

CITY OF ASHLAND

**FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

FOR THE YEAR ENDED JUNE 30, 2015

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	2-4
MANAGEMENT'S DISCUSSION AND ANALYSIS	5-16
BASIC FINANCIAL STATEMENTS:	
Government-wide Financial Statements -	
Statement of Net Position.....	17-18
Statement of Activities.....	19
Fund Financial Statements -	
Balance Sheet - Governmental Funds.....	20
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position	21
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	22
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	23
Statement of Net Position - Proprietary Funds.....	24
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds	25
Statement of Cash Flows - Proprietary Funds.....	26
Statement of Net Position - Fiduciary Funds.....	27
Statement of Changes in Net Position - Fiduciary Funds	28
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	29
Statements of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Special Revenue Funds	30-33
Notes to Financial Statements.....	34-59
REQUIRED SUPPLEMENTAL INFORMATION:	
Defined Benefit Pension Trusts:	
Schedule of Employer Contributions and Investment Returns.....	60
Schedule of Funding Progress	61
Schedule of Changes in Net Pension Liabilities.....	62
County Employees Retirement System:	
Schedule of City's Proportionate Share of the Net Pension Liability.....	63
Schedule of Pension Contributions.....	64
Notes to Required Supplementary Information.....	65-66
SUPPLEMENTAL INFORMATION - COMBINING, INDIVIDUAL AND OTHER STATEMENTS AND SCHEDULES	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Capital Projects Fund	67
General Fund:	
Balance Sheet	68
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	69-71

Capital Assets Used in the Operations of Governmental Funds:	
Schedule of Capital Assets Used in the Operation of Governmental Funds by Function and Activity	72
Schedule of Capital Assets Used in the Operation of Governmental Funds by Source	73
City of Ashland Housing Authority (Financial Data Schedule)	74-75
Schedule of Expenditures of Federal Awards	76-77
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 <i>GOVERNMENT AUDITING STANDARDS</i>	78-79
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133	80-81
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	82-83
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	84-85



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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, 2015, 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.

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, 2015, 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.

Emphasis of Matter

As described in Note 16 to the financial statements, the City adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, effective July 1, 2014. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis information, the Schedule of Employer Contributions and Investment Returns, the Schedule of Funding Progress, the Schedule of Changes in Net Pension Liabilities, the Schedule of City's Proportionate Share of the Net Pension Liability and the Schedule of Pension Contributions on pages 5 through 16 and on pages 60 through 66, 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 67 through 73 and the Financial Data Schedule on pages 74 and 75 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 purposes of additional analysis and is not a required part of the basic financial statements.

The supplemental statements and schedules contained on pages 67 through 73, the Financial Data Schedule contained on pages 74 and 75 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 4, 2015, 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.

Kathey Galloway Smith, CPA, PSC

December 4, 2015
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, 2015. 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 \$66,787,383 (net position). Governmental activities’ unrestricted net position was \$(16,647,577). Business type activities’ unrestricted net position was \$(6,444,295).
- ⇒ The Government’s total net position increased by \$4,152,283. Net position of governmental activities increased by \$1,664,136, and net position of business-type activities increased by \$2,488,147.
- ⇒ At June 30, 2015, the governmental activities had \$68,671,053 in assets and \$35,908,596 in liabilities. Business type activities had \$64,491,441 in assets and \$35,992,233 in liabilities.
- ⇒ The City restated year 2014 to comply with a new accounting principle, GASB Statement No. 68. Also, 2014 corrections were made to the Utility Fund and Recreation Fund. Note 16 to the Notes to Financial Statements details the restatements.

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, 2015. 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.

THE GOVERNMENT AS A WHOLE

NET POSITION

As of June 30, 2015, the Government as a whole had net position greater than its liabilities by \$66,787,383. Net position of governmental activities was \$34,727,339 and increased by \$1,664,136 over the prior year. This increase was due to the concentrated effort of fund balance replenishment. The City budgeted \$500,000 to bring fund balance back to an optimal level. Although, we experienced an increase in total net position, our total unrestricted fund balance decreased by \$(31,439,274) in comparison to Fiscal Year 2014. Net position was restated as of June 30, 2014. The City implemented GASB Statement No. 68, as amended by GASB Statement No. 71. This restatement resulted in a total prior period adjustment of \$(38,351,510). Health insurance expenses remained stable due to plan modifications. Capital purchases were not completed until fiscal year 2016 and re-budgeted. Also, some City positions were not filled. Of ending Governmental Activities Net Position, \$51,170,584, is invested in capital assets net of related debt, \$204,332, is restricted for capital projects and grant programs and unrestricted net position is \$(16,647,577).

The net position of the Government's business-type activities is \$32,060,044 and increased by \$2,488,147 over the prior year. The Utility Fund had budgeted \$750,000 to replenish fund balance. The City realized \$802,103 of leachate revenue. This was a significant increase over prior year. Utility revenues increased due to changing from turbine meters to compound meters. This change allows for a more accurate capture of flow. Of this net position, \$31,115,457 is net investment in capital assets and \$(6,444,295) is unrestricted. The largest portion of the City's combined net position 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 business-type activities net position, \$7,388,882 represents resources that are subject to external restrictions on how they may be used. The largest restricted portion, \$6,039,483 is for sewer improvements.

At the end of this fiscal year, June 30, 2015, the City has a negative unrestricted net position in its business-type activities. However, \$(13,537,132) of the ending position is due to the restatements made to June 30, 2014 ending balance. See Note (16). 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 change in 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	
	2015	2014*	2015	2014*	2015	2014*
Current and other assets	\$ 9,096,723	\$ 9,848,563	\$ 14,661,880	\$ 9,883,330	\$ 23,758,603	\$ 19,731,893
Capital assets	59,574,330	60,606,945	49,829,561	50,619,538	109,403,891	111,226,483
Deferred outflows of resources	<u>3,835,788</u>	<u>2,653,514</u>	<u>4,201,930</u>	<u>1,024,748</u>	<u>8,037,718</u>	<u>3,678,262</u>
Total assets and deferred outflows	<u>72,506,841</u>	<u>73,109,022</u>	<u>68,693,371</u>	<u>61,527,616</u>	<u>141,200,212</u>	<u>134,636,638</u>
Liabilities	4,328,129	5,906,072	4,126,740	5,217,554	8,454,869	11,123,626
Long-term liabilities	31,580,467	34,139,747	31,865,493	26,738,165	63,445,960	60,877,912
Deferred inflows of resources	<u>1,870,906</u>	<u>-</u>	<u>641,094</u>	<u>-</u>	<u>2,512,000</u>	<u>-</u>
Total liabilities and deferred inflows	<u>37,779,502</u>	<u>40,045,819</u>	<u>36,633,327</u>	<u>31,955,719</u>	<u>74,412,829</u>	<u>72,001,538</u>
Net position						
Net investment in capital assets	51,170,584	51,833,182	31,115,457	34,589,155	82,286,041	86,422,337
Restricted	204,332	499,125	7,388,882	4,930,894	7,593,214	5,430,019
Unrestricted	<u>(16,647,577)</u>	<u>(19,269,104)</u>	<u>(6,444,295)</u>	<u>(9,948,152)</u>	<u>(23,091,872)</u>	<u>(29,217,256)</u>
Total net position	<u>\$ 34,727,339</u>	<u>\$ 33,063,203</u>	<u>\$ 32,060,044</u>	<u>\$ 29,571,897</u>	<u>\$ 66,787,383</u>	<u>\$ 62,635,100</u>

*As restated, June 30th, 2014

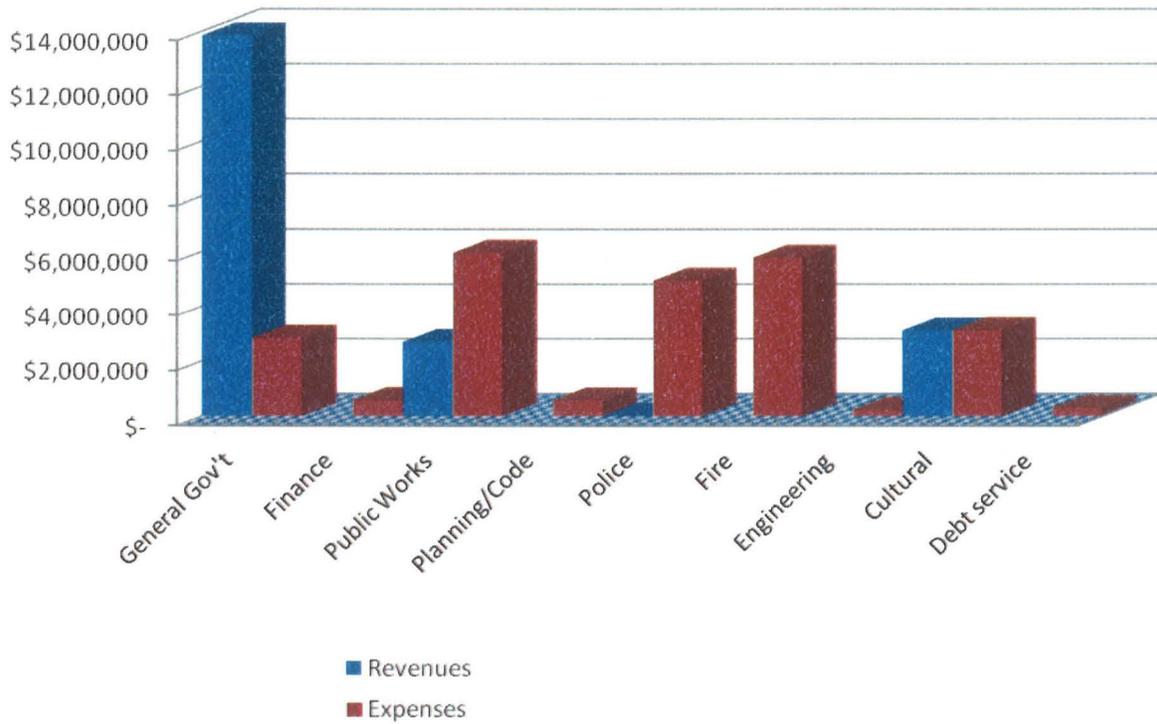
ANALYSIS OF THE CITY'S OPERATIONS

Revenues	Governmental Activities		Business-type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Taxes	\$ 7,386,199	\$ 7,615,613	\$ -	\$ -	\$ 7,386,199	\$ 7,615,613
Charges for Services	16,263,896	15,503,018	17,061,372	15,865,195	33,325,268	31,368,213
Operating Grants / Contr.	3,420,523	3,772,396	351,037	300,148	3,771,560	4,072,544
Capital Grants / Contr.	191,018	-	228,737	216,430	419,755	216,430
Other Income	221,588	251,149	929,650	733,480	1,151,238	984,629
Total Revenue	\$ 27,483,224	\$ 27,142,176	\$ 18,570,796	\$ 17,115,253	\$ 46,054,020	\$ 44,257,429
Expenses	Governmental Activities		Business-type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
General Government	\$ 2,839,164	\$ 4,413,420	\$ -	\$ -	\$ 2,839,164	\$ 4,413,420
Finance	584,936	572,332	-	-	584,936	572,332
Public Works	5,957,303	6,159,143	-	-	5,957,303	6,159,143
Planning / Code	580,683	611,647	-	-	580,683	611,647
Police	4,939,354	5,174,548	-	-	4,939,354	5,174,548
Fire	5,777,552	5,959,857	-	-	5,777,552	5,959,857
Engineering	227,162	125,481	-	-	227,162	125,481
Community / Cultural	3,127,002	3,594,394	-	-	3,127,002	3,594,394
Debt Service	303,489	273,717	-	-	303,489	273,717
Utility Fund	-	-	15,183,490	14,358,868	15,183,490	14,358,868
Ashland Bus System	-	-	1,042,285	1,118,102	1,042,285	1,118,102
Recreation Operating Fund	-	-	1,049,693	1,092,294	1,049,693	1,092,294
Cemetery	-	-	289,624	266,840	289,624	266,840
Total Expense	\$ 24,336,645	\$ 26,884,539	\$ 17,565,092	\$ 16,836,104	\$ 41,901,737	\$ 43,720,643
Changes before transfers	3,146,579	257,637	1,005,704	279,149	4,152,283	536,786
Transfers	(1,482,443)	(1,590,533)	1,482,443	1,590,533	-	-
Change in Net Position	1,664,136	(1,332,896)	2,488,147	1,869,682	4,152,283	536,786
Net Position Beginning of Year*	33,063,203	58,597,013	29,571,897	41,239,347	62,635,100	99,836,360
Net Position End of Year	\$ 34,727,339	\$ 57,264,117	\$ 32,060,044	\$ 43,109,029	\$ 66,787,383	\$ 100,373,146

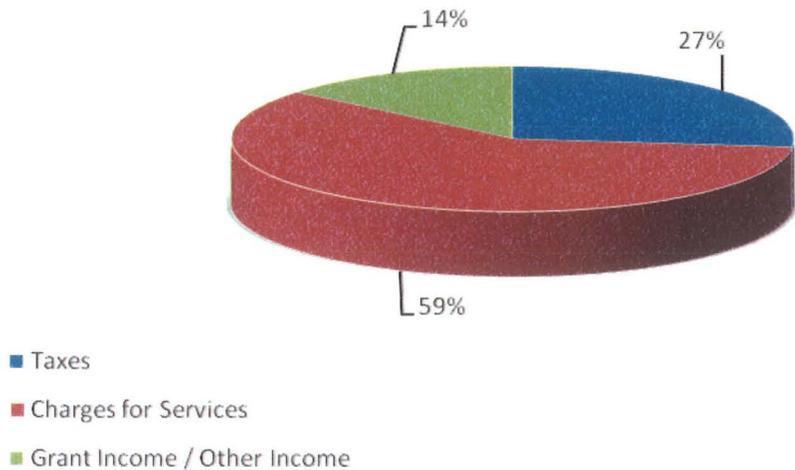
*As restated, June 30th, 2014

GOVERNMENTAL ACTIVITIES

**EXPENSES AND PROGRAM REVENUES-
GOVERNMENTAL ACTIVITIES**

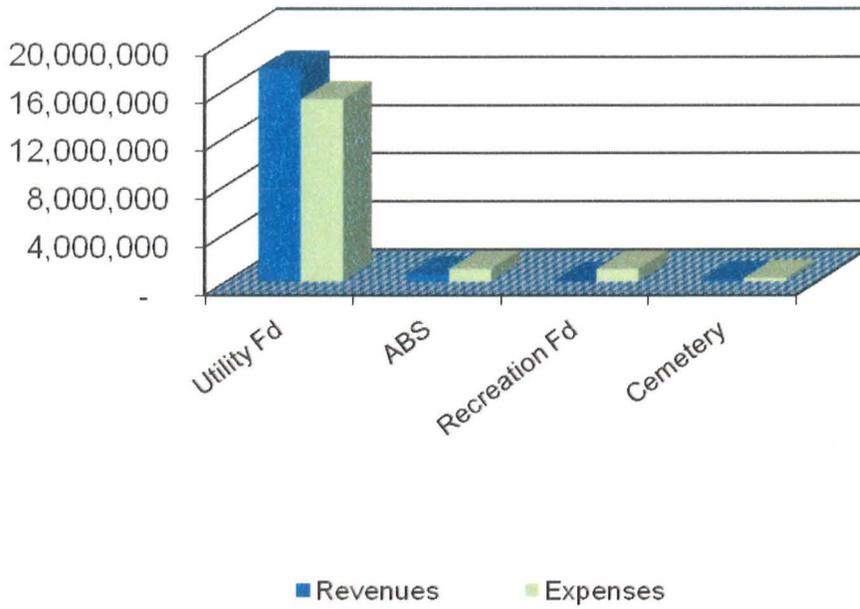


REVENUE BY SOURCE - GOVERNMENT ACTIVITIES

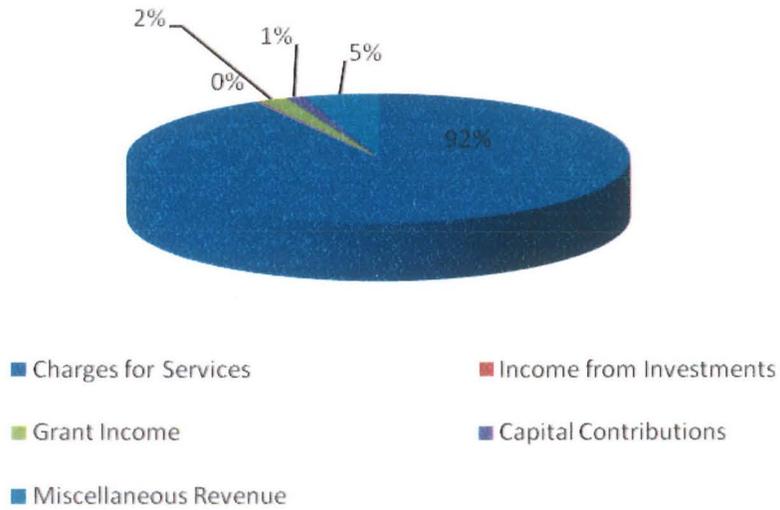


BUSINESS-TYPE ACTIVITIES

EXPENSES AND REVENUES - BUSINESS-TYPE ACTIVITIES

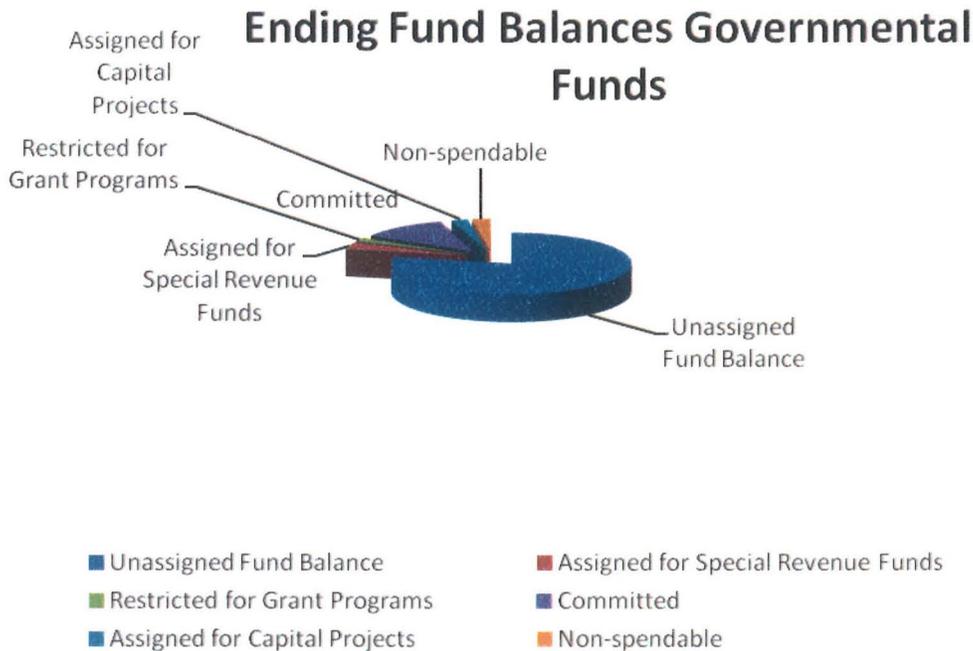


REVENUE BY SOURCE - BUSINESS -TYPE ACTIVITIES



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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 \$5,090,042. Of this total, \$4,231,243, or 83%, 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 2015 reports assigned for special revenue funds at \$181,532, restricted for grant programs at \$93,839, committed at \$350,000, non-spendable at \$122,935 and assigned for capital projects at \$110,493. The decrease in the governmental funds assigned for capital projects is due to the construction in progress of the Fire training facility being almost complete. The remaining assignment is the roof replacement for the Transportation Center and a vehicle that was ordered and not received until September. The restricted for grant programs decrease this fiscal year was also due to recognizing grant revenue for the partial completion of the Fire training facility. The City has \$350,000 of committed fund balance for the developer payment of the Melody Mountain Phase II completion. Assigned for special revenue funds decreased this year as the City focused on paving and sidewalk improvements by spending both current and prior year revenues. The effort for replenishing unassigned fund balance in the general fund is shown with a \$1,269,882 increase. This was accomplished by a 4% increase in property tax revenue and budgeting for replenishment of the fund balance.



MAJOR GOVERNMENTAL FUNDS

For the year ending June 30, 2015, the major governmental funds reported as follows:

The General Fund had revenues of \$23,440,617, expenditures of \$20,678,826 and net other financing uses of \$1,698,858. The total fund balance was \$4,726,299.

The Municipal Aid Road Fund had revenues of \$515,181 and expenditures of \$732,772. The total fund balance was \$89,463.

The Floodwall Operating Fund had revenues of \$216,807 and expenditures of \$190,175. The total fund balance was \$26,632.

The Community Development Fund had revenues of \$512,190 and expenditures of \$512,190. The total fund balance was \$65,437.

The Housing Assistance Fund had revenues of \$2,607,411 and expenditures of \$2,610,957. The total fund balance was \$71,718.

The Capital Purchase Improvement Fund had revenues of \$191,018, other financing sources of \$262,286 and expenditures of \$539,036. The total fund balance was \$110,493.

PROPRIETARY FUNDS

The City's proprietary funds, or business-type activities, had total assets of \$65,106,647, total deferred outflows of resources of \$4,201,930, total liabilities of \$36,607,439 and deferred inflows of resources \$641,094, leaving net position of \$32,060,044. Of the total proprietary funds' net position, the Utility Fund had \$(4,734,453) in unrestricted net position, the Ashland Bus Fund had \$(867,238) in unrestricted net position, the Recreation Fund had \$(819,082) in unrestricted net position and the Ashland Cemetery Fund had \$2,209,230 in unrestricted net position. All proprietary funds are considered major funds. Total decrease in unrestricted net position for the four proprietary funds was \$(5,736,609), including restatements as detailed in Note 16.

BUDGETARY HIGHLIGHTS

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

- ⇒ \$89,978 increase in budgeted revenues for the General Fund. This increase includes \$62,627 in arrest fees used to purchase general supplies, small tools and a car for Police. \$18,351 was added to revenues for a 10% capital match for two new buses. \$9,000 was added to revenues for a replacement vehicle destroyed in a hail storm.
- ⇒ \$250,000 increase of the Municipal Aid Road Fund. This increase is for additional paving using fund balance.
- ⇒ \$1,306,538 increase in net expenditures of the Utility Fund. This increase includes water meters and installation for \$451,188 and \$100,000 for the sewer line replacement on 15th Street. \$66,650 was taken from vacancies in the Water Distribution division to help fund the meter installation. Also included in this amendment was an additional \$822,000 for CSO support, projects and engineering.
- ⇒ \$183,512 increase of the Ashland Bus System Fund. This increase is for the purchase of two cutaway chassis buses. 80% funded by FTA, 10% KDOT and 10% local match from the General Fund.

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 \$23,440,617 versus budgeted revenues of \$23,013,273. Licenses and permit budgeted revenues were \$11,358,500 and actual revenues were \$12,043,205 for a variance of \$684,705. This is due to the occupational license fee and business privilege license revenue being more than projected due to business openings and rehiring in the City. Natural gas franchise revenue had a positive budget variance of \$78,574 due to the increased consumption caused by inclement weather.
- ⇒ General Fund had a positive variance this fiscal year. The positive variance can be attributed to the focus on fund balance replenishment established during the budget process for this fiscal year. Two departments with a negative variance were the Fire and Engineering divisions. The significant variance in the Fire department was personnel overages of \$159,658 and "pension spiking" with Kentucky Retirement of \$231,053.

Equipment repairs and maintenance agreements pushed the Engineering department past their operating budget parameters.

CAPITAL ASSET AND DEBT ADMINISTRATION

The City's investment in capital assets for governmental and business-type activities as of June 30, 2015 is \$109,403,891 (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, 2015 include:

Project	Approved Contract	Paid / Accrued to Date	Outstanding Commitment
CSO - 29th Street Storm Water	\$ 189,876	\$ 131,117	\$ 58,759
CSO - 15th & 17th St Pump Station	15,900	5,520	10,380
Backwash System Design	59,035	25,606	33,429
Water Meter Replacement	225,000	161,433	63,567
Pump Station Improvements	33,000	13,250	19,750
Sidewalks	25,707	3,202	22,505
Fire Training facility	183,738	165,364	18,374
	<u>\$ 732,256</u>	<u>\$ 505,492</u>	<u>\$ 226,764</u>

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

Asset	Governmental Activities	Business-type Activities	Total 2015
Land	\$ 3,883,268	\$ 435,601	\$ 4,318,869
Buildings and improvements	12,051,085	4,555,147	16,606,232
Automotive equipment	3,512,823	2,057,007	5,569,830
Operating equipment	3,990,998	3,928,225	7,919,223
Office equipment	506,651	262,907	769,558
Capital improvements	603,166	418,280	1,021,446
Right-of-way	15,038,909	-	15,038,909
Infrastructure	76,619,407	-	76,619,407
Utility plant	-	90,893,828	90,893,828
Construction (CIP)	194,793	829,856	1,024,649
	<u>116,401,100</u>	<u>103,380,851</u>	<u>219,781,951</u>
Less depreciation	<u>(56,826,770)</u>	<u>(53,551,290)</u>	<u>(110,378,060)</u>
Capital asset, net	<u>\$ 59,574,330</u>	<u>\$ 49,829,561</u>	<u>\$ 109,403,891</u>

DEBT

At the end of fiscal year 2015, the City had governmental activities debt of \$9,177,689 compared to \$9,557,990 at June 30, 2014, which represents a decrease of \$380,301. Business-type activities had debt of \$18,879,606 compared to \$16,222,823 at June 30, 2014, which represents an increase of

\$2,656,783. See Note (8) for additional discussion of the City's long term debt. The following chart summarizes governmental and business-type activities debt.

<u>Governmental Activities Debt</u>	<u>Amount</u>
General obligation bond series 2015	\$ 2,520,000
Capital lease - police station	4,095,576
Capital lease - refinancing	90,417
Capital lease - Melody Mtn Phase II	1,612,917
Premium on bonds	84,836
Compensated absences obligation	773,943
Total	<u>\$ 9,177,689</u>

<u>Business-Type Activities Debt</u>	<u>Amount</u>
Revenue & Improvement Bonds 13	\$ 4,061,266
Water & Sewer Revenue Bonds 15	3,620,000
Capital lease - Radio Meters	1,525,417
Kentucky Infrastructure Authority Loan	9,548,786
Premium on bonds	124,137
Total	<u>\$ 18,879,606</u>

DESCRIPTION OF MUNICIPAL DEBT

- ⇒ General Obligation Refunding Bonds 2015 \$2,520,000.
- ⇒ General Obligation Bonds 2013 Melody Mountain Phase II \$1,612,917.
- ⇒ Premium on bonds \$84,836.
- ⇒ Capital Lease - Police station \$4,095,576.
- ⇒ Capital Lease – debt consolidation \$90,417.
- ⇒ Employee compensated absences payable after 60 days at \$773,943.
- ⇒ Utility Revenue bond issue 2013 for phase II upgrade of the water plant \$4,061,266.
- ⇒ K.I.A. Loans used to upgrade the utility system and correct CSO \$9,548,786.
- ⇒ KLC lease payable for the purchase of radio read meters \$1,525,417.
- ⇒ Water & Sewer Revenue Bonds 2015 – water system improvements \$3,620,000.
- ⇒ Premium on bonds \$124,137.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Unemployment rate for the City of Ashland as of June 2015 is 6.2%. This rate is higher than the State of Kentucky rate at 5.4% and the national rate of 5.3%.

The following table summarizes the 2016 fiscal year budgeted expenses.

- ⇒ General Fund - \$23,305,760
- ⇒ Municipal Aid Program - \$535,030
- ⇒ Community Development Block Grant Fund - \$1,292,155
- ⇒ Section 8 Voucher - \$2,674,881
- ⇒ Floodwall Operating Fund - \$226,867

- ⇒ Utility Fund - \$21,114,721
- ⇒ Ashland Bus System - \$1,067,009
- ⇒ Recreation Operating Fund - \$999,936
- ⇒ Ashland Cemetery Fund - \$217,706
- ⇒ Capital Purchase Improvement Fund - \$571,941

Fiscal year 2016 contains three significant budget items. The Utility Fund will continue work on the second phase of construction pertaining to the Combined Sewer Overflow decree from the EPA. Also in the Utility Fund, is the capital project for water filter upgrades at the plant. The third item is the first installment on a custom fire pumper truck.

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, 2015

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 4,577,280	\$ 867,082	\$ 5,444,362
Accounts receivable	377,782	3,097,192	3,474,974
Allowance for uncollectible accounts	-	(183,471)	(183,471)
Taxes receivable	2,977,927	-	2,977,927
Allowance for uncollectible taxes	(513,919)	-	(513,919)
Grants receivable	70,964	108,264	179,228
Internal balances, net	173,820	(173,820)	-
Receivable from fiduciary fund	185,537	-	185,537
Program receivables	30,652	-	30,652
Allowance for uncollectible accounts	(30,652)	-	(30,652)
Other receivables	438,203	-	438,203
Allowance for uncollectible accounts	(63,818)	-	(63,818)
Prepaid expenses	51,300	68,400	119,700
Inventories	71,635	2,863,694	2,935,329
Investments	600,012	-	600,012
Restricted assets -			
Cash and cash equivalents	-	4,583,860	4,583,860
Certificates of deposit	-	3,244,884	3,244,884
Mutual funds	-	185,795	185,795
Note receivable	150,000	-	150,000
Nondepreciable capital assets	19,131,090	1,265,457	20,396,547
Depreciable capital assets	97,270,010	102,115,394	199,385,404
Accumulated depreciation	(56,826,770)	(53,551,290)	(110,378,060)
Total assets	68,671,053	64,491,441	133,162,494
DEFERRED OUTFLOWS OF RESOURCES			
Deferred savings from refunding bonds	97,980	215,502	313,482
Deferred changes in pension assumptions	990,700	3,312,976	4,303,676
Deferred pension contributions	2,747,108	673,452	3,420,560
Total deferred outflows of resources	3,835,788	4,201,930	8,037,718

CITY OF ASHLAND
STATEMENT OF NET POSITION (CONCLUDED)
JUNE 30, 2015

	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
Accounts payable	1,363,230	682,262	2,045,492
Due to Board of Education	84,146	-	84,146
Payable to fiduciary fund	2,253	908,318	910,571
Other accrued expenses and liabilities	2,288,428	380,030	2,668,458
Deposits	-	589,724	589,724
Matured revenue bonds and notes	-	50,000	50,000
Accrued compensated absences, current	152,251	234,919	387,170
Current portion of long-term debt	437,821	1,281,487	1,719,308
Net pension liabilities	22,840,599	14,267,374	37,107,973
Accrued compensated absences, non-current	773,943	-	773,943
Capital lease obligations, non-current	5,486,089	1,430,417	6,916,506
Revenue and Improvement bonds, net of discounts	-	7,220,403	7,220,403
Kentucky Infrastructure Authority loans, non-current	-	8,947,299	8,947,299
General obligation bonds, non-current, plus premiums	2,479,836	-	2,479,836
	<u>35,908,596</u>	<u>35,992,233</u>	<u>71,900,829</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred pension investment earnings	1,870,906	641,094	2,512,000
	<u>1,870,906</u>	<u>641,094</u>	<u>2,512,000</u>
NET POSITION			
Net investment in capital assets	51,170,584	31,115,457	82,286,041
Restricted			
Capital projects	110,493	-	110,493
Debt service	-	1,124,163	1,124,163
Grant programs	93,839	-	93,839
Sewer improvements	-	6,039,483	6,039,483
Other	-	225,236	225,236
Unrestricted	<u>(16,647,577)</u>	<u>(6,444,295)</u>	<u>(23,091,872)</u>
	<u>\$ 34,727,339</u>	<u>\$ 32,060,044</u>	<u>\$ 66,787,383</u>

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

**CITY OF ASHLAND
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
General government	\$ 2,839,164	\$ 13,836,062	\$ 14,596	\$ -	\$ 11,011,494	\$ -	\$ 11,011,494
Finance	584,936	-	-	-	(584,936)	-	(584,936)
Public services	5,957,303	2,184,730	513,194	-	(3,259,379)	-	(3,259,379)
Planning and code enforcement	580,683	-	-	-	(580,683)	-	(580,683)
Police	4,939,354	-	16,767	-	(4,922,587)	-	(4,922,587)
Fire	5,777,552	-	-	191,018	(5,586,534)	-	(5,586,534)
Engineering	227,162	-	-	-	(227,162)	-	(227,162)
Community and cultural	3,127,002	243,104	2,875,966	-	(7,932)	-	(7,932)
Debt service - interest	303,489	-	-	-	(303,489)	-	(303,489)
Total governmental activities	<u>24,336,645</u>	<u>16,263,896</u>	<u>3,420,523</u>	<u>191,018</u>	<u>(4,461,208)</u>	<u>-</u>	<u>(4,461,208)</u>
Business-Type Activities							
Utilities	15,183,490	16,795,819	-	-	-	1,612,329	1,612,329
Recreation	1,049,693	58,447	30,164	-	-	(961,082)	(961,082)
Cemetery	289,624	151,907	-	-	-	(137,717)	(137,717)
Bus	1,042,285	55,199	320,873	228,737	-	(437,476)	(437,476)
Total business-type activities	<u>17,565,092</u>	<u>17,061,372</u>	<u>351,037</u>	<u>228,737</u>	<u>-</u>	<u>76,054</u>	<u>76,054</u>
Total primary government	<u>\$ 41,901,737</u>	<u>\$ 33,325,268</u>	<u>\$ 3,771,560</u>	<u>\$ 419,755</u>	<u>\$ (4,461,208)</u>	<u>\$ 76,054</u>	<u>\$ (4,385,154)</u>
General Revenues:							
Property and other local taxes					\$ 7,386,199	\$ -	\$ 7,386,199
Interest income					3,703	32,465	36,168
Other revenues					217,885	897,185	1,115,070
Total general revenues					7,607,787	929,650	8,537,437
Transfers					(1,482,443)	1,482,443	-
Total general revenues and transfers					6,125,344	2,412,093	8,537,437
Change in net position					1,664,136	2,488,147	4,152,283
Net position, June 30, 2014 (as restated)					33,063,203	29,571,897	62,635,100
Net position, June 30, 2015					<u>\$ 34,727,339</u>	<u>\$ 32,060,044</u>	<u>\$ 66,787,383</u>

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

**CITY OF ASHLAND
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015**

	Special Revenue Funds						Total Governmental Funds
	General	Municipal Aid Road	Floodwall Operating	Community Development	Housing Assistance	Capital Projects	
Assets							
Cash	\$ 3,901,180	\$ 301,382	\$ 6,059	\$ 64,019	\$ 90,351	\$ -	\$ 4,362,991
Taxes receivable	2,797,038	-	180,889	-	-	-	2,977,927
Allowance for uncollectible taxes	(489,899)	-	(24,020)	-	-	-	(513,919)
Grants receivable	1,340	40,547	-	29,077	-	-	70,964
Due from other funds	967,420	-	-	-	350	111,024	1,078,794
Program receivables	30,652	-	-	-	-	-	30,652
Allowance for uncollectible accounts	(30,652)	-	-	-	-	-	(30,652)
Other receivables	371,639	-	-	-	66,564	-	438,203
Allowance for uncollectible accounts	-	-	-	-	(63,818)	-	(63,818)
Investments	600,012	-	-	-	-	-	600,012
Prepaid items	51,300	-	-	-	-	-	51,300
Inventories - supplies	71,635	-	-	-	-	-	71,635
Total assets	\$ 8,271,665	\$ 341,929	\$ 162,928	\$ 93,096	\$ 93,447	\$ 111,024	\$ 9,074,089
Liabilities and Fund Balances							
Liabilities:							
Accounts payable	\$ 709,561	\$ 229,406	\$ 2,230	\$ 13,427	\$ 3,298	\$ 531	\$ 958,453
Due to other funds	1,798,052	23,060	130,841	12,775	-	-	1,964,728
Due to Board of Education	84,146	-	-	-	-	-	84,146
Accrued compensated absences	149,453	-	1,374	557	867	-	152,251
Accrued expenditures	776,601	-	1,851	900	3,247	-	782,599
Unearned revenue	27,553	-	-	-	14,317	-	41,870
Total liabilities	3,545,366	252,466	136,296	27,659	21,729	531	3,984,047
Fund Balances:							
Non-spendable	122,935	-	-	-	-	-	122,935
Restricted for grant programs	22,121	-	-	-	71,718	-	93,839
Committed	350,000	-	-	-	-	-	350,000
Assigned for capital projects	-	-	-	-	-	110,493	110,493
Assigned for special revenue funds	-	89,463	26,632	65,437	-	-	181,532
Unassigned	4,231,243	-	-	-	-	-	4,231,243
Total fund balances	4,726,299	89,463	26,632	65,437	71,718	110,493	5,090,042
Total liabilities and fund balances	\$ 8,271,665	\$ 341,929	\$ 162,928	\$ 93,096	\$ 93,447	\$ 111,024	\$ 9,074,089

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, 2015

Total fund balance - total governmental funds		\$ 5,090,042
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets of \$116,401,100 net of accumulated depreciation of \$56,826,770 used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		59,574,330
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	
Deferred savings from refunding bonds	97,980	247,980
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:		
Deferred changes in pension assumptions	990,700	
Deferred pension investment earnings	(1,870,906)	
Deferred pension contributions	2,747,108	1,866,902
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.		
Net pension liabilities	(22,840,599)	
Bonds payable	(2,604,836)	
Accrued interest payable	(33,627)	
Accrued compensated absences	(773,943)	
Capital lease obligations	(5,798,910)	(32,051,915)
Net position, end of year - Governmental Activities		\$ 34,727,339

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, 2015

	Special Revenue Funds						Total Governmental Funds
	General	Municipal Aid Road	Floodwall Operating	Community Development	Housing Assistance	Capital Projects	
Revenues							
Property and other local taxes	\$ 7,169,423	\$ -	\$ 216,776	\$ -	\$ -	\$ -	\$ 7,386,199
Licenses and permits	12,043,205	-	-	-	-	-	12,043,205
Charges for services	2,184,730	-	-	-	-	-	2,184,730
Fees, fines and reimbursements	1,792,857	-	-	-	-	-	1,792,857
Grant income	31,363	513,194	-	512,190	2,363,776	191,018	3,611,541
Administration fee income	-	-	-	-	243,104	-	243,104
Interest income	3,412	29	31	-	231	-	3,703
Other income	215,627	1,958	-	-	300	-	217,885
Total revenues	23,440,617	515,181	216,807	512,190	2,607,411	191,018	27,483,224
Expenditures							
General government	2,515,347	-	-	-	-	209	2,515,556
Finance	603,051	-	-	-	-	-	603,051
Public services	4,496,873	732,772	190,175	-	-	-	5,419,820
Planning and code enforcement	597,784	-	-	-	-	-	597,784
Police	5,235,588	-	-	-	-	-	5,235,588
Fire	6,266,069	-	-	-	-	-	6,266,069
Engineering	180,383	-	-	-	-	-	180,383
Community and cultural	-	-	-	512,190	2,610,957	-	3,123,147
Capital outlay	-	-	-	-	-	538,827	538,827
Debt service:							
Principal retirement	514,853	-	-	-	-	-	514,853
Interest charges	268,878	-	-	-	-	-	268,878
Total expenditures	20,678,826	732,772	190,175	512,190	2,610,957	539,036	25,263,956
Excess (deficiency) of Revenues Over (Under) Expenditures	2,761,791	(217,591)	26,632	-	(3,546)	(348,018)	2,219,268
Other Financing Sources (Uses)							
Issuance of debt	2,609,008	-	-	-	-	-	2,609,008
Payment to refunded bond escrow agent	(2,563,137)	-	-	-	-	-	(2,563,137)
Transfers in	-	-	-	-	-	262,286	262,286
Transfers out	(1,744,729)	-	-	-	-	-	(1,744,729)
Total other financing sources (uses)	(1,698,858)	-	-	-	-	262,286	(1,436,572)
Net change in fund balances	1,062,933	(217,591)	26,632	-	(3,546)	(85,732)	782,696
Fund balances beginning of year	3,663,366	307,054	-	65,437	75,264	196,225	4,307,346
Fund balances end of year	\$ 4,726,299	\$ 89,463	\$ 26,632	\$ 65,437	\$ 71,718	\$ 110,493	\$ 5,090,042

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, 2015

Net change in fund balances - total governmental funds \$ 782,696

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	1,511,525	
Depreciation expense	<u>(2,523,840)</u>	(1,012,315)

Bond and capital lease proceeds, including related premiums and discounts, are recognized as revenues in the fund financial statements, but are increases in liabilities in the statement of net position.

Bonds and refunding bonds issued	(2,520,000)	
Premiums and discounts on bonds and refunding bonds issued	(89,008)	
Payments to refunded bond escrow agent	<u>2,460,000</u>	(149,008)

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		10,284
Amortization of deferred savings from refunding bonds		(5,157)
Amortization of bond discounts and premiums		4,172
Accrued interest payable		(33,626)

Governmental funds report pension contributions as expenditures when paid. However, in the Statement of Activities, pension expense is the cost of benefits earned, adjusted for member contributions, the recognition of changes in deferred outflows and inflows of resources related to pensions, and investment experience.

Police & Firefighters pension expense	160,463	
CERS contributions	2,747,108	
CERS pension expense	<u>(1,438,171)</u>	1,469,400

Governmental funds do not report the effect of gain or losses on refunding of debt, whereas these amounts are deferred and amortized in the statement of activities. 103,137

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. 514,853

Losses on disposal of capital assets are not recognized in the fund financial statements. However, in the statement of activities, these losses are recognized (20,300)

Change in net position of governmental activities \$ 1,664,136

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

CITY OF ASHLAND
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2015

	Business-Type Activities				Total	Governmental
	Utility Fund	Ashland Bus Fund	Recreation Fund	Cemetery Fund		Activity - Internal Service Fund
ASSETS						
Unrestricted Assets:						
Cash and cash equivalents	\$ 821,529	\$ 22,175	\$ 12,925	\$ 10,453	\$ 867,082	\$ 214,289
Accounts receivable	3,073,141	-	15,171	8,880	3,097,192	377,782
Allowance for doubtful accounts	(183,471)	-	-	-	(183,471)	-
Due from other funds	441,386	-	-	-	441,386	1,243,038
Grants receivable - capital	-	38,242	-	-	38,242	-
Grants receivable - operating	-	70,022	-	-	70,022	-
Prepaid expenses	68,400	-	-	-	68,400	-
Inventories -						
Repair parts and supplies	412,487	21,882	10,595	-	444,964	-
Lots and vaults	-	-	-	2,418,730	2,418,730	-
Total unrestricted assets	4,633,472	152,321	38,691	2,438,063	7,262,547	1,835,109
Restricted Assets:						
Cash and cash equivalents	4,548,624	-	-	35,236	4,583,860	-
Investments -						
Certificates of deposit	3,054,884	-	190,000	-	3,244,884	-
Mutual funds	185,795	-	-	-	185,795	-
Total restricted assets	7,789,303	-	190,000	35,236	8,014,539	-
Total current assets	12,422,775	152,321	228,691	2,473,299	15,277,086	1,835,109
Capital Assets:						
Land and easements	358,925	-	58,223	18,453	435,601	-
Utility plant	90,893,828	-	-	-	90,893,828	-
Buildings and improvements	662,733	1,498,076	100,529	2,293,809	4,555,147	-
Operating equipment	4,456,986	990,299	890,077	66,150	6,403,512	-
Office and computer equipment	217,772	39,815	5,320	-	262,907	-
Construction in progress	829,856	-	-	-	829,856	-
	97,420,100	2,528,190	1,054,149	2,378,412	103,380,851	-
Less: Accumulated depreciation	(51,243,435)	(1,423,346)	(587,282)	(297,227)	(53,551,290)	-
Total capital assets - net	46,176,665	1,104,844	466,867	2,081,185	49,829,561	-
Total noncurrent assets	46,176,665	1,104,844	466,867	2,081,185	49,829,561	-
Total assets	58,599,440	1,257,165	695,558	4,554,484	65,106,647	1,835,109
DEFERRED OUTFLOWS OF RESOURCES						
Deferred savings from refunding bonds	215,502	-	-	-	215,502	-
Deferred changes in pension assumptions	3,312,976	-	-	-	3,312,976	-
Deferred pension contributions	527,488	71,227	62,125	12,612	673,452	-
Total deferred outflows of resources	4,055,966	71,227	62,125	12,612	4,201,930	-

	Business-Type Activities				Total	Governmental Activity - Internal Service Fund
	Utility Fund	Ashland Bus Fund	Recreation Fund	Cemetery Fund		
LIABILITIES						
Current liabilities (payable from current assets):						
Accounts payable	\$ 554,101	\$ 21,931	\$ 99,979	\$ 6,251	\$ 682,262	\$ 404,777
Due to other funds	908,318	351,584	191,016	72,606	1,523,524	-
Accrued compensated absences	177,472	26,663	26,477	4,307	234,919	-
Other accrued liabilities	312,317	15,440	13,542	38,731	380,030	1,430,332
Customer deposits	130,186	-	-	-	130,186	-
Total current liabilities (payable from current assets)	2,082,394	415,618	331,014	121,895	2,950,921	1,835,109
Current liabilities (payable from restricted assets):						
Matured revenue bonds and notes	50,000	-	-	-	50,000	-
Customer deposits	459,538	-	-	-	459,538	-
Current portion of capital lease obligations	95,000	-	-	-	95,000	-
Current portion of Revenue and Improvement bonds	585,000	-	-	-	585,000	-
Current portion of Kentucky Infrastructure Authority loans	601,487	-	-	-	601,487	-
Total current liabilities (payable from restricted assets)	1,791,025	-	-	-	1,791,025	-
Total current liabilities	3,873,419	415,618	331,014	121,895	4,741,946	1,835,109
Long-term liabilities:						
Capital lease obligations	1,430,417	-	-	-	1,430,417	-
Revenue and Improvement bonds, net of discount and premium	7,220,403	-	-	-	7,220,403	-
Kentucky Infrastructure Authority loan	8,947,299	-	-	-	8,947,299	-
Net pension liabilities	13,022,723	607,363	529,744	107,544	14,267,374	-
Total long-term liabilities	30,620,842	607,363	529,744	107,544	31,865,493	-
Total liabilities	34,494,261	1,022,981	860,758	229,439	36,607,439	1,835,109
DEFERRED INFLOWS OF RESOURCES						
Deferred pension investment earnings	502,143	67,805	59,140	12,006	641,094	-
Total deferred inflows of resources	502,143	67,805	59,140	12,006	641,094	-
NET POSITION						
Net investment in capital assets	27,462,561	1,104,844	466,867	2,081,185	31,115,457	-
Restricted for debt service	1,124,163	-	-	-	1,124,163	-
Restricted for sewer improvements	6,039,483	-	-	-	6,039,483	-
Other	-	-	190,000	35,236	225,236	-
Unrestricted	(6,967,205)	(867,238)	(819,082)	2,209,230	(6,444,295)	-
Total net position	\$ 27,659,002	\$ 237,606	\$ (162,215)	\$ 4,325,651	\$ 32,060,044	\$ -

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, 2015**

	Business-Type Activities				Total	Governmental Activity - Internal Service Fund
	Utility Fund	Ashland Bus Fund	Recreation Fund	Cemetery Fund		
OPERATING REVENUES						
Residential and commercial meter sales	\$ 4,139,494	\$ -	\$ -	\$ -	\$ 4,139,494	\$ -
Sewer service	7,297,474	-	-	-	7,297,474	-
Industrial meter sales	3,795,641	-	-	-	3,795,641	-
Other municipalities	1,454,465	-	-	-	1,454,465	-
Industrial pretreatment	38,339	-	-	-	38,339	-
Water and sewer taps	70,406	-	-	-	70,406	-
Concession sales	-	-	27,224	-	27,224	-
Lot and vault sales	-	-	-	51,827	51,827	-
Opening and closing fees	-	-	-	100,080	100,080	-
Passenger fares	-	55,199	-	-	55,199	-
Admission fees	-	-	31,223	-	31,223	-
Premium charges	-	-	-	-	-	5,897,992
Miscellaneous	882,573	-	-	14,612	897,185	5
Total operating revenues	17,678,392	55,199	58,447	166,519	17,958,557	5,897,997
OPERATING EXPENSES						
Administration - Director	132,530	-	-	-	132,530	-
Administration - Cashier	814,534	-	-	-	814,534	-
Water - Production	2,174,456	-	-	-	2,174,456	-
Water - Distribution	4,432,596	-	-	-	4,432,596	-
Sewer - Pretreatment	1,561,935	-	-	-	1,561,935	-
Sewer - Collection	1,345,262	-	-	-	1,345,262	-
Depreciation	2,089,531	134,605	32,103	52,039	2,308,278	-
Insurance	178,029	21,829	19,362	5,546	224,766	-
Other operating expenses	2,009,441	344,169	415,850	55,449	2,824,909	5,958
Salaries	-	406,507	390,441	76,239	873,187	-
Utilities	-	28,193	117,093	12,994	158,280	-
Operating supplies	-	106,982	74,844	87,357	269,183	-
Premiums and claims	-	-	-	-	-	5,892,191
Total operating expenses	14,738,314	1,042,285	1,049,693	289,624	17,119,916	5,898,149
OPERATING INCOME (LOSS)	2,940,078	(987,086)	(991,246)	(123,105)	838,641	(152)
NON-OPERATING REVENUES (EXPENSES)						
Interest income	32,024	70	300	71	32,465	152
Grant income	-	320,873	30,164	-	351,037	-
Interest on revenue bonds and notes	(445,176)	-	-	-	(445,176)	-
Total non-operating revenues (expenses)	(413,152)	320,943	30,464	71	(61,674)	152
INCOME (LOSS) BEFORE TRANSFERS AND CAPITAL CONTRIBUTIONS	2,526,926	(666,143)	(960,782)	(123,034)	776,967	-
TRANSFERS						
From General Fund	-	346,289	1,009,120	127,034	1,482,443	-
Total transfers in	-	346,289	1,009,120	127,034	1,482,443	-
CAPITAL CONTRIBUTIONS						
Federal/state grants	-	228,737	-	-	228,737	-
Total capital contributions	-	228,737	-	-	228,737	-
INCREASE (DECREASE) IN NET POSITION	2,526,926	(91,117)	48,338	4,000	2,488,147	-
NET POSITION, JUNE 30, 2014 (as restated)	25,132,076	328,723	(210,553)	4,321,651	29,571,897	-
NET POSITION, JUNE 30, 2015	\$ 27,659,002	\$ 237,606	\$ (162,215)	\$ 4,325,651	\$ 32,060,044	\$ -

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, 2015

	Business-Type Activities				Total	Governmental
	Utility Fund	Ashland Bus Fund	Recreation Fund	Cemetery Fund		Activity - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash received from customers	\$ 16,153,550	\$ 55,199	\$ 43,348	\$ 148,227	\$ 16,400,324	\$ -
Cash payments to suppliers for goods and services	(9,401,896)	(745,611)	(428,522)	(149,745)	(10,725,774)	(5,958)
Cash payments to employees	(4,459,513)	(416,420)	(405,595)	(79,647)	(5,361,175)	-
Other operating revenues	882,573	-	-	14,612	897,185	5
Payments for internal services	(1,319,062)	(132,638)	(169,838)	(57,433)	(1,678,971)	-
Cash received for internal services	-	-	-	-	-	5,846,626
Payments for premiums and claims	-	-	-	-	-	(6,138,046)
Net cash provided by (used for) operating activities	<u>1,855,652</u>	<u>(1,239,470)</u>	<u>(960,607)</u>	<u>(123,986)</u>	<u>(468,411)</u>	<u>(297,373)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Grant income	-	550,999	30,164	-	581,163	-
Transfers from other funds	-	346,289	1,009,120	127,034	1,482,443	-
Net cash provided by noncapital financing activities	<u>-</u>	<u>897,288</u>	<u>1,039,284</u>	<u>127,034</u>	<u>2,063,606</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from issuance of debt	3,744,137	-	-	-	3,744,137	-
Acquisition and construction of capital assets	(1,396,689)	(20,894)	(100,718)	-	(1,518,301)	-
Principal paid on bonds, notes, and lease obligations	(1,088,608)	(852)	(861)	-	(1,090,321)	-
Interest paid on bonds, notes, and lease obligations	(472,114)	-	-	-	(472,114)	-
Capital grants received	-	378,503	-	-	378,503	-
Net cash provided by (used for) capital and related financing activities	<u>786,726</u>	<u>356,757</u>	<u>(101,579)</u>	<u>-</u>	<u>1,041,904</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of investment securities	(115,309)	-	-	-	(115,309)	-
Investment income	32,024	70	300	71	32,465	152
Net cash provided by (used for) investing activities	<u>(83,285)</u>	<u>70</u>	<u>300</u>	<u>71</u>	<u>(82,844)</u>	<u>152</u>
Net increase (decrease) in cash and cash equivalents	2,559,093	14,645	(22,602)	3,119	2,554,255	(297,221)
Cash and cash equivalents, June 30, 2014	2,811,060	7,530	35,527	42,570	2,896,687	511,510
Cash and cash equivalents, June 30, 2015	<u>\$ 5,370,153</u>	<u>\$ 22,175</u>	<u>\$ 12,925</u>	<u>\$ 45,689</u>	<u>\$ 5,450,942</u>	<u>\$ 214,289</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES						
Operating income (loss)	\$ 2,940,078	\$ (987,086)	\$ (991,246)	\$ (123,105)	\$ 838,641	\$ (152)
Adjustments:						
Depreciation	2,089,531	134,605	32,103	52,039	2,308,278	-
Amortization	56,843	-	-	-	56,843	-
Net pension adjustment	(415,976)	(19,171)	(19,707)	(4,000)	(458,854)	-
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	(521,110)	-	(15,099)	(3,680)	(539,889)	(271,414)
(Increase) decrease in inventories	714,712	(1,652)	(1,389)	72,300	783,971	-
(Increase) decrease in due from other funds	(441,386)	-	-	-	(441,386)	220,048
Increase (decrease) in accounts payable	36,678	7,684	83,104	4,603	132,069	(251,342)
Increase (decrease) in due to other funds	(2,507,926)	(383,108)	(52,926)	(122,735)	(3,066,695)	-
Increase (decrease) in compensated absences	(36,753)	8,267	3,182	912	(24,392)	-
Increase (decrease) in other accrued liabilities	62,120	991	1,371	(320)	64,162	5,487
Increase (decrease) in customer deposits	(121,159)	-	-	-	(121,159)	-
Net cash provided by (used for) operating activities	<u>\$ 1,855,652</u>	<u>\$ (1,239,470)</u>	<u>\$ (960,607)</u>	<u>\$ (123,986)</u>	<u>\$ (468,411)</u>	<u>\$ (297,373)</u>

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

**CITY OF ASHLAND
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2015**

	<u>Pension Trust Funds</u>
ASSETS	
Cash and cash equivalents	\$ 685,917
Accrued interest receivable	97
Due from other funds	910,571
Investments, at fair value	
Certificates of deposit	<u>1,508,584</u>
Total assets	<u>3,105,169</u>
LIABILITIES	
Due to other funds	<u>185,537</u>
Total liabilities	<u>185,537</u>
NET POSITION - RESTRICTED FOR PENSION BENEFITS	<u><u>\$ 2,919,632</u></u>

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, 2015

	<u>Pension Trust Funds</u>
ADDITIONS:	
CONTRIBUTIONS	
Employer	<u>\$ 1,139,520</u>
Total contributions	<u>1,139,520</u>
INVESTMENT INCOME	
Interest income	<u>8,357</u>
Total investment income	<u>8,357</u>
Total additions	<u>1,147,877</u>
DEDUCTIONS:	
Benefits	1,315,684
Administrative expenses	<u>6,766</u>
Total deductions	<u>1,322,450</u>
NET DECREASE	(174,573)
NET POSITION - RESTRICTED FOR PENSION BENEFITS:	
Beginning of year	<u>3,094,205</u>
End of year	<u><u>\$ 2,919,632</u></u>

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

CITY OF ASHLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015

	Original Budget	Revisions	Revised Budget	Actual	Variance Positive (Negative)
Revenues					
Property and other local taxes	\$ 7,535,215	\$ -	\$ 7,535,215	\$ 7,169,423	\$ (365,792)
Licenses and permits	11,358,500	-	11,358,500	12,043,205	684,705
Charges for services	2,155,100	-	2,155,100	2,184,730	29,630
Fees, fines and reimbursements	1,683,100	18,351	1,701,451	1,792,857	91,406
Interest income	2,345	-	2,345	3,412	1,067
Grant income	20,995	-	20,995	31,363	10,368
Other income	168,040	71,627	239,667	215,627	(24,040)
Total revenues	22,923,295	89,978	23,013,273	23,440,617	427,344
Expenditures					
General government	2,881,765	(45,000)	2,836,765	2,515,347	321,418
Finance	638,846	-	638,846	603,051	35,795
Public services	4,588,553	-	4,588,553	4,496,873	91,680
Planning and code enforcement	603,907	-	603,907	597,784	6,123
Police	5,330,564	38,049	5,368,613	5,235,588	133,025
Fire	5,879,946	11,500	5,891,446	6,266,069	(374,623)
Engineering	163,729	-	163,729	180,383	(16,654)
Debt service:					
Principal retirement	502,177	-	502,177	514,853	(12,676)
Interest and fiscal charges	374,124	-	374,124	268,878	105,246
Total expenditures	20,963,611	4,549	20,968,160	20,678,826	289,334
Excess of Revenues Over (Under) Expenditures	1,959,684	85,429	2,045,113	2,761,791	716,678
Other Financing Sources (Uses)					
Proceeds from issuance of debt	-	-	-	2,609,008	2,609,008
Payment to refunded bond escrow agent	-	-	-	(2,563,137)	(2,563,137)
Transfers out	(2,130,542)	85,429	(2,045,113)	(1,744,729)	300,384
Total other financing sources (uses)	(2,130,542)	85,429	(2,045,113)	(1,698,858)	346,255
Net change in fund balance	(170,858)	170,858	-	1,062,933	1,062,933
Fund balance beginning of year	3,663,366	-	3,663,366	3,663,366	-
Fund balance end of year	<u>\$ 3,492,508</u>	<u>\$ 170,858</u>	<u>\$ 3,663,366</u>	<u>\$ 4,726,299</u>	<u>\$ 1,062,933</u>

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

CITY OF ASHLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
MUNICIPAL AID ROAD FUND
FOR THE YEAR ENDED JUNE 30, 2015

	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	535,000	-	535,000	513,194	(21,806)
Administration fee income	-	-	-	-	-
Interest income	10	-	10	29	19
Other income	3,400	-	3,400	1,958	(1,442)
Total revenues	538,410	-	538,410	515,181	(23,229)
Expenditures					
General government	-	-	-	-	-
Finance	-	-	-	-	-
Public services	538,410	250,000	788,410	732,772	55,638
Planning and code enforcement	-	-	-	-	-
Police	-	-	-	-	-
Fire	-	-	-	-	-
Engineering	-	-	-	-	-
Community and cultural	-	-	-	-	-
Other	-	-	-	-	-
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	538,410	250,000	788,410	732,772	55,638
Excess of Revenues Over (Under) Expenditures	-	(250,000)	(250,000)	(217,591)	32,409
Other Financing Sources (Uses)					
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balance	-	(250,000)	(250,000)	(217,591)	32,409
Fund balance beginning of year	307,054	-	307,054	307,054	-
Fund balance end of year	<u>\$ 307,054</u>	<u>\$ (250,000)</u>	<u>\$ 57,054</u>	<u>\$ 89,463</u>	<u>\$ 32,409</u>

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

CITY OF ASHLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
COMMUNITY DEVELOPMENT FUND
FOR THE YEAR ENDED JUNE 30, 2015

	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	1,226,197	-	1,226,197	512,190	(714,007)
Administration fee income	-	-	-	-	-
Interest income	-	-	-	-	-
Other income	-	-	-	-	-
Total revenues	1,226,197	-	1,226,197	512,190	(714,007)
Expenditures					
General government	-	-	-	-	-
Finance	-	-	-	-	-
Public services	-	-	-	-	-
Planning and code enforcement	-	-	-	-	-
Police	-	-	-	-	-
Fire	-	-	-	-	-
Engineering	-	-	-	-	-
Community and cultural	1,226,197	-	1,226,197	512,190	714,007
Other	-	-	-	-	-
Capital outlay	-	-	-	-	-
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	1,226,197	-	1,226,197	512,190	714,007
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, 2015

	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	2,350,733	-	2,350,733	2,363,776	13,043
Administration fee income	206,256	-	206,256	243,104	36,848
Interest income	500	-	500	231	(269)
Other income	-	-	-	300	300
Total revenues	2,557,489	-	2,557,489	2,607,411	49,922
Expenditures					
General government	-	-	-	-	-
Finance	-	-	-	-	-
Public services	-	-	-	-	-
Planning and code enforcement	-	-	-	-	-
Police	-	-	-	-	-
Fire	-	-	-	-	-
Engineering	-	-	-	-	-
Community and cultural	2,557,489	-	2,557,489	2,610,957	(53,468)
Other	-	-	-	-	-
Capital outlay	-	-	-	-	-
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	2,557,489	-	2,557,489	2,610,957	(53,468)
Excess of Revenues Over (Under) Expenditures	-	-	-	(3,546)	(3,546)
Other Financing Sources (Uses)					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balance	-	-	-	(3,546)	(3,546)
Fund balance beginning of year	75,264	-	75,264	75,264	-
Fund balance end of year	<u>\$ 75,264</u>	<u>\$ -</u>	<u>\$ 75,264</u>	<u>\$ 71,718</u>	<u>\$ (3,546)</u>

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

CITY OF ASHLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FLOODWALL OPERATING FUND
FOR THE YEAR ENDED JUNE 30, 2015

	Original Budget	Revisions	Revised Budget	Actual	Variance Positive (Negative)
Revenues					
Property and other local taxes	\$ 194,086	\$ -	\$ 194,086	\$ 216,776	\$ 22,690
Licenses and permits	-	-	-	-	-
Charges for services	-	-	-	-	-
Fees, fines and reimbursements	-	-	-	-	-
Grant income	-	-	-	-	-
Administration fee income	-	-	-	-	-
Interest income	25	-	25	31	6
Other income	-	-	-	-	-
Total revenues	194,111	-	194,111	216,807	22,696
Expenditures					
General government	-	-	-	-	-
Finance	-	-	-	-	-
Public services	194,111	-	194,111	190,175	3,936
Planning and code enforcement	-	-	-	-	-
Police	-	-	-	-	-
Fire	-	-	-	-	-
Engineering	-	-	-	-	-
Community and cultural	-	-	-	-	-
Other	-	-	-	-	-
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	194,111	-	194,111	190,175	3,936
Excess of Revenues Over (Under) Expenditures	-	-	-	26,632	26,632
Other Financing Sources (Uses)					
Transfers in	135,766	-	135,766	-	(135,766)
Transfers out	-	-	-	-	-
Total other financing sources (uses)	135,766	-	135,766	-	(135,766)
Net change in fund balance	135,766	-	135,766	26,632	(109,134)
Fund balance beginning of year	-	-	-	-	-
Fund balance end of year	<u>\$ 135,766</u>	<u>\$ -</u>	<u>\$ 135,766</u>	<u>\$ 26,632</u>	<u>\$ (109,134)</u>

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

CITY OF ASHLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

(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, 2015 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:

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

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

G. Encumbrances

Encumbrance accounting is used by the City whereby purchase orders, contracts, and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrances outstanding at year-end are reported as reservations of fund balances 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, 2015, 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 through a resolution or ordinance, using its decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the City Commissioners take 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.

Fund balance assigned for special revenue funds can only be expended on items that meet the specific purpose of the fund. When restricted, committed, assigned and unassigned resources are available for use, it is the City's policy to use restricted, 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, and actuarial assumptions used in determining pension costs. 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, 2014 information to conform with the 2015 presentation.

R. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the Statement of Financial Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

S. Pension

For purposes of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions, and pension expense, information about the pension plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

T. Recent Accounting Pronouncements

The City adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which requires employers sponsoring a single-employer plan and participating in a multiple-employer cost-sharing plan to report net pension liability on the entity-wide statements. See Note (16) for the effect of this adoption on beginning net position.

(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, 2015, the carrying amounts of the City's deposits were \$15,462,557 and the bank balances were \$16,328,269. 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, 2015, the City had the following investments and maturities:

Investment Type -	Investment Maturities (in years)				
	Fair Value	Less than 1	1 - 5	6 - 10	More than 10
General Fund					
Money Market Mutual Fund	\$ 600,012	\$ 600,012	\$ -	\$ -	\$ -
Utility Fund					
Money Market Mutual Fund	185,795	185,795	-	-	-
Certificates of Deposit	3,054,884	3,054,884	-	-	-
Recreation Fund					
Certificates of Deposit	190,000	190,000	-	-	-
Fiduciary Funds					
Certificates of Deposit	1,508,584	502,298	1,006,286	-	-

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 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 2015 assessed value for real property and tangible property was \$848,811,493 and \$110,948,997, respectively. The tax rate adopted was \$.2876 per \$100 valuation.

(5) GRANTS RECEIVABLE

Grants receivable from other governmental units as of June 30, 2015, are as follows:

General Fund -		
Kentucky Transportation Cabinet		\$ 1,340
Special Revenue Funds -		
Municipal Aid Road Fund		40,547
Community Development Fund, program allocation		29,077
		<u>69,624</u>
Enterprise Funds -		
Ashland Bus System - FTA operations		44,607
Ashland Bus System - FTA capital		38,242
Ashland Bus System - KY DOT		25,415
		<u>108,264</u>
		<u>\$ 179,228</u>

(6) CAPITAL ASSETS

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

<i>Governmental Activities</i>	June 30, 2014, as restated	Increases	Decreases	June 30, 2015
Capital Assets, Not Depreciated:				
Land	\$ 18,936,298	\$ -	\$ -	\$ 18,936,298
Construction in progress	23,775	191,017	(20,000)	194,792
Capital Assets, Depreciated:				
Buildings	8,872,607	-	-	8,872,607
Building improvements	3,159,030	5,328	-	3,164,358
Automotive equipment	3,783,989	124,951	(396,117)	3,512,823
Office furniture and equipment	733,209	7,820	(234,378)	506,651
Operating equipment	4,112,220	197,131	(318,353)	3,990,998
Capital improvements	573,166	30,000	-	603,166
Infrastructure	75,644,129	975,278	-	76,619,407
Totals	<u>115,838,423</u>	<u>1,531,525</u>	<u>(968,848)</u>	<u>116,401,100</u>
Accumulated Depreciation:				
Buildings	1,884,331	178,469	-	2,062,800
Building improvements	1,880,684	89,012	-	1,969,696
Automotive equipment	3,022,379	158,952	(390,925)	2,790,406
Office furniture and equipment	644,690	18,124	(234,379)	428,435
Operating equipment	2,748,388	211,232	(303,244)	2,656,376
Capital improvements	195,787	27,846	-	223,633
Infrastructure	44,855,219	1,840,205	-	46,695,424
Totals	<u>55,231,478</u>	<u>2,523,840</u>	<u>(928,548)</u>	<u>56,826,770</u>

Governmental Activities				
Capital Assets, Net	\$ 60,606,945	\$ (992,315)	\$ (40,300)	\$ 59,574,330

Business-type Activities

Capital Assets, Not Depreciated:

Land	\$ 435,601	\$ -	\$ -	\$ 435,601
Construction in progress	3,494,281	175,327	(2,839,752)	829,856

Capital Assets, Depreciated:

Buildings	3,846,513	-	-	3,846,513
Building improvements	708,634	-	-	708,634
Utility and sewage plants	87,348,181	3,545,647	-	90,893,828
Automotive equipment	1,971,878	124,990	(39,862)	2,057,006
Office furniture and equipment	472,117	15,611	(224,821)	262,907
Operating equipment	3,148,536	422,756	(23,859)	3,547,433
Capital improvement	418,280	51,444	-	469,724
Recreation equipment	312,638	22,278	(5,567)	329,349
Totals	<u>102,156,659</u>	<u>4,358,053</u>	<u>(3,133,861)</u>	<u>103,380,851</u>

Accumulated Depreciation:

Buildings	931,568	89,648	-	1,021,216
Building improvements	419,946	27,740	-	447,686
Utility and sewage plants	45,690,986	1,896,071	-	47,587,057
Automotive equipment	1,520,648	118,450	(39,862)	1,599,236
Office furniture and equipment	434,660	16,456	(224,821)	226,295
Operating equipment	2,115,643	131,234	(23,859)	2,223,018
Capital improvements	147,452	25,239	-	172,691
Recreation equipment	276,218	3,440	(5,567)	274,091
Totals	<u>51,537,121</u>	<u>2,308,278</u>	<u>(294,109)</u>	<u>53,551,290</u>

Business-type Activities

Capital Assets, Net	\$ 50,619,538	\$ 2,049,775	\$ (2,839,752)	\$ 49,829,561
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Depreciation expense was allocated to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 487,916
Finance	367
Public services	1,611,939
Planning and code enforcement	770
Police	218,500
Fire	141,503
Engineering	51,147
Community and cultural	11,698
	<u>\$ 2,523,840</u>

Business-type activities:

Utilities	\$ 2,089,531
Recreation	32,103
Bus	134,605
Cemetery	52,039
	<u>\$ 2,308,278</u>

(7) RETIREMENT PLANS

Net pension liabilities of the City as of June 30, 2015 are as follows:

Governmental activities:

Policemen and Firefighters Pension Fund	\$ 4,437,197
County Employees Retirement System	
Nonhazardous	4,585,402
Hazardous	13,818,000
	<u>\$ 22,840,599</u>

Business-type activities:	
Utility Employees Pension Fund	\$ 8,524,776
County Employees Retirement System	
Nonhazardous	5,742,598
	<u>\$ 14,267,374</u>

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, 2015, there were no active employees participating in UPF. Unless otherwise indicated, UPF information in this Note is provided as of the latest actuarial valuation date, June 30, 2015.

Policemen and Firefighters Pension Fund (PFPF):

The City of Ashland Policemen 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, 2015, there were no active employees participating in PFPF. Unless otherwise indicated, PFPF information in this note is provided as of the latest actuarial valuation date, June 30, 2014, with an update to roll forward information to June 30, 2015.

Financial Statements

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:

STATEMENT OF NET POSITION	PENSION TRUST FUNDS		Total
	Utility Pension Fund	Policemen & Firefighters Pension Fund	
ASSETS			
Cash and cash equivalents	\$ 675,510	\$ 10,407	\$ 685,917
Accrued interest receivable	49	48	97
Due from other funds	910,571	-	910,571
Investments, at fair value -			
Certificates of deposit	754,292	754,292	1,508,584
Total assets	<u>2,340,422</u>	<u>764,747</u>	<u>3,105,169</u>
LIABILITIES			
Due to other funds	-	185,537	185,537
Total liabilities	<u>-</u>	<u>185,537</u>	<u>185,537</u>
NET POSITION - RESTRICTED FOR PENSION BENEFITS	<u>\$ 2,340,422</u>	<u>\$ 579,210</u>	<u>\$ 2,919,632</u>
STATEMENT OF CHANGES IN NET POSITION			
ADDITIONS			
Contributions -			
Employer	\$ 728,300	\$ 411,220	\$ 1,139,520
Plan members	-	-	-
Total contributions	<u>728,300</u>	<u>411,220</u>	<u>1,139,520</u>

Investment income -			
Interest income	<u>4,570</u>	<u>3,787</u>	<u>8,357</u>
Total investment income	<u>4,570</u>	<u>3,787</u>	<u>8,357</u>
Total additions	<u>732,870</u>	<u>415,007</u>	<u>1,147,877</u>
DEDUCTIONS			
Benefits	753,040	562,644	1,315,684
Administrative expenses	<u>2,212</u>	<u>4,554</u>	<u>6,766</u>
Total deductions	<u>755,252</u>	<u>567,198</u>	<u>1,322,450</u>
NET DECREASE	(22,382)	(152,191)	(174,573)
NET POSITION - RESTRICTED FOR PENSION BENEFITS:			
Beginning of year	<u>2,362,804</u>	<u>731,401</u>	<u>3,094,205</u>
End of year	<u>\$ 2,340,422</u>	<u>\$ 579,210</u>	<u>\$ 2,919,632</u>

Deferred Outflows

For the year ended June 30, 2015, the City recognized pension expense of (\$248,655) and (\$160,463) for the Utility Pension Fund and Policemen and Firefighters Pension Fund, respectively. At June 30, 2015, the City reported deferred outflows of resources related to pensions due to the change of actuarial assumptions. These amounts will be recognized in pension expense as follows:

<u>Year</u>	<u>Utility Pension Fund</u>	<u>Policemen and Firefighters Pension Fund</u>
2016	\$ 220,865	\$ 99,070
2017	220,865	99,070
2018	220,865	99,070
2019	220,865	99,070
2020	220,865	99,070
2021-2025	1,104,325	495,350
2026-2030	<u>1,104,326</u>	<u>-</u>
	<u>\$ 3,312,976</u>	<u>\$ 990,700</u>

Actuarial Methods and Assumptions

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

	<u>Utility Pension Fund</u>	<u>Policemen and Firefighters Pension Fund</u>
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	27	30	<u>Totals</u> <u>57</u>
Active plan participants:			
Vested	-	-	-
Non-Vested	-	-	-
	<u>27</u>	<u>30</u>	<u>57</u>

Actuarial assumptions and other information used to determine the actuarially determined contributions (ADC) are as follows:

	<u>Utility Pension Fund</u>	<u>Policemen And Firefighters Pension Fund</u>
Valuation date	06-30-15	06-30-14, updated through 06-30-15
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	4.00 %	5.00 %
Allocation	Allowed by KRS	Allowed by KRS
Projected salary increases	None	None
Post retirement benefit increases	0.00 %	0.00 %
Cost of living adjustments	3.00 %	3.00 %
Discount rate	4.00 %	5.00 %
Mortality	RP-2000 Mortality Table	RP-2000 Mortality Table
Changes of assumptions since prior valuation	Discount rate reduced from 5.0% to 4.0% and cost of living adjustments increased from 0% to 3%	Cost of living adjustments increased from 0% to 3%

Net Pension Liability

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)
<u>Utility Pension Fund</u>						
06/30/14	\$ 2,362,804	\$ 7,823,259	\$ 5,460,455	30.2%	\$ ** N/A	** N/A
06/30/15	2,340,422	10,865,198	8,524,776	21.5%	** N/A	** N/A
<u>Policemen and Firefighters Pension Fund</u>						
06/30/14	\$ 731,401	\$ 4,338,361	\$ 3,606,960	16.9%	\$ ** N/A	** N/A
06/30/15	579,210	5,016,407	4,437,197	11.5%	** N/A	** N/A

**No active employees or covered payroll.

Changes in Net Pension Liability

The following represents the changes in the net pension liabilities for the year ended June 30, 2015:

Utility Pension Fund

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance, June 30, 2014	\$ 7,823,259	\$ 2,362,804	\$ 5,460,455
Changes for the year:			
Interest on total pension liability	482,003	-	482,003
Difference in expected and actual experience	66,792	-	66,792
Effect of changes in assumptions	3,246,184	-	3,246,184
Benefit payments	(753,040)	-	(753,040)
Employer contributions	-	728,300	(728,300)
Investment income, net of expenses	-	4,570	(4,570)
Benefit payments	-	(753,040)	753,040
Administrative expenses	-	(2,212)	2,212
Net changes	3,041,939	(22,382)	3,064,321
Balance, June 30, 2015	\$ 10,865,198	\$ 2,340,422	\$ 8,524,776

Policemen and Firefighters Pension Fund

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance, June 30, 2014	\$ 4,338,361	\$ 731,401	\$ 3,606,960
Changes for the year:			
Interest on total pension liability	249,990	-	249,990
Difference in expected and actual experience	24,498	-	24,498
Effect of changes in assumptions	966,202	-	966,202
Benefit payments	(562,644)	-	(562,644)
Employer contributions	-	411,220	(411,220)
Investment income, net of expenses	-	3,787	(3,787)
Benefit payments	-	(562,644)	562,644
Administrative expenses	-	(4,554)	4,554
Net changes	678,046	(152,191)	830,237
Balance, June 30, 2015	\$ 5,016,407	\$ 579,210	\$ 4,437,197

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 Pension Fund	Policemen and Firefighters Pension Fund
Total pension liability at assumed discount rate of 4.0% and 5.0%, respectively	\$ 10,865,198	\$ 5,016,407
Pension liability at a discount rate: 1% higher (5.0% and 6.0%, respectively)	\$ 9,896,416	\$ 4,667,556
1% lower (3.0% and 4.0%, respectively)	\$ 12,006,132	\$ 5,419,207

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 position available for benefits. There are no long-term contracts for contributions.

Payables

The following represents amounts due to the Utility Pension Fund and the Policemen and Firefighters Pension Fund as of June 30, 2015:

Governmental activities: Utility Pension Fund	\$ 2,253
Business-type activities: Utility Pension Fund	\$ 908,318

Cost - Sharing, Multiple Employer Plan - County Employees Retirement System

Plan description

Substantially all full-time employees of the City participate in the County Employees Retirement System ("CERS"). This system consists of two plans – *Nonhazardous* and *Hazardous*. Each plan is a cost-sharing multiple-employer defined benefit pension plan that covers all regular full-time members employed in nonhazardous or hazardous positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in CERS. The plans provide for retirement, disability and death benefits to plan members.

CERS issues a publicly available financial report included in the Kentucky Retirement Systems 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 at <https://kyret.ky.gov>.

Benefits provided

Benefits under the plans will vary based on final compensation, years of service and other factors as fully described in the plan documents.

Contributions

Funding for CERS is provided by members, who contribute 5% nonhazardous and 8% hazardous (6.00% and 9.00% for employees hired after September 1, 2008, respectively) of their salary through payroll deductions and by employers of members who contribute 18.89% nonhazardous and 35.70% hazardous of the member's salary. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

At June 30, 2015, the City reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2014. An expected total pension liability as of June 30, 2014 was determined using standard roll-forward techniques. The City's proportion of the net pension liability was based on contributions to CERS during the fiscal year ended June 30, 2014. At June 30 2014, the City's proportion for nonhazardous and hazardous was 0.32% and 1.15%, respectively.

For the year ended June 30, 2015, the City recognized pension expense of \$827,000 and \$1,071,000 for nonhazardous and hazardous, respectively. At June 30, 2015, the City reported deferred outflows of resources for City contributions subsequent to the measurement date of \$1,211,197 and \$2,209,363 for nonhazardous and hazardous, respectively. These contributions will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

The City reported deferred inflows of resources related to pensions from the net difference between projected and actual earnings on pension plan investments in the amount of \$1,153,000 and \$1,359,000 for nonhazardous and hazardous, respectively. These amounts will be recognized in pension expense as follows:

<u>Year</u>	<u>Nonhazardous</u>	<u>Hazardous</u>
2016	\$ 230,000	\$ 271,800
2017	230,000	271,800
2018	230,000	271,800
2019	230,000	271,800
2020	230,000	271,800
	<u>\$ 1,153,000</u>	<u>1,359,000</u>

Actuarial Methods and Assumptions

The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2014. The financial reporting actuarial valuation as of June 30, 2014, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2014
Experience Study	July 1, 2005 – June 30, 2008
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	30 years
Asset Valuation Method	5-year smoothed market
Inflation	3.5%
Salary Increase	4.5%, average, including inflation
Investment Rate of Return	7.75%, net of pension plan investment expense, including inflation

The rates of mortality for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other members. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement. The long-term expected return on plan assets is reviewed as part

of the regular experience studies prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by CERS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	30.0%	8.45%
International Equity	22.0%	8.85%
Emerging Market Equity	5.0%	10.50%
Private Equity	7.0%	11.25%
Real Estate	5.0%	7.00%
Core U.S. Fixed Income	10.0%	5.25%
High Yield Fixed Income	5.0%	7.25%
Non US Fixed Income	5.0%	5.5%
Commodities	5.0%	7.75%
TIPS	5.0%	5.00%
Cash	1.0%	3.25%
	<u>100.0%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.75%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Deferred Inflows and Outflows, and Pension Expense include only certain categories of deferred outflows of resources and deferred inflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments. The Schedule does not include deferred outflows/inflows of resources for changes in the employer's proportionate share of contributions or employer contributions made subsequent to the measurement date. The net pension liability as of June 30, 2014, is based on the June 30, 2014, actuarial valuation for the first year of implementation. As a result, there are no differences between expected and actual experience or changes in assumptions subject to amortization. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period.

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.75 %, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Current discount rate (7.75%)	1% Increase (8.75%)
City's proportionate share of the net pension liability			
Nonhazardous	\$ 13,662,000	\$ 10,328,000	\$ 7,484,000
Hazardous	\$ 18,080,000	\$ 13,818,000	\$ 10,205,000

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report which is publically available at <https://kyret.ky.gov>.

Payables to the pension plan

At June 30, 2015 and 2014, there were no payables to CERS.

(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, 2015:

	Balance June 30, 2014	Additions	Reductions	Balance June 30, 2015
<u>Governmental Activities</u>				
General Obligation Bond Series 2005	\$ 2,570,000	\$ -	\$ 2,570,000	\$ -
General Obligation Bond Series 2015	-	2,520,000	-	2,520,000
Capital lease - Equipment	12,677	-	12,677	-
Capital lease - Police Station	4,247,336	-	151,760	4,095,576
Capital lease - Refinancing	242,500	-	152,083	90,417
Capital lease - Melody Mtn. Phase II	1,701,250	-	88,333	1,612,917
Premium on bonds	-	89,008	4,172	84,836
Compensated absences obligation	784,227	328	10,612	773,943
Total Governmental Activities	<u>\$ 9,557,990</u>	<u>\$ 2,609,336</u>	<u>\$ 2,989,637</u>	<u>\$ 9,177,689</u>
<u>Business-type Activities</u>				
Revenue & Improvement Bond Series 2013	\$ 4,490,000	\$ -	\$ 405,000	\$ 4,085,000
Water & Sewer Revenue Bond Series 2015	-	3,620,000	-	3,620,000
Capital lease - Equipment	4,682	-	4,682	-

Capital lease - Radio Meters	1,620,417	-	95,000	1,525,417
Kentucky Infrastructure Authority Loan	1,135,597	-	115,524	1,020,073
Kentucky Infrastructure Authority Loan	2,489,761	-	194,169	2,295,592
Kentucky Infrastructure Authority Loan	6,509,067	-	275,946	6,233,121
Premium on bonds	-	124,137	-	124,137
Discount on bonds	(26,701)	-	(2,967)	(23,734)
Total Business-type Activities	<u>\$ 16,222,823</u>	<u>\$ 3,744,137</u>	<u>\$ 1,087,354</u>	<u>\$ 18,879,606</u>

At June 30, 2015, the City was required to have \$805,163 for the Revenue and Improvement Bonds of 2013 and 2015, 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, 2015, the City had reserve funds of \$1,292,883.

Governmental Activities

Capital Lease

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

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest and fees</u>	<u>Total</u>
2016	\$ 90,417	\$ 2,523	\$ 92,940

Capital Lease - Police Station

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

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest and fees</u>	<u>Total</u>
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	182,356	128,813	311,169
2021-2025	1,019,604	533,172	1,552,776
2026-2030	1,225,438	321,470	1,546,908
2031-2034	1,002,211	76,508	1,078,719
	<u>\$ 4,095,576</u>	<u>\$ 1,640,483</u>	<u>\$ 5,736,059</u>

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, 2015, the City has \$350,000 of the proceeds recorded as committed fund balance in the general fund.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest and fees</u>	<u>Total</u>
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	70,000	46,862	116,862
2021-2025	386,252	200,685	586,937
2026-2030	456,249	132,843	589,092
2031-2035	433,332	44,328	477,660
	<u>\$ 1,612,917</u>	<u>\$ 627,384</u>	<u>\$ 2,240,301</u>

General Obligation Refunding Bond Series 2015

On March 17, 2015, the City issued \$2,520,000 in refunding bonds with an average rate of 3.0% to advance refund \$2,460,000 of the series 2005 bonds with an average rate of 4.0%. 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 \$2,460,000 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 \$103,137. This difference, reported in the accompanying financial statements as a deferred outflow of resources, is being charged to operations through the year 2030 using the straight-line method. Additionally, the City reduced its total debt service payments over the following 25 years by \$269,000 and obtained an economic gain (difference between the present values of the debt service payments of the old and new bonds) of \$224,000.

The 2015 Series bonds were sold at a premium of \$89,008, which is being amortized over the life of the bonds.

The annual requirements to amortize the indebtedness at June 30, 2015, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 125,000	\$ 73,725	\$ 198,725
2017	130,000	69,900	199,900
2018	130,000	66,000	196,000
2019	135,000	62,025	197,025
2020	140,000	57,900	197,900
2021-2025	795,000	220,125	1,015,125
2026-2030	875,000	95,625	970,625
2031	190,000	2,850	192,850
	<u>\$ 2,520,000</u>	<u>\$ 648,150</u>	<u>\$ 3,168,150</u>

Compensated Absences Obligation

Compensated absences of Governmental Fund Types payable within 60 days from the balance sheet date are deemed to be payable from expendable available financial resources. Compensated absences earned by employees which are payable after 60 days are reflected as general long-term obligations of the City.

The estimated liabilities for accrued compensated absences as of June 30, 2015, are as follows:

	Accrued Long-Term Obligation	Current Obligation	Total Compensated Absences
General Fund	\$ 759,721	\$ 149,453	\$ 909,174
Community Development Fund	2,830	557	3,387
Housing Assistance Fund	4,409	867	5,276
Floodwall Fund	6,983	1,374	8,357
Ashland Bus System	-	26,663	26,663
Recreation Fund	-	26,477	26,477
Cemetery Fund	-	4,307	4,307
Utility Fund	-	177,472	177,472
	<u>\$ 773,943</u>	<u>\$ 387,170</u>	<u>\$ 1,161,113</u>

Refer to Note 2 for additional information regarding compensated absences.

Conduit Debt Obligations

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

As of June 30, 2015, there was one series of Industrial Revenue Bonds outstanding, with an aggregate principal amount payable of approximately \$123 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, 2033. 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, 2015 are as follows:

Year ending June 30,	Principal	Interest	Fees	Total
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	304,816	99,938	9,994	414,748
2021-2025	1,618,483	405,290	40,529	2,064,302
2026-2030	1,787,812	235,961	23,596	2,047,369
2031-2034	1,361,634	55,007	5,501	1,422,142
	<u>\$ 6,233,121</u>	<u>\$ 1,254,839</u>	<u>\$ 125,483</u>	<u>\$ 7,613,443</u>

Kentucky Infrastructure Authority Loan

On October 1, 2001, the City entered into an Assistance Agreement with the Kentucky Infrastructure Authority ("KIA") for a water system renovation project. The loan bears interest at a rate of 3.8% with a maturity date of December 1, 2022. A loan serving fee of 0.025% of the annual outstanding loan balance shall be payable to KIA as a part of each interest payment. In accordance with the Agreement, the City received the proceeds from the loan as eligible expenses were incurred.

The annual requirements to amortize the loan as of June 30, 2015 are as follows:

Year ending June 30,	Principal	Interest	Fees	Total
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	139,449	18,141	1,193	158,783
2021-2023	372,477	21,498	1,415	395,390
	<u>\$ 1,020,073</u>	<u>\$ 161,852</u>	<u>\$ 10,648</u>	<u>\$ 1,192,573</u>

Kentucky Infrastructure Authority Loan

On November 1, 2004, the City entered into an Assistance Agreement with the Kentucky Infrastructure Authority ("KIA") for a water system renovation project. The loan bears interest at a rate of 3.0%. A loan serving fee of 0.025% of the annual outstanding loan balance shall be payable to KIA as a part of each interest payment. In accordance with the Agreement, the City received the proceeds from the loan as eligible expenses were incurred.

The annual requirements to amortize the indebtedness at June 30, 2015, are as follows:

Year ending June 30,	Principal	Interest	Fees	Total
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	225,342	42,075	3,506	270,923
2021-2025	1,233,085	104,001	8,668	1,345,754
	<u>\$ 2,295,592</u>	<u>\$ 378,577</u>	<u>\$ 31,549</u>	<u>\$ 2,705,718</u>

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
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	107,083	44,672	151,755
2021-2025	593,332	165,682	759,014
2026-2029	425,834	40,366	466,200
	<u>\$ 1,525,417</u>	<u>\$ 461,854</u>	<u>\$ 1,987,271</u>

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 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 Utility Fund liabilities.

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, 2015, are as follows:

Year ending June 30,	Principal	Interest	Total
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	445,000	50,055	495,055
2021-2024	1,945,000	106,740	2,051,740
	<u>\$ 4,085,000</u>	<u>\$ 410,865</u>	<u>\$ 4,495,865</u>

Water & Sewer Revenue Bonds Series 2015

On March 11, 2015, the City issued \$3,620,000 in revenue bonds with interest rates ranging from 3.0% to 3.25%, to finance improvements for the waterworks, water distribution, wastewater treatment and collection facilities.

The annual requirements to amortize the indebtedness at June 30, 2015, are as follows:

Year Ending June 30,	Principal	Interest	Total
2016	\$ 175,000	\$ 116,085	\$ 291,085
2017	185,000	104,725	289,725
2018	190,000	99,175	289,175
2019	195,000	93,475	288,475
2020	205,000	87,625	292,625
2021-2025	1,110,000	342,725	1,452,725
2026-2030	1,280,000	166,325	1,446,325
2031	280,000	9,100	289,100
	<u>\$ 3,620,000</u>	<u>\$ 1,019,235</u>	<u>\$ 4,639,235</u>

(9) INTERFUND TRANSACTIONS

Interfund Receivable and Payables

The composition of interfund balances as of June 30, 2015 is as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General Fund	Ashland Bus System	\$ 351,584
General Fund	Recreation Fund	191,016
General Fund	Municipal Aid Fund	23,060
General Fund	Floodwall Operating Fund	130,841
General Fund	Cemetery Fund	72,606
General Fund	Community Development	12,775
General Fund	Police and Fire Fighters Pension	185,537
Utility Fund	General Fund	441,386
Utility Pension Fund	General Fund	2,253
Housing Assistance	General Fund	350
Capital Project	General Fund	111,024

Internal Service Fund	General Fund	1,243,038
Utility Pension Fund	Utility Fund	908,318
Total		<u>\$ 3,673,788</u>

Interfund Transfers

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Operating	General	Ashland Bus System	Matching	\$ 346,289
Operating	General	Recreation	Operations	1,009,120
Operating	General	Capital Projects	Capital Purchases	262,286
Operating	General	Cemetery	Operations	127,034

(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, 2015, the City paid \$346,289 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 \$44,607 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, 2015, the City has incurred costs of approximately \$12,225,000 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 increased to \$3.50 per 1,000 gallons during 2015 and will 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, 2015, the City has \$6,039,483 restricted for the sewer improvements.

Construction Projects

The City is obligated on commitments for various contracts in progress at June 30, 2015. 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-29 th St. Storm Water	\$ 189,876	\$ 131,117	\$ 58,759
Utility Fund	CSO-15 th & 17 th Street	15,900	5,520	10,380
Utility Fund	Backwash System Design	59,035	25,606	33,429

Utility Fund	Water Meter Replacement	225,000	161,433	63,567
Utility Fund	Pump Station Improvements	33,000	13,250	19,750
General Fund	Sidewalks	25,707	3,202	22,505
General Fund	Fire Training Facility	183,738	165,364	18,374
		<u>\$ 732,256</u>	<u>\$ 505,492</u>	<u>\$ 226,764</u>

(12) RISK MANAGEMENT

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

All full-time employees are eligible to participate in the City's Health Benefit Plan. The claims liability of \$404,777 reported in the Internal Service Fund at June 30, 2015, 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 2014 and 2015 were:

	Beginning of Fiscal Year Liability	Current Year Claims	Claim Payments	Balance At Fiscal Year End
2014	\$ 455,858	\$ 5,215,487	\$ 5,015,226	\$ 656,119
2015	656,119	5,242,102	5,493,444	404,777

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, 2015 totaled \$410,101.

(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 \$78,665 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, 2014, the date of the latest actuarial valuation, the plan had 91,683 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, 2014 was as follows:

Total medical benefit obligation	000's omitted \$ 4,110,779
Net position available for benefits at actuarial value	(2,828,933)
Unfunded medical benefit obligation	<u>\$ 1,281,846</u>

(14) NOTE RECEIVABLE

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

(15) FUND DEFICIT

As of June 30, 2015, the Recreation Fund had a negative net position of \$162,215. This deficit resulted from the adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and the recording of the fund's proportionate share of net pension liability. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

(16) CHANGE IN ACCOUNTING PRINCIPLE AND PRIOR PERIOD ADJUSTMENTS

Net position as of June 30, 2014, has been restated for the following:

- During the current fiscal year, the City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The implementation required net position to be restated for the June 30, 2014 balance of net pension liabilities and the elimination of the net pension assets previously recorded for the City's single employer pension plans.
- During the current fiscal year, the City reconciled the customer deposit liability for the Utility Fund to the subsidiary ledger. It was determined that the balance was overstated by \$560,964 and, therefore, net position of the Utility Fund was restated.
- During the current fiscal year, the City began work on the Russell Trail project, which is accounted for in the Recreation Fund. The land utilized for the Russell Trail was donated to the City several years ago, but not recorded as a capital asset. The City determined the land had a fair market value of \$52,500 and restated net position of the Recreation Fund.

Net position as of June 30, 2014 has been restated as follows:

	<u>Governmental Activities</u>	<u>Utility Fund</u>	<u>Ashland Bus Fund</u>	<u>Recreation Fund</u>	<u>Cemetery Fund</u>	<u>Total Business-Type Activities</u>	<u>Total</u>
Net position as previously reported at June 30, 2014	\$ 57,264,117	\$ 37,437,770	\$ 955,257	\$ 283,413	\$ 4,432,589	\$ 43,109,029	\$ 100,373,146
Implementation of GASB 68:							
CERS net pension liability (measurement date as of June 30, 2013)	(21,489,652)	(5,184,880)	(704,186)	(691,654)	(125,449)	(6,706,169)	(28,195,821)
Deferred outflows - City CERS contributions made during fiscal year 2014	2,653,514	544,957	77,652	145,188	14,511	782,308	3,435,822
Utility Employees Pension Fund net pension liability as of June 30, 2014	-	(5,460,455)	-	-	-	(5,460,455)	(5,460,455)
Policemen & Firefighters Pension Fund net pension liability as of June 30, 2014	(3,606,960)	-	-	-	-	-	(3,606,960)
Reversal of net pension assets	(1,757,816)	(2,766,280)	-	-	-	(2,766,280)	(4,524,096)
Customer deposit liability corrections	-	560,964	-	-	-	560,964	560,964
Addition of Russell Trail land	-	-	-	52,500	-	52,500	52,500
Total prior period adjustment	<u>(24,200,914)</u>	<u>(12,305,694)</u>	<u>(626,534)</u>	<u>(493,966)</u>	<u>(110,938)</u>	<u>(13,537,132)</u>	<u>(37,738,046)</u>
Net position as restated, June 30, 2014	<u>\$ 33,063,203</u>	<u>\$ 25,132,076</u>	<u>\$ 328,723</u>	<u>\$ (210,553)</u>	<u>\$ 4,321,651</u>	<u>\$ 29,571,897</u>	<u>\$ 62,635,100</u>

REQUIRED SUPPLEMENTAL INFORMATION

**CITY OF ASHLAND
DEFINED BENEFIT PENSION TRUSTS
SCHEDULE OF EMPLOYER CONTRIBUTIONS AND INVESTMENT RETURNS
JUNE 30, 2015**

UTILITY EMPLOYEES PENSION FUND								POLICEMEN AND FIREFIGHTERS PENSION FUND						
Amount Contributed	ADC	Contribution Deficiency (Excess)	Covered Payroll	Percentage of Covered Payroll		Annual* M-W Rate of Return, net	Amount Contributed	ADC	Contribution Deficiency (Excess)	Covered Payroll	Percentage of Covered Payroll		Annual* M-W Rate of Return, net	
				ARC	Amount Contributed						ARC	Amount Contributed		
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	
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	
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	
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	
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	
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	
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	
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	
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	0.18%	
2015	728,300	383,103	(345,197)	**N/A	**N/A	**N/A	0.61%	411,220	564,043	152,823	**N/A	**N/A	0.50%	

* 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, 2015**

UTILITY EMPLOYEES PENSION FUND

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)
06/30/06	\$ 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
06/30/15 *	2,340,422	10,865,198	8,524,776	21.5%	**N/A	**N/A

POLICEMEN AND FIREFIGHTERS PENSION FUND

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
06/30/15	579,210	5,016,407	4,437,197	11.5%	**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, 2015**

	UTILITY EMPLOYEES PENSION FUND		POLICEMEN AND FIREFIGHTERS PENSION FUND	
	2015	2014	2015	2014
TOTAL PENSION LIABILITY				
Service cost	\$ -	\$ -	\$ -	\$ -
Interest on total pension liability	482,003	353,293	249,990	199,178
Effect of changes in benefit terms	-	848,025	-	436,571
Difference in expected and actual experience	66,792	(108,429)	24,498	(28,280)
Effect of changes in assumptions	3,246,184	-	966,202	14,282
Benefit payments	(753,040)	(731,999)	(562,644)	(582,431)
Net change in total pension liability	3,041,939	360,890	678,046	39,320
Total pension liability, beginning of year	7,823,259	7,462,369	4,338,361	4,299,041
Total pension liability, end of year (a)	10,865,198	7,823,259	5,016,407	4,338,361
FIDUCIARY NET POSITION				
Employer contributions	\$ 728,300	\$ 650,912	\$ 411,220	\$ 316,277
Member contributions	-	-	-	-
Investment income, net of investment expenses	4,570	879	3,787	857
Benefit payments and refund of contributions	(753,040)	(731,999)	(562,644)	(582,431)
Administrative expenses	(2,212)	(6,360)	(4,554)	(3,195)
Net change in plan fiduciary net position	(22,382)	(86,568)	(152,191)	(268,492)
Fiduciary net position, beginning of year	2,362,804	2,449,372	731,401	999,893
Fiduciary net position, end of year (b)	2,340,422	2,362,804	579,210	731,401
Net pension liability, ending = (a)-(b)	\$ 8,524,776	\$ 5,460,455	\$ 4,437,197	\$ 3,606,960

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

**CITY OF ASHLAND
COUNTY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2015**

	Reporting Fiscal Year (Measurement Date)	
	2015	(2014)
	<u>Nonhazardous</u>	<u>Hazardous</u>
City's proportion of the net pension liability	0.32%	1.15%
City's proportionate share of the net pension liability	\$ 10,328,000	\$ 13,818,000
City's covered-employee payroll	\$ 7,271,891	\$ 5,782,361
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	142.026%	238.968%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	63.46%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years be displayed as they become available.

**CITY OF ASHLAND
COUNTY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2015**

	2015		2014	
	<u>Nonhazardous</u>	<u>Hazardous</u>	<u>Nonhazardous</u>	<u>Hazardous</u>
Contractually required contribution	\$ 1,347,755	\$ 2,072,806	\$ 1,373,660	\$ 2,064,303
Contributions in relation to the contractually required contribution	<u>1,347,755</u>	<u>2,072,806</u>	<u>1,373,660</u>	<u>2,064,303</u>
Contribution deficiency (excess)	-	-	-	-
City's covered-employee payroll	\$ 7,627,360	\$ 6,041,405	\$ 7,271,891	\$ 5,782,361
City's contributions as a percentage of its covered-employee payroll	17.67%	34.31%	18.89%	35.70%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

CITY OF ASHLAND

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED JUNE 30, 2015

(1) CHANGES OF ASSUMPTIONS

UTILITY EMPLOYEES PENSION FUND

In the 2015 valuation the expected investment rate of return was reduced from 5.0% to 4.0%, which was the estimated yield for a 20 year tax-exempt general obligation municipal bond with an average rating of AA/Aa or higher. Additionally, an estimated ad-hoc cost of living adjustment of 3% was included in the calculation of the total pension liability due to the adjustments being considered "substantively automatic" under the guidelines of GASB No. 67.

POLICEMEN AND FIREFIGHTERS PENSION FUND

An estimated ad-hoc cost of living adjustment of 3% was included in the calculation of the total pension liability due to the adjustments being considered "substantively automatic" under the guidelines of GASB No. 67.

CERS

There were no changes of assumptions.

(2) METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

UTILITY EMPLOYEES PENSION FUND

The actuarially determined contribution amount in the schedule of employer contributions are calculated biennially. The following actuarial methods and assumptions were used to determine contribution amounts reported in the most recent year of that schedule:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	20 years
Asset Valuation Method	Fair market value, quoted prices
Cost of living adjustments	3.0%
Salary Increase	None
Investment Rate of Return	4.0%, net of pension plan investment expense, including inflation

CITY OF ASHLAND

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONCLUDED)

FOR THE YEAR ENDED JUNE 30, 2015

POLICEMEN AND FIREFIGHTERS PENSION FUND

The actuarially determined contribution amount in the schedule of employer contributions are calculated biennially. The following actuarial methods and assumptions were used to determine contribution amounts reported in the most recent year of that schedule:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	10 years
Asset Valuation Method	Fair market value, quoted prices
Cost of living adjustments	3.0%
Salary Increase	None
Investment Rate of Return	5.0%, net of pension plan investment expense, including inflation

CERS

The actuarially determined contribution rates in the schedule of contributions are calculated on a biennial basis beginning with the fiscal years ended 2015 and 2016, determined as of July 1, 2013. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine the contribution rates reported in that schedule:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	30 years
Asset Valuation Method	5-year smoothed market
Inflation	3.5%
Salary Increase	4.5%, average, including inflation
Investment Rate of Return	7.75%, net of pension plan investment expense, including inflation

(3) CHANGES OF BENEFITS

There were no changes in benefit terms for Utilities Employees Pension Fund, Policemen & Firefighters Pension Fund, or CERS.

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, 2015

	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	-	-	-	191,018	191,018
Administration fee income	-	-	-	-	-
Interest income	-	-	-	-	-
Other income	-	-	-	-	-
Total revenues	-	-	-	191,018	191,018
Expenditures					
General government	650	-	650	209	441
Finance	-	-	-	-	-
Public services	-	-	-	-	-
Planning and code enforcement	-	-	-	-	-
Police	-	-	-	-	-
Fire	-	-	-	-	-
Engineering	-	-	-	-	-
Community and cultural	-	-	-	-	-
Other	-	-	-	-	-
Capital outlay	442,792	7,078	449,870	538,827	(88,957)
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	443,442	7,078	450,520	539,036	(88,516)
Excess of Revenues Over (Under) Expenditures	(443,442)	(7,078)	(450,520)	(348,018)	102,502
Other Financing Sources (Uses)					
Transfers in	443,442	7,078	450,520	262,286	(188,234)
Total other financing sources (uses)	443,442	7,078	450,520	262,286	(188,234)
Net change in fund balance	-	-	-	(85,732)	(85,732)
Fund balance beginning of year	196,225	-	196,225	196,225	-
Fund balance end of year	<u>\$ 196,225</u>	<u>\$ -</u>	<u>\$ 196,225</u>	<u>\$ 110,493</u>	<u>\$ (85,732)</u>

CITY OF ASHLAND

GENERAL FUND

BALANCE SHEET

JUNE 30, 2015

ASSETS

Cash	\$ 3,901,180
Taxes receivable	2,797,038
Allowance for uncollectible taxes	(489,899)
Grants receivable	1,340
Due from other funds	967,420
Other receivables	402,291
Allowance for uncollectible accounts	(30,652)
Investments	600,012
Inventories - supplies	71,635
Prepaid items	51,300
	<hr/>
Total assets	\$ 8,271,665

LIABILITIES AND FUND BALANCE

Liabilities:

Accounts payable	\$ 709,561
Due to other funds	1,798,052
Due to Board of Education	84,146
Accrued compensated absences	149,453
Accrued expenses	776,601
Unearned revenue	27,553
	<hr/>

Total liabilities 3,545,366

Fund Balance:

Non-spendable	122,935
Restricted for grant programs	22,121
Committed	350,000
Unassigned	4,231,243
	<hr/>

Total fund balance 4,726,299

Total liabilities and fund balance \$ 8,271,665

CITY OF ASHLAND

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2015

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES:			
Taxes -			
General property taxes	\$ 2,617,965	\$ 2,635,215	\$ 17,250
Penalties and interest	29,945	21,740	(8,205)
Bank franchise taxes	99,900	88,142	(11,758)
Other franchise taxes	195,000	149,400	(45,600)
Delinquent taxes	189,405	178,449	(10,956)
Vehicle property taxes	525,000	436,334	(88,666)
Insurance premiums taxes	3,878,000	3,660,143	(217,857)
Total taxes	<u>7,535,215</u>	<u>7,169,423</u>	<u>(365,792)</u>
Licenses and permits -			
Occupational license fees	9,347,780	9,712,811	365,031
Business privilege licenses	1,305,295	1,648,703	343,408
Alcoholic beverage licenses	638,225	636,312	(1,913)
Construction permit fees	66,500	44,134	(22,366)
Other licenses and permits	700	1,245	545
Total licenses and permits	<u>11,358,500</u>	<u>12,043,205</u>	<u>684,705</u>
Charge for services -			
Garbage collection fee	2,091,400	2,113,711	22,311
Greyhound ticket sales	23,700	16,534	(7,166)
Rental revenue	40,000	54,485	14,485
Total charges for services	<u>2,155,100</u>	<u>2,184,730</u>	<u>29,630</u>
Fees, fines and reimbursements -			
Parking meter fees and fines	25,000	15,851	(9,149)
Taxes collection fees	118,875	128,707	9,832
State rebate - District Court	31,985	28,019	(3,966)
Street lighting franchise	918,351	953,559	35,208
Telecommunication franchise	272,135	272,102	(33)
Other	335,105	394,619	59,514
Total fees, fines and reimbursements	<u>1,701,451</u>	<u>1,792,857</u>	<u>91,406</u>
Other revenues -			
Police grants	8,000	16,767	8,767
Miscellaneous grants	12,995	14,596	1,601
Coal severance - LGEA	25,000	23,114	(1,886)
Interest earned	2,345	3,412	1,067
Other	214,667	192,513	(22,154)
Total other revenues	<u>263,007</u>	<u>250,402</u>	<u>(12,605)</u>
Total revenues	<u>23,013,273</u>	<u>23,440,617</u>	<u>427,344</u>

CITY OF ASHLAND

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2015

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
EXPENDITURES:			
General Government -			
Mayor and Commissioners	132,035	124,200	7,835
City Manager	133,385	137,182	(3,797)
City Clerk/Legal	183,977	175,859	8,118
Economic Development	145,415	148,016	(2,601)
Human Resources	173,204	174,408	(1,204)
Grants and projects	10,000	-	10,000
Unclassified	2,058,749	1,755,682	303,067
	<u>2,836,765</u>	<u>2,515,347</u>	<u>321,418</u>
Department of Finance -			
Director of Finance	603,468	569,025	34,443
Data Processing	35,378	34,026	1,352
	<u>638,846</u>	<u>603,051</u>	<u>35,795</u>
Department of Public Services -			
Director of Public Services	240,044	238,820	1,224
Street maintenance	2,425,590	2,431,619	(6,029)
Sanitation services	1,487,595	1,400,748	86,847
Central garage	358,076	355,942	2,134
Animal control	77,248	69,744	7,504
	<u>4,588,553</u>	<u>4,496,873</u>	<u>91,680</u>
Department of Planning and			
Code Enforcement	603,907	597,784	6,123
Department of Police -			
Technical services	1,612,833	1,523,578	89,255
Field operations	3,755,780	3,712,010	43,770
	<u>5,368,613</u>	<u>5,235,588</u>	<u>133,025</u>

CITY OF ASHLAND

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2015

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Department of Fire	5,891,446	6,266,069	(374,623)
Department of Engineering	163,729	180,383	(16,654)
Debt Service	876,301	783,731	92,570
Total expenditures	<u>20,968,160</u>	<u>20,678,826</u>	<u>289,334</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>2,045,113</u>	<u>2,761,791</u>	<u>716,678</u>
OTHER FINANCING SOURCES (USES):			
Proceeds from issuance of debt	-	2,609,008	2,609,008
Payment to refunded bond escrow agent	-	(2,563,137)	(2,563,137)
Transfer to Capital Projects Fund	(450,520)	(262,286)	188,234
Transfer to Recreation Fund	(1,074,033)	(1,009,120)	64,913
Transfer to Ashland Bus Fund	(431,052)	(346,289)	84,763
Transfer to Ashland Cemetery Fund	(89,508)	(127,034)	(37,526)
Total other financing sources (uses)	<u>(2,045,113)</u>	<u>(1,698,858)</u>	<u>346,255</u>
NET CHANGE IN FUND BALANCE	-	1,062,933	1,062,933
FUND BALANCE, June 30, 2014	<u>3,663,366</u>	<u>3,663,366</u>	<u>-</u>
FUND BALANCE, June 30, 2015	<u>\$ 3,663,366</u>	<u>\$ 4,726,299</u>	<u>\$ 1,062,933</u>

CITY OF ASHLAND

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

JUNE 30, 2015

	Land & Buildings	Building Improvements	Automotive Equipment	Operating Equipment	Office Furniture & Equipment	Capital Improvements	Infrastructure	CIP	Total
Dept of General Gov't	\$ 2,822,024	\$ 1,934,919	\$ 109,678	\$ 86,741	\$ 176,619	\$ 39,275	\$ 11,591,668	\$ -	\$ 16,760,924
Dept of Finance	-	-	-	56,244	14,836	-	-	-	71,080
Dept of Public Services	15,978,343	682,840	399,417	2,858,543	6,299	470,084	63,578,350	-	83,973,876
Dept of Planning & Community Development	-	13,033	75,782	6,799	-	-	-	-	95,614
Department of Police	4,949,556	246,711	731,794	598,107	129,051	19,350	-	-	6,674,569
Department of Fire	3,655,959	165,697	2,082,411	251,972	53,246	-	-	194,792	6,404,077
Department of Engineering	-	-	71,500	-	79,170	74,457	1,257,664	-	1,482,791
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	-	-	28,807	-	-	-	191,790
	<u>\$ 27,808,905</u>	<u>\$ 3,164,358</u>	<u>\$ 3,512,823</u>	<u>\$ 3,990,998</u>	<u>\$ 506,651</u>	<u>\$ 603,166</u>	<u>\$ 76,619,407</u>	<u>\$ 194,792</u>	<u>\$ 116,401,100</u>

CITY OF ASHLAND

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

JUNE 30, 2015

Land and buildings	\$ 27,808,905
Building improvements	3,164,358
Automotive equipment	3,512,823
Operating equipment	3,990,998
Office furniture and equipment	506,651
Capital improvements	603,166
Infrastructure	76,619,407
Construction in progress	<u>194,792</u>
Total	<u>\$ 116,401,100</u>
Investment in capital assets by source	
General Fund	\$ 90,567,262
Special Revenue Funds	5,675,923
Capital Projects Fund	<u>20,157,915</u>
Total	<u>\$ 116,401,100</u>

CITY OF ASHLAND HOUSING AUTHORITY

STATEMENT OF NET POSITION

JUNE 30, 2015

	<u>Rental Vouchers</u>
ASSETS	
Cash - restricted	\$ 6,337
Cash - unrestricted	84,014
Accounts receivable	2,746
Accounts receivable – other governmental	350
Building and equipment, net	<u>90,153</u>
Total assets	<u>\$ 183,600</u>
LIABILITIES AND NET POSITION	
LIABILITIES:	
Accounts payable	\$ 3,298
Accounts payable - other governmental	14,317
Accrued expenses	3,247
Accrued compensated absences - current	867
Accrued compensated absences - noncurrent	<u>4,409</u>
Total liabilities	<u>26,138</u>
NET POSITION:	
Invested in capital assets	90,153
Unrestricted	60,972
Restricted	<u>6,337</u>
	<u>157,462</u>
Total liabilities and net position	<u>\$ 183,600</u>

CITY OF ASHLAND HOUSING AUTHORITY
STATEMENT OF REVENUES AND EXPENSES
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Rental Vouchers</u>
REVENUES	
Housing assistance payments	\$ 2,363,776
Administrative fee revenue	243,104
Interest income	231
Other	<u>300</u>
Total revenues	<u>2,607,411</u>
EXPENSES	
Administrative salaries	110,197
Audit	6,690
Employee benefit contributions	18,185
Travel	3,430
Other administrative	8,390
Utilities	1,658
Maintenance	11,813
Property insurance	166
General liability insurance	1,951
Workers compensation	391
Other insurance	30,068
Other general	9,973
Compensated absences	328
Housing assistance payments	2,408,045
Depreciation	<u>3,110</u>
Total expenses	<u>2,614,395</u>
EXCESS OF EXPENSES OVER REVENUES	<u>\$ (6,984)</u>

CITY OF ASHLAND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2015

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
<u>U.S. Department of HUD</u>			
Direct Programs -			
CDBG Entitlement	14.218	B12MC2-10003	\$ 512,190 *
Housing Choice Voucher Program	14.871	KY142VO	<u>2,610,957 *</u>
Total U.S. Department of HUD			<u>3,123,147</u>
<u>U.S. Department of Transportation</u>			
Direct Programs -			
Federal Transit Cluster			
FTA - Operating Assistance Grant	20.507	KY-90-X224	320,873 *
FTA - Capital Assistance Grant	20.507	KY-90-X224	<u>203,322 *</u>
			<u>524,195</u>
Passed through Kentucky Transportation Cabinet -			
Department of State Police Highway Safety			
Program	20.600	AL-14-02	2,462
Department of State Police Highway Safety			
Program	20.600	PF-15-01	<u>3,534</u>
			<u>5,996</u>
Total U.S. Department of Transportation			<u>530,191</u>
<u>U.S. Department of Justice</u>			
Direct Programs -			
Edward Byrne Memorial Justice			
Assistance Grant	16.738	2014-DJ-BX-0139	<u>10,772</u>
Total U.S. Department of Justice			<u>10,772</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 3,664,110</u>

* Denotes major program.

CITY OF ASHLAND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONCLUDED)

FOR THE YEAR ENDED JUNE 30, 2015

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, 2015. 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	\$48,827



**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, 2015, 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 4, 2015.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency. [2015-001].

Compliance and Other Matters

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

The City's Response to Findings

The City's response to the finding 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.

Kathleen Goodenough Smith Goodenough, PSC

December 4, 2015
Ashland, Kentucky



**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, 2015. 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, 2015.

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 Anthony Smith, PSC

December 4, 2015
Ashland, Kentucky

CITY OF ASHLAND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2015

A. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? ___ Yes X No

Significant deficiency(ies) identified? X Yes ___ 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? ___ Yes X No

Identification of Major Programs	<u>CFDA No.</u>
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

CITY OF ASHLAND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONCLUDED)

FOR THE YEAR ENDED JUNE 30, 2015

B. FINANCIAL STATEMENT FINDINGS

2015-001 UTILITY FUND INVENTORY

Condition: While performing our observation of the physical inventory as of June 30, 2015, we noted that 25 of the 55 items we observed were counted incorrectly. Additionally, we noted that several item costs used to value inventory were incorrect or documentation of prices could not be provided.

Criteria: Inventory should be properly counted and valued as of the end of the fiscal year.

Cause: The primary cause appears to be the lack of attention on the part of the employees performing the inventory count and preparing the final inventory listing.

Effect: Increased risk of inventory not being properly valued.

Recommendation: We recommend that employees responsible for the inventory counts and inventory valuation be reminded of the proper procedures.

Management's Response and Corrective Action Plan: Staff will implement a new inventory counting procedure at year end. Inventory will be counted by two separate teams and then audited by supervisor. Staff will also evaluate appropriate inventory tracking software and a new procedure for tracking.

Contact Person Responsible for Corrective Action: Ryan Eastwood.

Anticipated Completion Date: By June 30, 2016.

C. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None noted in current year.

CITY OF ASHLAND

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED JUNE 30, 2015

Findings

Findings/Noncompliance

2014-001

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

Status: Previous supervisor was terminated in 2014, and has been indicted on charges of abuse of public trust. His trial is still pending. Strict controls have been put in place, listing who can purchase and sign for tire deliveries. Staff has undergone procurement training. The shop supervisor is doing a mid-month inventory review with the parts clerk and a monthly inventory is reported to the Director. All tires go into inventory upon delivery, and then are only assigned to a vehicle after completing a work order.

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

2014-002

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.

Status: A purchasing manual was developed and training classes were provided to each Department Head and other purchasers on City procurement rules and regulations. Additional classes were held on an as-needed basis throughout the year.

Various City policies and procedures have been developed and amended, and more clarification is expected to result from the Classification and Compensation Study originally budgeted in Fiscal Year 2015.

Person Responsible for Corrective Action: Various Department Heads and members of management.

2014-003

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.

Status: Voucher supervisor has implemented an internal auditing program of Voucher files. She is performing quality control checks on the files and additional training has been provided to staff.

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

2014-004

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

Status: The responsible employee completed the appropriate reports in a timely manner but simply failed hit the submission button. The employee did not realize the mistake until asked to retrieve the reports for the auditors. The employee will double-check future submittals and verify that the agency has received the reports.

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

2014-005

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.

Status: All rehabilitation projects with preliminary estimates exceeding \$18,000 are competitively bid to allow for change orders that could make the project exceed \$20,000.

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