CITY OF ASHLAND

FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION

FOR THE YEAR ENDED JUNE 30, 2014

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS

TABLE OF CONTENTS
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	PAGE
INDEPENDENT AUDITOR'S REPORT	3-5
MANAGEMENT'S DISCUSSION AND ANALYSIS	6-16
BASIC FINANCIAL STATEMENTS:	
Government-wide Financial Statements -	
Statement of Net Position	17
Statement of Activities	18
Fund Financial Statements -	
Balance Sheet - Governmental Funds	19
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position	20
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	21
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	22
Statement of Net Position - Proprietary Funds	23
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds	24
Statement of Cash Flows - Proprietary Funds	25
Statement of Net Position - Fiduciary Funds	26
Statement of Changes in Net Position - Fiduciary Funds	27
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	28
Statements of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Special Revenue Funds	29-32
Notes to Financial Statements	33-53
REQUIRED SUPPLEMENTAL INFORMATION:	
Defined Benefit Pension Trusts:	
Schedule of Employer Contributions and Investment Returns	54
Schedule of Funding Progress	55
Schedule of Changes in Net Pension Liability	56
SUPPLEMENTAL INFORMATION - COMBINING, INDIVIDUAL AND OTHER STATEMENTS AND SCHEDULES	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Capital Projects Fund	57
General Fund:	
Balance Sheet	58
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	59-61
Capital Assets Used in the Operations of Governmental Funds:	
Schedule of Capital Assets Used in the Operation of Governmental Funds by Function and Activity	62
Schedule of Capital Assets Used in the Operation of Governmental Funds by Source	63

City of Ashland Housing Authority
(Financial Data Schedule) 64-65

Schedule of Expenditures of Federal Awards 66-67

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* 68-69

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 70-71

SCHEDULE OF FINDINGS AND QUESTIONED COSTS 72-76

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS 77

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Kelley Galloway Smith Goolsby, PSC
Certified Public Accountants and Advisors

1200 Corporate Court • P. O. Box 990 • Ashland, Kentucky 41102
• Phone (606) 329-1811 (606) 329-1171 • Fax (606) 329-8756 (606) 325-0590
• Web www.kgsgcpa.com Member of PKF North America

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Ashland, Kentucky (the "City") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Pikeville, KY Cold Spring, KY Cincinnati, OH

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, each major fund and the aggregate remaining fund information of the City of Ashland, Kentucky as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for each major fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis information, schedule of employer contributions and investment returns, schedule of funding progress, and schedule of changes in net pension liability on pages 6 through 16 and on pages 54 through 56, respectively, 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 an appropriate operational, economic, or 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 with 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 provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The statements and schedules contained on pages 57 through 63 and the Financial Data Schedule on pages 64 and 65 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is also presented for purpose of additional analysis and is not a required part of the basic financial statements.

The supplemental statements and schedules contained on pages 57 through 63, the Financial Data Schedule on pages 64 and 65 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2014, on our consideration of the City's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Kelley Galloway Smith Gorsby, PSC

December 19, 2014
Ashland, Kentucky

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, 2014. 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 $100,373,146 (net position). Governmental activities' unrestricted net position was $4,931,810. Business type activities' unrestricted net position was $3,415,592.

⇒ The Government's total net position increased by $536,786. Net position of governmental activities decreased by $1,332,896, and net position of business-type activities increased by $1,869,682.

⇒ At June 30, 2014, the governmental activities had $72,213,324 in assets and $14,949,207 in liabilities. Business type activities had $63,216,648 in assets and $20,350,059 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 capital 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 Position 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 Position presents information on all the Government's assets and liabilities as of June 30, 2014. Net position is the difference between assets and liabilities. Over time an increase or decrease in net position 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 position. 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 position 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 POSITION

As of June 30, 2014, the Government as a whole had net position greater than its liabilities by $100,373,146. Net position of governmental activities was $57,264,117 and decreased by $1,332,896 over the prior year. Our receivable from the Utility Fund significantly increased in Fiscal Year 2014. Our investment in capital assets was $1,426,290 less than prior year due to depreciation expense and less capital purchases. Although, we experienced a decrease in net position of governmental activities, our unrestricted net position increased by $1,516,149 in comparison to Fiscal Year 2013. This was due to multiple factors. Health insurance expenses decreased due to plan modifications. Capital purchases were curtailed to only essential purchases and some City positions were not filled or not immediately filled. Of ending Governmental Activities Net Position, $51,833,182, or 91%, is invested in capital assets net of related debt, $499,125, or 1%, is restricted and unrestricted net position is $4,931,810 or 8%.

The net position of the Government's business-type activities is $43,109,029 and increased by $1,869,682 over the prior year. Of this net position, $34,536,655 is net investment in capital assets, $5,156,782 is restricted and $3,415,592 is unrestricted. The largest portion of the City's combined net position (86%) 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 the City's net position, $5,655,907 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, $8,347,402 may be used to meet the City's ongoing obligation to citizens and creditors.

At the end of this fiscal year, June 30, 2014, the City has a positive unrestricted net position 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 has created a positive unrestricted net position in our business-type activities again this fiscal year.

ANALYSIS OF THE CITY'S NET POSITION

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Current and other assets	$ 11,606,379	$ 9,053,502	$ 12,649,610	$ 11,919,461	$ 24,255,989	$ 20,972,963
Capital assets	60,606,945	62,374,040	50,567,038	50,226,233	111,173,983	112,600,273
Total Assets	72,213,324	71,427,542	63,216,648	62,145,694	135,429,972	133,573,236
Deferred ouflows of resouces	-	-	242,440	269,378	242,440	269,378
Liabilities	5,906,072	4,891,099	5,217,554	6,576,293	11,123,626	11,467,392
Long-term liabilities	9,043,135	7,939,430	15,132,505	14,599,432	24,175,640	22,538,862
Total Liabilities	14,949,207	12,830,529	20,350,059	21,175,725	35,299,266	34,006,254
Net position						
Net investment in capital assets	51,833,182	54,881,112	34,536,655	35,003,440	86,369,837	89,884,552
Restricted	499,125	300,240	5,156,782	4,964,195	5,655,907	5,264,435
Unrestricted	4,931,810	3,415,661	3,415,592	1,271,712	8,347,402	4,687,373
Total Net Position	$ 57,264,117	$ 58,597,013	$ 43,109,029	$ 41,239,347	$ 100,373,146	$ 99,836,360

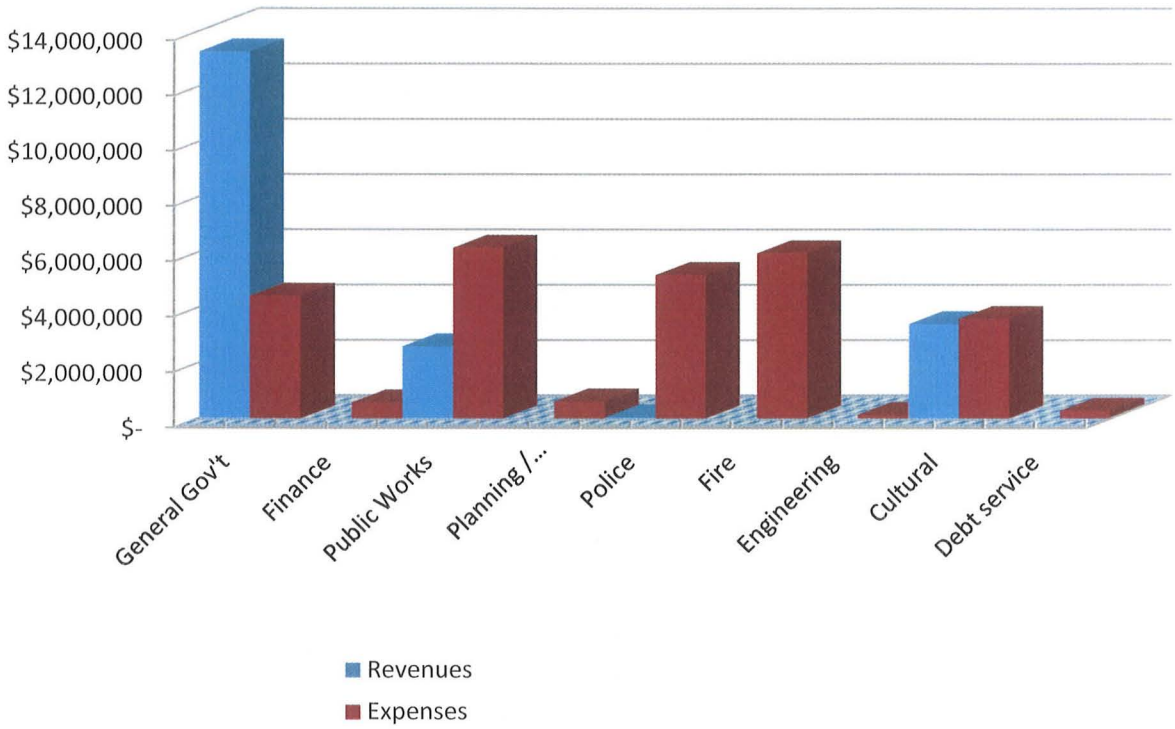
ANALYSIS OF THE CITY'S OPERATIONS

Revenues	Governmental Activities 2014	Governmental Activities 2013	Business-type Activities 2014	Business-type Activities 2013	Total Primary Government 2014	Total Primary Government 2013
Taxes	$ 7,615,613	$ 8,479,163	$ -	$ -	$ 7,615,613	$ 8,479,163
Charges for Services	15,503,018	13,586,654	15,865,195	15,257,231	31,368,213	28,843,885
Operating Grants / Contr.	3,772,396	3,346,747	300,148	526,336	4,072,544	3,873,083
Capital Grants / Contr.	-	3,704	216,430	220,040	216,430	223,744
Other Income	251,149	170,276	733,480	714,211	984,629	884,487
Total Revenue	$ 27,142,176	$ 25,586,544	$ 17,115,253	$ 16,717,818	$ 44,257,429	$ 42,304,362

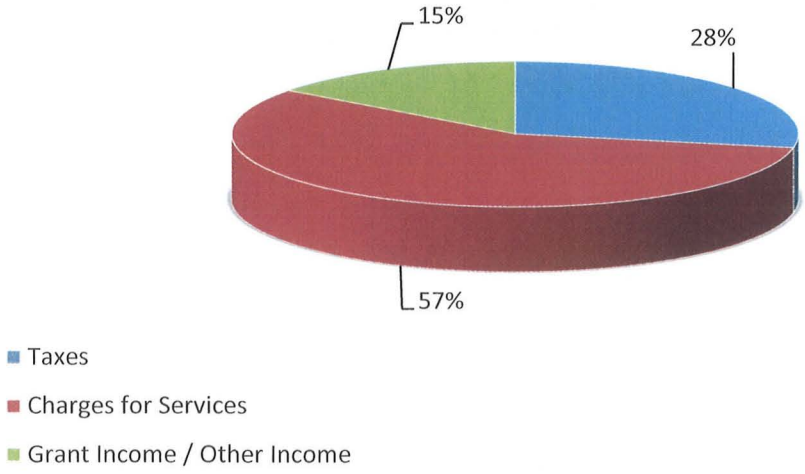
Expenses	Governmental Activities 2014	Governmental Activities 2013	Business-type Activities 2014	Business-type Activities 2013	Total Primary Government 2014	Total Primary Government 2013
General Government	$ 4,413,420	$ 2,644,407	$ -	$ -	$ 4,413,420	$ 2,644,407
Finance	572,332	587,010	-	-	572,332	587,010
Public Works	6,159,143	6,188,734	-	-	6,159,143	6,188,734
Planning / Code	611,647	605,205	-	-	611,647	605,205
Police	5,174,548	5,528,981	-	-	5,174,548	5,528,981
Fire	5,959,857	5,822,585	-	-	5,959,857	5,822,585
Engineering	125,481	244,377	-	-	125,481	244,377
Community / Cultural	3,594,394	2,943,475	-	-	3,594,394	2,943,475
Debt Service	273,717	285,947	-	-	273,717	285,947
Utility Fund	-	-	14,358,868	14,618,138	14,358,868	14,618,138
Ashland Bus System	-	-	1,118,102	1,483,318	1,118,102	1,483,318
Recreation Operating Fund	-	-	1,092,294	1,078,408	1,092,294	1,078,408
Cemetery	-	-	266,840	312,684	266,840	312,684
Total Expense	$ 26,884,539	$ 24,850,721	$ 16,836,104	$ 17,492,548	$ 43,720,643	$ 42,343,269
Changes before transfers	257,637	735,823	279,149	(774,730)	536,786	(38,907)
Transfers	(1,590,533)	(1,523,900)	1,590,533	1,523,900	-	-
Change in Net Position	(1,332,896)	(788,077)	1,869,682	749,170	536,786	(38,907)
Net Position Beginning of Yr	58,597,013	59,385,090	41,239,347	40,490,177	99,836,360	99,875,267
Net Position End of Year	$ 57,264,117	$ 58,597,013	$ 43,109,029	$ 41,239,347	$ 100,373,146	$ 99,836,360

GOVERNMENTAL ACTIVITIES

EXPENSES AND PROGRAM REVENUES- GOVERNMENTAL ACTIVITIES

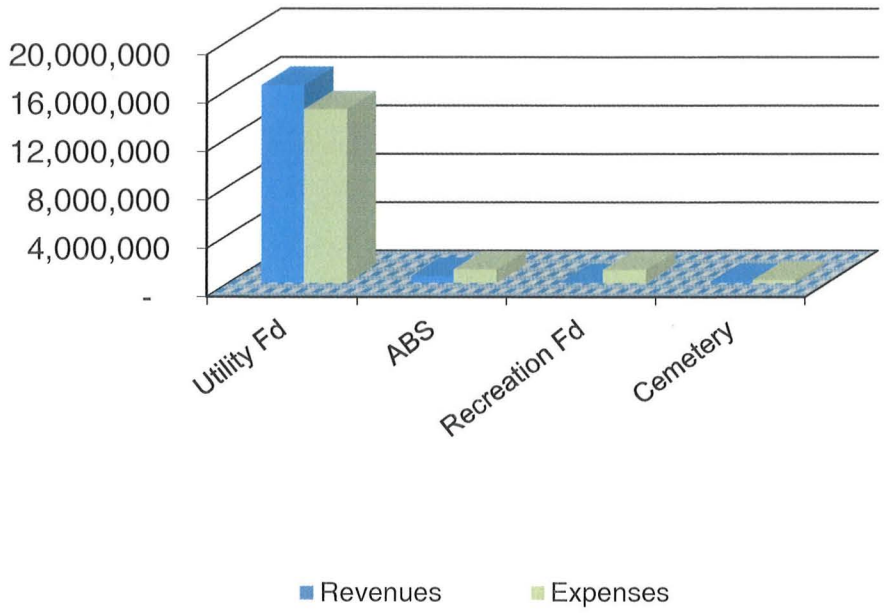


REVENUE BY SOURCE - GOVERNMENT ACTIVITIES

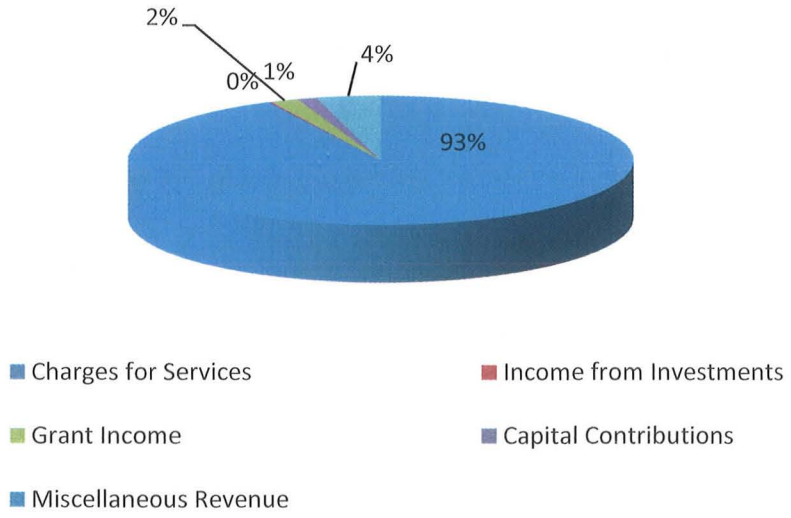


BUSINESS-TYPE ACTIVITIES

EXPENSES AND REVENUES - BUSINESS-TYPE ACTIVITIES



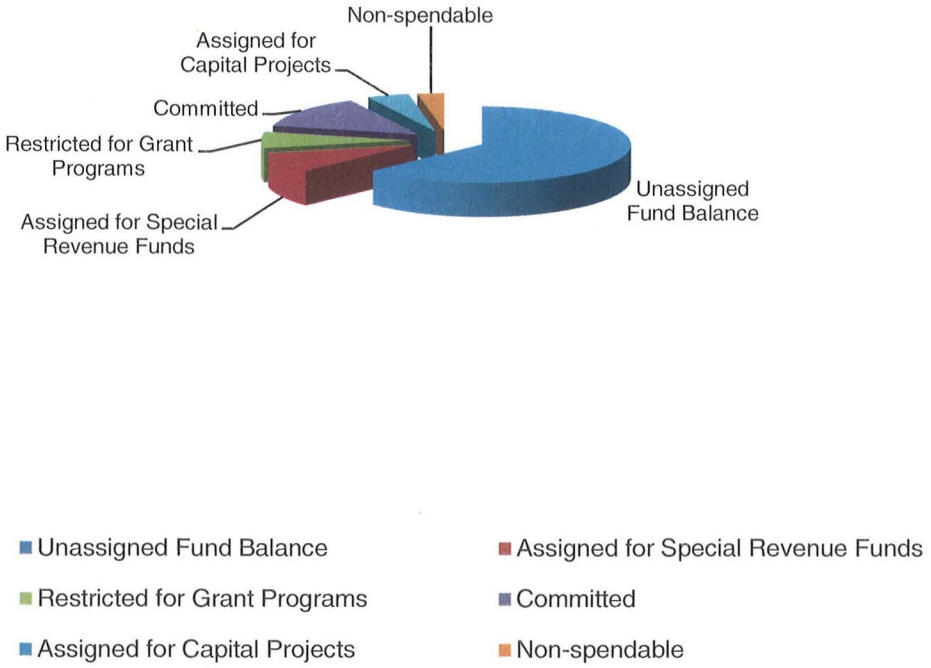
REVENUE BY SOURCE - BUSINESS -TYPE ACTIVITIES



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. Unassigned 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 $4,307,346. Of this total, $2,711,361, or 63%, is unassigned fund balance. The remainder of fund balance is assigned / non-spendable / committed to indicate it is not available for new spending. Fiscal Year 2014 reports assigned for special revenue funds at $372,491, restricted for grant programs at $302,900, committed at $600,000, non-spendable at $124,369 and assigned for capital projects at $196,225. The increase in the governmental funds assigned for capital projects is due to the construction in progress of the Fire training facility. The City also has $ 600,000 of committed fund balance for the developer payment of the Melody Mountain Phase II completion.

Ending Fund Balances Governmental Activities



MAJOR GOVERNMENTAL FUNDS

For the year ending June 30, 2014, the major governmental funds reported as follows:

The General Fund had revenues of $24,693,816 and expenditures of $22,638,859. The total fund balance was $3,663,366.

The Municipal Aid Road Fund had revenues of $528,640 and expenditures of $482,707. The total fund balance was $307,054.

The Floodwall Operating Fund had revenues of $275,860 and expenditures of $275,860. The total fund balance was $0.

The Community Development Fund had revenues of $1,002,463 and expenditures of $1,002,463. The total fund balance was $65,437.

The Housing Assistance Fund had revenues of $2,397,329 and expenditures of $2,580,760. The total fund balance was $75,264.

The Capital Purchase Improvement Fund had other financing sources of $382,337 and expenditures of $203,080. The total fund balance was $196,225.

PROPRIETARY FUNDS

The City's proprietary funds, or business-type activities, had total assets of $66,126,850, total deferred outflows of resources of $242,440 and total liabilities of $23,260,261, leaving net position of $43,109,029. Of the total proprietary funds' net position, the Utility Fund had $1,666,039 in unrestricted net position, the Ashland Bus Fund had $(262,446) in unrestricted net position, the Recreation Fund had $(251,478) in unrestricted net position and the Ashland Cemetery Fund had $2,263,477 in unrestricted net position. All proprietary funds are considered major funds. Total increase in unrestricted net position for the four proprietary funds was $2,143,880.

BUDGETARY HIGHLIGHTS

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

⇒ $191,181 increase in net expenditures of the General Fund. This increase includes $11,954 for arrest fees collected and a Homeland Security grant used to purchase general supplies and small tools for Police. $152,259 was added for a 3% raise and a Kentucky Retirement payment for employee back pay. $26,968 in capital purchases completes the increase to the General Fund budget this fiscal year.

⇒ $167,155 increase in net expenditures of the Utility Fund. This increase includes an office shredder for $8,585 and $63,570 to replace a transformer damaged by a storm. Also included in this amendment was $95,000 to provide residents bottled water during the water crisis that occurred in January 2014.

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 $22,983,816 versus budgeted revenues of $23,160,909. This is due to the occupational license fee revenue being less than projected due to business closings and layoffs in the City. Also included is the reclassification of grant revenue for the Fire training facility to deferred revenues as this is a construction in progress. Projected tax revenues were $7,245,307 and actual revenues were $7,385,704 for a variance of $140,397. Franchise revenue had a positive budget variance of $178,945 due to the increased consumption caused by inclement weather.

⇒ General Fund had a positive variance this fiscal year. The only departments with a negative variance were the Planning and Code Enforcement and Fire divisions. The variance in the Planning and Code Enforcement division was a personnel overage of $34,419. The positive variance can be attributed to the health insurance expenses decrease due to plan modifications established last fiscal year with results being seen this fiscal year.

CAPITAL ASSET AND DEBT ADMINISTRATION

The City's investment in capital assets for governmental and business-type activities as of June 30, 2014 is $111,173,983 (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, 2014 include:

Project	Approved Contract	Paid / Accrued to Date	Outstanding Commitment
CSO - 29th Street Storm Water	$ 179,780	$ 67,862	$ 111,918
CSO - 37th Street Pump Station	3,158,657	2,652,758	505,899
Fire Training facility	182,997	-	182,997
	$ 3,521,434	$ 2,720,620	$ 800,814

CITY OF ASHLAND - CAPITAL ASSETS (NET OF DEPRECIATION)

Asset	Governmental Activities	Business-type Activities	Total 2014
Land	$ 3,883,268	$ 383,101	$ 4,266,369
Buildings and improvements	12,045,757	4,555,147	16,600,904
Automotive equipment	3,783,989	1,971,879	5,755,868
Operating equipment	4,112,220	3,461,173	7,573,393
Office equipment	733,209	472,116	1,205,325
Capital improvements	573,166	418,280	991,446
Right-of-way	15,038,909		15,038,909
Infrastructure	75,644,130		75,644,130
Utility plant		87,348,181	87,348,181
Construction (CIP)	23,775	3,494,282	3,518,057
Total	$115,838,423	$102,104,159	$217,942,582

DEBT

At the end of fiscal year 2014, the City had governmental activities debt of $9,557,990 compared to $8,359,837 at June 30, 2013, which represents an increase of $1,198,153. Business-type activities had debt of $16,222,823 compared to $15,442,171 at June 30, 2013, which represents an increase of $780,652. See Note (8) for additional discussion of the City's long term debt. The following chart summarizes governmental and business-type activities debt.

Governmental Activities Debt	Amount
General obligation bond series 2005	$ 2,570,000
Capital leases - equipment	12,677
Capital leases - police station	4,247,336
Capital lease - refinancing	242,500
Capital lease - Melody Mtn Phase II	1,701,250
Compensated absences obligation	784,227
Total	$ 9,557,990

Business-Type Activities Debt	Amount
Revenue & Improvement Bonds 13	$ 4,463,299
Kentucky Infrastructure authority loan	10,134,425
Capital lease - equipment	4,682
Capital lease - radio meters	1,620,417
Total	$ 16,222,823

DESCRIPTION OF MUNICIPAL DEBT

- ⇒ General Obligation Bonds 2005 Melody Mountain $2,570,000.
- ⇒ General Obligation Bonds 2013 Melody Mountain Phase II $1,701,250.
- ⇒ Capital Lease - phone system $12,677.
- ⇒ Capital Lease - Police station $4,247,336.
- ⇒ Capital Lease – debt consolidation $242,500.
- ⇒ Employee compensated absences payable after 60 days at $784,227
- ⇒ Utility Revenue bond issue 2013 for phase II upgrade of the water plant $4,463,299.
- ⇒ K.I.A. Loans used to upgrade the utility system and correct CSO $10,134,425.
- ⇒ KLC lease payable for the purchase of radio read meters $1,620,417.
- ⇒ Capital Lease - phone system $4,682.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Unemployment rate for the City of Ashland as of June 2014 is 6.2%. This rate is lower than the State of Kentucky rate at 7.4% and the national rate of 6.3%.

The following table summarizes the 2015 fiscal year budgeted expenses.

- ⇒ General Fund - $22,923,295
- ⇒ Municipal Aid Program - $538,410
- ⇒ Community Development Block Grant Fund - $1,226,197
- ⇒ Section 8 Voucher - $2,557,489
- ⇒ Floodwall Operating Fund - $194,111
- ⇒ Utility Fund - $18,491,235
- ⇒ Ashland Bus System - $1,137,325
- ⇒ Recreation Operating Fund - $1,073,788
- ⇒ Ashland Cemetery Fund - $206,498
- ⇒ Capital Purchase Improvement Fund - $443,442

Fiscal year 2015 contains one significant budget item. The Utility Fund will continue work on the second phase of construction pertaining to the Combined Sewer Overflow decree from the EPA.

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 POSITION
JUNE 30, 2014

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	$ 1,882,430	$ 1,653,052	$ 3,535,482
Accounts receivable	106,368	2,519,596	2,625,964
Allowance for uncollectible accounts	-	(145,764)	(145,764)
Taxes receivable	2,957,888	-	2,957,888
Allowance for uncollectible taxes	(544,198)	-	(544,198)
Grants receivable	134,870	491,578	626,448
Internal balances, net	2,910,202	(2,910,202)	-
Receivable from fiduciary fund	95,471	-	95,471
Program receivables	29,015	-	29,015
Allowance for uncollectible accounts	(29,015)	-	(29,015)
Other receivables	494,980	-	494,980
Allowance for uncollectible accounts	(63,818)	-	(63,818)
Prepaid expenses	51,300	68,400	119,700
Inventories	73,069	3,647,665	3,720,734
Investments	1,600,001	-	1,600,001
Restricted assets -			
Cash and cash equivalents	-	1,243,635	1,243,635
Certificates of deposit	-	2,942,300	2,942,300
Mutual funds	-	373,070	373,070
Note receivable	150,000	-	150,000
Net pension asset	1,757,816	2,766,280	4,524,096
Nondepreciable capital assets	18,960,073	3,877,382	22,837,455
Depreciable capital assets	96,878,350	98,226,777	195,105,127
Accumulated depreciation	(55,231,478)	(51,537,121)	(106,768,599)
Total assets	72,213,324	63,216,648	135,429,972
DEFERRED OUTFLOWS OF RESOURCES			
Deferred savings from refunding bonds	-	242,440	242,440
Total deferred outflows of resources	-	242,440	242,440
LIABILITIES			
Cash overdraft	539,529	-	539,529
Accounts payable	2,365,736	550,193	2,915,929
Due to Board of Education	83,289	-	83,289
Payable to fiduciary fund	-	1,680,018	1,680,018
Other accrued expenses and liabilities	2,248,389	315,868	2,564,257
Deposits	-	1,271,847	1,271,847
Matured revenue bonds and notes	-	50,000	50,000
Accrued compensated absences, current	154,274	259,310	413,584
Current portion of long-term debt	514,855	1,090,318	1,605,173
Accrued compensated absences, non-current	784,227	-	784,227
Capital lease obligations, non-current	5,798,908	1,525,417	7,324,325
Revenue and Improvement bonds, net of discount of $26,701	-	4,058,299	4,058,299
Kentucky Infrastructure Authority loans, non-current	-	9,548,789	9,548,789
General obligation bonds, non-current	2,460,000	-	2,460,000
Total liabilities	14,949,207	20,350,059	35,299,266
NET POSITION			
Net investment in capital assets	51,833,182	34,536,655	86,369,837
Restricted			
Capital projects	196,225	-	196,225
Debt service	-	821,475	821,475
Grant programs	302,900	-	302,900
Sewer improvements	-	4,109,419	4,109,419
Other	-	225,888	225,888
Unrestricted	4,931,810	3,415,592	8,347,402
Total net position	$ 57,264,117	$ 43,109,029	$ 100,373,146

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, 2014

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities	Net (Expense) Revenue and Changes in Net Position: Business-Type Activities	Net (Expense) Revenue and Changes in Net Position: Total
Governmental Activities							
General government	$ 4,413,420	$ 13,212,804	$ 40,774	$ -	$ 8,840,158	$ -	$ 8,840,158
Finance	572,332	-	-	-	(572,332)	-	(572,332)
Public services	6,159,143	2,070,567	517,386	-	(3,571,190)	-	(3,571,190)
Planning and code enforcement	611,647	-	-	-	(611,647)	-	(611,647)
Police	5,174,548	-	34,331	-	(5,140,217)	-	(5,140,217)
Fire	5,959,857	-	-	-	(5,959,857)	-	(5,959,857)
Engineering	125,481	-	-	-	(125,481)	-	(125,481)
Community and cultural	3,594,394	219,647	3,179,905	-	(194,842)	-	(194,842)
Debt service - interest	273,717	-	-	-	(273,717)	-	(273,717)
Total governmental activities	26,884,539	15,503,018	3,772,396	-	(7,609,125)	-	(7,609,125)
Business-Type Activities							
Utilities	14,358,868	15,647,750	-	-	-	1,288,882	1,288,882
Recreation	1,092,294	57,341	-	-	-	(1,034,953)	(1,034,953)
Cemetery	266,840	98,344	-	-	-	(168,496)	(168,496)
Bus	1,118,102	61,760	300,148	216,430	-	(539,764)	(539,764)
Total business-type activities	16,836,104	15,865,195	300,148	216,430	-	(454,331)	(454,331)
Total primary government	$ 43,720,643	$ 31,368,213	$ 4,072,544	$ 216,430	$ (7,609,125)	$ (454,331)	$ (8,063,456)
General Revenues:							
Property and other local taxes					$ 7,615,613	$ -	$ 7,615,613
Interest income					3,197	32,735	35,932
Other revenues					247,952	700,745	948,697
Total general revenues					7,866,762	733,480	8,600,242
Transfers					(1,590,533)	1,590,533	-
Total general revenues and transfers					6,276,229	2,324,013	8,600,242
Change in net position					(1,332,896)	1,869,682	536,786
Net position, June 30, 2013 (as restated)					58,597,013	41,239,347	99,836,360
Net position, June 30, 2014					$ 57,264,117	$ 43,109,029	$ 100,373,146

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

CITY OF ASHLAND
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014

		Special Revenue Funds					
	General	Municipal Aid Road	Floodwall Operating	Community Development	Housing Assistance	Capital Projects	Total Governmental Funds
Assets							
Cash	$ 989,503	$ 226,586	$ 5,072	$ 18,590	$ 131,169	$ -	$ 1,370,920
Taxes receivable	2,773,897	-	183,991	-	-	-	2,957,888
Allowance for uncollectible taxes	(514,953)	-	(29,245)	-	-	-	(544,198)
Grants receivable	10,630	44,926	-	79,314	-	-	134,870
Due from other funds	3,238,072	37,823	-	-	-	340,332	3,616,227
Program receivables	29,015	-	-	-	-	-	29,015
Allowance for uncollectible accounts	(29,015)	-	-	-	-	-	(29,015)
Other receivables	424,494	-	275	-	70,211	-	494,980
Allowance for uncollectible accounts	-	-	-	-	(63,818)	-	(63,818)
Investments	1,600,001	-	-	-	-	-	1,600,001
Prepaid items	51,300	-	-	-	-	-	51,300
Inventories - supplies	73,069	-	-	-	-	-	73,069
Total assets	$ 8,646,013	$ 309,335	$ 160,093	$ 97,904	$ 137,562	$ 340,332	$ 9,691,239
Liabilities and Fund Balances							
Liabilities:							
Cash overdraft	$ 539,529	$ -	$ -	$ -	$ -	$ -	$ 539,529
Accounts payable	1,549,981	2,281	1,501	11,747	-	144,107	1,709,617
Due to other funds	1,841,241	-	155,554	18,150	58,695	-	2,073,640
Due to Board of Education	83,289	-	-	-	-	-	83,289
Accrued compensated absences	150,459	-	1,406	1,606	803	-	154,274
Accrued expenses	601,142	-	1,632	964	2,800	-	606,538
Unearned revenue	217,006	-	-	-	-	-	217,006
Total liabilities	4,982,647	2,281	160,093	32,467	62,298	144,107	5,383,893
Fund Balances:							
Non-spendable	124,369	-	-	-	-	-	124,369
Restricted for grant programs	227,636	-	-	-	75,264	-	302,900
Committed	600,000	-	-	-	-	-	600,000
Assigned for capital projects	-	-	-	-	-	196,225	196,225
Assigned for special revenue funds	-	307,054	-	65,437	-	-	372,491
Unassigned	2,711,361	-	-	-	-	-	2,711,361
Total fund balances	3,663,366	307,054	-	65,437	75,264	196,225	4,307,346
Total liabilities and fund balances	$ 8,646,013	$ 309,335	$ 160,093	$ 97,904	$ 137,562	$ 340,332	$ 9,691,239

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 POSITION
JUNE 30, 2014

Total fund balance - total governmental funds		$ 4,307,346
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets of $115,838,423 net of accumulated depreciation of $55,231,478 used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		60,606,945
Net pension asset of $1,757,816 reported in the statement of net position is not a financial resource and therefore is not reported in the governmental funds.		1,757,816
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	(2,570,000)	
Accrued compensated absences	(784,227)	
Capital lease obligations	(6,203,763)	(9,557,990)
Net position, end of year - Governmental Activities		$ 57,264,117

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, 2014

		Special Revenue Funds					
	General	Municipal Aid Road	Floodwall Operating	Community Development	Housing Assistance	Capital Projects	Total Governmental Funds
Revenues							
Property and other local taxes	$ 7,385,704	$ -	$ 229,909	$ -	$ -	$ -	$ 7,615,613
Licenses and permits	11,421,296	-	-	-	-	-	11,421,296
Charges for services	2,070,567	-	-	-	-	-	2,070,567
Fees, fines and reimbursements	1,791,508	-	-	-	-	-	1,791,508
Grant income	75,105	517,386	-	1,002,463	2,177,442	-	3,772,396
Administration fee income	-	-	-	-	219,647	-	219,647
Interest income	2,900	38	19	-	240	-	3,197
Other income	236,736	11,216	-	-	-	-	247,952
Total revenues	22,983,816	528,640	229,928	1,002,463	2,397,329	-	27,142,176
Expenditures							
General government	3,538,971	-	-	-	-	245	3,539,216
Finance	574,984	-	-	-	-	-	574,984
Public services	4,226,366	482,707	275,860	-	-	-	4,984,933
Planning and code enforcement	606,052	-	-	-	-	-	606,052
Police	4,995,959	-	-	-	-	-	4,995,959
Fire	5,842,158	-	-	-	-	-	5,842,158
Engineering	132,685	-	-	-	-	-	132,685
Community and cultural	-	-	-	1,002,463	2,580,760	-	3,583,223
Capital outlay	-	-	-	-	-	202,835	202,835
Debt service:							
Principal retirement	429,165	-	-	-	-	-	429,165
Interest charges	273,717	-	-	-	-	-	273,717
Total expenditures	20,620,057	482,707	275,860	1,002,463	2,580,760	203,080	25,164,927
Excess of Revenues Over (Under) Expenditures	2,363,759	45,933	(45,932)	-	(183,431)	(203,080)	1,977,249
Other Financing Sources (Uses)							
Issuance of debt	1,710,000	-	-	-	-	-	1,710,000
Transfers in	-	-	45,932	-	-	382,337	428,269
Transfers out	(2,018,802)	-	-	-	-	-	(2,018,802)
Total other financing sources (uses)	(308,802)	-	45,932	-	-	382,337	119,467
Net change in fund balances	2,054,957	45,933	-	-	(183,431)	179,257	2,096,716
Fund balances beginning of year	1,608,409	261,121	-	65,437	258,695	16,968	2,210,630
Fund balances end of year	$ 3,663,366	$ 307,054	$ -	$ 65,437	$ 75,264	$ 196,225	$ 4,307,346

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, 2014

Net change in fund balances - total governmental funds		$ 2,096,716
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	821,532	
Depreciation expense	(2,574,512)	(1,752,980)
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		82,682
Bond and capital lease proceeds are recognized as revenes in the fund financial statements, but are increases in liabilities in the statement of net position.		(1,710,000)
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 position.		429,165
Losses on disposal of capital assets are not recognized in the fund financial statements. However, in the statement of activities, these losses are recognized		(14,115)
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.		(464,364)
Change in net position of governmental activities		$ (1,332,896)

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

CITY OF ASHLAND
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014

	Business-Type Activities					Governmental Activity -
	Utility Fund	Ashland Bus Fund	Recreation Fund	Cemetery Fund	Total	Internal Service Fund
ASSETS						
Unrestricted Assets:						
Cash and cash equivalents	$ 1,603,313	$ 7,530	$ 35,527	$ 6,682	$ 1,653,052	$ 511,510
Accounts receivable	2,514,324	-	72	5,200	2,519,596	106,368
Allowance for doubtful accounts	(145,764)	-	-	-	(145,764)	-
Due from other funds	-	-	-	-	-	1,463,086
Grants receivable - capital	-	191,430	-	-	191,430	-
Grants receivable - operating	-	300,148	-	-	300,148	-
Prepaid expenses	68,400	-	-	-	68,400	-
Inventories -						
Repair parts and supplies	1,127,199	20,230	9,206	-	1,156,635	-
Lots and vaults	-	-	-	2,491,030	2,491,030	-
Total unrestricted assets	5,167,472	519,338	44,805	2,502,912	8,234,527	2,080,964
Restricted Assets:						
Cash and cash equivalents	1,207,747	-	-	35,888	1,243,635	-
Investments -						
Certificates of deposit	2,752,300	-	190,000	-	2,942,300	-
Mutual funds	373,070	-	-	-	373,070	-
Total restricted assets	4,333,117	-	190,000	35,888	4,559,005	-
Total current assets	9,500,589	519,338	234,805	2,538,800	12,793,532	2,080,964
Capital Assets:						
Land and easements	358,925	-	5,723	18,453	383,101	-
Utility plant	87,348,181	-	-	-	87,348,181	-
Buildings and improvements	662,733	1,498,076	100,529	2,293,809	4,555,147	-
Operating equipment	4,020,849	969,406	794,927	66,150	5,851,332	-
Office and computer equipment	426,982	39,815	5,319	-	472,116	-
Construction in progress	3,494,282	-	-	-	3,494,282	-
	96,311,952	2,507,297	906,498	2,378,412	102,104,159	-
Less: Accumulated depreciation	(49,442,445)	(1,288,742)	(560,746)	(245,188)	(51,537,121)	-
Total capital assets - net	46,869,507	1,218,555	345,752	2,133,224	50,567,038	-
Other Assets:						
Net pension asset	2,766,280	-	-	-	2,766,280	-
Total other assets	2,766,280	-	-	-	2,766,280	-
Total noncurrent assets	49,635,787	1,218,555	345,752	2,133,224	53,333,318	-
Total assets	$ 59,136,376	$ 1,737,893	$ 580,557	$ 4,672,024	$ 66,126,850	$ 2,080,964
DEFERRED OUTFLOWS OF RESOURCES						
Deferred savings from refunding bonds	242,440	-	-	-	242,440	-
Total deferred outflows of resources	$ 242,440	$ -	$ -	$ -	$ 242,440	$ -

	Business-Type Activities					Governmental Activity -
	Utility Fund	Ashland Bus Fund	Recreation Fund	Cemetery Fund	Total	Internal Service Fund
LIABILITIES						
Current liabilities (payable from current assets):						
Accounts payable	$ 517,423	$ 14,247	$ 16,875	$ 1,648	$ 550,193	$ 656,119
Due to other funds	3,416,244	734,692	243,942	195,341	4,590,219	-
Accrued compensated absences	214,225	18,396	23,295	3,395	259,311	-
Other accrued liabilities	250,197	14,449	12,171	39,051	315,868	1,424,845
Customer deposits	130,770	-	-	-	130,770	-
Total current liabilities (payable from current assets)	4,528,859	781,784	296,283	239,435	5,846,361	2,080,964
Current liabilities (payable from restricted assets):						
Matured revenue bonds and notes	50,000	-	-	-	50,000	-
Customer deposits	1,141,077	-	-	-	1,141,077	-
Current portion of capital lease obligations	97,968	852	861	-	99,681	-
Current portion of Revenue and Improvement bonds	405,000	-	-	-	405,000	-
Current portion of Kentucky Infrastructure Authority loan	585,637	-	-	-	585,637	-
Total current liabilities (payable from restricted assets)	2,279,682	852	861	-	2,281,395	-
Total current liabilities	6,808,541	782,636	297,144	239,435	8,127,756	2,080,964
Long-term liabilities:						
Capital lease obligations	1,525,417	-	-	-	1,525,417	-
Revenue and Improvement bonds, net of discount of $26,701	4,058,299	-	-	-	4,058,299	-
Kentucky Infrastructure Authority loan	9,548,789	-	-	-	9,548,789	-
Total long-term liabilities	15,132,505	-	-	-	15,132,505	-
Total liabilities	21,941,046	782,636	297,144	239,435	23,260,261	2,080,964
NET POSITION						
Net investment in capital assets	30,840,837	1,217,703	344,891	2,133,224	34,536,655	-
Restricted for debt service	821,475	-	-	-	821,475	-
Restricted for sewer improvements	4,109,419	-	-	-	4,109,419	-
Other	-	-	190,000	35,888	225,888	-
Unrestricted	1,666,039	(262,446)	(251,478)	2,263,477	3,415,592	-
Total net position	$ 37,437,770	$ 955,257	$ 283,413	$ 4,432,589	$ 43,109,029	$ -

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

CITY OF ASHLAND
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	Business-Type Activities					Governmental Activity -
	Utility Fund	Ashland Bus Fund	Recreation Fund	Cemetery Fund	Total	Internal Service Fund
OPERATING REVENUES						
Residential and commercial meter sales	$ 4,019,368	$ -	$ -	$ -	$ 4,019,368	$ -
Sewer service	6,492,365	-	-	-	6,492,365	-
Industrial meter sales	3,604,824	-	-	-	3,604,824	-
Other municipalities	1,335,200	-	-	-	1,335,200	-
Industrial pretreatment	81,348	-	-	-	81,348	-
Water and sewer taps	114,645	-	-	-	114,645	-
Concession sales	-	-	29,763	-	29,763	-
Lot and vault sales	-	-	-	40,420	40,420	-
Opening and closing fees	-	-	-	57,924	57,924	-
Passenger fares	-	61,760	-	-	61,760	-
Admission fees	-	-	27,578	-	27,578	-
Premium charges	-	-	-	-	-	5,780,422
Miscellaneous	681,627	-	9,075	10,043	700,745	-
Total operating revenues	16,329,377	61,760	66,416	108,387	16,565,940	5,780,422
OPERATING EXPENSES						
Administration - Director	168,535	-	-	-	168,535	-
Administration - Cashier	770,037	-	-	-	770,037	-
Water - Production	2,276,190	-	-	-	2,276,190	-
Water - Distribution	3,760,830	-	-	-	3,760,830	-
Sewer - Pretreatment	1,441,185	-	-	-	1,441,185	-
Sewer - Collection	1,392,861	-	-	-	1,392,861	-
Depreciation	2,058,738	136,064	33,223	52,038	2,280,063	-
Insurance	208,395	40,657	20,605	6,172	275,829	-
Other operating expenses	1,880,579	386,526	483,872	66,941	2,817,918	6,421
Salaries	-	402,575	380,531	80,283	863,389	-
Utilities	-	25,587	108,530	12,812	146,929	-
Operating supplies	-	126,693	65,533	48,594	240,820	-
Premiums and claims	-	-	-	-	-	5,774,142
Total operating expenses	13,957,350	1,118,102	1,092,294	266,840	16,434,586	5,780,563
OPERATING INCOME (LOSS)	2,372,027	(1,056,342)	(1,025,878)	(158,453)	131,354	(141)
NON-OPERATING REVENUES (EXPENSES)						
Interest income	32,329	46	299	61	32,735	141
Grant income	-	300,148	-	-	300,148	-
Interest on revenue bonds and notes	(401,518)	-	-	-	(401,518)	-
Total non-operating revenues (expenses)	(369,189)	300,194	299	61	(68,635)	141
INCOME (LOSS) BEFORE TRANSFERS AND CAPITAL CONTRIBUTIONS	2,002,838	(756,148)	(1,025,579)	(158,392)	62,719	-
TRANSFERS						
From General Fund	-	403,653	1,025,579	161,301	1,590,533	-
Total transfers in	-	403,653	1,025,579	161,301	1,590,533	-
CAPITAL CONTRIBUTIONS						
Federal/state grants	-	216,430	-	-	216,430	-
Total capital contributions	-	216,430	-	-	216,430	-
INCREASE (DECREASE) IN NET POSITION	2,002,838	(136,065)	-	2,909	1,869,682	-
NET POSITION, JUNE 30, 2013	35,434,932	1,091,322	283,413	4,429,680	41,239,347	-
NET POSITION, JUNE 30, 2014	$ 37,437,770	$ 955,257	$ 283,413	$ 4,432,589	$ 43,109,029	$ -

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, 2014

	Business-Type Activities					Governmental Activity -
	Utility Fund	Ashland Bus Fund	Recreation Fund	Cemetery Fund	Total	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash received from customers	$ 15,525,288	$ 61,760	$ 57,269	$ 97,175	$ 15,741,492	$ -
Cash payments to suppliers for goods and services	(8,357,716)	37,179	(483,846)	(148,322)	(8,952,705)	(6,421)
Cash payments to employees	(3,920,315)	(417,894)	(407,395)	(77,373)	(4,822,977)	-
Other operating revenues	681,627	-	9,075	10,043	700,745	-
Payments for internal services	(1,309,809)	(151,188)	(181,050)	(55,046)	(1,697,093)	-
Cash received for internal services	-	-	-	-	-	6,103,456
Payments for premiums and claims	-	-	-	-	-	(5,603,758)
Net cash provided by (used for) operating activities	2,619,075	(470,143)	(1,005,947)	(173,523)	969,462	493,277
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Grant income	-	19,853	-	-	19,853	-
Transfers from other funds	-	403,653	1,025,579	161,301	1,590,533	-
Net cash provided by noncapital financing activities	-	423,506	1,025,579	161,301	1,610,386	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from issuance of debt	1,710,000	-	-	-	1,710,000	-
Acquisition and construction of capital assets	(2,620,868)	-	-	-	(2,620,868)	-
Principal paid on bonds, notes, and lease obligations	(929,726)	(1,288)	(1,301)	-	(932,315)	-
Interest paid on bonds, notes, and lease obligations	(401,518)	-	-	-	(401,518)	-
Capital grants received	-	48,603	-	-	48,603	-
Net cash provided by (used for) capital and related financing activities	(2,242,112)	47,315	(1,301)	-	(2,196,098)	-
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of investment securities	(384,932)	-	-	-	(384,932)	-
Investment income	32,329	46	299	61	32,735	141
Net cash provided by (used for) investing activities	(352,603)	46	299	61	(352,197)	141
Net increase (decrease) in cash and cash equivalents	24,360	724	18,630	(12,161)	31,553	493,418
Cash and cash equivalents, June 30, 2013	2,786,700	6,806	16,897	54,731	2,865,134	18,092
Cash and cash equivalents, June 30, 2014	$ 2,811,060	$ 7,530	$ 35,527	$ 42,570	$ 2,896,687	$ 511,510
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES						
Operating income (loss)	$ 2,372,027	$ (1,056,342)	$ (1,025,878)	$ (158,453)	$ 131,354	$ (141)
Adjustments:						
Depreciation	2,058,738	136,064	33,223	52,038	2,280,063	-
Amortization	29,905	-	-	-	29,905	-
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	(170,433)	-	(72)	(1,169)	(171,674)	(66,342)
(Increase) decrease in inventories	(689,309)	9,595	3,519	39,300	(636,895)	-
(Increase) decrease in due from other funds	-	-	-	-	-	389,376
(Increase) decrease in prepaid expenses	(68,400)	-	-	-	(68,400)	-
(Increase) decrease in pension asset	(359,474)	-	-	-	(359,474)	-
Increase (decrease) in accounts payable	(458,438)	46	(11,005)	(1,163)	(470,560)	200,261
Increase (decrease) in due to other funds	(132,457)	455,813	21,130	(106,986)	237,500	-
Increase (decrease) in compensated absences	(6,086)	(13,039)	(28,194)	(1,091)	(48,410)	-
Increase (decrease) in other accrued liabilities	(4,969)	(2,280)	1,330	4,001	(1,918)	(29,877)
Increase (decrease) in customer deposits	47,971	-	-	-	47,971	-
Net cash provided by (used for) operating activities	$ 2,619,075	$ (470,143)	$ (1,005,947)	$ (173,523)	$ 969,462	$ 493,277

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

CITY OF ASHLAND
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2014

	Pension Trust Funds
ASSETS	
Cash and cash equivalents	$ 8,528
Accrued interest receivable	1,130
Due from other funds	1,680,018
Investments, at fair value	
Certificates of deposit	1,500,000
Total assets	3,189,676
LIABILITIES	
Due to other funds	95,471
Total liabilities	95,471
NET POSITION - RESTRICTED FOR PENSION BENEFITS	$ 3,094,205

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

CITY OF ASHLAND
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	Pension Trust Funds
ADDITIONS:	
CONTRIBUTIONS	
Employer	$ 967,189
Total contributions	967,189
INVESTMENT INCOME	
Net depreciation in fair value of investments	(9,362)
Interest income	11,098
Total investment income	1,736
Total additions	968,925
DEDUCTIONS:	
Benefits	1,314,430
Administrative expenses	9,555
Total deductions	1,323,985
NET DECREASE	(355,060)
NET POSITION - RESTRICTED FOR PENSION BENEFITS:	
Beginning of year	3,449,265
End of year	$ 3,094,205

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, 2014

	Original Budget	Revisions	Revised Budget	Actual	Variance Positive (Negative)
Revenues					
Property and other local taxes	$ 7,066,080	$ 179,227	$ 7,245,307	$ 7,385,704	$ 140,397
Licenses and permits	11,892,095	-	11,892,095	11,421,296	(470,799)
Charges for services	1,981,785	-	1,981,785	2,070,567	88,782
Fees, fines and reimbursements	1,597,960	-	1,597,960	1,791,508	193,548
Interest income	2,845	-	2,845	2,900	55
Grant income	20,495	239,128	259,623	75,105	(184,518)
Other income	157,920	23,374	181,294	236,736	55,442
Total revenues	22,719,180	441,729	23,160,909	22,983,816	(177,093)
Expenditures					
General government	3,611,947	60,899	3,672,846	3,538,971	133,875
Finance	599,496	2,919	602,415	574,984	27,431
Public services	4,268,678	14,129	4,282,807	4,226,366	56,441
Planning and code enforcement	561,859	2,569	564,428	606,052	(41,624)
Police	5,105,784	72,839	5,178,623	4,995,959	182,664
Fire	5,604,581	30,984	5,635,565	5,842,158	(206,593)
Engineering	183,694	-	183,694	132,685	51,009
Debt service:					
Principal retirement	478,000	(48,000)	430,000	429,165	835
Interest and fiscal charges	477,014	-	477,014	273,717	203,297
Total expenditures	20,891,053	136,339	21,027,392	20,620,057	407,335
Excess of Revenues Over (Under) Expenditures	1,828,127	305,390	2,133,517	2,363,759	230,242
Other Financing Sources (Uses)					
Proceeds from issuance of debt	-	-	-	1,710,000	1,710,000
Transfers out	(1,828,127)	(305,390)	(2,133,517)	(2,018,802)	114,715
Total other financing sources (uses)	(1,828,127)	(305,390)	(2,133,517)	(308,802)	1,824,715
Net change in fund balance	-	-	-	2,054,957	2,054,957
Fund balance beginning of year	1,608,409	-	1,608,409	1,608,409	-
Fund balance end of year	$ 1,608,409	$ -	$ 1,608,409	$ 3,663,366	$ 2,054,957

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, 2014

	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	520,000	-	520,000	517,386	(2,614)
Administration fee income	-	-	-	-	-
Interest income	10	-	10	38	28
Other income	1,200	-	1,200	11,216	10,016
Total revenues	521,210	-	521,210	528,640	7,430
Expenditures					
General government	-	-	-	-	-
Finance	-	-	-	-	-
Public services	521,210	-	521,210	482,707	38,503
Planning and code enforcement	-	-	-	-	-
Police	-	-	-	-	-
Fire	-	-	-	-	-
Engineering	-	-	-	-	-
Community and cultural	-	-	-	-	-
Other	-	-	-	-	-
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	521,210	-	521,210	482,707	38,503
Excess of Revenues Over (Under) Expenditures	-	-	-	45,933	45,933
Other Financing Sources (Uses)					
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balance	-	-	-	45,933	45,933
Fund balance beginning of year	261,121	-	261,121	261,121	-
Fund balance end of year	$ 261,121	$ -	$ 261,121	$ 307,054	$ 45,933

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, 2014

	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	1,000,251	-	1,000,251	1,002,463	2,212
Administration fee income	-	-	-	-	-
Interest income	-	-	-	-	-
Other income	-	-	-	-	-
Total revenues	1,000,251	-	1,000,251	1,002,463	2,212
Expenditures					
General government	-	-	-	-	-
Finance	-	-	-	-	-
Public services	-	-	-	-	-
Planning and code enforcement	-	-	-	-	-
Police	-	-	-	-	-
Fire	-	-	-	-	-
Engineering	-	-	-	-	-
Community and cultural	1,000,251	-	1,000,251	1,002,463	(2,212)
Other	-	-	-	-	-
Capital outlay	-	-	-	-	-
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	1,000,251	-	1,000,251	1,002,463	(2,212)
Excess of Revenues Over (Under) Expenditures	-	-	-	-	-
Other Financing Sources (Uses)					
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balance	-	-	-	-	-
Fund balance beginning of year	65,437	-	65,437	65,437	-
Fund balance end of year	$ 65,437	$ -	$ 65,437	$ 65,437	$ -

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, 2014

	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	2,229,906	-	2,229,906	2,177,442	(52,464)
Administration fee income	213,910	-	213,910	219,647	5,737
Interest income	590	-	590	240	(350)
Other income	-	-	-	-	-
Total revenues	2,444,406	-	2,444,406	2,397,329	(47,077)
Expenditures					
General government	-	-	-	-	-
Finance	-	-	-	-	-
Public services	-	-	-	-	-
Planning and code enforcement	-	-	-	-	-
Police	-	-	-	-	-
Fire	-	-	-	-	-
Engineering	-	-	-	-	-
Community and cultural	2,444,406	-	2,444,406	2,580,760	(136,354)
Other	-	-	-	-	-
Capital outlay	-	-	-	-	-
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	2,444,406	-	2,444,406	2,580,760	(136,354)
Excess of Revenues Over (Under) Expenditures	-	-	-	(183,431)	(183,431)
Other Financing Sources (Uses)					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balance	-	-	-	(183,431)	(183,431)
Fund balance beginning of year	258,695	-	258,695	258,695	-
Fund balance end of year	$ 258,695	$ -	$ 258,695	$ 75,264	$ (183,431)

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, 2014

	Original Budget	Revisions	Revised Budget	Actual	Variance Positive (Negative)
Revenues					
Property and other local taxes	$ 175,188	$ -	$ 175,188	$ 229,909	$ 54,721
Licenses and permits	-	-	-	-	-
Charges for services	-	-	-	-	-
Fees, fines and reimbursements	-	-	-	-	-
Grant income	-	-	-	-	-
Administration fee income	-	-	-	-	-
Interest income	25	-	25	19	(6)
Other income	-	-	-	-	-
Total revenues	175,213	-	175,213	229,928	54,715
Expenditures					
General government	-	-	-	-	-
Finance	-	-	-	-	-
Public services	267,217	-	267,217	275,860	(8,643)
Planning and code enforcement	-	-	-	-	-
Police	-	-	-	-	-
Fire	-	-	-	-	-
Engineering	-	-	-	-	-
Community and cultural	-	-	-	-	-
Other	-	-	-	-	-
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	267,217	-	267,217	275,860	(8,643)
Excess of Revenues Over (Under) Expenditures	(92,004)	-	(92,004)	(45,932)	46,072
Other Financing Sources (Uses)					
Transfers in	135,766	-	135,766	45,932	(89,834)
Transfers out	-	-	-	-	-
Total other financing sources (uses)	135,766	-	135,766	45,932	(89,834)
Net change in fund balance	43,762	-	43,762	-	(43,762)
Fund balance beginning of year	-	-	-	-	-
Fund balance end of year	$ 43,762	$ -	$ 43,762	$ -	$ (43,762)

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

(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, 2014 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 position 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.

- Municipal Aid Road Fund - The Municipal Aid Road Fund is used to account for state grants restricted for road improvements.
- Floodwall Operating Fund - The Floodwall Operating Fund is used to account for taxes levied on real estate located within the floodwall. Resources may only be used for the repair and maintenance of City's floodwall.
- Community Development Fund - The Community Development Fund is used to account for entitlements to the City under the provisions of Title 1 of the Housing and Development Act of 1974. Resources may only be used for activities which are directed toward developing urban communities and economic opportunities for individuals of low and moderate income.
- Housing Assistance Fund - The Housing Assistance Fund is used to account for grant revenue provided to the City by the U.S. Department of Housing and Urban Development Section 8 rent subsidy program. Resources are used for the payment of rent subsidies to landlords on behalf of qualified tenants.

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 (Department of Transportation).

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, certain mutual funds, 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 Position.

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 position 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 position 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:

Description	Estimated Lives
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 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, 2014, there were no significant 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 Commissioners, 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 Position

Net position represent the difference between assets and liabilities. Net position 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 position is 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. Bond Issuance Costs

Debt issuance costs are expensed in the period they are incurred.

Q. Reclassifications

Certain reclassifications have been made to June 30, 2013 information to conform with the 2014 presentation.

R. Recent Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has recently issued GASB No. 65, *Items Previously Reported as Assets and Liabilities* which clarifies the use of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. This statement requires certain items which were previously reported as assets and liabilities to be reported as deferred outflows of resources, deferred inflows of resources and as revenues or expenses. As a result of implementing this statement, certain items were reclassified to deferred outflows of resources on the Statement of Net Position.

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. For the year ended June 30, 2014, the City implemented GASB No. 67, which required additional disclosures and Required Supplementary Information concerning the City's pensions funds.

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, 2014, the carrying amounts of the City's deposits were $8,685,366 and the bank balances were $9,743,309. 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, 2014, the City had the following investments and maturities:

	Investment Maturities (in years)				
Investment Type -	Fair Value	Less than 1	1 - 5	6 - 10	More than 10
General Fund					
Money Market Mutual Fund	$ 1,600,001	$ 1,600,001	$ -	$ -	$ -
Utility Fund					
Money Market Mutual Fund	373,070	373,070	-	-	-
Certificates of Deposit	2,752,300	2,752,300	-	-	-
Recreation Fund					
Certificates of Deposit	190,000	190,000	-	-	-
Fiduciary Funds					
Certificates of Deposit	1,500,000	1,500,000	-	-	-

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 their 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. The money market mutual fund invests only in U.S. Treasury Obligations, which include securities issued or guaranteed by the U.S. Treasury where the payment of principal and interest is backed by the full faith and credit of the U.S. government.

(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 2014 assessed value for real property and tangible property was $838,362,243 and $102,946,806, respectively. The tax rate adopted was $.2891 per $100 valuation.

(5) GRANTS RECEIVABLE

Grants receivable from other governmental units as of June 30, 2014, are as follows:

General Fund -	
Kentucky Transportation Cabinet	$ 10,630
Special Revenue Funds -	
Municipal Aid Road Fund	44,926
Community Development Fund, program allocation	79,314
	124,240
Enterprise Funds -	
Ashland Bus System - FTA operations	300,148
Ashland Bus System - FTA capital	191,430
	491,578
	$ 626,448

(6) CAPITAL ASSETS

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

Governmental Activities	June 30, 2013	Increases	Decreases	June 30, 2014
Capital Assets, Not Depreciated:				
Land	$ 18,936,298	$ -	$ -	$ 18,936,298
Construction in progress	118,766	13,775	(108,766)	23,775

Capital Assets, Depreciated:				
Buildings	8,872,607	-	-	8,872,607
Building improvements	3,006,086	152,944	-	3,159,030
Automotive equipment	3,835,059	10,516	(61,586)	3,783,989
Office furniture and equipment	713,479	19,730	-	733,209
Operating equipment	3,935,990	176,230	-	4,112,220
Capital improvements	573,166	-	-	573,166
Infrastructure	75,087,026	557,103	-	75,644,129
Totals	115,078,477	930,298	(170,352)	115,838,423
Accumulated Depreciation:				
Buildings	1,705,864	178,467	-	1,884,331
Building improvements	1,796,734	83,950	-	1,880,684
Automotive equipment	2,897,477	172,373	(47,471)	3,022,379
Office furniture and equipment	619,215	25,475	-	644,690
Operating equipment	2,545,143	203,245	-	2,748,388
Capital improvements	168,655	27,132	-	195,787
Infrastructure	42,971,349	1,883,870	-	44,855,219
Totals	52,704,437	2,574,512	(47,471)	55,231,478
Governmental Activities Capital Assets, Net	$ 62,374,040	$ (1,644,214)	$ (122,881)	$ 60,606,945
Business-type Activities				
Capital Assets, Not Depreciated:				
Land	$ 383,101	$ -	$ -	$ 383,101
Construction in progress	8,341,947	1,996,224	(6,843,889)	3,494,281
Capital Assets, Depreciated:				
Buildings	3,846,513	-	-	3,846,513
Building improvements	708,634	-	-	708,634
Utility and sewage plants	79,946,023	7,402,158	-	87,348,181
Automotive equipment	1,942,224	29,654	-	1,971,878
Office furniture and equipment	463,532	8,585	-	472,117
Operating equipment	3,120,399	28,137	-	3,148,536
Capital improvement	418,280	-	-	418,280
Recreation equipment	312,638	-	-	312,638
Totals	99,483,291	9,464,758	(6,843,890)	102,104,159
Accumulated Depreciation:				
Buildings	841,921	89,647	-	931,568
Building improvements	390,843	29,103	-	419,946
Utility and sewage plants	43,833,026	1,857,960	-	45,690,986
Automotive equipment	1,394,665	125,983	-	1,520,648
Office furniture and equipment	416,919	17,741	-	434,660
Operating equipment	1,984,369	131,274	-	2,115,643
Capital improvements	122,213	25,239	-	147,452
Recreation equipment	273,102	3,116	-	276,218
Totals	49,257,058	2,280,063	-	51,537,121
Business-type Activities Capital Assets, Net	$ 50,226,233	$ 7,184,695	$ (6,843,890)	$ 50,567,038

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

Governmental activities:	
General government	$ 482,040
Finance	367
Public services	1,646,502
Planning and code enforcement	7,487
Police	221,530
Fire	148,277
Engineering	55,847
Community and cultural	12,462
	$ 2,574,512

Business-type activities:	
Utilities	$ 2,058,738
Recreation	33,223
Bus	136,064
Cemetery	52,038
	$ 2,280,063

(7) RETIREMENT PLANS

Single Employer Plans

Plan Descriptions, Contribution Information and Funding Policies

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

Utility Pension Fund (UPF):

The City of Ashland Utilities Employee's Pension Plan provides retirement benefits to City utility department employees in classified positions under civil service. The plan is closed to new participants and at June 30, 2014, there were no active employees participating in UPF. Unless otherwise indicated, UPF information in this Note is provided as of the latest actuarial valuation, June 30, 2013 with an update to roll forward information to June 30, 2014.

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, 2014, there were no active employees participating in PFPF. Unless otherwise indicated, PFPF information in this note is provided as of the latest actuarial valuation, June 30, 2014.

A separate audited financial statement is not available for the UPF and PFPF. The following is the statement of net position and the statement of changes in net position for the UPF and PFPF:

	PENSION TRUST FUNDS		
	Utility Pension Fund	Policemen & Firefighters Pension Fund	Total
ASSETS			
Cash and cash equivalents	$ 1,449	$ 7,079	$ 8,528
Accrued interest receivable	565	565	1,130
Due from other funds	1,680,018	-	1,680,018
Investments, at fair value -			
Certificates of deposit	750,000	750,000	1,500,000
Total assets	2,432,032	757,644	3,189,676
LIABILITIES			
Due to other funds	69,228	26,243	95,471
Total liabilities	69,228	26,243	95,471
NET POSITION - RESTRICTED FOR PENSION BENEFITS	$ 2,362,804	$ 731,401	$ 3,094,205
ADDITIONS			
Contributions -			
Employer	$ 650,912	$ 316,277	$ 967,189
Plan members	-	-	-
Total contributions	650,912	316,277	967,189

Investment income -			
Net (depreciation) appreciation in fair value of investments	(4,681)	(4,681)	(9,362)
Interest income	5,560	5,538	11,098
Total investment income	879	857	1,736
Total additions	651,791	317,134	968,925
DEDUCTIONS			
Benefits	731,999	582,431	1,314,430
Administrative expenses	6,360	3,195	9,555
Total deductions	738,359	585,626	1,323,985
NET DECREASE	(86,568)	(268,492)	(355,060)
NET POSITION - RESTRICTED FOR PENSION BENEFITS:			
Beginning of year	2,449,372	999,893	3,449,265
End of year	$ 2,362,804	$ 731,401	$ 3,094,205

Actuarial valuations are performed bi-annually. For additional information relating to basis of accounting and reported investment values, see Notes 1 and 2. These plans are defined benefit plans. The following is a summary of funding policies, contribution methods, and benefit provisions:

	Utility Pension Fund	Police and Firefighters Pension Fund	
Governing Authority	City Ordinance and KRS	City Ordinance and KRS	
Determination of contribution requirements	Actuarially	Actuarially	
Contribution rates as a percentage of covered payroll:			
Employer	N/A	N/A	
Plan Members	N/A	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	28	30	Totals 58
Active plan participants:			
Vested	-	-	-
Non-Vested	-	-	-
	28	30	58

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

	Utility Employees Pension Plan	Policemen And Firefighters Pension Plan
Valuation date	06-30-13, updated through 06-30-14	06-30-14
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level % of payroll Closed	Level % of payroll Closed
Amortization	20 years	10 years
Actuarial asset valuation method	Fair market value, quoted market prices	Fair market value, quoted market prices
Actuarial assumptions		
Investments		
Rate of return	5.00 %	5.00 %
Allocation	Allowed by KRS	Allowed by KRS
Projected salary increases	None	None
Post retirement benefit increases	0.00 %	0.00 %
Inflation rate	5.00 %	5.00 %
Discount rate	5.00 %	5.00 %
Mortality	RP-2000 Mortality Table	RP-2000 Mortality Table

The following represents the components of the net pension liability:

Date	Fiduciary Net Position (a)	Total Pension Liability (TPL) Entry Age (b)	Net Pension Liability (NPL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	NPL As A Percentage Of Covered Payroll (b-a)/c)
Utility Employees Pension Plan						
06/30/14	$ 2,362,804	$ 7,823,259	$ 5,460,455	30.2%	$ ** N/A	** N/A
Policemen and Firefighters Pension Plan						
06/30/14	731,401	4,338,361	3,606,960	16.9%	** N/A	** N/A

**No active employees or covered payroll.

Discount Rate

The following represents the effect on the net pension liability using a discount rate that is one percentage point higher and a discount rate that is one percentage point lower:

	Utility Employees Pension Plan	Policemen And Firefighters Pension Plan
Total pension liability at assumed discount rate of 5.00%	$7,823,259	$4,338,361
Pension liability at a discount rate:		
1% higher (6.00%)	$7,254,505	$4,080,326
1% lower (4.00%)	$8,478,448	$4,631,171

Reserves

There are no assets legally reserved for purposes other than the payment of plan member benefits for either plan. Each plan held two certificates of deposit at local financial institutions whose market value exceeds five percent of net assets available for benefits. There are no long-term contracts for contributions.

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	$ 650,912	$ 316,277
Employer required annual contribution	383,103	425,142
Interest on net pension asset	(128,819)	(101,395)
Adjustment to annual contribution requirement	37,154	456,894
Annual pension cost	291,438	780,641
Increase (decrease) in net pension asset	359,474	(464,364)
Net pension asset, June 30, 2013	2,406,806	2,222,180
Net pension asset, June 30, 2014	$ 2,766,280	$ 1,757,816

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)
2012	$ 379,908	149%	(2,471,883)	2012	$ 338,324	109%	(2,266,048)
2013	632,606	90%	(2,406,806)	2013	411,033	89%	(2,222,180)
2014	291,438	223%	(2,766,280)	2014	780,641	41%	(1,757,816)

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 18.89% 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 35.70% 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, 2014, 2013, and 2012 were $3,437,963, $3,727,668, and $3,544,530, 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, 2014:

Governmental Activities	Balance June 30, 2013	Additions	Reductions	Balance June 30, 2014
General Obligation Bond Series 2005	$ 2,675,000	$ -	$ 105,000	$ 2,570,000
Capital lease - Equipment	31,832	-	19,155	12,677
Capital lease - Police Station	4,393,596	-	146,260	4,247,336
Capital lease – Refinancing	392,500	-	150,000	242,500
Capital lease – Melody Mtn. Phase II	-	1,710,000	8,750	1,701,250
Compensated absences obligation	866,909	35,109	117,791	784,227
Total Governmental Activities	$ 8,359,837	$ 1,745,109	$ 546,956	$ 9,557,990

Business-type Activities	Balance June 30, 2013	Additions	Reductions	Balance June 30, 2014
Revenue & Improvement Bond Series 2013	$ 4,890,000	$ -	$ 400,000	$ 4,490,000
Capital lease - Equipment	11,756	-	7,074	4,682
Capital lease - Radio Meters	-	1,710,000	89,583	1,620,417
Kentucky Infrastructure Authority Loan	1,246,854	-	111,257	1,135,597
Kentucky Infrastructure Authority Loan	2,678,234	-	188,473	2,489,761
Kentucky Infrastructure Authority Loan	6,644,995	-	135,928	6,509,067
Discount on bonds	(29,668)	-	(2,967)	(26,701)
Total Business-type Activities	$ 15,442,171	$ 1,710,000	$ 929,348	$ 16,222,823

At June 30, 2014, the City was required to have $521,475 for the Revenue and Improvement Bonds of 2013, in sinking fund reserve accounts. Additionally, under the KIA loan agreements, the City was

required to have $319,000 set aside for the costs of extensions, improvements, renewals and replacements to the sewer system. As of June 30, 2014, the City had reserve funds of $995,453.

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:

Year Ending June 30,	Principal	Interest and fees	Total
2015	$ 152,083	$ 6,294	$ 158,377
2016	90,417	2,523	92,940
	$ 242,500	$ 8,817	$ 251,317

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:

Year Ending June 30,	Principal	Interest and fees	Total
2015	$ 151,760	$ 160,283	$ 312,043
2016	157,404	154,476	311,880
2017	163,320	148,392	311,712
2018	169,439	142,099	311,538
2019	175,804	135,553	311,357
2020-2024	982,772	571,053	1,553,825
2025-2029	1,181,189	366,980	1,548,169
2030-2034	1,265,648	121,929	1,387,577
	$ 4,247,336	$ 1,800,765	$ 6,048,101

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	(31,316)
	$ 46,975

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

Year Ending June 30,	Principal	Interest	Total
2015	$ 12,677	$ 691	$ 13,368

Capital Lease - Melody Mountain Phase II

On May 2, 2014, the City entered into an agreement with the Kentucky Bond Corporation to finance the development of the Melody Mountain Project Phase II. Proceeds of the variable rate (2.0% to 3.5%) lease agreement totaled $1,710,000. At June 30, 2014, the City has $600,000 of the proceeds recorded as committed fund balance in the general fund.

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

Year Ending June 30,	Principal	Interest and fees	Total
2015	$ 88,334	$ 56,860	$ 145,194
2016	65,000	52,872	117,872
2017	65,000	51,409	116,409
2018	67,084	49,947	117,031
2019	70,000	48,438	118,438
2020-2024	374,168	212,437	586,605
2025-2029	441,249	147,682	588,931
2030-2034	504,165	63,352	567,517
2035	26,250	1,247	27,497
	$ 1,701,250	$ 684,244	$ 2,385,494

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, 2014, are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	$ 110,000	$ 106,288	$ 216,288
2016	110,000	101,888	211,888
2017	115,000	97,388	212,388
2018	120,000	92,688	212,688
2019	125,000	87,788	212,788
2020-2024	730,000	354,364	1,084,364
2025-2029	860,000	186,747	1,046,747
2030-2031	400,000	18,226	418,226
	$ 2,570,000	$ 1,045,377	$ 3,615,377

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, 2014, are as follows:

	Accrued Long-Term Obligation	Current Obligation	Total Compensated Absences
General Fund	$ 764,833	$ 150,459	$ 915,292
Community Development Fund	8,166	1,606	9,772
Housing Assistance Fund	4,081	803	4,884
Floodwall Fund	7,147	1,406	8,553
Ashland Bus System	-	18,396	18,396
Recreation Fund	-	23,295	23,295
Cemetery Fund	-	3,395	3,395
Utility Fund	-	214,225	214,225
	$ 784,227	$ 413,585	$ 1,197,812

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, 2014, there was one series of Industrial Revenue Bonds outstanding, with an aggregate principal amount payable of approximately $125 million.

Business-Type Activities

Kentucky Infrastructure Authority Loan

On May 1, 2010, the City entered into an Assistance Agreement with the Kentucky Infrastructure Authority ("KIA") to finance capacity upgrades at the Roberts Drive Pump Station and the Sixth Street Pump Station as part of the CSO abatement projects in the Long-Term Control Plan (See Note 11). The loan bears interest at a rate of 2.0% with a maturity date of December 1, 2034. A loan serving fee of 0.001% of the annual outstanding loan balance shall be payable to KIA as a part of each interest payment. In accordance with the Agreement, the City received the proceeds from the loan as eligible expenses were incurred.

The annual requirements to amortize the loan as of June 30, 2014 are as follows:

Year ending June 30,	Principal	Interest	Fees	Total
2015	$ 275,946	$ 128,808	$ 12,881	$ 417,635
2016	281,493	123,262	12,326	417,081
2017	287,151	117,604	11,760	416,515
2018	292,922	111,832	11,183	415,937
2019	298,810	105,945	10,594	415,349
2020-2024	1,586,592	437,180	43,718	2,067,490
2025-2029	1,752,585	271,188	27,119	2,050,892
2030-2034	1,733,568	87,828	8,783	1,830,179
	$ 6,509,067	$ 1,383,647	$ 138,364	$ 8,031,078

Kentucky Infrastructure Authority Loan

On October 1, 2001, the City entered into an Assistance Agreement with the Kentucky Infrastructure Authority ("KIA") for a water system renovation project. The loan bears interest at a rate of 3.8% with a maturity date of December 1, 2023. A loan serving fee of 0.025% of the annual outstanding loan balance shall be payable to KIA as a part of each interest payment. In accordance with the Agreement, the City received the proceeds from the loan as eligible expenses were incurred.

The annual requirements to amortize the loan as of June 30, 2014 are as follows:

Year ending June 30,	Principal	Interest	Fees	Total
2015	$ 115,522	$ 42,066	$ 2,767	$ 160,355
2016	119,956	37,634	2,476	160,066
2017	124,558	33,032	2,173	159,763
2018	129,336	28,254	1,859	159,449
2019	134,297	23,293	1,532	159,122
2020-2023	511,928	39,639	2,608	554,175
	$ 1,135,597	$ 203,918	$ 13,415	$ 1,352,930

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, 2014, are as follows:

Year ending June 30,	Principal	Interest	Fees	Total
2015	$ 194,169	$ 73,247	$ 6,104	$ 273,520
2016	200,038	67,379	5,615	273,032
2017	206,084	61,332	5,111	272,527
2018	212,313	55,104	4,592	272,009
2019	218,730	48,686	4,057	271,473
2020-2024	1,196,908	140,177	11,682	1,348,767
2025	261,519	5,899	492	267,910
	$ 2,489,761	$ 451,824	$ 37,653	$ 2,979,238

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	(11,566)
	$ 17,349

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

Year ending June 30,	Principal	Interest	Total
2015	$ 4,682	$ 255	$ 4,937

Capital Lease – Radio Meters

On July 30, 2013, the City entered into an agreement with the Kentucky Bond Corporation to finance the acquisition and installation of radio read meters. Proceeds of the variable rate (4.125% to 4.625%) lease agreement totaled $1,710,000.

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

Year Ending June 30,	Principal	Interest and fees	Total
2015	$ 95,000	$ 59,228	$ 154,228
2016	95,000	57,091	152,091
2017	97,084	54,557	151,641
2018	102,084	51,402	153,486
2019	105,000	48,084	153,084
2020-2024	573,332	186,324	759,656
2025-2029	552,917	64,396	617,313
	$ 1,620,417	$ 521,082	$ 2,141,499

Revenue Refunding and Improvement Bonds Series 2013

On April 1, 2013, the City issued $4,890,000 in refunding bonds with an average rate of 5.3% to advance refund $1,930,000 of the series of 1999 bonds with an average rate of 6.8%. The proceeds of the refunding bonds were used to purchase U.S. government securities, which were deposited in an irrevocable trust with an escrow agent to provide for all future payments on the refunded bonds. Thus, the refunded bonds in the amount of $4,410,000 are considered to be defeased and the liability for those bonds has been removed from the general long-term debt account group.

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

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

The annual requirements to amortize the indebtedness at June 30, 2014, are as follows:

Year ending June 30,	Principal	Interest	Total
2015	$ 405,000	$ 71,243	$ 476,243
2016	410,000	68,205	478,205
2017	420,000	65,130	485,130
2018	430,000	61,980	491,980
2019	435,000	58,755	493,755
2020-2024	2,390,000	156,795	2,546,795
	$ 4,490,000	$ 482,108	$ 4,972,108

(9) INTERFUND TRANSACTIONS

Interfund Receivable and Payables

The composition of interfund balances as of June 30, 2014 is as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General Fund	Ashland Bus System	$ 734,692
General Fund	Utility Fund	1,736,226
General Fund	Recreation Fund	243,942
General Fund	Floodwall Operating Fund	155,554
General Fund	Utility Pension Fund	69,228
General Fund	Cemetery Fund	195,341
General Fund	Community Development	18,150
General Fund	Housing Assistance	58,695
General Fund	Police and Fire Fighters Pension	26,243
Municipal Aid Fund	General Fund	37,823
Capital Project	General Fund	340,332
Internal Service Fund	General Fund	1,463,086
Utility Pension Fund	Utility Fund	1,680,018
Total		$ 6,759,330

Interfund Transfers

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Operating	General	Ashland Bus System	Matching	$ 403,653
Operating	General	Recreation	Operations	1,025,579
Operating	General	Capital Projects	Capital Purchases	382,337
Operating	General	Floodwall	Operations	45,932
Operating	General	Cemetery	Operations	161,301

(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 affect 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, 2014, the City paid $403,653 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 $300,148 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, 2014, the City has incurred costs of approximately $13,000,000 in relation to the required sewer improvements.

On February 18, 2010, the Board of Commissioners approved an additional surcharge for sewer customers of the City to pay for the improvements. Beginning April 1, 2010, sewer customers are charged a $2.50 fee per 1,000 gallons of water used. The charge will increase to $3.50 per 1,000 gallons in 2015 and end in 2035. All monies collected for this surcharge are placed in a separate account and only used for CSO improvements as outlined in the City's Long Term Control Plan. At June 30, 2014, the City has $2,754,133 restricted for the sewer improvements.

Construction Projects

The City is obligated on commitments for various contracts in progress at June 30, 2014. A summary of these commitments is as follows:

Fund	Project Description	Total Approved Contract	Paid or Accrued to Date	Out-standing Commitment
Utility Fund	CSO-29th St. Storm Water	$ 179,780	$ 67,862	$ 111,918
Utility Fund	CSO-37th St. Pump Station	3,158,657	2,652,758	505,899
General Fund	Fire Training Facility	182,997	-	182,997
		$ 3,521,434	$ 2,720,620	$ 800,814

(12) RISK MANAGEMENT

The City is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has established an employee's health insurance fund (an internal service fund) to account for and finance its uninsured risk of loss. Under this program, the employees health insurance fund provides coverage up to a maximum of $100,000 per covered full-time employee and his or her dependents and eligible retirees. The City purchases commercial insurance for the health and accident claims in excess of coverage provided by the fund and for all other risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

All full-time employees are eligible to participate in the City's Health Benefit Plan. The claims liability of $455,858 reported in the Internal Service Fund at June 30, 2014, 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 2013 and 2014 were:

	Beginning of Fiscal Year Liability	Current Year Claims	Claim Payments	Balance At Fiscal Year End
2013	$ 621,809	$ 5,534,500	$ 5,700,451	$ 455,858
2014	455,858	5,215,487	5,015,226	656,119

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, 2014 totaled $362,100.

(13) OTHER POST EMPLOYMENT BENEFITS

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

Currently four retirees and eligible survivors meet the eligibility requirements. The City pays claims up to $100,000 per individual. Funding is provided by billings to retirees. Expenditures for post-retirement health care benefits are recognized as retirees report claims. Management has no knowledge of unreported claims incurred for which a liability has not been recognized. During the year, expenditures of $100,567 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, 2013, the date of the latest actuarial valuation, the plan had 91,700 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, 2013 was as follows:

	000's omitted
Total medical benefit obligation	$ 3,881,227
Net position available for benefits at actuarial value	2,521,019
Unfunded medical benefit obligation	$ 1,360,208

(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 AND INVESTMENT RETURNS
JUNE 30, 2014

	UTILITY EMPLOYEES PENSION PLAN							POLICE AND FIREFIREFIGHTERS PENSION PLAN						
					Percentage of Covered Payroll							Percentage of Covered Payroll		
	Amount Contributed	ARC	Contribution Deficiency (Excess)	Covered Payroll	ARC	Amount Contributed	Annual* M-W Rate of Return, net	Amount Contributed	ARC	Contribution Deficiency (Excess)	Covered Payroll	Payroll ARC	Amount Contributed	Annual* M-W Rate of Return, net
2005	$ 369,028	$329,604	$ (39,424)	$72,829	453%	507%	*N/A	$ 288,463	$282,302	$ (6,161)	**N/A	**N/A	**N/A	*N/A
2006	410,483	316,858	(93,625)	75,902	417%	541%	*N/A	288,463	282,302	(6,161)	**N/A	**N/A	**N/A	*N/A
2007	410,483	316,858	(93,625)	40,408	784%	1016%	*N/A	288,463	293,551	5,088	**N/A	**N/A	**N/A	*N/A
2008	504,621	325,015	(179,606)	40,458	803%	1247%	*N/A	355,128	293,551	(61,577)	**N/A	**N/A	**N/A	*N/A
2009	684,266	325,025	(359,241)	43,264	751%	1582%	*N/A	481,553	267,003	(214,550)	**N/A	**N/A	**N/A	*N/A
2010	608,977	309,647	(299,330)	44,414	697%	1371%	*N/A	448,250	267,003	(181,247)	**N/A	**N/A	**N/A	*N/A
2011	570,018	309,647	(260,371)	44,541	695%	1280%	*N/A	367,165	270,665	(96,500)	**N/A	**N/A	**N/A	*N/A
2012	567,529	316,165	(251,364)	**N/A	**N/A	**N/A	*N/A	367,165	270,665	(96,500)	**N/A	**N/A	**N/A	*N/A
2013	567,529	567,529	-	**N/A	**N/A	**N/A	*N/A	367,165	342,502	(24,663)	**N/A	**N/A	**N/A	*N/A
2014	650,912	383,103	(267,809)	**N/A	**N/A	**N/A	0.17%	316,277	425,142	108,865	**N/A	**N/A	**N/A	0.18%

* The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. Information is only shown for years available.

** No active employees or covered payroll.

CITY OF ASHLAND
DEFINED BENEFIT PENSION TRUSTS
SCHEDULE OF FUNDING PROGRESS
JUNE 30, 2014

UTILITY EMPLOYEES PENSION PLAN

Actuarial Valuation Date		Fiduciary Net Position (a)	Total Pension Liability (TPL) Entry Age (b)	Net Pension Liability (NPL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	NPL As A Percentage Of Covered Payroll ((b-a)/c)
06/30/05	*	$ 3,094,984	$ 8,027,969	$ 4,932,985	38.6%	$ 72,829	6773.4%
06/30/06		2,945,343	8,017,824	5,072,481	36.7%	75,902	6682.9%
06/30/07	*	2,832,267	7,978,693	5,146,426	35.5%	40,408	12736.2%
06/30/08		2,812,041	8,062,839	5,250,798	34.9%	40,458	12978.4%
06/30/09	*	2,882,283	7,776,949	4,894,666	37.1%	43,264	11313.5%
06/30/10		2,867,735	7,863,170	4,995,435	36.5%	44,414	11247.4%
06/30/11	*	2,761,148	7,744,771	4,983,623	35.7%	44,541	11188.8%
06/30/12		2,618,017	7,696,263	5,078,246	34.0%	**N/A	**N/A
06/30/13	*	2,449,372	7,462,369	5,012,997	32.8%	**N/A	**N/A
06/30/14		2,362,804	7,823,259	5,460,455	30.2%	**N/A	**N/A

POLICEMEN AND FIREFIGHTERS PENSION PLAN

06/30/05		$ 2,762,856	$ 6,409,841	$ 3,646,985	43.1%	**N/A	**N/A
06/30/06	*	2,412,459	6,253,647	3,841,188	38.6%	**N/A	**N/A
06/30/07		2,133,702	6,104,576	3,970,874	35.0%	**N/A	**N/A
06/30/08	*	2,005,460	5,499,260	3,493,800	36.5%	**N/A	**N/A
06/30/09		1,914,668	5,302,131	3,387,463	36.1%	**N/A	**N/A
06/30/10	*	1,775,017	5,316,734	3,541,717	33.4%	**N/A	**N/A
06/30/11		1,492,443	5,201,210	3,708,767	28.7%	**N/A	**N/A
06/30/12	*	1,246,072	4,693,041	3,446,969	26.6%	**N/A	**N/A
06/30/13		999,893	4,299,041	3,299,148	23.3%	**N/A	**N/A
06/30/14	*	731,401	4,338,361	3,606,960	16.9%	**N/A	**N/A

*Biannual actuarial valuation performed.

**No active employees or covered payroll.

CITY OF ASHLAND
DEFINED BENEFIT PENSION TRUSTS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2014

	UTILITY EMPLOYEES PENSION PLAN	POLICE AND FIREFIREFIGHTERS PENSION PLAN
TOTAL PENSION LIABILITY		
Service cost	$ -	$ -
Interest on total pension liability	353,293	199,178
Effect of changes in benefit terms	848,025	436,571
Difference in expected and actual experience	(108,429)	(28,280)
Effect of changes in assumptions	-	14,282
Benefit payments	(731,999)	(582,431)
Net change in total pension liability	360,890	39,320
Total pension liability, beginning of year	7,462,369	4,299,041
Total pension liability, end of year (a)	7,823,259	4,338,361
FIDUCIARY NET POSITION		
Employer contributions	$ 650,912	$ 316,277
Member contributions	-	-
Investment income, net of investment expenses	879	857
Benefit payments and refund of contributions	(731,999)	(582,431)
Administrative expenses	(6,360)	(3,195)
Net change in plan fiduciary net position	(86,568)	(268,492)
Fiduciary net position, beginning of year	2,449,372	999,893
Fiduciary net position, end of year (b)	2,362,804	731,401
Net pension liability, ending = (a)-(b)	$ 5,460,455	$ 3,606,960

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, 2014

	Original Budget	Revisions	Revised Budget	Actual	Variance Positive (Negative)
Revenues					
Property and other local taxes	$ -	$ -	$ -	$ -	$ -
Licenses and permits	-	-	-	-	-
Charges for services	-	-	-	-	-
Fees, fines and reimbursements	-	-	-	-	-
Grant income	-	-	-	-	-
Administration fee income	-	-	-	-	-
Interest income	-	-	-	-	-
Other income	-	-	-	-	-
Total revenues	-	-	-	-	-
Expenditures					
General government	1,225	-	1,225	245	980
Finance	-	-	-	-	-
Public services	-	-	-	-	-
Planning and code enforcement	-	-	-	-	-
Police	-	-	-	-	-
Fire	-	-	-	-	-
Engineering	-	-	-	-	-
Community and cultural	-	-	-	-	-
Other	-	-	-	-	
Capital outlay	160,000	226,968	386,968	202,835	184,133
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	161,225	226,968	388,193	203,080	185,113
Excess of Revenues Over (Under) Expenditures	(161,225)	(226,968)	(388,193)	(203,080)	185,113
Other Financing Sources (Uses)					
Transfers in	161,225	226,968	388,193	382,337	(5,856)
Total other financing sources (uses)	161,225	226,968	388,193	382,337	(5,856)
Net change in fund balance	-	-	-	179,257	179,257
Fund balance beginning of year	16,968	-	16,968	16,968	16,968
Fund balance end of year	$ 16,968	$ -	$ 16,968	$ 196,225	$ 196,225

CITY OF ASHLAND

GENERAL FUND

BALANCE SHEET

JUNE 30, 2014

ASSETS

Cash	$	989,503
Taxes receivable		2,773,897
Allowance for uncollectible taxes		(514,953)
Grants receivable		10,630
Due from other funds		3,238,072
Other receivables		453,509
Allowance for uncollectible accounts		(29,015)
Investments		1,600,001
Inventories - supplies		73,069
Prepaid items		51,300
Total assets	$	8,646,013

LIABILITIES AND FUND BALANCE

Liabilities:		
Cash overdraft	$	539,529
Accounts payable		1,549,981
Due to other funds		1,841,241
Due to Board of Education		83,289
Accrued compensated absences		150,459
Accrued expenses		601,142
Unearned revenue		217,006
Total liabilities		4,982,647
Fund Balance:		
Restricted for grant programs		227,636
Committed		600,000
Non-spendable		124,369
Unassigned		2,711,361
Total fund balance		3,663,366
Total liabilities and fund balance	$	8,646,013

CITY OF ASHLAND

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2014

	Budget	Actual	Variance
REVENUES:			
Taxes -			
General property taxes	$ 2,517,275	$ 2,359,129	$ (158,146)
Penalties and interest	33,500	29,943	(3,557)
Bank franchise taxes	96,500	99,929	3,429
Other franchise taxes	176,840	200,075	23,235
Delinquent taxes	160,960	175,235	14,275
Vehicle property taxes	501,965	508,515	6,550
Insurance premiums taxes	3,758,267	4,012,878	254,611
Total taxes	7,245,307	7,385,704	140,397
Licenses and permits -			
Occupational license fees	9,790,430	9,328,812	(461,618)
Business privilege licenses	1,352,180	1,369,252	17,072
Alcoholic beverage licenses	682,285	647,388	(34,897)
Construction permit fees	66,500	75,274	8,774
Other licenses and permits	700	570	(130)
Total licenses and permits	11,892,095	11,421,296	(470,799)
Charge for services -			
Garbage collection fee	1,937,850	2,010,627	72,777
Greyhound ticket sales	23,935	18,088	(5,847)
Rental revenue	20,000	41,852	21,852
Total charges for services	1,981,785	2,070,567	88,782
Fees, fines and reimbursements -			
Parking meter fees and fines	22,500	20,195	(2,305)
Taxes collection fees	112,750	119,286	6,536
State rebate - District Court	35,335	32,040	(3,295)
Street lighting franchise	866,000	950,424	84,424
Telecommunication franchise	252,000	262,111	10,111
Other	309,375	407,452	98,077
Total fees, fines and reimbursements	1,597,960	1,791,508	193,548
Other revenues -			
Police grants	33,729	37,931	4,202
Homeless shelter grant	-	27,473	27,473
Miscellaneous grants	225,894	9,700	(216,194)
Coal severance - LGEA	27,990	23,047	(4,943)
Interest earned	2,845	2,900	55
Other	153,304	213,690	60,386
Total other revenues	443,762	314,741	(129,021)
Total revenues	23,160,909	22,983,816	(177,093)

CITY OF ASHLAND

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2014

	Budget	Actual	Variance
EXPENDITURES:			
General Government -			
Mayor and Commissioners	128,637	121,997	6,640
City Manager	153,479	157,220	(3,741)
Legal	172,866	159,784	13,082
Economic Development	136,241	125,955	10,286
City Clerk/ABC Administrator	218,931	177,084	41,847
Grants and projects	372,899	370,976	1,923
Unclassified	2,489,793	2,425,955	63,838
	3,672,846	3,538,971	133,875
Department of Finance -			
Director of Finance	569,138	542,854	26,284
Data Processing	33,277	32,130	1,147
	602,415	574,984	27,431
Department of Public Services -			
Director of Public Services	225,620	226,911	(1,291)
Street maintenance	2,204,280	2,193,046	11,234
Sanitation services	1,435,319	1,364,310	71,009
Central garage	343,331	370,705	(27,374)
Animal control	74,257	71,394	2,863
	4,282,807	4,226,366	56,441
Department of Planning and Code Enforcement	564,428	606,052	(41,624)
Department of Police -			
Technical services	1,488,652	1,446,349	42,303
Field operations	3,689,971	3,549,610	140,361
	5,178,623	4,995,959	182,664

CITY OF ASHLAND

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2014

	Budget	Actual	Variance
Department of Fire	5,635,565	5,842,158	(206,593)
Department of Engineering	183,694	132,685	51,009
Debt Service	907,014	702,882	204,132
Total expenditures	21,027,392	20,620,057	407,335
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	2,133,517	2,363,759	230,242
OTHER FINANCING SOURCES (USES):			
Proceeds from issuance of debt	-	1,710,000	1,710,000
Transfer to Capital Projects Fund	(388,193)	(382,337)	5,856
Transfer to Recreation Fund	(1,018,938)	(1,025,579)	(6,641)
Transfer to Ashland Bus Fund	(512,299)	(403,653)	108,646
Transfer to Floodwall Fund	(92,004)	(45,932)	46,072
Transfer to Ashland Cemetery Fund	(122,083)	(161,301)	(39,218)
Total other financing sources (uses)	(2,133,517)	(308,802)	1,824,715
NET CHANGE IN FUND BALANCE	-	2,054,957	2,054,957
FUND BALANCE, June 30, 2013	1,608,409	1,608,409	-
FUND BALANCE, June 30, 2014	$ 1,608,409	$ 3,663,366	$ 2,054,957

CITY OF ASHLAND

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

JUNE 30, 2014

	Land & Buildings	Building Improvements	Automotive Equipment	Operating Equipment	Office Furniture & Equip	Capital Improvements	Infrastructure	CIP	Total
Dept of General Gov't	$ 2,822,024	$ 1,934,919	$ 151,501	$ 144,317	$ 317,786	$ 39,275	$ 11,591,668	$ -	$ 17,001,490
Dept of Finance	-	-	-	64,920	22,706	-	-	-	87,626
Dept of Public Services	15,978,343	682,840	648,697	2,939,367	6,299	470,084	62,603,072	-	83,328,702
Dept of Planning & Community Development	-	13,033	87,637	6,799	-	-	-	-	107,469
Department of Police	4,949,556	246,711	654,427	582,372	190,538	19,350	-	-	6,642,954
Department of Fire	3,655,959	160,369	2,115,396	241,853	53,246	-	-	3,775	6,230,598
Department of Engineering	-	-	71,500	-	86,230	44,457	1,257,664	20,000	1,479,851
Floodwall Operations	15,121	5,150	42,241	132,592	-	-	-	-	195,104
Community Development	237,869	103,058	-	-	18,623	-	191,725	-	551,275
Housing Assistance Programs	150,033	12,950	12,590	-	37,781	-	-	-	213,354
	$ 27,808,905	$ 3,159,030	$ 3,783,989	$ 4,112,220	$ 733,209	$ 573,166	$ 75,644,129	$ 23,775	$ 115,838,423

CITY OF ASHLAND

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

JUNE 30, 2014

Land and buildings	$ 27,808,905
Building improvements	3,159,030
Automotive equipment	3,783,989
Operating equipment	4,112,220
Office furniture and equipment	733,209
Capital improvements	573,166
Infrastructure	75,644,129
Construction in progress	23,775
Total	$ 115,838,423
Investment in capital assets by source	
General Fund	$ 90,383,805
Special Revenue Funds	5,189,288
Capital Projects Fund	20,265,330
Total	$ 115,838,423

CITY OF ASHLAND HOUSING AUTHORITY

STATEMENT OF NET POSITION

JUNE 30, 2014

	Rental Vouchers
ASSETS	
Cash - restricted	$ 50,306
Cash - unrestricted	80,864
Accounts receivable	2,281
Accounts receivable - HUD	4,112
Building and equipment, net	93,263
Total assets	$ 230,826
LIABILITIES AND NET POSITION	
LIABILITIES:	
Accounts payable	$ -
Accounts payable - other governmental	58,695
Accrued expenses	2,801
Accrued compensated absences - current	803
Accrued compensated absences - noncurrent	4,081
Total liabilities	66,380
NET POSITION:	
Invested in capital assets	93,263
Unrestricted	20,877
Restricted	50,306
	164,446
Total liabilities and net position	$ 230,826

CITY OF ASHLAND HOUSING AUTHORITY

STATEMENT OF REVENUES AND EXPENSES

FOR THE YEAR ENDED JUNE 30, 2014

	Rental Vouchers
REVENUES	
Housing assistance payments	$ 2,177,442
Administrative fee revenue	219,647
Interest income	240
Total revenues	2,397,329
EXPENSES	
Administrative salaries	114,685
Audit	8,116
Employee benefit contributions	20,277
Other administrative	8,658
Utilities	1,580
Maintenance	10,757
Property insurance	356
General liability insurance	1,515
Workers compensation	582
Other insurance	33,998
Other general	2,953
Compensated absences	98
Housing assistance payments	2,377,283
Depreciation	3,874
Total expenses	2,584,732
EXCESS OF EXPENSES OVER REVENUES	$ (187,403)

CITY OF ASHLAND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2014

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
U.S. Department of HUD			
Direct Programs -			
CDBG Entitlement	14.218	B12MC2-10003	$ 1,002,463 *
Housing Choice Voucher Program	14.871	KY142VO	2,580,760 *
Pass through Kentucky Housing Corporation -			
Kentucky Emergency Shelter Grants Program	14.231	ES011-0001-11	31,073
Total U.S. Department of HUD			3,614,296
U.S. Department of Transportation			
Direct Programs -			
Federal Transit Cluster			
FTA - Operating Assistance Grant	20.507	KY-90-X240	300,148 *
FTA - Capital Assistance Grant	20.507	KY-90-X240	191,430 *
			491,578
Passed through Kentucky Transportation Cabinet -			
Department of State Police Highway Safety Program	20.600	AL-13-01	8,895
Department of State Police Highway Safety Program	20.600	AL-14-02	2,807
			11,702
Total U.S. Department of Transportation			503,280
U.S. Department of Justice			
Direct Programs -			
Edward Byrne Memorial Justice Assistance Grant	16.738	2009-DJ-BX-1231	22,629
Total U.S. Department of Justice			22,629
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 4,140,205

* Denotes major program.

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, 2014. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Government, and Non-Profit Organizations. Because the schedule presents only a selected portion of operations of the City, it is not intended to, and does not present the financial position, changes in net position or cash flows of the City.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE C - SUBRECIPIENTS

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

CFDA Number	Program Name	Amount Provided to Subrecipients
14.218	CDBG Entitlement	$54,441

Kelley Galloway Smith Goolsby, PSC
Certified Public Accountants and Advisors

1200 Corporate Court • P. O. Box 990 • Ashland, Kentucky 41102
• Phone (606) 329-1811 (606) 329-1171 • Fax (606) 329-8756 (606) 325-0590
• Web www.kgsgcpa.com Member of PKF North America

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Ashland, Kentucky (the "City"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 19, 2014.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency,. or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness. [2014-01].

Pikeville, KY Cold Spring, KY Cincinnati, OH

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2014-02.

The City's Response to Findings

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

Purpose of this Report

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

Kelley Galloway Smith Grigsby, PSC

December 19, 2014
Ashland, Kentucky

Kelley Galloway Smith Goolsby, PSC
Certified Public Accountants and Advisors

1200 Corporate Court • P. O. Box 990 • Ashland, Kentucky 41102
• Phone (606) 329-1811 (606) 329-1171 • Fax (606) 329-8756 (606) 325-0590
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited the City of Ashland, Kentucky's (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2014. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Pikeville, KY Cold Spring, KY Cincinnati, OH

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2014-03, 2014-04 and 2014-05. Our opinion on each major federal program is not modified with respect to these matters.

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

Report on Internal Control Over Compliance

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

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

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

Purpose of this Report

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

Kelley Galloway Smith Glasby, PSC

December 19, 2014
Ashland, Kentucky

CITY OF ASHLAND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2014

A. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
❑ Material weakness(es) identified?	__X__ Yes _____ No
❑ Significant deficiency(ies) identified?	____ Yes __X__ No
Noncompliance material to the financial statements noted?	_____ Yes __X__ None reported

Federal Awards

Internal control over major programs:	
❑ Material weakness(es) identified?	_____ Yes __X__ No
❑ Significant deficiency(ies) identified?	____ Yes __X__ None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	__X__ Yes ____ No

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

Dollar threshold used to distinguish between type A and type B programs:	$300,000
Auditee qualified as low risk auditee?	_____ Yes __X__ No

B. FINANCIAL STATEMENT FINDINGS

2014-01 TIRE PURCHASES

Condition: While reviewing the City's compliance with the state bid law, we noted that approximately $245,000 was expended for tires during the year. This was a 145% increase over the amount of purchases during the 2013 fiscal year, which was approximately $100,000. Upon further inquiry, we were informed that the City is no longer tracking tires in the inventory system. The supervisor at the City garage indicated that tires are no longer maintained in stock, and are only purchased on an as-needed basis.

We requested that the City staff summarize tires utilized during the year from work orders maintained as vehicles are serviced at the garage. Only $102,000 in tires could be accounted for from the work orders, leaving $143,000 in tire purchases unaccounted for.

Criteria: Proper controls should be in effect to document the appropriate usage of tires purchased.

Cause: It is unclear as to whether this discrepancy was caused by poor tracking procedures or by misappropriation of City property.

Effect: Tires with an approximate cost of $143,000 are unaccounted for.

Recommendation: City management should thoroughly research the discrepancy between tires purchased verses tires used. Additionally, a system should be developed to reconcile tires purchased to the garage work orders.

Management's Response and Corrective Action Plan: An investigation is on-going into this matter. Internal controls were not followed in the tracking of tires in the inventory and repair part system. Also, management did not follow proper procurement regulations. Management needs to ensure that proper, procurement paperwork is completed. In accordance with the procurement process, management needs to approve purchases before ordering and verify that goods and services are received. Inventory counts need to be completed on a semi-annual basis instead of annually.

Contact Person Responsible for Corrective Action: Marion Russell, Director of Public Works.

Anticipated Completion Date: December 2014.

2014-02 PROCUREMENT ISSUES

Condition: We noted several violations of the City procurement code. Also, we noted instances where expense reimbursements were made to the City Manager that had been declined by the Finance Department. These matters include the following:

- Purchase orders not being completed
- Purchase order completed after items ordered are received
- Duplicate invoices being submitted by the department head for payment
- Department head using a signature stamp to approve purchases
- Kentucky Master Agreement number not listed on purchase orders or invoices for purchases made under state contract pricing

- Mileage reimbursements for out-of-area travel in addition to a monthly car allowance

Criteria: City procurement policies were developed to ensure purchases are not initiated unless they are reviewed and approved by the appropriate individuals. The policies ensure the City obtains the lowest price available for goods and services. Additionally, policies should be sufficiently detailed to prevent differences in interpretation of allowable expenditures.

Effect: We noted that the City paid the incorrect price for tires for several months due to an amendment in the Kentucky Master Agreement for Goodyear Tires. The amendment was not noticed until we brought it to the attention of the Finance Department, who requested a refund from the vendor. Expense reimbursements were made to the City Manager that were not authorized by the Finance Department.

Recommendation: We recommend the City provide periodic training on procurement policies to all department heads and other individuals with purchasing authority. The City should reconsider prohibiting the use of signature stamps for approving purchase orders. Unless proper controls are in place, a signature stamp could be used by an unauthorized individual in an attempt to misappropriate assets. Additionally, appropriate policies should be adopted that detail the costs and activities that are eligible for personal expense reimbursements. The authority of the Finance Department's role in approving expenditures should be more clearly defined.

Management's Response and Corrective Action Plan: The following is a detailed response for each item:

- Finance has developed a purchasing manual and held training classes for each Department Head as a refresher course on City purchasing rules and regulations.
- Management needs to ensure that purchasing paperwork is completed before purchase is made in accordance with the procurement code.
- Management needs to critically review what they are signing and not approve duplicate purchases.
- Department heads using a signature stamp to approve purchases; this procedure was approved by the City Manager but will be reviewed.
- Kentucky Master Agreement number will be listed on any purchase orders or invoices for purchases made under state contract pricing. Department head needs to ensure this number is on purchase order before issuance.
- The Director of Human Resources is drafting policies that could serve to further clarify the City's policies and procedures on mileage reimbursement.

Contact Person Responsible for Corrective Action: Various City Management

Anticipated Completion Date: December 2014 and January 2015

C. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

2014-03 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:

- No documentation of or improperly calculated utility allowance
- Missing or unsigned Housing Vouchers
- Missing or incorrectly completed HAP agreement
- Unsigned Certification of Relationship
- Missing rent reasonableness evaluation documentation

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

Effect: Noncompliance with HUD requirements.

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

Management's Response and Corrective Action Plan: Voucher supervisor has implemented an internal auditing program of voucher files. She is preforming quality control checks on the files and additional training is being provided to staff.

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

Anticipated Completion Date: October 16, 2014.

2014-04 FEDERAL COMPLIANCE - TRANSPARENCY ACT REPORTING

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

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

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

Effect: Noncompliance with the FFATA.

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

Management's Response and Corrective Action Plan: The responsible employee completed the reports in a timely manner but simply failed to hit the submission button. She did not realize her mistake until she was asked to retrieve the reports for the auditors. The employee will double check her submission in the future and verify with agency that they received.

Contact Person Responsible for Corrective Action: Mike Miller, Planning & CD Director.

Anticipated Completion Date: October 16, 2014.

2014-05 FEDERAL COMPLIANCE - PROCUREMENT

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

Condition: During our review of compliance with CDBG procurement requirements for rehabilitation projects, we noted two instances in which the aggregate amount of the contract for rehabilitation exceeded $20,000. Instead of using the competitive bidding process to award the contract, the City used small purchase procedures.

Criteria: KRS 45A.365, City procurement policies and federal program procurement requirements state that only contracts less than $20,000 qualify for small purchase procedures.

Cause: The original contracts were executed for an amount less than $20,000. However, subsequent change orders were executed that increased the contract amount to more than $20,000.

Effect: Noncompliance with procurement regulations.

Recommendation: We recommend that the City implement procedures to ensure that all contracts with aggregate amounts over $20,000 are awarded through the competitive bidding process.

Management's Response and Corrective Action Plan: All rehabilitation projects with preliminary estimates exceeding $ 18,000 will be competitively bid to allow for change orders that would make the project exceed $ 20,000.

Contact Person Responsible for Corrective Action: Mike Miller, Planning & CD Director

Anticipated Completion Date: October 16, 2014

CITY OF ASHLAND

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED JUNE 30, 2014

Findings	Findings/Noncompliance
2013-01	We recommended obtain the missing documentation from tenant files.
Status	Repeat finding - 2014-03.
2013-02	We recommend the City implement procedures to ensure letters of eligibility and denial be provided to applicants within the time period required by the Administrative Plan.
Status	Corrected.
2013-03	We recommend that the City implement policies and procedures to ensure that all federal reports are submitted by the required due date
Status	Repeat finding - 2014-04.