59,385,090</u>	<u>\$ 62,007,386</u>	<u>\$ 40,490,177</u>	<u>\$ 40,028,004</u>	<u>\$ 99,875,267</u>	<u>\$102,035,390</u>

ANALYSIS OF THE CITY'S OPERATIONS

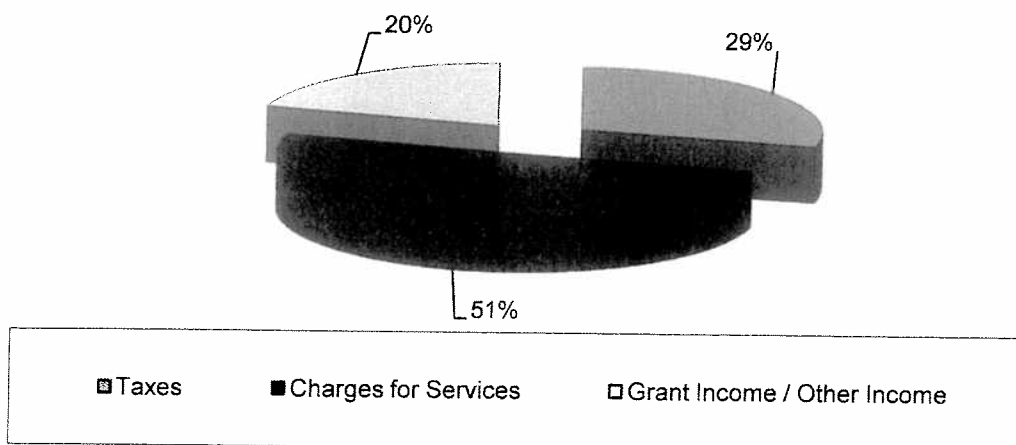
Revenues	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Taxes	\$ 7,650,814	\$ 8,150,028	\$ -	\$ -	\$ 7,650,814	\$ 8,150,028
Charges for services	13,418,528	12,963,624	14,584,994	14,680,041	28,003,522	27,643,665
Operating grants	4,103,865	4,084,103	489,967	386,357	4,593,832	4,470,460
Capital grants	990,380	749,903	117,922	446,519	1,108,302	1,196,422
Other income	311,866	530,572	722,430	696,878	1,034,296	1,227,450
Total revenue	<u>\$ 26,475,453</u>	<u>\$ 26,478,230</u>	<u>\$ 15,915,313</u>	<u>\$ 16,209,795</u>	<u>\$ 42,390,766</u>	<u>\$ 42,688,025</u>
Expenses	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
General government	\$ 3,108,207	\$ 2,288,370	\$ -	\$ -	\$ 3,108,207	\$ 2,288,370
Finance	624,375	616,850	-	-	624,375	616,850
Public services	6,460,927	6,472,277	-	-	6,460,927	6,472,277
Planning/CE	616,724	586,302	-	-	616,724	586,302
Police	5,501,952	5,435,091	-	-	5,501,952	5,435,091
Fire	7,234,173	5,797,256	-	-	7,234,173	5,797,256
Engineering	210,484	627,371	-	-	210,484	627,371
Community/cultural	3,333,805	3,501,176	-	-	3,333,805	3,501,176
Debt service	291,216	339,571	-	-	291,216	339,571
Utility fund	-	-	14,187,824	13,882,611	14,187,824	13,882,611
Ashland bus system	-	-	1,585,686	1,344,854	1,585,686	1,344,854
Recreation operating fund	-	-	1,023,425	1,131,949	1,023,425	1,131,949
Cemetery	-	-	372,091	378,031	372,091	378,031
Total expense	<u>\$ 27,381,863</u>	<u>\$ 25,664,264</u>	<u>\$ 17,169,026</u>	<u>\$ 16,737,445</u>	<u>\$ 44,550,889</u>	<u>\$ 42,401,709</u>
Changes before transfers	(906,410)	813,966	(1,253,713)	(527,650)	(2,160,123)	286,316
Transfers	(1,715,886)	(1,488,152)	1,715,886	1,488,152	-	-
Change in net assets	(2,622,296)	(674,186)	462,173	960,502	(2,160,123)	286,316
Net asset beginning of year	<u>62,007,386</u>	<u>62,681,572</u>	<u>40,028,004</u>	<u>39,067,502</u>	<u>102,035,390</u>	<u>101,749,074</u>
Net asset end of year	<u>\$ 59,385,090</u>	<u>\$ 62,007,386</u>	<u>\$ 40,490,177</u>	<u>\$ 40,028,004</u>	<u>\$ 99,875,267</u>	<u>\$ 102,035,390</u>

GOVERNMENTAL ACTIVITIES

EXPENSES AND PROGRAM REVENUES-GOVERNMENTAL ACTIVITIES

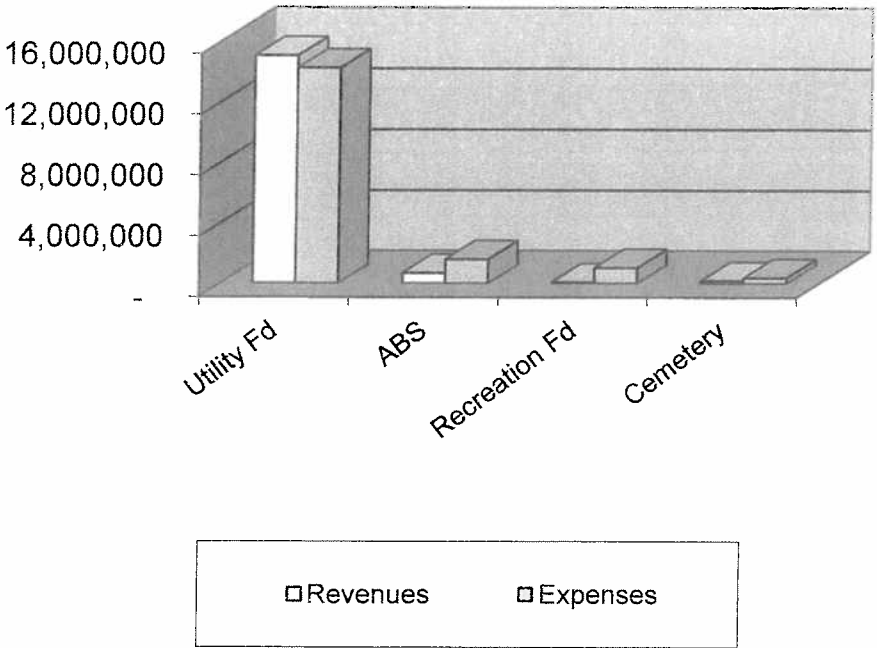


REVENUE BY SOURCE - GOVERNMENT ACTIVITIES

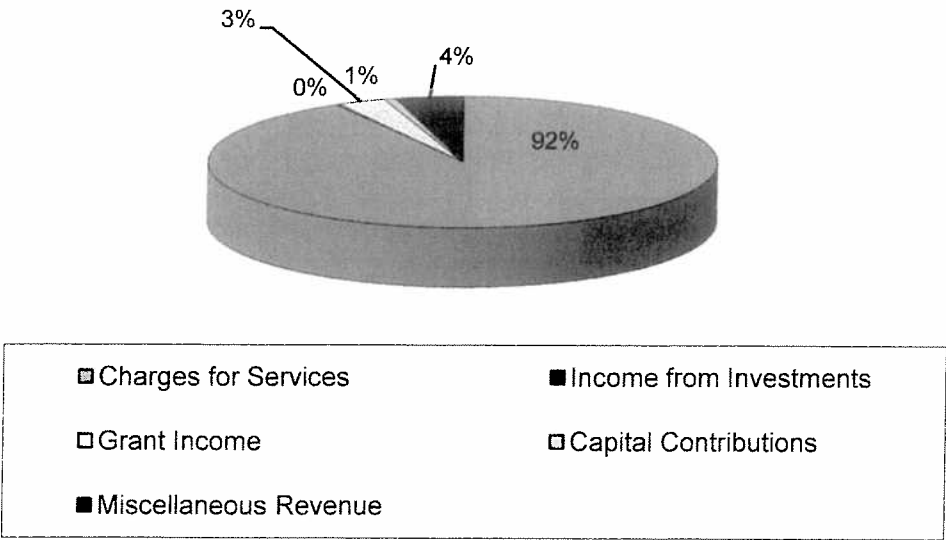


BUSINESS-TYPE ACTIVITIES

EXPENSES AND REVENUES - BUSINESS-TYPE ACTIVITIES

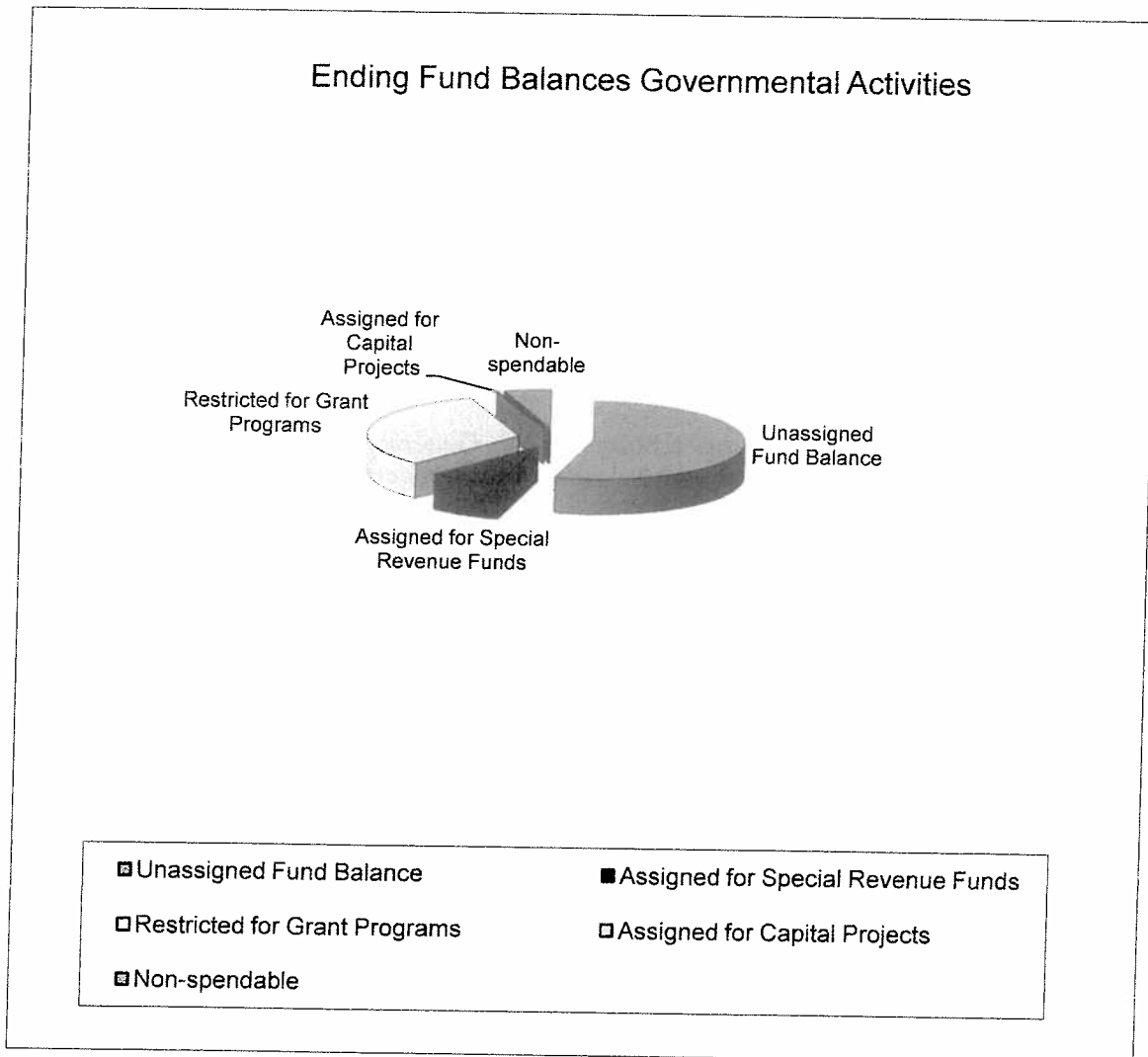


REVENUE BY SOURCE - BUSINESS -TYPE ACTIVITIES



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 \$1,620,885. Of this total, \$876,058, or 54%, is unreserved fund balance. The remainder of fund balance is reserved to indicate it is not available for new spending because it has already been assigned for special revenue funds at \$125,572, restricted for grant programs at \$534,606, non-spendable at \$81,508 and assigned for capital projects at \$3,141. The decrease in the governmental funds assigned for capital projects is due to the completion of the 3rd floor City Building renovation.



MAJOR GOVERNMENTAL FUNDS

For the year ending June 30, 2012, the major governmental funds reported as follows:

The General Fund had revenues of \$21,338,828 and expenditures of \$21,085,440. The total fund balance was \$1,173,799.

The Municipal Aid Road Fund had revenues of \$519,917 and expenditures of \$463,800. The total fund balance was \$60,529.

The Floodwall Operating Fund had revenues of \$182,754 and expenditures of \$183,948. The total fund balance was \$0.

The Community Development Fund had revenues of \$628,595 and expenditures of \$628,595. The total fund balance was \$65,043.

The Housing Assistance Fund had revenues of \$2,736,789 and expenditures of \$2,770,603. The total fund balance was \$318,373.

The Capital Purchase Improvement Fund had other financing sources of \$1,068,570 and expenditures of \$1,316,274. The total fund balance was \$3,141.

PROPRIETARY FUNDS

The City's proprietary funds, or business-type activities, had total assets of \$64,377,675 and total liabilities of \$23,887,498, leaving net assets of \$40,490,177. Of the total proprietary fund's net assets, the Utility Fund had \$(635,077) in unrestricted net assets, the Ashland Bus Fund had \$(260,059) in unrestricted net assets, the Recreation Fund had \$(127,903) in unrestricted net assets and the Ashland Cemetery Fund had \$2,333,636 in unrestricted net assets. All proprietary funds are considered major funds. Total reduction in unrestricted net assets for the four proprietary funds was \$196,745.

BUDGETARY HIGHLIGHTS

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

- ⇒ \$541,967 increase in net expenditures of the General Fund. This increase was for the health care costs projected above what was budgeted. Claims trended higher than expected for fiscal year 2012.

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 \$21,338,828 versus budgeted revenues of \$21,717,110. This was due to the reduction in the tax rate and a lower collection rate. Projected tax revenues were \$7,778,401 and actual revenues were \$7,468,101 for a variance of \$310,300. Net Profit Revenue had a positive budget variance of \$56,125 which was accomplished by continued focus on enforcing compliance and growth. Vehicle property taxes also had a positive budget variance of \$30,121.
- ⇒ General Fund significant expenditure variances include the Fire department personnel overage of \$348,628 and multiple operating line items totaling \$111,118 in this division as well. Also, the health insurance costs were much higher than projected which is reflected in every division. The Public Works budget was \$4,259,126 and actual expenditures were \$4,520,516, for a negative budget variance of \$(261,390). This was attributed to higher health insurance costs (\$162,884) that exceeded projected budget estimates and the route reduction that occurred later in the fiscal year than expected (\$112,862).

CAPITAL ASSET AND DEBT ADMINISTRATION

The City's investment in capital assets for governmental and business-type activities as of June 30, 2012 is \$115,543,878 (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, 2012 include:

<u>Project</u>	<u>Approved Contract</u>	<u>Paid / Accrued to Date</u>	<u>Outstanding Commitment</u>
CSO - Roberts & 6 th	\$ 7,049,290	\$ 6,765,375	\$ 283,915

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

<u>Asset</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total 2011</u>
Land	\$ 3,883,268	\$ 382,087	\$ 4,265,355
Buildings and improvements	11,892,814	4,555,147	16,447,961
Automotive equipment	3,810,059	1,852,314	5,662,373
Operating equipment	3,745,173	3,337,462	7,082,635
Office equipment	723,715	463,532	1,187,247
Capital improvements	477,935	418,280	896,215
Right-of-way	15,038,909	-	15,038,909
Infrastructure	74,767,785	-	74,767,785
Utility plant	-	79,808,291	79,808,291
Construction (CIP)	71,952	7,400,109	7,472,061
Total	\$114,411,610	\$ 98,217,222	\$212,628,832

DEBT

At the end of fiscal year 2012, the City had governmental activities debt of \$8,990,276 compared to \$9,652,131 at June 30, 2011, which represents a decrease of \$661,855. Business-type activities had debt of \$15,942,953 compared to \$13,536,357 at June 30, 2011, which represents an increase of \$2,406,596. 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	\$ 2,775,000
Capital leases - equipment	48,150
Capital leases - police station	4,534,574
Capital lease	694,167
Compensated absences obligation	938,385
Total	\$ 8,990,276

<u>Business-Type Activities Debt</u>	<u>Amount</u>
Utility bonds 04	\$ 5,065,000
Kentucky infrastructure authority loans	10,860,173
Capital leases - equipment	17,780
Total	\$15,942,953

DESCRIPTION OF MUNICIPAL DEBT

- ⇒ General Obligation Bonds 2005 Melody Mountain \$2,775,000.
- ⇒ Capital Lease - phone system \$48,150.
- ⇒ Capital Lease - Police station \$4,534,574.
- ⇒ Capital Lease - debt consolidation \$694,167.
- ⇒ Employee compensated absences payable after 60 days at \$938,385

- ⇒ Utility Revenue bond issue 2004 for phase II upgrade of the water plant \$5,065,000.
- ⇒ K.I.A. Loans used to upgrade the utility system and correct CSO \$10,860,173.
- ⇒ Capital Lease - phone system \$17,780.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Unemployment rate for the City of Ashland as of June 2012 is 7.5%. This rate is lower than the State of Kentucky rate at 8.4% and the national rate of 8.2%.

The following table summarizes the 2013 fiscal year budgeted expenses.

- ⇒ General Fund - \$21,796,283
- ⇒ Municipal Aid Program - \$492,625
- ⇒ Community Development Block Grant Fund - \$514,405
- ⇒ Section 8 Voucher - \$2,665,427
- ⇒ Floodwall Operating Fund - \$291,601
- ⇒ Utility Fund - \$19,222,287
- ⇒ Ashland Bus System - \$1,229,150
- ⇒ Recreation Operating Fund - \$1,028,498
- ⇒ Ashland Cemetery Fund - \$177,448
- ⇒ Capital Purchase Improvement Fund - \$591,000

Fiscal year 2013 contains one significant budget item. The Utility Fund will begin work on the second phase of construction pertaining to the Combined Sewer Overflow decree from the EPA and complete the first phase of construction.

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, 2012

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 358,212	\$ 122,765	\$ 480,977
Accounts receivable	786,849	2,849,118	3,635,967
Allowance for uncollectible accounts	-	(69,412)	(69,412)
Taxes receivable	3,284,365	-	3,284,365
Allowance for uncollectible taxes	(490,862)	-	(490,862)
Grants receivable	258,315	68,484	326,799
Internal balances, net	2,524,137	(2,524,137)	-
Receivable from fiduciary fund	894,564	-	894,564
Program receivables	31,226	-	31,226
Allowance for uncollectible accounts	(31,226)	-	(31,226)
Other receivables	425,628	-	425,628
Allowance for uncollectible accounts	(63,818)	-	(63,818)
Inventories	81,508	3,050,278	3,131,786
Restricted assets -			
Cash and cash equivalents	-	4,583,923	4,583,923
Note receivable	150,000	-	150,000
Net pension asset	2,266,048	2,471,883	4,737,931
Nondepreciable capital assets	19,008,250	7,782,196	26,790,446
Depreciable capital assets	95,403,360	90,435,026	185,838,386
Accumulated depreciation	(50,073,177)	(47,011,777)	(97,084,954)
Deferred bond issuance costs	-	95,191	95,191
Total assets	<u>74,813,379</u>	<u>61,853,538</u>	<u>136,666,917</u>
LIABILITIES			
Cash overdraft	1,097,916	-	1,097,916
Accounts payable	2,105,629	284,485	2,390,114
Due to Board of Education	19,303	-	19,303
Payable to Fiduciary Fund	719,937	3,205,026	3,924,963
Other accrued expenses and liabilities	2,310,627	404,942	2,715,569
Deposits	-	1,168,609	1,168,609
Matured revenue bonds and notes	-	50,000	50,000
Accrued compensated absences, current	184,601	307,346	491,947
Current portion of long-term debt	558,956	616,122	1,175,078
Accrued compensated absences, non-current	938,385	-	938,385
Capital lease obligations, non-current	4,817,935	11,748	4,829,683
Revenue and Improvement bonds	-	4,745,000	4,745,000
Kentucky Infrastructure Authority loans, non-current	-	10,570,083	10,570,083
General obligation bonds, non-current	2,675,000	-	2,675,000
Total liabilities	<u>15,428,289</u>	<u>21,363,361</u>	<u>36,791,650</u>
NET ASSETS			
Invested in capital assets, net of related debt	56,286,542	35,212,492	91,499,034
Restricted			
Capital projects	3,141	-	3,141
Debt service	-	930,246	930,246
Grant programs	534,606	-	534,606
Sewer improvements	-	3,006,117	3,006,117
Other	-	30,725	30,725
Unrestricted	<u>2,560,801</u>	<u>1,310,597</u>	<u>3,871,398</u>
Total net assets	<u>\$ 59,385,090</u>	<u>\$ 40,490,177</u>	<u>\$ 99,875,267</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, 2012

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
Governmental Activities						Total
General government	\$ 3,108,207	\$ 11,308,826	\$ 386,749	\$ 3,704	\$ 8,591,072	\$ -
Finance	624,375	-	-	-	(624,375)	-
Public services	6,460,927	1,857,995	517,971	-	(4,084,961)	-
Planning and code enforcement	616,724	-	-	-	(616,724)	-
Police	5,501,952	-	86,506	-	(5,415,446)	-
Fire	7,234,173	-	-	986,676	(6,247,497)	-
Engineering	210,484	-	-	-	(210,484)	-
Community and cultural	3,333,805	251,707	3,112,639	-	30,541	-
Debt service - interest	291,216	-	-	-	(291,216)	-
Total governmental activities	27,381,863	13,418,528	4,103,865	990,380	(8,869,090)	(8,869,090)
Business-Type Activities						
Utilities	14,187,824	14,282,119	-	-	-	94,295
Recreation	1,023,425	66,639	-	-	-	(956,786)
Cemetery	372,091	163,753	-	-	-	(208,338)
Bus	1,585,686	72,483	489,967	117,922	-	(905,314)
Total business-type activities	17,169,026	14,584,994	489,967	117,922	(1,976,143)	(1,976,143)
Total primary government	\$ 44,550,889	\$ 28,003,522	\$ 4,593,832	\$ 1,108,302	\$ (8,869,090)	\$ (10,845,233)
General Revenues:						
Property and other local taxes					\$ 7,650,814	\$ 7,650,814
Interest income					4,054	39,041
Other revenues					307,812	995,255
Total general revenues					7,962,680	8,685,110
Transfers					(1,715,886)	-
Total general revenues and transfers					6,246,794	8,685,110
Change in net assets					(2,622,296)	(2,160,123)
Net assets, June 30, 2011					62,007,386	102,035,390
Net assets, June 30, 2012					\$ 59,385,090	\$ 99,875,267

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

CITY OF ASHLAND
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

	Special Revenue Funds						Total Governmental Funds
	General	Municipal Aid Road	Floodwall Operating	Community Development	Housing Assistance	Capital Projects	
Assets							
Cash	\$ 10,541	\$ 86,071	\$ 8,212	\$ 14,489	\$ 221,509	\$ -	\$ 340,822
Taxes receivable	3,127,103	-	157,262	-	-	-	3,284,365
Allowance for uncollectible taxes	(464,989)	-	(25,873)	-	-	-	(490,862)
Grants receivable	195,452	47,160	-	15,703	-	-	258,315
Due from other funds	3,630,390	-	-	55,161	100,540	24,347	3,810,438
Program receivables	31,226	-	-	-	-	-	31,226
Allowance for uncollectible accounts	(31,226)	-	-	-	63,973	-	(31,226)
Other receivables	356,726	-	4,929	-	(63,818)	-	425,628
Allowance for uncollectible accounts	-	-	-	-	-	-	(63,818)
Inventories - supplies	81,508	-	-	-	-	-	81,508
Total assets	\$ 6,936,731	\$ 133,231	\$ 144,530	\$ 85,353	\$ 322,204	\$ 24,347	\$ 7,646,396
Liabilities and Fund Balances							
Liabilities:							
Cash Overdraft	\$ 1,097,916	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,097,916
Accounts payable	1,458,307	-	2,928	1,059	320	21,206	1,483,820
Due to other funds	2,156,689	72,702	138,987	-	-	-	2,368,378
Due to Board of Education	19,303	-	-	-	-	-	19,303
Accrued compensated absences	180,887	-	1,332	1,724	658	-	184,601
Accrued expenses	769,049	-	1,283	688	2,853	-	773,873
Deferred revenue	80,781	-	-	16,839	-	-	97,620
Total liabilities	5,762,932	72,702	144,530	20,310	3,831	21,206	6,025,511
Fund Balances:							
Assigned for capital projects	-	-	-	-	-	3,141	3,141
Assigned for special revenue funds	-	60,529	-	65,043	-	-	125,572
Restricted for grant programs	216,233	-	-	-	318,373	-	534,606
Non-spendable	81,508	-	-	-	-	-	81,508
Unassigned	876,058	-	-	-	-	-	876,058
Total fund balances	1,173,799	60,529	-	65,043	318,373	3,141	1,620,885
Total liabilities and fund balances	\$ 6,936,731	\$ 133,231	\$ 144,530	\$ 85,353	\$ 322,204	\$ 24,347	\$ 7,646,396

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, 2012

Total fund balance - total governmental funds		\$ 1,620,885
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets of \$114,411,610 net of accumulated depreciation of \$50,073,177 used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		64,338,433
Net pension asset of \$2,266,048 reported in the statement of net assets is not a financial resource and therefore is not reported in the governmental funds.		2,266,048
Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the governmental funds		
Note receivable		150,000
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.		
Bonds payable	(2,775,000)	
Accrued compensated absences	(938,385)	
Capital lease obligations	(5,276,891)	(8,990,276)
Net assets, end of year - Governmental Activities		<u>\$ 59,385,090</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, 2012

	Special Revenue Funds						Total Governmental Funds
	General	Municipal Aid Road	Floodwall Operating	Community Development	Housing Assistance	Capital Projects	
Revenues							
Property and other local taxes	\$ 7,468,101	-	\$ 182,713	\$ -	-	-	\$ 7,650,814
Licenses and permits	9,688,773	-	-	-	-	-	9,688,773
Charges for services	1,857,995	-	-	-	-	-	1,857,995
Fees, fines and reimbursements	1,620,053	-	-	-	-	-	1,620,053
Grant income	476,959	517,971	-	628,201	2,484,438	986,676	5,094,245
Administration fee income	-	-	-	-	251,707	-	251,707
Interest income	3,355	14	41	-	644	-	4,054
Other income	223,592	1,932	-	394	-	81,894	307,812
Total revenues	21,338,828	519,917	182,754	628,595	2,736,789	1,068,570	26,475,453
Expenditures							
General government	2,766,853	-	-	-	-	-	2,767,313
Finance	624,750	-	-	-	-	460	624,750
Public services	4,520,516	463,800	183,948	-	-	-	5,168,264
Planning and code enforcement	609,254	-	-	-	-	-	609,254
Police	5,362,642	-	-	-	-	-	5,362,642
Fire	5,839,753	-	-	-	-	-	5,839,753
Engineering	432,705	-	-	-	-	-	432,705
Community and cultural	-	-	-	628,595	2,770,603	-	3,399,198
Capital outlay	-	-	-	-	-	1,315,814	1,315,814
Debt service:	-	-	-	-	-	-	-
Principal retirement	637,751	-	-	-	-	-	637,751
Interest charges	291,216	-	-	-	-	-	291,216
Total expenditures	21,085,440	463,800	183,948	628,595	2,770,603	1,316,274	26,448,660
Excess of Revenues Over (Under) Expenditures	253,388	56,117	(1,194)	-	(33,814)	(247,704)	26,793
Other Financing Sources (Uses)							
Transfers in	-	-	-	-	-	-	-
Transfers out	(2,026,355)	-	784	-	58,840	250,845	310,469
Total other financing sources (uses)	(2,026,355)	-	784	-	58,840	250,845	(2,026,355)
Net change in fund balances	(1,772,967)	56,117	(410)	-	25,026	3,141	(1,689,093)
Fund balances beginning of year	2,946,766	4,412	410	65,043	293,347	-	3,309,978
Fund balances end of year	\$ 1,173,799	\$ 60,529	\$ -	\$ 65,043	\$ 318,373	\$ 3,141	\$ 1,620,885

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, 2012

Net change in fund balances - total governmental funds \$ (1,689,093)

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	1,109,851	
Depreciation expense	<u>(2,707,449)</u>	(1,597,598)

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	24,104
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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.	637,751
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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.	28,841
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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>(26,301)</u>
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Change in net assets of governmental activities	<u><u>\$ (2,622,296)</u></u>
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The accompanying notes to financial statements
are an integral part of this statement.

CITY OF ASHLAND
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2012

	Business-Type Activities					Governmental Activity - Internal Service Fund
	Utility Fund	Ashland Bus Fund	Recreation Fund	Cemetery Fund	Total	
ASSETS						
Unrestricted Assets:						
Cash and cash equivalents	\$ 97,447	\$ 7,554	\$ 12,900	\$ 4,864	\$ 122,765	\$ 17,390
Accounts receivable	2,838,928	83	191	9,916	2,849,118	786,849
Allowance for doubtful accounts	(69,412)	-	-	-	(69,412)	-
Due from other funds	-	-	-	-	-	1,256,704
Grants receivable - capital	-	6,911	-	-	6,911	-
Grants receivable - operating	-	61,573	-	-	61,573	-
Inventories -						
Repair parts and supplies	399,060	32,437	14,401	-	445,898	-
Lots and vaults	-	-	-	2,604,380	2,604,380	-
Total unrestricted assets	3,266,023	108,558	27,492	2,619,160	6,021,233	2,060,943
Restricted Assets:						
Cash and cash equivalents	4,363,198	-	190,000	30,725	4,583,923	-
Total restricted assets	4,363,198	-	190,000	30,725	4,583,923	-
Total current assets	7,629,221	108,558	217,492	2,649,885	10,605,156	2,060,943
Capital Assets:						
Land and easements	357,911	-	5,723	18,453	382,087	-
Utility plant	79,808,291	-	-	-	79,808,291	-
Buildings and improvements	662,733	1,498,076	100,529	2,293,809	4,555,147	-
Operating equipment	3,777,572	969,406	794,927	66,150	5,608,055	-
Office and computer equipment	418,398	39,815	5,320	-	463,533	-
Construction in progress	7,400,109	-	-	-	7,400,109	-
	92,425,014	2,507,297	906,499	2,378,412	98,217,222	-
Less: Accumulated depreciation	(45,362,686)	(1,016,067)	(491,913)	(141,111)	(47,011,777)	-
Total capital assets - net	47,062,328	1,491,230	414,586	2,237,301	51,205,445	-
Other Assets:						
Net pension asset	2,471,883	-	-	-	2,471,883	-
Deferred bond issuance costs	95,191	-	-	-	95,191	-
Total other assets	2,567,074	-	-	-	2,567,074	-
Total noncurrent assets	49,629,402	1,491,230	414,586	2,237,301	53,772,519	-
Total assets	<u>\$ 57,258,623</u>	<u>\$ 1,599,788</u>	<u>\$ 632,078</u>	<u>\$ 4,887,186</u>	<u>\$ 64,377,675</u>	<u>\$ 2,060,943</u>

	Business-Type Activities					Governmental Activity - Internal Service Fund
	Utility Fund	Ashland Bus Fund	Recreation Fund	Cemetery Fund	Total	
LIABILITIES						
Current liabilities (payable from current assets):						
Accounts payable	\$ 230,332	\$ 17,695	\$ 30,955	\$ 5,503	\$ 284,485	\$ 621,809
Due to other funds	4,995,664	235,359	255,272	242,868	5,729,163	-
Accrued compensated absences	227,432	27,428	48,120	4,366	307,346	-
Other accrued liabilities	272,972	88,135	11,048	32,787	404,942	1,439,134
Customer deposits	130,770	-	-	-	130,770	-
Total current liabilities (payable from current assets)	<u>5,857,170</u>	<u>368,617</u>	<u>345,395</u>	<u>285,524</u>	<u>6,856,706</u>	<u>2,060,943</u>
Current liabilities (payable from restricted assets):						
Matured revenue bonds and notes	50,000	-	-	-	50,000	-
Customer deposits	1,037,839	-	-	-	1,037,839	-
Current portion of capital lease obligations	4,433	800	800	-	6,033	-
Current portion of Revenue and Improvement bonds	320,000	-	-	-	320,000	-
Current portion of Kentucky Infrastructure Authority loan	290,089	-	-	-	290,089	-
Total current liabilities (payable from restricted assets)	<u>1,702,361</u>	<u>800</u>	<u>800</u>	<u>-</u>	<u>1,703,961</u>	<u>-</u>
Total current liabilities	<u>7,559,531</u>	<u>369,417</u>	<u>346,195</u>	<u>285,524</u>	<u>8,560,667</u>	<u>2,060,943</u>
Long-term liabilities:						
Capital lease obligations	6,841	2,437	2,470	-	11,748	-
Revenue and Improvement bonds	4,745,000	-	-	-	4,745,000	-
Kentucky Infrastructure Authority loan	10,570,083	-	-	-	10,570,083	-
Total long-term liabilities	<u>15,321,924</u>	<u>2,437</u>	<u>2,470</u>	<u>-</u>	<u>15,326,831</u>	<u>-</u>
Total liabilities	<u>22,881,455</u>	<u>371,854</u>	<u>348,665</u>	<u>285,524</u>	<u>23,887,498</u>	<u>2,060,943</u>
NET ASSETS						
Invested in capital assets, net of related debt	31,075,882	1,487,993	411,316	2,237,301	35,212,492	-
Restricted for debt payment	930,246	-	-	-	930,246	-
Restricted for sewer improvements	3,006,117	-	-	-	3,006,117	-
Other	-	-	-	30,725	30,725	-
Unrestricted	<u>(635,077)</u>	<u>(260,059)</u>	<u>(127,903)</u>	<u>2,333,636</u>	<u>1,310,597</u>	<u>-</u>
Total net assets	<u>\$ 34,377,168</u>	<u>\$ 1,227,934</u>	<u>\$ 283,413</u>	<u>\$ 4,601,662</u>	<u>\$ 40,490,177</u>	<u>\$ -</u>

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, 2012

	Business-Type Activities					Governmental Activity - Internal Service Fund
	Utility Fund	Ashland Bus Fund	Recreation Fund	Cemetery Fund	Total	
OPERATING REVENUES						
Residential and commercial meter sales	\$ 3,782,256	\$ -	\$ -	\$ -	\$ 3,782,256	\$ -
Sewer service	5,878,383	-	-	-	5,878,383	-
Industrial meter sales	3,090,646	-	-	-	3,090,646	-
Other municipalities	1,392,271	-	-	-	1,392,271	-
Industrial pretreatment	78,364	-	-	-	78,364	-
Water and sewer taps	60,199	-	-	-	60,199	-
Concession sales	-	-	33,400	-	33,400	-
Lot and vault sales	-	-	-	83,303	83,303	-
Opening and closing fees	-	-	-	80,450	80,450	-
Passenger fares	-	72,483	-	-	72,483	-
Admission fees	-	-	33,239	-	33,239	-
Premium charges	-	-	-	-	-	7,106,950
Miscellaneous	670,725	1,117	8,529	10,942	691,313	-
Total operating revenues	<u>14,952,844</u>	<u>73,600</u>	<u>75,168</u>	<u>174,695</u>	<u>15,276,307</u>	<u>7,106,950</u>
OPERATING EXPENSES						
Administration - Director	173,128	-	-	-	173,128	-
Administration - Cashier	724,784	-	-	-	724,784	-
Administration - Customer Service	631,303	-	-	-	631,303	-
Water - Production	2,277,446	-	-	-	2,277,446	-
Water - Distribution	2,697,522	-	-	-	2,697,522	-
Sewer - Pretreatment	1,492,683	-	-	-	1,492,683	-
Sewer - Collection	1,564,270	-	-	-	1,564,270	-
Depreciation	2,004,453	135,703	35,109	51,672	2,226,937	-
Insurance	316,430	26,475	22,115	6,932	371,952	-
Other operating expenses	1,862,772	759,542	397,402	96,511	3,116,227	5,768
Salaries	-	523,299	383,819	85,780	992,898	-
Utilities	-	21,363	112,265	8,633	142,261	-
Operating supplies	-	119,304	72,715	118,462	310,481	-
Premiums and claims	-	-	-	-	-	7,101,374
Total operating expenses	<u>13,744,791</u>	<u>1,585,686</u>	<u>1,023,425</u>	<u>367,990</u>	<u>16,721,892</u>	<u>7,107,142</u>
OPERATING INCOME (LOSS)	<u>1,208,053</u>	<u>(1,512,086)</u>	<u>(948,257)</u>	<u>(193,295)</u>	<u>(1,445,585)</u>	<u>(192)</u>
NON-OPERATING REVENUES (EXPENSES)						
Gain (loss) on disposal of assets	(4,119)	-	-	249	(3,870)	-
Interest income	33,326	73	791	797	34,987	192
Grant income	-	489,967	-	-	489,967	-
Interest on revenue bonds and notes	(443,033)	-	-	(4,101)	(447,134)	-
Total non-operating revenues (expenses)	<u>(413,826)</u>	<u>490,040</u>	<u>791</u>	<u>(3,055)</u>	<u>73,950</u>	<u>192</u>
INCOME (LOSS) BEFORE TRANSFERS AND CAPITAL CONTRIBUTIONS	<u>794,227</u>	<u>(1,022,046)</u>	<u>(947,466)</u>	<u>(196,350)</u>	<u>(1,371,635)</u>	<u>-</u>
TRANSFERS						
From General Fund	-	738,970	947,466	-	1,686,436	-
Total transfers in	<u>-</u>	<u>738,970</u>	<u>947,466</u>	<u>-</u>	<u>1,686,436</u>	<u>-</u>
CAPITAL CONTRIBUTIONS						
Federal/state grants	-	117,922	-	-	117,922	-
City of Ashland - transfer	-	29,450	-	-	29,450	-
Total capital contributions	<u>-</u>	<u>147,372</u>	<u>-</u>	<u>-</u>	<u>147,372</u>	<u>-</u>
INCREASE (DECREASE) IN NET ASSETS	<u>794,227</u>	<u>(135,704)</u>	<u>-</u>	<u>(196,350)</u>	<u>462,173</u>	<u>-</u>
NET ASSETS, JUNE 30, 2011	<u>33,582,941</u>	<u>1,363,638</u>	<u>283,413</u>	<u>4,798,012</u>	<u>40,028,004</u>	<u>-</u>
NET ASSETS, JUNE 30, 2012	<u>\$ 34,377,168</u>	<u>\$ 1,227,934</u>	<u>\$ 283,413</u>	<u>\$ 4,601,662</u>	<u>\$ 40,490,177</u>	<u>\$ -</u>

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

**CITY OF ASHLAND
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

	Business-Type Activities					Governmental Activity - Internal Service Fund
	Utility Fund	Ashland Bus Fund	Recreation Fund	Cemetery Fund	Total	
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash received from customers	\$ 17,028,834	\$ 72,400	\$ 66,759	\$ 157,600	\$ 17,325,593	\$ -
Cash payments to suppliers for goods and services	(7,052,653)	(1,519,761)	(409,517)	(93,699)	(9,075,630)	(5,768)
Cash payments to employees	(4,153,320)	(537,633)	(391,537)	(80,545)	(5,163,035)	-
Other operating revenues	670,725	1,117	8,529	10,942	691,313	-
Payments for internal services	(1,828,411)	(258,884)	(208,704)	(51,374)	(2,347,373)	-
Cash received for internal services	-	-	-	-	-	6,426,012
Payments for premiums and claims	-	-	-	-	-	(6,418,890)
Net cash provided by (used for) operating activities	<u>4,665,175</u>	<u>(2,242,761)</u>	<u>(934,470)</u>	<u>(57,076)</u>	<u>1,430,868</u>	<u>1,354</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Grant Income	-	973,945	-	-	973,945	-
Transfers from other funds	-	738,970	947,466	-	1,686,436	-
Net cash provided by noncapital financing activities	<u>-</u>	<u>1,712,915</u>	<u>947,466</u>	<u>-</u>	<u>2,660,381</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from the issuance of debt	1,696,921	-	-	-	1,696,921	-
Acquisition and construction of capital assets	(3,813,201)	(40,940)	(8,196)	(8,895)	(3,871,232)	-
Proceeds from sale of assets	4,350	-	-	975	5,325	-
Principal paid on bonds, notes, and lease obligations	(725,503)	(931)	(945)	#REF!	#REF!	-
Interest paid on bonds, notes, and lease obligations	(443,033)	-	-	(4,101)	(447,134)	-
Capital contributions	-	29,450	-	-	29,450	-
Capital grants received	-	547,190	-	-	547,190	-
Net cash provided by (used for) capital and related financing activities	<u>(3,280,466)</u>	<u>534,769</u>	<u>(9,141)</u>	<u>#REF!</u>	<u>#REF!</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Investment income	33,326	73	791	797	34,987	192
Net cash provided by investing activities	<u>33,326</u>	<u>73</u>	<u>791</u>	<u>797</u>	<u>34,987</u>	<u>192</u>
Net increase (decrease) in cash and cash equivalents	1,418,035	4,996	4,646	#REF!	#REF!	1,546
Cash and cash equivalents, June 30, 2011	<u>3,042,610</u>	<u>2,558</u>	<u>198,254</u>	<u>288,153</u>	<u>3,531,575</u>	<u>15,844</u>
Cash and cash equivalents, June 30, 2012	<u>\$ 4,460,645</u>	<u>\$ 7,554</u>	<u>\$ 202,900</u>	<u>#REF!</u>	<u>#REF!</u>	<u>\$ 17,390</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES						
Operating income (loss)	\$ 1,208,053	\$ (1,512,086)	\$ (948,257)	\$ (193,295)	\$ (1,445,585)	\$ (192)
Adjustments:						
Depreciation	2,004,453	135,703	35,109	51,672	2,226,937	-
Amortization	8,159	-	-	-	8,159	-
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	2,664,303	(83)	120	(6,153)	2,658,187	(660,147)
(Increase) decrease in inventories	25,123	(1,338)	(870)	108,900	131,815	-
(Increase) decrease in due from other funds	-	-	-	-	-	(20,791)
(Increase) decrease in pension asset	(187,620)	-	-	-	(187,620)	-
Increase (decrease) in accounts payable	(19,471)	10,742	(17,898)	4,617	(22,010)	166,035
Increase (decrease) in due to other funds	(947,952)	(861,365)	5,044	(28,052)	(1,832,325)	-
Increase (decrease) in compensated absences	(22,362)	(291)	6,750	1,998	(13,905)	-
Increase (decrease) in other accrued liabilities	(149,923)	(14,043)	(14,468)	3,237	(175,197)	516,449
Increase (decrease) in customer deposits	82,412	-	-	-	82,412	-
Net cash provided by (used for) operating activities	<u>\$ 4,665,175</u>	<u>\$ (2,242,761)</u>	<u>\$ (934,470)</u>	<u>\$ (57,076)</u>	<u>\$ 1,430,868</u>	<u>\$ 1,354</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, 2012**

	<u>Pension Trust Funds</u>
ASSETS	
Cash and cash equivalents	\$ 308,089
Accrued interest receivable	4,156
Due from other funds	3,924,963
Investments, at fair value	
U.S. Government obligations	<u>521,445</u>
Total assets	<u>4,758,653</u>
LIABILITIES	
Due to other funds	<u>894,564</u>
Total liabilities	<u>894,564</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u><u>\$ 3,864,089</u></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, 2012

	Pension Trust Funds
ADDITIONS:	
CONTRIBUTIONS	
Employer	\$ 934,694
Plan members	<u>562</u>
Total contributions	<u>935,256</u>
INVESTMENT INCOME	
Net depreciation in fair value of investments	(18,371)
Interest income	<u>32,367</u>
Total investment income	<u>13,996</u>
Total additions	<u>949,252</u>
DEDUCTIONS:	
Benefits	1,326,375
Administrative expenses	<u>12,379</u>
Total deductions	<u>1,338,754</u>
NET DECREASE	(389,502)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:	
Beginning of year	<u>4,253,591</u>
End of year	<u><u>\$ 3,864,089</u></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, 2012

	Original Budget	Revisions	Revised Budget	Actual	Variance Positive (Negative)
Revenues					
Property and other local taxes	\$ 7,728,901	\$ 49,500	\$ 7,778,401	\$ 7,468,101	\$ (310,300)
Licenses and permits	9,461,290	270,000	9,731,290	9,688,773	(42,517)
Charges for services	1,852,350	-	1,852,350	1,857,995	5,645
Fees, fines and reimbursements	1,571,109	56,000	1,627,109	1,620,053	(7,056)
Interest income	5,500	-	5,500	3,355	(2,145)
Grant income	346,525	116,210	462,735	476,959	14,224
Other income	181,570	78,155	259,725	223,592	(36,133)
Total revenues	21,147,245	569,865	21,717,110	21,338,828	(378,282)
Expenditures					
General government	2,448,340	85,164	2,533,504	2,766,853	(233,349)
Finance	590,448	53,085	643,533	624,750	18,783
Public services	4,023,802	235,324	4,259,126	4,520,516	(261,390)
Planning and code enforcement	515,806	42,602	558,408	609,254	(50,846)
Police	5,036,537	295,080	5,331,617	5,362,642	(31,025)
Fire	5,582,008	(190,509)	5,391,499	5,839,753	(448,254)
Engineering	448,222	21,221	469,443	432,705	36,738
Debt service:					
Principal retirement	637,751	-	637,751	637,751	-
Interest and fiscal charges	317,263	-	317,263	291,216	26,047
Total expenditures	19,600,177	541,967	20,142,144	21,085,440	(943,296)
Excess of Revenues Over (Under) Expenditures	1,547,068	27,898	1,574,966	253,388	(1,321,578)
Other Financing Sources (Uses)					
Transfers out	(1,547,068)	(99,971)	(1,647,039)	(2,026,355)	(379,316)
Total other financing sources (uses)	(1,547,068)	(99,971)	(1,647,039)	(2,026,355)	(379,316)
Net change in fund balance	-	(72,073)	(72,073)	(1,772,967)	(1,700,894)
Fund balance beginning of year	2,946,766	-	2,946,766	2,946,766	-
Fund balance end of year	\$ 2,946,766	\$ (72,073)	\$ 2,874,693	\$ 1,173,799	\$ (1,700,894)

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, 2012

	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	455,600	-	455,600	517,971	62,371
Administration fee income	-	-	-	-	-
Interest income	40	-	40	14	(26)
Other income	5,200	-	5,200	1,932	(3,268)
Total revenues	<u>460,840</u>	<u>-</u>	<u>460,840</u>	<u>519,917</u>	<u>59,077</u>
Expenditures					
General government	-	-	-	-	-
Finance	-	-	-	-	-
Public services	460,340	-	460,340	463,800	(3,460)
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>460,840</u>	<u>-</u>	<u>460,840</u>	<u>463,800</u>	<u>(2,960)</u>
Excess of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>56,117</u>	<u>56,117</u>
Other Financing Sources (Uses)					
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	-	-	-	56,117	56,117
Fund balance beginning of year	<u>4,412</u>	<u>-</u>	<u>4,412</u>	<u>4,412</u>	<u>-</u>
Fund balance end of year	<u>\$ 4,412</u>	<u>\$ -</u>	<u>\$ 4,412</u>	<u>\$ 60,529</u>	<u>\$ 56,117</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 BALANCE - BUDGET AND ACTUAL
COMMUNITY DEVELOPMENT FUND
FOR THE YEAR ENDED JUNE 30, 2012

	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	1,275,500	-	1,275,500	628,201	(647,299)
Administration fee income	-	-	-	-	-
Interest income	-	-	-	-	-
Other income	-	-	-	394	394
Total revenues	<u>1,275,500</u>	<u>-</u>	<u>1,275,500</u>	<u>628,595</u>	<u>(646,905)</u>
Expenditures					
General government	-	-	-	-	-
Finance	-	-	-	-	-
Public services	-	-	-	-	-
Planning and code enforcement	-	-	-	-	-
Police	-	-	-	-	-
Fire	-	-	-	-	-
Engineering	-	-	-	-	-
Community and cultural	1,275,500	-	1,275,500	628,595	646,905
Other	-	-	-	-	-
Capital outlay	-	-	-	-	-
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	<u>1,275,500</u>	<u>-</u>	<u>1,275,500</u>	<u>628,595</u>	<u>646,905</u>
Excess of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other Financing Sources (Uses)					
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	-	-	-	-	-
Fund balance beginning of year	<u>65,043</u>	<u>-</u>	<u>65,043</u>	<u>65,043</u>	<u>-</u>
Fund balance end of year	<u>\$ 65,043</u>	<u>\$ -</u>	<u>\$ 65,043</u>	<u>\$ 65,043</u>	<u>\$ -</u>

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

CITY OF ASHLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
HOUSING ASSISTANCE FUND
FOR THE YEAR ENDED JUNE 30, 2012

	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	2,502,996	-	2,502,996	2,484,438	(18,558)
Administration fee income	333,261	-	333,261	251,707	(81,554)
Interest income	230	-	230	644	414
Other income	-	-	-	-	-
Total revenues	<u>2,836,487</u>	<u>-</u>	<u>2,836,487</u>	<u>2,736,789</u>	<u>(99,698)</u>
Expenditures					
General government	-	-	-	-	-
Finance	-	-	-	-	-
Public services	-	-	-	-	-
Planning and code enforcement	-	-	-	-	-
Police	-	-	-	-	-
Fire	-	-	-	-	-
Engineering	-	-	-	-	-
Community and cultural	2,836,487	-	2,836,487	2,770,603	65,884
Other	-	-	-	-	-
Capital outlay	-	-	-	-	-
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	<u>2,836,487</u>	<u>-</u>	<u>2,836,487</u>	<u>2,770,603</u>	<u>65,884</u>
Excess of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>(33,814)</u>	<u>(33,814)</u>
Other Financing Sources (Uses)					
Transfers in	-	-	-	58,840	58,840
Transfers out	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>58,840</u>	<u>58,840</u>
Net change in fund balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,026</u>	<u>25,026</u>
Fund balance beginning of year	<u>293,347</u>	<u>-</u>	<u>293,347</u>	<u>293,347</u>	<u>-</u>
Fund balance end of year	<u>\$ 293,347</u>	<u>\$ -</u>	<u>\$ 293,347</u>	<u>\$ 318,373</u>	<u>\$ 25,026</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, 2012

	Original Budget	Revisions	Revised Budget	Actual	Variance Positive (Negative)
Revenues					
Property and other local taxes	\$ 170,249	\$ -	\$ 170,249	\$ 182,713	\$ 12,464
Licenses and permits	-	-	-	-	-
Charges for services	-	-	-	-	-
Fees, fines and reimbursements	-	-	-	-	-
Grant income	-	-	-	-	-
Administration fee income	-	-	-	-	-
Interest income	40	-	40	41	1
Other income	-	-	-	-	-
Total revenues	<u>170,289</u>	<u>-</u>	<u>170,289</u>	<u>182,754</u>	<u>12,465</u>
Expenditures					
General government	-	-	-	-	-
Finance	-	-	-	-	-
Public services	323,368	(135,766)	187,602	183,948	3,654
Planning and code enforcement	-	-	-	-	-
Police	-	-	-	-	-
Fire	-	-	-	-	-
Engineering	-	-	-	-	-
Community and cultural	-	-	-	-	-
Other	-	-	-	-	-
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	<u>323,368</u>	<u>(135,766)</u>	<u>187,602</u>	<u>183,948</u>	<u>3,654</u>
Excess of Revenues Over (Under) Expenditures	<u>(153,079)</u>	<u>135,766</u>	<u>(17,313)</u>	<u>(1,194)</u>	<u>16,119</u>
Other Financing Sources (Uses)					
Transfers in	153,079	(135,766)	17,313	784	(16,529)
Transfers out	-	-	-	-	-
Total other financing sources (uses)	<u>153,079</u>	<u>(135,766)</u>	<u>17,313</u>	<u>784</u>	<u>(16,529)</u>
Net change in fund balance	-	-	-	(410)	(410)
Fund balance beginning of year	<u>410</u>	<u>-</u>	<u>410</u>	<u>410</u>	<u>-</u>
Fund balance end of year	<u>\$ 410</u>	<u>\$ -</u>	<u>\$ 410</u>	<u>\$ -</u>	<u>\$ (410)</u>

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

CITY OF ASHLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

(1) REPORTING ENTITY

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

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

Based on the previous criteria, the City has determined that as of June 30, 2012 there are no organizations meeting the criteria.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

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

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

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

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

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

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

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

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

The City reports the following major Governmental Funds:

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

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

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

The City reports the following major Proprietary Funds:

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

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

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

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

Additionally, the City reports the following fund types:

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

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

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

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

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

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

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

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

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

C. Budget and Budgetary Accounting

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

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

D. Deposits and Investments

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

deposit, savings and loan deposits, Commonwealth of Kentucky investment pool and the Kentucky League of Cities investment pool.

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

E. Inventories

Inventories are valued at cost (first-in, first-out method). Inventory in the General and Enterprise-Utility Fund consists of expendable supplies held for consumption. Enterprise-Recreation Fund inventories consist of merchandise held for sale and consumable supplies. Enterprise-Cemetery Fund inventories consist of plots and mausoleum vaults. 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 capital 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, 2012, there were no encumbrances.

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 following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance-amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;
- Restricted fund balance-amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions, or by enabling legislation;
- Committed fund balance-amounts constrained to specific purposes by the City itself, using its decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the City takes the action to remove or change the constraint;
- Assigned fund balance-amounts the City intends to use for a specific purpose (such as encumbrances); intent can be expressed by the City Commissioners or by an official or body to which the City delegates the authority;
- Unassigned fund balance-amounts that are available for any purpose; unassigned amounts are reported only in the General Fund.

When committed, assigned and unassigned resources are available for use, it is the City's policy to use committed and assigned resources first, then unassigned resources as they are needed.

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, 2011 information to conform with the 2012 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. The City has not completed the process of the evaluation of GASB No. 62, but does not expect it to have an impact on its financial statements.

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. The City has not completed the process of evaluating GASB No. 63, but it is expected to change only the formatting and naming of its statement of position and components thereof, with no overall financial impact.

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, 2012, the carrying amounts of the City's deposits were \$4,270,023 and the bank balances were \$5,739,564. 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, 2012, 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	\$ 521,445	\$ -	\$ 521,445	-	-

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 2012 assessed value for real property and tangible property was \$824,453,614 and \$97,283,558, respectively. The tax rate adopted was \$.3553 per \$100 valuation.

(5) GRANTS RECEIVABLE

Grants receivable from other governmental units as of June 30, 2012, are as follows:

General Fund -	
Kentucky Transportation Cabinet	\$ 190,753
HEARTH Grant	4,699
	<u>195,452</u>
Special Revenue Funds -	
Municipal Aid Road Fund	47,160
Community Development Fund, program allocation	15,703
	<u>62,863</u>
Enterprise Funds -	
Ashland Bus System - FTA operations	61,573
Ashland Bus System - FTA capital	6,911
	<u>68,484</u>
	<u>\$ 326,799</u>

(6) CAPITAL ASSETS

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

<i>Governmental Activities</i>	June 30, 2011	Increases	Decreases	June 30, 2012
Capital Assets, Not Depreciated:				
Land	\$ 18,936,298	\$ -	\$ -	\$ 18,936,298
Construction in progress	10,488	61,464	-	71,952
Capital Assets, Depreciated:				
Buildings	8,872,607	-	-	8,872,607
Building improvements	2,922,021	84,065	-	3,006,086
Automotive equipment	4,265,431	145,681	(601,053)	3,810,059
Office furniture and equipment	723,715	-	-	723,715
Operating equipment	3,703,750	41,423	-	3,745,173
Capital improvements	477,935	-	-	477,935
Infrastructure	73,990,567	777,218	-	74,767,785
Totals	<u>113,902,812</u>	<u>1,109,851</u>	<u>(601,053)</u>	<u>114,411,610</u>
Accumulated Depreciation:				
Buildings	1,348,926	178,469	-	1,527,395
Building improvements	1,636,313	79,073	-	1,715,386
Automotive equipment	3,047,324	229,323	(574,752)	2,701,895
Office furniture and equipment	578,309	29,836	-	608,145
Operating equipment	2,146,828	194,101	-	2,340,929
Capital improvements	117,924	24,837	-	142,761
Infrastructure	39,064,856	1,971,810	-	41,036,666
Totals	<u>47,940,480</u>	<u>2,707,449</u>	<u>(574,752)</u>	<u>50,073,177</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 65,962,332</u>	<u>\$ (1,597,598)</u>	<u>\$ (26,301)</u>	<u>\$ 64,338,433</u>

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

Land	\$ 378,087	\$ 4,000	\$ -	\$ 382,087
Construction in progress	4,059,003	3,541,053	(199,947)	7,400,109

Capital Assets, Depreciated:

Buildings	3,846,513	-	-	3,846,513
Building improvements	676,544	32,090	-	708,634
Utility and sewage plants	79,362,229	446,062	-	79,808,291
Automotive equipment	1,981,518	-	(129,204)	1,852,314
Office furniture and equipment	463,532	-	-	463,532
Operating equipment	3,096,112	39,777	(111,065)	3,024,824
Capital improvement	418,280	-	-	418,280
Recreation equipment	304,443	8,195	-	312,638
Totals	<u>94,586,261</u>	<u>4,071,177</u>	<u>(440,216)</u>	<u>98,217,222</u>

Accumulated Depreciation:

Buildings	662,630	89,646	-	752,276
Building improvements	329,371	31,268	-	360,639
Utility and sewage plants	40,209,782	1,803,227	-	42,013,009
Automotive equipment	1,255,537	128,591	(120,009)	1,264,119
Office furniture and equipment	377,435	21,366	-	398,801
Operating equipment	1,842,055	124,985	(111,067)	1,855,973
Capital improvements	71,735	25,239	-	96,974
Recreation equipment	267,371	2,615	-	269,986
Totals	<u>45,015,916</u>	<u>2,226,937</u>	<u>(231,076)</u>	<u>47,011,777</u>

Business-type Activities

Capital Assets, Net	<u>\$ 49,570,345</u>	<u>\$ 1,844,240</u>	<u>\$ (209,140)</u>	<u>\$ 51,205,445</u>
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Depreciation expense was allocated to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 471,757
Finance	367
Public services	1,742,677
Planning and code enforcement	7,803
Police	228,493
Fire	192,673
Engineering	47,889
Community and cultural	15,790
	<u>\$ 2,707,449</u>

Business-type activities:

Utilities	\$ 2,004,453
Recreation	35,109
Bus	135,703
Cemetery	51,672
	<u>\$ 2,226,937</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, 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, 2012, 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, 2010.

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
ASSETS			
Cash and cash equivalents	\$ 44,755	\$ 263,334	\$ 308,089
Accrued interest receivable	2,078	2,078	4,156
Due from other funds	3,205,026	719,937	3,924,963
Investments, at fair value -			
U.S. Government obligations	<u>260,722</u>	<u>260,723</u>	<u>521,445</u>
Total assets	<u>3,512,581</u>	<u>1,246,072</u>	<u>4,758,653</u>
LIABILITIES			
Due to other funds	<u>894,564</u>	<u>-</u>	<u>894,564</u>
Total liabilities	<u>894,564</u>	<u>-</u>	<u>894,564</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u>\$ 2,618,017</u>	<u>\$ 1,246,072</u>	<u>\$ 3,864,089</u>
ADDITIONS			
Contributions -			
Employer	\$ 567,529	\$ 367,165	\$ 934,694
Plan members	<u>562</u>	<u>-</u>	<u>562</u>
Total contributions	<u>568,091</u>	<u>367,165</u>	<u>935,256</u>
Investment income -			
Net (depreciation) appreciation in fair value of investments	(2,631)	(15,740)	(18,371)
Interest income	<u>6,890</u>	<u>25,477</u>	<u>32,367</u>
Total investment income	<u>4,259</u>	<u>9,737</u>	<u>13,996</u>
Total additions	<u>572,350</u>	<u>376,902</u>	<u>949,252</u>
DEDUCTIONS			
Benefits	709,221	617,154	1,326,375
Administrative expenses	<u>6,260</u>	<u>6,119</u>	<u>12,379</u>
Total deductions	<u>715,481</u>	<u>623,273</u>	<u>1,338,754</u>
NET DECREASE	(143,131)	(246,371)	(389,502)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:			
Beginning of year	<u>2,761,148</u>	<u>1,492,443</u>	<u>4,253,591</u>
End of year	<u>\$ 2,618,017</u>	<u>\$ 1,246,072</u>	<u>\$ 3,864,089</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	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	37	<u>Totals</u> 66
Active plan participants:			
Vested	-	-	-
Non-Vested	<u>1</u>	<u>-</u>	<u>1</u>
	<u>30</u>	<u>37</u>	<u>67</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	7-1-10
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level % of payroll Closed	Level % of payroll Closed
Amortization	30 years	20 years
Actuarial asset valuation method	Fair market value, quoted market prices	Fair market value, quoted market prices
Actuarial assumptions		
Investment rate of return	5.00 %	5.00 %
Projected salary increases	5.00 %	None
Post retirement benefit increases	0.00 %	0.00 %
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	316,165	270,665
Interest on net pension asset	(112,723)	(111,860)
Adjustment to annual contribution requirement	176,466	179,519
Annual pension cost	<u>379,908</u>	<u>338,324</u>
Increase in net pension asset	187,621	28,841
Net pension asset, June 30, 2011	2,284,262	2,237,207
Net pension asset, June 30, 2012	<u>\$ 2,471,883</u>	<u>\$ 2,266,048</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)
2010	\$ 323,956	188%	\$ (2,024,553)	2010	\$ 330,192	136%	\$ (2,207,467)
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)

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

7/1/06	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
7/1/10	1,775,017	5,316,734	3,541,719	33.4%	** 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 18.96% 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 35.76% 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, 2012, 2011, and 2010 were \$3,544,530, \$3,188,070, and \$2,908,402, 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, 2012:

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012
<u>Governmental Activities</u>				
General Obligation Bond Series 2005	\$ 2,870,000	\$ -	\$ 95,000	\$ 2,775,000
Capital leases - Equipment	62,051	-	13,901	48,150
Capital lease - Police Station	4,659,258	-	124,684	4,534,574
Capital lease	1,098,333	-	404,166	694,167
Compensated absences obligation	962,489	-	24,104	938,385
Total Governmental Activities	<u>\$ 9,652,131</u>	<u>\$ -</u>	<u>\$ 661,855</u>	<u>\$ 8,990,276</u>
<u>Business-type Activities</u>				
Revenue & Improvement Bond Series 2004	\$ 5,515,000	\$ -	\$ 450,000	\$ 5,065,000
Capital leases - Equipment	22,912	-	5,132	17,780
Note payable	184,264	-	184,264	-
Kentucky Infrastructure Authority Loan	1,457,189	-	103,188	1,354,001
Kentucky Infrastructure Authority Loan	3,038,753	-	177,576	2,861,177
Kentucky Infrastructure Authority Loan	3,318,239	3,326,756	-	6,644,995
Total Business-type Activities	<u>\$ 13,536,357</u>	<u>\$ 3,326,756</u>	<u>\$ 920,160</u>	<u>\$ 15,942,953</u>

At June 30, 2012, the City was required to have \$662,246 for the Revenue and Improvement Bonds of 2004, in sinking fund reserve accounts. Additionally, under the KIA loan agreements, the City was required to have \$268,000 set aside for the costs of extensions, improvements, renewals and replacements to the sewer system. As of June 30, 2012, the City had reserve funds of \$1,115,493.

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>
2013	\$ 301,667	\$ 16,456	\$ 318,123
2014	150,000	9,669	159,669
2015	152,083	6,294	158,377
2016	90,417	2,523	92,940
	<u>\$ 694,167</u>	<u>\$ 34,942</u>	<u>\$ 729,109</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>
2013	\$ 140,978	\$ 171,371	\$ 312,349
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
2018-2022	913,094	642,718	1,555,812
2023-2027	1,097,436	453,121	1,550,557
2028-2032	1,318,966	225,276	1,544,242
2033-2034	445,357	16,500	461,857
	<u>\$ 4,534,574</u>	<u>\$ 2,138,076</u>	<u>\$ 6,672,650</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	(15,658)
	<u>\$ 62,633</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>
2013	\$ 16,311	\$ 6,597	\$ 22,908
2014	19,147	3,760	22,907
2015	12,692	691	13,383
	<u>\$ 48,150</u>	<u>\$ 11,048</u>	<u>\$ 59,198</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, 2012, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 100,000	\$ 114,438	\$ 214,438
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
2018-2022	675,000	411,653	1,086,653
2023-2027	795,000	257,574	1,052,574
2028-2032	765,000	70,583	835,583
	<u>\$ 2,775,000</u>	<u>\$ 1,270,400</u>	<u>\$ 4,045,400</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, 2012, are as follows:

	<u>Accrued Long-Term Obligation</u>	<u>Current Obligation</u>	<u>Total Compensated Absences</u>
General Fund	\$ 919,509	\$ 180,887	\$ 1,100,396
Community Development Fund	8,764	1,724	10,488
Housing Assistance Fund	3,343	658	4,001
Utility Fund	227,432	-	227,432
Ashland Bus System	-	27,428	27,428
Recreation Fund	-	48,120	48,120
Cemetery Fund	-	4,366	4,366
Floodwall Fund	6,769	1,332	8,101
	<u>\$ 938,385</u>	<u>\$ 491,947</u>	<u>\$ 1,430,332</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, 2012, 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

During 2010, the City secured a construction loan of \$7,709,331 from the Kentucky Infrastructure Authority 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). Full

principal and interest payments will commence within one year of project completion. At June 30, 2012, the city had draws under the loan totaling \$6,644,995 included in long-term liabilities.

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, 2012 are as follows:

Year ending June 30,	Principal	Interest	Fees	Total
2013	\$ 107,146	\$ 50,444	\$ 3,319	\$ 160,909
2014	111,257	46,333	3,048	160,638
2015	115,522	42,066	2,767	160,355
2016	119,956	37,634	2,476	160,066
2017	124,558	33,032	2,173	159,763
2018-2022	698,239	89,716	5,902	793,857
2023	77,323	1,469	97	78,889
	<u>\$ 1,354,001</u>	<u>\$ 300,694</u>	<u>\$ 19,782</u>	<u>\$ 1,674,477</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, 2012, are as follows:

Year ending June 30,	Principal	Interest	Fees	Total
2013	\$ 182,943	\$ 84,473	\$ 7,039	\$ 274,455
2014	188,473	78,944	6,579	273,996
2015	194,169	73,247	6,104	273,520
2016	200,038	67,379	5,615	273,032
2017	206,084	61,332	5,111	272,527
2018-2022	1,127,707	209,377	17,448	1,354,532
2023-2026	761,763	40,489	3,374	805,626
	<u>\$ 2,861,177</u>	<u>\$ 615,241</u>	<u>\$ 51,270</u>	<u>\$ 3,527,688</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	(5,783)
	<u>\$ 23,132</u>

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

Year ending June 30,	Principal	Interest	Total
2013	\$ 6,033	\$ 2,440	\$ 8,473
2014	7,082	1,391	8,473
2015	4,665	255	4,920
	<u>\$ 17,780</u>	<u>\$ 4,086</u>	<u>\$ 21,866</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, 2012, are as follows:

Year ending June 30,	Principal	Interest	Total
2013	\$ 320,000	\$ 198,071	\$ 518,071
2014	335,000	187,351	522,351
2015	350,000	175,794	525,794
2016	365,000	163,194	528,194
2017	385,000	149,689	534,689
2018-2022	2,240,000	504,391	2,744,391
2023-2024	1,070,000	66,825	1,136,825
	<u>\$ 5,065,000</u>	<u>\$ 1,445,315</u>	<u>\$ 6,510,315</u>

(9) INTERFUND TRANSACTIONS

Interfund Receivable and Payables

The composition of interfund balances as of June 30, 2012 is as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General Fund	Ashland Bus System	\$ 235,359
General Fund	Municipal Aid Fund	72,702
General Fund	Utility Fund	1,790,638
General Fund	Recreation Fund	255,272
General Fund	Floodwall Operating Fund	138,987
General Fund	Utility Pension Fund	894,564
General Fund	Cemetery Fund	242,868
Community Development	General Fund	55,161
Housing Assistance	General Fund	100,540
Capital Project	General Fund	24,347
Internal Service Fund	General Fund	1,256,704
Utility Pension Fund	Utility Fund	3,205,026
Police and Fire Fighters Pension	General Fund	719,937
Total		<u>\$ 8,992,105</u>

Interfund Transfers

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Operating	General	Ashland Bus System	Matching	\$ 768,420
Operating	General	Recreation	Operations	947,466
Operating	General	Capital Projects	Capital Purchases	250,845
Operating	General	Housing Assistance	Operations	58,840
Operating	General	Floodwall	Operations	784

(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, 2012, the City paid \$738,970 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 \$61,573 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, 2012, the City has incurred costs of \$7,233,312 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, 2012, the City has \$3,006,117 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 cost to be approximately \$250,000.

Construction Projects

The City is obligated on commitments for various contracts in progress at June 30, 2012. 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	<u>\$ 7,049,290</u>	<u>\$ 6,765,375</u>	<u>\$ 283,915</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 \$621,809 reported in the Internal Service Fund at June 30, 2012, 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 2011 and 2012 were:

	Beginning of Fiscal Year Liability	Current Year Claims	Claim Payments	Balance At Fiscal Year End
2011	\$ 346,901	\$ 6,593,261	\$ 6,484,388	\$ 455,744
2012	455,774	6,061,465	5,895,430	621,809

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, 2012 totaled \$849,292.

(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 \$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 \$98,015 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, 2011, the date of the latest actuarial valuation, the plan had 94,692 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, 2011 was as follows:

Total medical benefit obligation	000's omitted \$ 4,721,675
Net assets available for benefits at actuarial value unfunded medical benefit obligation	2,204,241 \$ 2,517,434

(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, 2012**

UTILITY EMPLOYEES PENSION PLAN				POLICE AND FIREFIGHTERS PENSION PLAN			
	Amount Contributed	ARC	Percent of ARC Contributed		Amount Contributed	ARC	Percent of ARC Contributed
2007	\$ 410,483	\$ 316,858	130%	\$ 288,463	\$ 293,551	98%	
2008	504,621	325,015	155%	355,128	293,551	121%	
2009	684,266	325,025	211%	481,553	267,003	180%	
2010	608,977	309,647	197%	448,250	267,003	168%	
2011	570,018	309,647	184%	367,165	270,665	136%	
2012	567,529	316,165	180%	367,165	270,665	136%	

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, 2012

	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	-	1,068,569	1,068,569	986,676	(81,893)
Administration fee income	-	-	-	-	-
Interest income	-	-	-	-	-
Other income	-	-	-	81,894	81,894
Total revenues	-	1,068,569	1,068,569	1,068,570	1
Expenditures					
General government	3,790	-	3,790	460	3,330
Finance	-	-	-	-	-
Public services	-	-	-	-	-
Planning and code enforcement	-	-	-	-	-
Police	-	-	-	-	-
Fire	-	-	-	-	-
Engineering	-	-	-	-	-
Community and cultural	-	-	-	-	-
Other	-	-	-	-	-
Capital outlay	17,500	1,304,306	1,321,806	1,315,814	5,992
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	21,290	1,304,306	1,325,596	1,316,274	9,322
Excess of Revenues Over (Under) Expenditures	(21,290)	(235,737)	(257,027)	(247,704)	9,323
Other Financing Sources (Uses)					
Transfers in	21,290	235,737	257,027	250,845	(6,182)
Total other financing sources (uses)	21,290	235,737	257,027	250,845	(6,182)
Net change in fund balance	-	-	-	3,141	3,141
Fund balance beginning of year	-	-	-	-	-
Fund balance end of year	\$ -	\$ -	\$ -	\$ 3,141	\$ 3,141

CITY OF ASHLAND

GENERAL FUND

BALANCE SHEET

JUNE 30, 2012

ASSETS

Cash	\$ 10,541
Taxes receivable	3,127,103
Allowance for uncollectible taxes	(464,989)
Grants receivable	195,452
Due from other funds	3,630,390
Other receivables	387,952
Allowance for uncollectible accounts	(31,226)
Inventories - supplies	81,508
Prepaid items	<u>-</u>
Total assets	<u>\$ 6,936,731</u>

LIABILITIES AND FUND BALANCE

Liabilities:

Cash overdraft	\$ 1,097,916
Accounts payable	1,458,307
Due to other funds	2,156,689
Due to Board of Education	19,303
Accrued compensated absences	180,887
Accrued expenses	769,049
Deferred revenue	<u>80,781</u>
Total liabilities	<u>5,762,932</u>

Fund Balance:

Restricted for grant programs	216,233
Non-spendable	81,508
Unassigned	<u>876,058</u>
Total fund balance	<u>1,173,799</u>

Total liabilities and fund balance	<u>\$ 6,936,731</u>
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CITY OF ASHLAND

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2012

	Budget	Actual	Variance
REVENUES:			
Taxes -			
General property taxes	\$ 3,148,011	\$ 2,868,334	\$ (279,677)
Penalties and interest	35,670	35,748	78
Bank franchise taxes	101,455	99,993	(1,462)
Other franchise taxes	154,005	109,899	(44,106)
Delinquent taxes	176,765	159,605	(17,160)
Vehicle property taxes	485,775	515,896	30,121
Insurance premiums taxes	3,676,720	3,678,626	1,906
Total taxes	<u>7,778,401</u>	<u>7,468,101</u>	<u>(310,300)</u>
Licenses and permits -			
Occupational license fees	7,881,055	7,832,347	(48,708)
Business privilege licenses	1,208,015	1,264,140	56,125
Alcoholic beverage licenses	544,290	544,702	412
Construction permit fees	96,930	46,854	(50,076)
Other licenses and permits	1,000	730	(270)
Total licenses and permits	<u>9,731,290</u>	<u>9,688,773</u>	<u>(42,517)</u>
Charge for services -			
Garbage collection fee	1,793,350	1,822,996	29,646
Greyhound ticket sales	22,200	24,542	2,342
Rental revenue	36,800	10,457	(26,343)
Total charges for services	<u>1,852,350</u>	<u>1,857,995</u>	<u>5,645</u>
Fees, fines and reimbursements -			
Parking meter fees and fines	40,050	29,198	(10,852)
Taxes collection fees	101,300	98,569	(2,731)
State rebate - District Court	41,800	35,333	(6,467)
Street lighting franchise	775,425	866,136	90,711
Telecommunication franchise	250,445	251,979	1,534
Other	418,089	338,838	(79,251)
Total fees, fines and reimbursements	<u>1,627,109</u>	<u>1,620,053</u>	<u>(7,056)</u>
Other revenues -			
Police grants	74,520	86,506	11,986
Homeless shelter grant	62,000	78,503	16,503
Miscellaneous grants	326,215	308,246	(17,969)
Riverfront appropriation	-	3,704	3,704
Coal severance - LGEA	40,370	34,568	(5,802)
Interest earned	5,500	3,355	(2,145)
Other	219,355	189,024	(30,331)
Total other revenues	<u>727,960</u>	<u>703,906</u>	<u>(24,054)</u>
Total revenues	<u>21,717,110</u>	<u>21,338,828</u>	<u>(378,282)</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, 2012

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
EXPENDITURES:			
General Government -			
Mayor and Commissioners	112,210	117,803	(5,593)
City Manager	132,821	135,063	(2,242)
Legal	155,088	158,042	(2,954)
Economic Development	138,917	131,917	7,000
City Clerk/ABC Administrator	197,124	202,754	(5,630)
Grants and projects	307,005	274,916	32,089
Unclassified	<u>1,490,339</u>	<u>1,746,358</u>	<u>(256,019)</u>
	<u>2,533,504</u>	<u>2,766,853</u>	<u>(233,349)</u>
Department of Finance -			
Director of Finance	609,497	596,009	13,488
Data Processing	<u>34,036</u>	<u>28,741</u>	<u>5,295</u>
	<u>643,533</u>	<u>624,750</u>	<u>18,783</u>
Department of Public Services -			
Director of Public Services	261,783	244,541	17,242
Street maintenance	2,051,032	2,110,347	(59,315)
Sanitation services	1,447,087	1,648,947	(201,860)
Central garage	362,745	379,081	(16,336)
Animal control	136,479	137,600	(1,121)
Equipment lease purchase	<u>-</u>	<u>-</u>	<u>-</u>
	<u>4,259,126</u>	<u>4,520,516</u>	<u>(261,390)</u>
Department of Planning and Code Enforcement	<u>558,408</u>	<u>609,254</u>	<u>(50,846)</u>
Department of Police -			
Technical services	1,561,047	1,539,511	21,536
Field operations	<u>3,770,570</u>	<u>3,823,131</u>	<u>(52,561)</u>
	<u>5,331,617</u>	<u>5,362,642</u>	<u>(31,025)</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, 2012

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Department of Fire	<u>5,391,499</u>	<u>5,839,753</u>	<u>(448,254)</u>
Department of Engineering	<u>469,443</u>	<u>432,705</u>	<u>36,738</u>
Debt Service	<u>955,014</u>	<u>928,967</u>	<u>26,047</u>
Total expenditures	<u>20,142,144</u>	<u>21,085,440</u>	<u>(943,296)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>1,574,966</u>	<u>253,388</u>	<u>(1,321,578)</u>
OTHER FINANCING SOURCES (USES):			
Transfer to Capital Projects Fund	(257,027)	(250,845)	6,182
Transfer to Recreation Fund	(883,141)	(947,466)	(64,325)
Transfer to Ashland Bus Fund	(446,304)	(768,420)	(322,116)
Transfer to Floodwall Fund	(17,313)	(784)	16,529
Transfer to Housing Assistance Fund	-	(58,840)	(58,840)
Transfer to Ashland Cemetery Fund	(43,254)	-	43,254
Proceeds from long-term debt	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(1,647,039)</u>	<u>(2,026,355)</u>	<u>(379,316)</u>
NET CHANGE IN FUND BALANCE	(72,073)	(1,772,967)	(1,700,894)
FUND BALANCE, June 30, 2011	<u>2,946,766</u>	<u>2,946,766</u>	<u>-</u>
FUND BALANCE, June 30, 2012	<u>\$ 2,874,693</u>	<u>\$ 1,173,799</u>	<u>\$ (1,700,894)</u>

CITY OF ASHLAND

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

JUNE 30, 2012

	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	\$ 296,993	\$ 39,275	\$ 11,591,668	\$ 10,488	\$ 16,734,740
Dept of Finance	-	-	-	64,920	22,706	-	-	-	87,626
Dept of Public Services	15,978,343	682,840	628,654	2,595,294	6,299	374,853	61,726,728	61,464	82,054,475
Dept of Planning & Community Development	-	13,033	87,637	6,799	-	-	-	-	107,469
Department of Police	4,949,556	246,711	854,823	566,298	190,538	19,350	-	-	6,827,276
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	-	49,080	-	-	-	224,653
	\$ 27,808,905	\$ 3,006,086	\$ 3,810,059	\$ 3,745,173	\$ 723,715	\$ 477,935	\$ 74,767,785	\$ 71,952	\$ 114,411,610

CITY OF ASHLAND

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

JUNE 30, 2012

Land and buildings	\$ 27,808,905
Building improvements	3,006,086
Automotive equipment	3,810,059
Operating equipment	3,745,173
Office furniture and equipment	723,715
Capital improvements	477,935
Infrastructure	74,767,785
Construction in progress	<u>71,952</u>
Total	<u>\$ 114,411,610</u>
Investment in capital assets by source	
General Fund	\$ 90,141,390
Special Revenue Funds	4,485,125
Capital Projects Fund	<u>19,785,095</u>
Total	<u>\$ 114,411,610</u>

CITY OF ASHLAND HOUSING AUTHORITY

STATEMENT OF NET ASSETS

JUNE 30, 2012

	<u>Rental Vouchers</u>
ASSETS	
Cash - restricted	\$ 304,071
Accounts receivable	155
Accounts receivable - other governmental	100,540
Building and equipment, net	<u>101,719</u>
Total assets	<u>\$ 506,485</u>
LIABILITIES AND NET ASSETS	
LIABILITIES:	
Cash overdraft - unrestricted	\$ 82,561
Accounts payable	320
Accrued expenses	2,853
Accrued compensated absences - current	658
Accrued compensated absences - noncurrent	<u>3,344</u>
Total liabilities	<u>89,736</u>
NET ASSETS:	
Invested in capital assets	101,719
Unrestricted	10,959
Restricted	<u>304,071</u>
	<u>416,749</u>
Total liabilities and net assets	<u>\$ 506,485</u>

CITY OF ASHLAND HOUSING AUTHORITY
STATEMENT OF REVENUES AND EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Rental Vouchers</u>
REVENUES	
Housing assistance payments	\$ 2,484,438
Administrative fee revenue	251,707
Interest income	644
Other income	58,840
Total revenues	<u>2,795,629</u>
EXPENSES	
Administrative salaries	117,166
Audit	5,608
Employee benefit contributions	21,729
Travel	12,823
Other administrative	12,008
Utilities	1,544
Maintenance	8,017
Property insurance	358
General liability insurance	1,282
Workers compensation	684
Other insurance	47,337
Other general	71,091
Compensated absences	-
Housing assistance payments	2,470,773
Depreciation	8,325
Total expenses	<u>2,778,745</u>
EXCESS OF REVENUES OVER EXPENSES	<u>\$ 16,884</u>

CITY OF ASHLAND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2012

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	\$ 532,855 *
ARRA, CDBG Entitlement	14.218	B09MY2-10003	95,740 *
Housing Choice Voucher Program	14.871	KY142VO	2,711,763 *
Pass through Kentucky Housing Corporation -			
Kentucky Emergency Shelter Grants Program	14.231	ES007-0001-01	74,882
ARRA, Homeless Prevention and Rapid			
Rehousing Program	14.257	KH09-0001-01	157,300
Total U.S. Department of HUD			<u>3,572,540</u>
<u>U.S. Department of Transportation</u>			
Direct Programs -			
Federal Transit Cluster			
FTA - Operating Assistance Grant	20.507	KY-90-X199	489,967 *
FTA - Capital Assistance Grant	20.507	KY-90-X199	117,796 *
ARRA, FTA - Capital Assistance Grant	20.500	KY-96-X006	126 *
			<u>607,889</u>
Passed through Kentucky Transportation Cabinet -			
SAFETEA-LU	20.205	79495 01 C	3,704
Department of State Police Highway Safety			
Program	20.600	AL-12-05	1,216
Department of State Police Highway Safety			
Program	20.600	PT-11-06	11,000
			<u>15,920</u>
Total U.S. Department of Transportation			<u>623,809</u>
<u>U.S. Department of Homeland Security</u>			
Direct Programs -			
Assistance to Firefighters Grant	97.044	2011-MO-3120GF	986,676 *
Pass through Kentucky Homeland Security			
Hazard Mitigation Grant	97.039	FEMA-1976-DR-KY	100,904
Total U.S. Department of Homeland Security			<u>1,087,580</u>
<u>Environmental Protection Agency</u>			
Pass through Kentucky Infrastructure Authority			
Capitalization Grants for Clean Water State			
Revolving Funds	66.458	A10-01	3,326,756 *
Total Environmental Protection Agency			<u>3,326,756</u>
TOTAL EXPENDITURES OF FEDERAL			
AWARDS			<u>\$ 8,610,685</u>

- Denotes major program.

CITY OF ASHLAND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONCLUDED)

FOR THE YEAR ENDED JUNE 30, 2012

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, 2012. 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 assets or cash flows of the City.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

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



Kelley,
Galloway &
Company, PSC

CERTIFIED PUBLIC ACCOUNTANTS

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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, 2012, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 13, 2012. 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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. [2012-01]. A *significant deficiency* is a deficiency, or a combination of deficiencies, in

internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

We noted certain other matters that we reported to management of the City in a separate letter dated November 13, 2012.

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.

Kelly, Anthony & Company, PSC

November 13, 2012



Kelley,
Galloway &
Company, PSC

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

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

Compliance

We have audited the City of Ashland's (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2012. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

As described in item 2012-02 in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding allowable costs, eligibility, and administrative procedures that are applicable to its Community Development Block Grant (CFDA 14.218). Additionally, as described in items 2012-03 through 2012-07 in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding rental guidelines, tenant selection procedures, operating transfers, 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 these programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The results of our auditing procedures also 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 2012-08 and 2012-09.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2012-02 to be material weaknesses.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2012-03 through 2012-07 to be significant deficiencies.

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

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

Kelley, Holloway & Company, PSC

November 13, 2012

CITY OF ASHLAND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2012

A. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

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

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

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

Federal Awards

Internal control over major programs:

☐ Material weakness(es) identified? X Yes _____ 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.
Assistance to Firefighters	97.044
Housing Choice Voucher Program	14.871
CDBG Entitlement	14.218
Federal Transit Cluster	20.500 and 20.507
Capitalization Grants for Clean Water Revolving Funds	66.458

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

Auditee qualified as low risk auditee? _____ Yes X No

CITY OF ASHLAND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2012

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

2012-01 GRANT MANAGEMENT

Condition: During our testing of various grant programs, we noted several non-compliance issues, which are detailed in findings 2012-02 to 2012-09. This non-compliance appears to be due to a lack of adequate internal controls concerning overall compliance with grant programs.

Criteria: Proper internal control should exist to ensure compliance with various grant requirements.

Effect: Noncompliance with various grant requirements, which has resulted in loss of grant revenue.

Recommendation: We recommend the City implement procedures to ensure compliance with grant requirements. The City may consider designating a compliance officer who would work with the various department supervisors to achieve compliance with requirements.

Management's Response and Corrective Action Plan: The City will develop and implement procedures for compliance with grant requirements. City management has provided grant personnel with additional training.

C. FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

2012-02 FEDERAL COMPLIANCE - PROGRAM COMPLIANCE

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

Condition: During the 2012 fiscal year, on-site monitoring reviews were performed by the U.S. Department of Housing and Urban Development (HUD) in September 2011 and April 2012. The results of these reviews were detailed in letters dated October 28, 2011 and June 12, 2012. The following is a summary of the findings contained within each letter:

- **Lack of CDBG Financial and Program Management Capacity:** Program and Financial management are not properly applying programmatic and financial requirements to the administration of the CDBG program. The project files are not sufficiently documented to establish compliance with eligibility, national objective and other fundamental program requirements.
- **CDBG Financial Management - Documentation of Payroll Expense and Personal Activity Reports:** Salary expenses are charged by the Finance department based on a stated percentage as shown in the City's budget. The expenses are not supported by properly prepared personal activity reports or an approved alternative methodology.
- **Compliance with Eligible Activities and National Objective Requirements:** The eligible activity and national objective combinations selected for several activities were inconsistent with the program regulations and other HUD guidance. Documentation of compliance with both the national objective and eligible activity was inconsistent and inadequate.

CITY OF ASHLAND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2012

- **Non-Compliance with Prohibited Activities:** The seasonal jobs program was primarily a temporary program to do upkeep and maintenance work of the City's park and cemetery through the summer months. The activity has been variously classified as either economic development or public service. No permanent jobs were retained or created and there was no agreement with potential employers to train persons in certain skills or abilities approved.
- **Code Enforcement - Documentation of Relevant Code Enforcement for the Targeted Neighborhoods:** The documentation to support the code enforcement activity is not sufficient to establish compliance with the eligible activity requirements or with the City's Action Plan.
- **Economic Development Activities - Acquisition - Rehabilitation of Commercial or Industrial Properties:** The project file to purchase and rehabilitate a vacant downtown building to accommodate the needs of an unspecified buyer did not contain any public benefit analysis to establish compliance with the national objective. No funds were expended for this activity and the funds were later reallocated.
- **Incomplete and/or Ineligible Activities:** The City has knowingly funded activities where the sub-recipient lacks the financial capacity to complete the proposed project.
- **Poor Project Design - Code Enforcement:** The code enforcement activity is not well designed and does not ensure compliance with the all elements of the activity.
- **Housing Authority of Ashland (HAA)-Debord Parking Lot Paving:** The parking lot appears to be an open lot without any access control or other access mechanisms to insure its use by the intended recipients. Additionally, a needs analysis to establish how many additional spaces were needed to meet the requirements of the HAA does not appear to be performed.
- **Lack of compliance with the requirements of CDBG Fair Housing regulation to obtain race and national origin data on employees for CDBG funded sub-recipients:** The City does not maintain race and national origin data on employees for one CDBG funded sub-recipient using the Equal Employment Opportunity Commission's EEO-4 form.
- **Race and Ethnicity Data/HUD 27061:** Race and ethnicity data is obtained by the City during the initial application, but not on the required form HUD 27061.

Additionally, during the course of our procedures we noted the following:

- An environmental review assessment was not performed prior to expending funds for the "Nobil Shoes" project.
- Administrative expenses exceeded 20% of grant allocation for the 2010 program year.
- Required sub-award reporting under the Transparency Act was not completed.

CITY OF ASHLAND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2012

Criteria: 24 CFR 570.501(b) states that a recipient is responsible for ensuring that CDBG funds are used in accordance with all program requirements.

Effect and Questioned Costs: Due to the non-compliance noted during the on-site monitoring reviews, the City is required reimburse HUD for ineligible activities. By a letter dated August 10, 2012, the City was requested to wire transfer \$235,383.98 for reimbursement. An additional reimbursement of \$29,548.83 may be required in the future.

Recommendation: 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.

Management's Response and Corrective Action Plan: Staff is deficient and training held by HUD has been scheduled and attended for various problem areas. HUD is providing additional resources to City management to help resolve these issues.

2012-03 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:

- An incorrect utility allowance
- Missing Housing Vouchers
- Missing birth certificates
- Unsigned Housing Voucher and Certification of Relationship
- Missing social security card for a family member
- All reported income was not verified with third-parties for 2 tenants
- Annual income was improperly calculated for one tenant, which resulted in a HAP overpayment of \$225 per month
- Reexamination of one tenant's income did not occur within the required 12 month time period

Criteria: HUD requires Public Housing Authorities (PHA) to properly document the eligibility of tenants through examination of family income and composition every 12 months using the documentation from third-party verifications. The results of the examination are used to adjust the tenant rent, utility allowance and housing assistance payment as necessary.

Effect: Noncompliance with HUD requirements.

Recommendation: We recommend that the missing documentation be obtained and utility allowance calculations be reviewed for accuracy prior to final approval. Additionally, the City should implement procedures to ensure all reported income is verified with third-parties once every 12 months.

Management's Response and Corrective Action Plan: To eliminate future issues, all files will have an individual checklist of required items with verification that these items are present. All Section 8 staff members will receive additional training in Housing Choice Voucher procedures. Random internal audit procedures will be established and executed by Section 8 supervisory staff as well as by accounting staff.

CITY OF ASHLAND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2012

2012-04 FEDERAL COMPLIANCE - TENANT INFORMATION FORM

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 an instance in which an individual answered "Yes" to three questions on the "Tenant Information Form" that should have resulted in the tenant's Housing Voucher being rescinded. The questions concerned the individual's prior criminal activity. It was not apparent from review of the file or discussions with housing specialists that the answers to these questions were researched further.

Criteria: HUD requires Public Housing Authorities (PHA) to deny housing to the following:

- Individuals who have been evicted from federally assisted housing within the past three years because of drug related criminal activity
- Individuals who are subject to a lifetime sex offender registration requirement in any state
- Individuals who have been convicted of manufacturing or producing methamphetamine on the premises of federally assisted housing
- Individuals who are currently engaging in illegal drug use; and individuals who are currently abusing alcohol in a manner that interferes with the health, safety or right to peaceful enjoyment of other residents

Effect: Noncompliance with HUD requirements.

Recommendation: 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.

Management's Response and Corrective Action Plan: In any future cases involving criminal activity, all files regardless of acceptance or denial will be required to have supervisory approval for any action. This action will also be noted in written form with supporting documentation.

2012-05 FEDERAL COMPLIANCE - OVERPAYMENT

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 an instance in which a tenant moved to a new location but the landlord of their former home received a Housing Assistance Payment (HAP) for two additional months, which was an overpayment of approximately \$1,400.

CITY OF ASHLAND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2012

Criteria: HUD requires Public Housing Authorities (PHA) to implement procedures to ensure HAP's are only paid to eligible individuals.

Effect: Noncompliance with HUD requirements.

Recommendation: 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.

Management's Response and Corrective Action Plan: Prior to any future payment processes, all documentation of housing payments will be reviewed by a supervisor. A list of tenants ending program participation in the month prior to or during the payment month will also be included and reviewed to eliminate the opportunity for overpayments in the future.

2012-06 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 an 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.

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: Letters of eligibility will all be sent within 10 business days of the application date. Staff will ensure weekly that all applicable letters have been sent.

2012-07 FEDERAL COMPLIANCE - ADVANCES

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

Condition: We noted that at June 30, 2012, an interfund receivable exists between the Housing Assistance Fund and the General Fund in excess of the available administrative fees. The City will normally pay expenditures from the General Fund and the Housing Assistance Fund will transfer funds to reimburse the General Fund. However, we noted several payments throughout the year in excess of the amounts due to the General Fund.

Criteria: Amounts provided by the U.S. Department of Housing and Urban Development for housing assistance payments (HAP) may not be used to cover administrative expenses nor may HAP funds be loaned, advanced, or transferred to other programs.

CITY OF ASHLAND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2012

Effect: Noncompliance with HUD requirements.

Recommendation: 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.

Management's Response and Corrective Action Plan: Health Insurance expenses exceed administrative fees earned this program Year. Accounting reclassifications were made to rectify the lack of revenue to cover Health insurance expenses causing the issue of excess reimbursements to the General Fund.

2012-08 FEDERAL COMPLIANCE - SECTION 1512 ARRA REPORTING

Federal Program Information: ARRA, FTA - Capital Assistance Grant, Federal Catalog No. 20.500, U.S. Department of Transportation.

Condition: During our review of Section 1512 ARRA reporting, we noted that Section 1512 reports were not been submitted for periods subsequent to June 30, 2011. The City expended all funds under the grant by the end of the quarter ending September 30, 2011. Therefore, the City should have submitted its final report for the grant by October 10, 2011.

Criteria: Section 1512 of the Recovery Act requires reports on the use of Recovery Act funding by recipients no later than the 10th day after the end of each calendar quarter (beginning the quarter ending September 30, 2009).

Effect: Noncompliance with section 1512 of the Recovery Act.

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 grant was not closed until February 2012 and had no activity. We were unaware we needed to continue this report. Federal Transit Administration failed to notify us of this requirement or deficiency in this area. All grants will be monitored even if no activity occurs.

2012-09 FEDERAL COMPLIANCE - DAVIS BACON ACT

Federal Program Information: Capitalization Grants for Clean Water State Revolving Funds, Federal Catalog No. 66.458, U.S. Environmental Protection Agency.

Condition: The City has not obtained certified payrolls from a contractor that is performing work related to the combined sewer overflow (CSO) project. According to City personnel, the certified payrolls were requested from the contractor but the certifications were never received.

CITY OF ASHLAND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONCLUDED)

FOR THE YEAR ENDED JUNE 30, 2012

Criteria: Under the Davis-Bacon Act, all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2000 financed by Federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the DOL (40 USC 3141-3144, 3146, and 3147). Additionally, non-federal entities are required to include in their construction contracts subject to the Davis-Bacon Act, a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the DOL regulations (29 CFR part 5, Labor Standards Provisions Applicable to Contracts Governing Federally Financed and Assisted Construction). This includes a requirement for the contractor or subcontractor to submit to the non-Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (29 CFR sections 5.5 and 5.6).

Effect: Noncompliance with requirements of Davis-Bacon Act.

Recommendation: We recommend that the City obtain all required certified payrolls from the contractor. Additionally, the City should consider withholding payment to the contractor until they have achieved compliance with contract requirements.

Management's Response and Corrective Action Plan: Before payment, the City will ensure that all proper documentation has been received.

CITY OF ASHLAND

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED JUNE 30, 2012

<u>Findings</u>	<u>Findings/Noncompliance</u>
2011-01	We recommended for future property acquisitions that written offers to the owner be prepared and maintained. Additionally, if the purchase price is in excess of the appraisal value, a written justification should be prepared to support the purchase as being reasonable, prudent and in the public interest.
Status	No property acquisitions during the year.
2011-02	We recommended obtain the missing documentation from tenant files.
Status	Repeat finding - 2012-03.
2011-03	We recommended that the utility rate date be reviewed and, if rates have changed 10% or more, the utility allowance schedule be adjusted.
Status	Corrected.