# CITY OF ASHLAND

## FINANCIAL STATEMENTS
## AND SUPPLEMENTAL INFORMATION

## FOR THE YEAR ENDED JUNE 30, 2016

## TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS

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# INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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 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, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2016.

## 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, 2016, 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 accordance with accounting principles generally accepted in the United States of America.

## Other Matters

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis information, 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 is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also 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 October 21, 2016, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Kelley Galloway Smith Dorsey, PSC

Ashland, Kentucky
October 21, 2016

# 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, 2016. 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 $64,291,930 (net position). Governmental activities' unrestricted net position was $(18,421,408). Business type activities' unrestricted net position was $(9,065,437).

- The Government's total net position increased by $1,808,223. Net position of governmental activities decreased by $(815,703), and net position of business-type activities increased by $2,623,926.

- At June 30, 2016, the governmental activities had $69,507,171 in assets and $41,819,418 in liabilities. Business type activities had $65,796,668 in assets and $36,232,409 in liabilities.

## OVERVIEW OF FINANCIAL STATEMENTS

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

## REPORTING THE GOVERNMENT AS A WHOLE

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

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

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

The Statement of Net Position presents information on all the Government's assets and liabilities as of June 30, 2016. 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, 2016, the Government as a whole had net position greater than its liabilities by $64,291,930. Net position of governmental activities was $32,920,936 and decreased by $(815,703) over the prior year. This decrease was primarily due to the change in pension liabilities of $1,858,000 required by GASB Statement No. 68, as amended by GASB Statement No. 71. A capital purchase for a fire pumper truck of $440,111 was made without any financing. The pumper truck replaced a 20 year old model. The City continued its concerted effort to replenish our fund balance to at least 3 months of operating expenses by budgeting $500,000. The final Melody Mountain payment to the developer for Phase II was made for $250,000 using reserves from prior year bond proceeds. We experienced a decrease in net position, and the total unrestricted fund balance decreased by $(4,394,973) in comparison to Fiscal Year 2015. Net position was restated as of June 30, 2015 due to a correction in the implementation of GASB Statement No. 68, as amended by GASB Statement No. 71. This restatement resulted in a total prior period adjustment of $(990,700) in Governmental Activities Net Position. Health insurance expenses remained stable due to continued plan modifications. Of ending Governmental Activities Net Position, $50,917,007, is invested in capital assets net of related debt, $425,337, is restricted for capital projects and grant programs and unrestricted net position is $(18,421,408).

The net position of the Government's business-type activities is $31,370,994 and increased by $2,623,926 over the prior year. The Utility Fund had budgeted $300,000 to replenish fund balance. The City leachate revenue remained strong at $736,509 and consistent bulk water sales to Big Sandy Water began in Fiscal Year 2016 which produced revenue of $171,524. Boyd County Sewer revenues exceeded projections by $229,528. Also $136,376 was received for the water line extensions to Boyd County Schools and the project did not have substantial completion until Fiscal Year 2017. Utility Fund rates in all classes remained the same this fiscal year. Due to area economic uncertainty with idling of AK Steel plant, the City Commission did not raise any utility rates. Focus was placed on cost containment and capital purchases. A $1,252,061 filter upgrade was completed at the Water Plant which increased production capacity significantly. Construction of the Water Distribution building did not begin in Fiscal Year 2016 as anticipated and this $350,000 budget was not expended. Of this net position, $32,498,757 is net investment in capital assets and $(9,065,437) 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 net position, $7,937,674 represents resources that are subject to limitations on their use through legislation adopted by the City or through external restrictions. The largest restricted portion, $6,528,457, is for sewer improvements.

At the end of this fiscal year, June 30, 2016, the City has a negative unrestricted net position in its business-type activities. However, $(3,312,976) of the ending position is due to the restatements made to June 30, 2015 ending balance from the implementation of GASB Statement No. 68. See Note (16).

## ANALYSIS OF THE CITY'S NET POSITION

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|---|---|---|---|---|---|---|
| | 2016 | 2015* | 2016 | 2015* | 2016 | 2015* |
| Current and other assets | $ 10,720,906 | $ 9,096,723 | $ 15,843,148 | $ 14,661,880 | $ 26,564,054 | $ 23,758,603 |
| Capital assets | 58,786,265 | 59,574,330 | 49,953,520 | 49,829,561 | 108,739,785 | 109,403,891 |
| Deferred outflows of resources | 5,233,183 | 2,845,088 | 1,806,735 | 888,954 | 7,039,918 | 3,734,042 |
| Total assets and deferred outflows | 74,740,354 | 71,516,141 | 67,603,403 | 65,380,395 | 142,343,757 | 136,896,536 |
| Liabilities | 4,463,465 | 4,328,129 | 3,948,893 | 4,126,740 | 8,412,358 | 8,454,869 |
| Long-term liabilities | 37,355,953 | 31,580,467 | 32,283,516 | 31,865,493 | 69,639,469 | 63,445,960 |
| Deferred inflows of resources | - | 1,870,906 | - | 641,094 | - | 2,512,000 |
| Total liabilities and deferred inflows | 41,819,418 | 37,779,502 | 36,232,409 | 36,633,327 | 78,051,827 | 74,412,829 |
| Net position | | | | | | |
| Net investment in capital assets | 50,917,007 | 51,170,584 | 32,498,757 | 31,115,457 | 83,415,764 | 82,286,041 |
| Restricted | 425,337 | 204,332 | 7,937,674 | 7,388,882 | 8,363,011 | 7,593,214 |
| Unrestricted | (18,421,408) | (17,638,277) | (9,065,437) | (9,757,271) | (27,486,845) | (27,395,548) |
| Total net position | $ 32,920,936 | $ 33,736,639 | $ 31,370,994 | $ 28,747,068 | $ 64,291,930 | $ 62,483,707 |

*As restated, June 30th, 2015

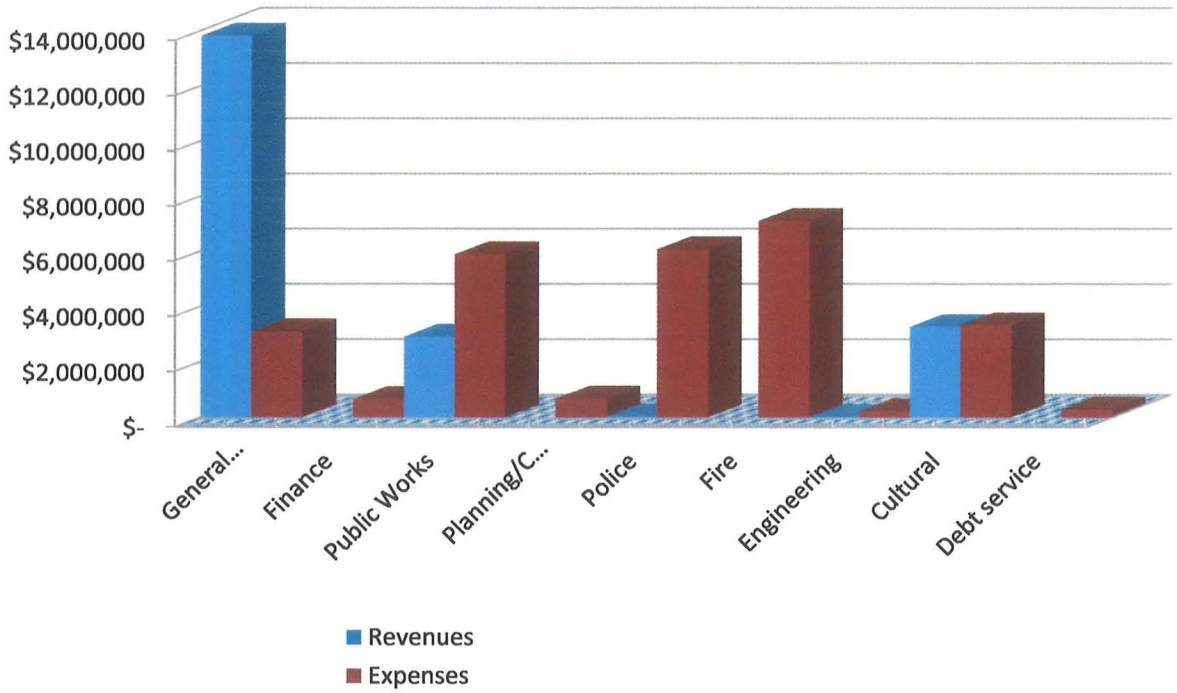
## ANALYSIS OF THE CITY'S OPERATIONS

| Revenues | Governmental Activities 2016 | Governmental Activities 2015 | Business-type Activities 2016 | Business-type Activities 2015 | Total Primary Government 2016 | Total Primary Government 2015 |
|---|---|---|---|---|---|---|
| Taxes | $ 7,720,589 | $ 7,386,199 | $ - | $ - | $ 7,720,589 | $ 7,386,199 |
| Charges for Services | 16,263,417 | 16,263,896 | 16,960,253 | 17,061,372 | 33,223,670 | 33,325,268 |
| Operating Grants / Contr. | 3,762,391 | 3,420,523 | 378,339 | 351,037 | 4,140,730 | 3,771,560 |
| Capital Grants / Contr. | - | 191,018 | 422,164 | 228,737 | 422,164 | 419,755 |
| Other Income | 238,240 | 221,588 | 862,432 | 929,650 | 1,100,672 | 1,151,238 |
| Total Revenue | $ 27,984,637 | $ 27,483,224 | $ 18,623,188 | $ 18,570,796 | $ 46,607,825 | $ 46,054,020 |

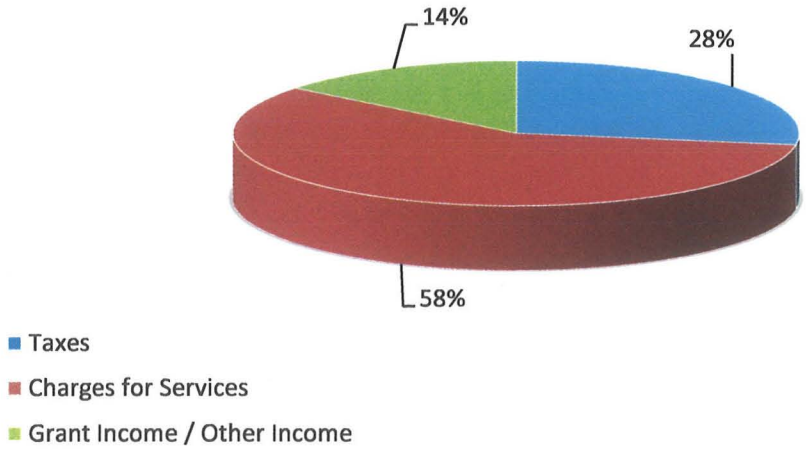
| Expenses | Governmental Activities 2016 | Governmental Activities 2015* | Business-type Activities 2016 | Business-type Activities 2015* | Total Primary Government 2016 | Total Primary Government 2015* |
|---|---|---|---|---|---|---|
| General Government | $ 3,097,166 | $ 2,839,164 | $ - | $ - | $ 3,097,166 | $ 2,839,164 |
| Finance | 652,648 | 584,936 | - | - | 652,648 | 584,936 |
| Public Works | 5,890,739 | 5,957,303 | - | - | 5,890,739 | 5,957,303 |
| Planning / Code | 675,281 | 580,683 | - | - | 675,281 | 580,683 |
| Police | 6,074,675 | 4,939,354 | - | - | 6,074,675 | 4,939,354 |
| Fire | 7,104,407 | 6,768,252 | - | - | 7,104,407 | 6,768,252 |
| Engineering | 212,573 | 227,162 | - | - | 212,573 | 227,162 |
| Community / Cultural | 3,321,283 | 3,127,002 | - | - | 3,321,283 | 3,127,002 |
| Debt Service | 284,471 | 303,489 | - | - | 284,471 | 303,489 |
| Utility Fund | - | - | 14,920,959 | 18,496,466 | 14,920,959 | 18,496,466 |
| Ashland Bus System | - | - | 1,196,534 | 1,042,285 | 1,196,534 | 1,042,285 |
| Recreation Operating Fund | - | - | 1,093,886 | 1,049,693 | 1,093,886 | 1,049,693 |
| Cemetery | - | - | 274,980 | 289,624 | 274,980 | 289,624 |
| Total Expense | $ 27,313,243 | $ 25,327,345 | $ 17,486,359 | $ 20,878,068 | $ 44,799,602 | $ 46,205,413 |
| Changes before transfers | 671,394 | 2,155,879 | 1,136,829 | (2,307,272) | 1,808,223 | (151,393) |
| Transfers | (1,487,097) | (1,482,443) | 1,487,097 | 1,482,443 | - | - |
| Change in Net Position | (815,703) | 673,436 | 2,623,926 | (824,829) | 1,808,223 | (151,393) |
| Net Position Beginning of Year* | 33,736,639 | 33,063,203 | 28,747,068 | 29,571,897 | 62,483,707 | 62,635,100 |
| Net Position End of Year | $ 32,920,936 | $ 33,736,639 | $ 31,370,994 | $ 28,747,068 | $ 64,291,930 | $ 62,483,707 |

*As restated, June 30th, 2015

## EXPENSES AND PROGRAM REVENUES- GOVERNMENTAL ACTIVITIES

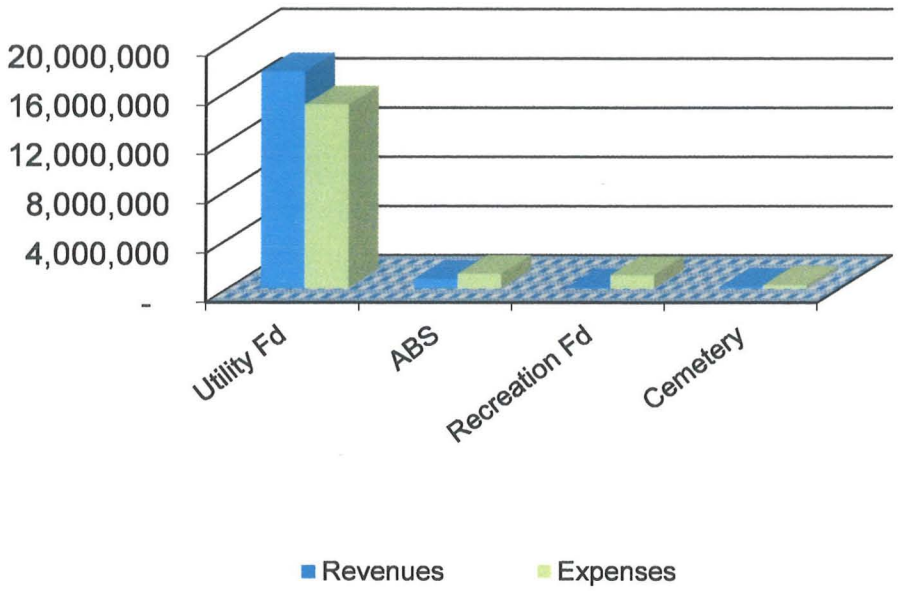



## REVENUE BY SOURCE - GOVERNMENT ACTIVITIES

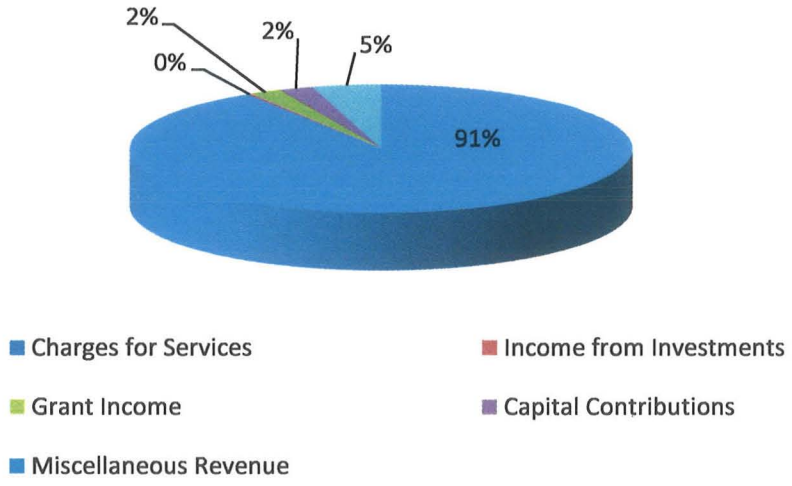


## BUSINESS-TYPE ACTIVITIES

### EXPENSES AND REVENUES - BUSINESS-TYPE ACTIVITIES

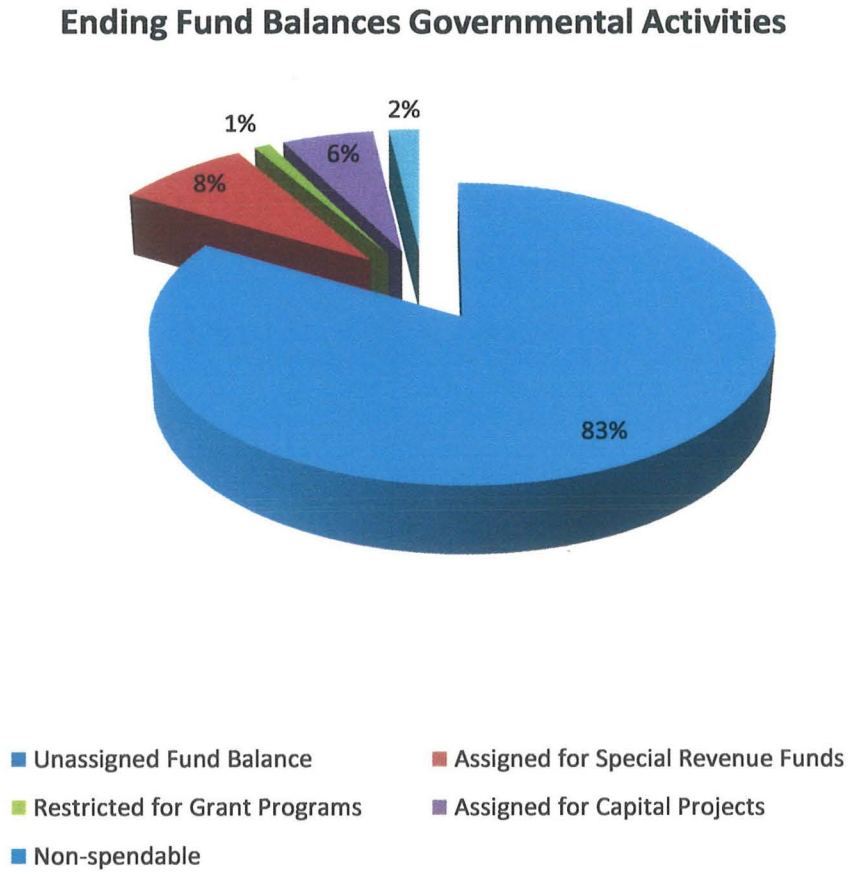



### REVENUE BY SOURCE - BUSINESS -TYPE ACTIVITIES



## FINANCIAL ANALYSIS OF THE CITY'S FUNDS

A. The focus of the City's governmental funds is to provide information on near-term inflows or outflows and balances of spendable resources which are useful in determining the City's financing requirements. Unassigned fund balance serves as a useful measure of the City's net resources available for spending at the end of the fiscal year. At the end of the fiscal year, the City's governmental funds reported combined ending fund balances of $6,498,019. Of this total, $5,421,637, 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 2016 reports assigned for special revenue funds at $531,029, restricted for grant programs at $64,265, non-spendable at $120,016 and assigned for capital projects at $361,072. The increase in the governmental funds assigned for capital projects is due to $233,823 for automotive equipment. The remaining assignment is building improvements for the Transportation Center, Streetscape Lighting and Riverfront cameras. The restricted for grant programs decrease this fiscal year was also due to recognizing grant revenue for the completion of the Fire training facility. Assigned for special revenue funds increased this year as the City delayed paving and sidewalk improvements to next fiscal year. The effort for replenishing fund balance in the general fund is shown with an $831,335 increase. This was accomplished by budgeting for replenishment of the fund balance and delaying sidewalk repair improvements due to uncertainty of economic conditions with regards to idling of the AK Steel Plant.



## MAJOR GOVERNMENTAL FUNDS

For the year ending June 30, 2016, the major governmental funds reported as follows:

The General Fund had revenues of $24,043,352, expenditures of $20,750,992 and net other financing uses of $2,461,025. The total fund balance was $5,557,634.

The Municipal Aid Road Fund had revenues of $430,804 and expenditures of $127,972. The total fund balance was $392,295.

The Floodwall Operating Fund had revenues of $239,690 and expenditures of $193,025. The total fund balance was $73,297.

The Community Development Fund had revenues of $608,544 and expenditures of $608,544. The total fund balance was $65,437.

The Housing Assistance Fund had revenues of $2,657,040 and expenditures of $2,680,474. The total fund balance was $48,284.

The Capital Purchase Improvement Fund had revenues of $5,207, other financing sources of $973,928 and expenditures of $728,556. The total fund balance was $361,072.

## PROPRIETARY FUNDS

The City's proprietary funds, or business-type activities, had total assets of $66,837,907, total deferred outflows of resources of $1,806,735 and total liabilities of $37,273,648, leaving net position of $31,370,994. Of the total proprietary funds' net position, the Utility Fund had $(9,397,685) in unrestricted net position, the Ashland Bus Fund had $(953,092) in unrestricted net position, the Recreation Fund had $(943,273) in unrestricted net position and the Ashland Cemetery Fund had $2,228,613 in unrestricted net position. All proprietary funds are considered major funds. Total decrease in unrestricted net position for the four proprietary funds was $(2,621,142), including restatements detailed in Note 16.

## BUDGETARY HIGHLIGHTS

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

⇒ $291,788 increase in budgeted revenues and expenditures for the General Fund. This increase includes $268,788 for Safe Routes to School grant and $23,000 of Coal Severance Funds.

⇒ $250,000 increase for the 3rd and final installment payment to the developer of Melody Mountain.

⇒ $3,715 increase in police expenditures and revenue for the collection of restitution money.

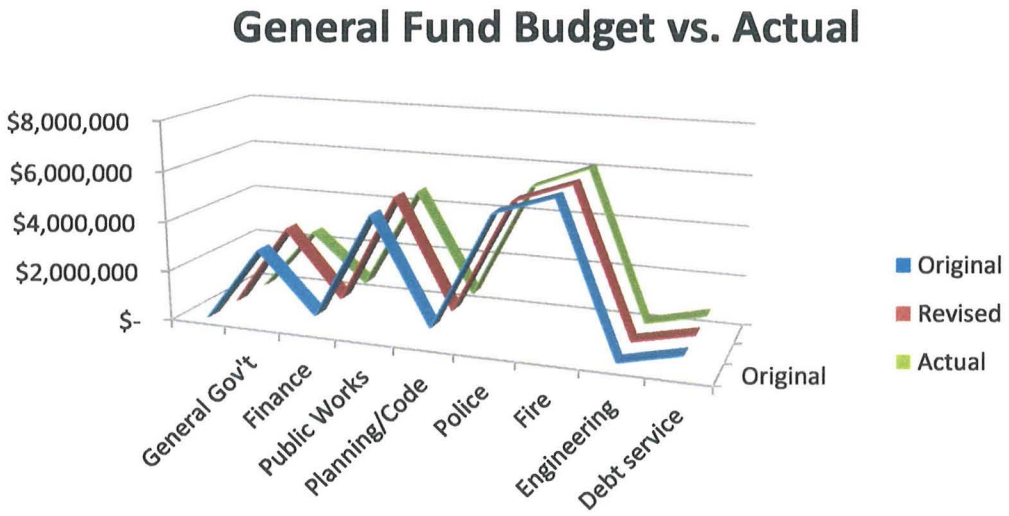
⇒ $185,495 increase in the transfers to Ashland Bus System and Capital Purchase Improvement Fund for additional capital items. $20,270 is included for the purchase of two buses and an engine for the trolley. The FTA grant requires a 10% contribution from the general fund. $14,000 was allocated for a new parking enforcement vehicle and $151,225 for the 100% pre-payment of the custom built fire pumper truck.

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 $24,043,352 versus budgeted revenues of $23,606,502. Licenses and permit revenues budget was $11,480,625 and actual revenues were $12,062,385 for

a variance of $581,760. This is due to the occupational license fee and business privilege license revenue being more than projected due to business openings and job restorations in the City. Insurance premium tax collected $115,990 of unrealized revenue due to more insurance policies being sold within the City than estimated.

⇒ 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 Police Field Operations and Fire divisions. Police Field Operations past their operating parameters due to retirements, $69,354 from the force. The significant variance in the Fire department was personnel overages of $64,379 and "pension spiking" with Kentucky Retirement of $107,333.




## CAPITAL ASSET AND DEBT ADMINISTRATION

The City's investment in capital assets for governmental and business-type activities as of June 30, 2016 is $108,739,785 (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, 2016 include:

| Project | Approved Contract | Paid / Accrued to Date | Outstanding Commitment |
|---|---|---|---|
| CSO - 29th Street Storm Water | $ 189,876 | $ 131,117 | $ 58,759 |
| Backwash System Design | 59,035 | 54,104 | 4,931 |
| Pump Station Improvements | 33,000 | 31,163 | 1,837 |
| 31st Drainage | 167,291 | 87,549 | 79,742 |
| Boyd County MS Waterline | 159,979 | 105,933 | 54,046 |
| Water Pump Station | 228,048 | 140,984 | 87,064 |
| New Water & Sewer Facility | 80,605 | - | 80,605 |
| | $ 917,834 | $ 550,850 | $ 366,984 |

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

| Asset | Governmental Activities | Business-type Activities | Total 2016 |
|---|---|---|---|
| Land | $ 3,883,268 | $ 435,601 | $ 4,318,869 |
| Buildings and improvements | 12,325,455 | 4,574,147 | 16,899,602 |
| Automotive equipment | 3,482,613 | 2,323,529 | 5,806,142 |
| Operating equipment | 3,946,601 | 3,884,385 | 7,830,986 |
| Office equipment | 504,437 | 254,921 | 759,358 |
| Capital improvements | 728,820 | 524,539 | 1,253,359 |
| Right-of-way | 15,038,909 | - | 15,038,909 |
| Infrastructure | 77,459,553 | - | 77,459,553 |
| Utility plant | - | 92,482,829 | 92,482,829 |
| Construction (CIP) | 532,060 | 1,019,513 | 1,551,573 |
| | 117,901,716 | 105,499,464 | 223,401,180 |
| Less depreciation | (59,115,451) | (55,545,944) | (114,661,395) |
| Capital asset, net | $ 58,786,265 | $ 49,953,520 | $ 108,739,785 |

**DEBT**

At the end of fiscal year 2016, the City had governmental activities debt of $8,749,468 compared to $9,177,689 at June 30, 2015, which represents a decrease of $428,221. Business-type activities had debt of $17,593,327 compared to $18,879,606 at June 30, 2015, which represents a decrease of $1,286,279. See Note (8) for additional discussion of the City's long term debt. The following chart summarizes governmental and business-type activities debt.

| Governmental Activities Debt | Amount |
|---|---|
| General obligation bond series 2015 | $ 2,395,000 |
| Capital lease - police station | 3,938,172 |
| Capital lease - Melody Mtn Phase II | 1,547,917 |
| Premium on bonds | 79,273 |
| Compensated absences obligation | 789,106 |
| Total | $ 8,749,468 |

| Business-Type Activities Debt | Amount |
|---|---|
| Revenue & Improvement Bonds 13 | $ 3,654,233 |
| Water & Sewer Revenue Bonds 15 | 3,445,000 |
| Capital lease - Radio Meters | 1,430,417 |
| Kentucky Infrastructure Authority Loans | 8,947,299 |
| Premium on bonds | 116,378 |
| Total | $ 17,593,327 |

## DESCRIPTION OF MUNICIPAL DEBT

- ⇒ General Obligation Refunding Bonds 2015 $2,395,000.
- ⇒ General Obligation Bonds 2013 Melody Mountain Phase II $1,547,917.
- ⇒ Premium on bonds $79,273.
- ⇒ Capital Lease - Police station $3,938,172.
- ⇒ Employee compensated absences payable after 60 days at $789,106.
- ⇒ Utility Revenue bond issue 2013 for phase II upgrade of the water plant $3,654,233.
- ⇒ K.I.A. Loans used to upgrade the utility system and correct CSO $8,947,299.
- ⇒ KLC lease payable for the purchase of radio read meters $1,430,417.
- ⇒ Water & Sewer Revenue Bonds 2015 – water system improvements $3,445,000.
- ⇒ Premium on bonds $116,378.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Unemployment rate for the City of Ashland as of June 2016 is 6.7%. This rate is higher than the State of Kentucky rate at 5.0% and the national rate of 4.9%.

The following table summarizes the 2017 fiscal year budgeted expenses.

- ⇒ General Fund - $23,332,132
- ⇒ Municipal Aid Program - $440,015
- ⇒ Community Development Block Grant Fund - $1,006,850
- ⇒ Section 8 Voucher - $2,653,890
- ⇒ Floodwall Operating Fund - $241,214
- ⇒ Utility Fund - $19,783,430
- ⇒ Ashland Bus System - $1,154,123
- ⇒ Recreation Operating Fund - $1,049,353
- ⇒ Ashland Cemetery Fund - $186,295
- ⇒ Capital Purchase Improvement Fund - $1,121,562

Fiscal year 2017 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 construction of a new water distribution building. The third item is to continue the Streetscape project that began several years ago.

## 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, 2016

| | Governmental Activities | Business-Type Activities | Total |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | $ 6,319,757 | $ 2,147,088 | $ 8,466,845 |
| Accounts receivable | 7,581 | 2,836,879 | 2,844,460 |
| Allowance for uncollectible accounts | - | (195,595) | (195,595) |
| Taxes receivable | 2,921,343 | - | 2,921,343 |
| Allowance for uncollectible taxes | (505,474) | - | (505,474) |
| Grants receivable | 123,718 | 477,146 | 600,864 |
| Internal balances, net | 298,333 | (298,333) | - |
| Receivable from fiduciary fund | 294,301 | - | 294,301 |
| Program receivables | 32,381 | - | 32,381 |
| Allowance for uncollectible accounts | (32,381) | - | (32,381) |
| Other receivables | 455,131 | - | 455,131 |
| Allowance for uncollectible accounts | (63,818) | - | (63,818) |
| Prepaid expenses | 51,300 | 68,400 | 119,700 |
| Inventories | 68,716 | 2,869,889 | 2,938,605 |
| Investments | 600,018 | - | 600,018 |
| Restricted assets - | | | |
| Cash and cash equivalents | - | 4,668,384 | 4,668,384 |
| Certificates of deposit | - | 3,083,492 | 3,083,492 |
| Money market mutual fund | - | 185,798 | 185,798 |
| Note receivable | 150,000 | - | 150,000 |
| Nondepreciable capital assets | 19,468,358 | 1,455,114 | 20,923,472 |
| Depreciable capital assets | 98,433,358 | 104,044,350 | 202,477,708 |
| Accumulated depreciation | (59,115,451) | (55,545,944) | (114,661,395) |
| Total assets | 69,507,171 | 65,796,668 | 135,303,839 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | |
| Deferred savings from refunding bonds | 91,104 | 188,564 | 279,668 |
| Deferred differences in pension experience | 448,866 | 67,686 | 516,552 |
| Deferred pension investment earnings | 168,891 | 73,012 | 241,903 |
| Deferred changes in pension assumptions | 2,189,875 | 821,312 | 3,011,187 |
| Deferred changes in proportionate share of liability | 609,640 | 144,896 | 754,536 |
| Deferred pension contributions | 1,724,807 | 511,265 | 2,236,072 |
| Total deferred outflows of resources | 5,233,183 | 1,806,735 | 7,039,918 |

# CITY OF ASHLAND
## STATEMENT OF NET POSITION (CONCLUDED)
## JUNE 30, 2016

| | Governmental Activities | Business-Type Activities | Total |
|---|---|---|---|
| **LIABILITIES** | | | |
| Accounts payable | 1,777,983 | 633,649 | 2,411,632 |
| Due to Board of Education | 51,423 | - | 51,423 |
| Payable to fiduciary fund | - | 652,280 | 652,280 |
| Other accrued expenses and liabilities | 2,120,506 | 423,732 | 2,544,238 |
| Deposits | - | 651,444 | 651,444 |
| Matured revenue bonds and notes | - | 50,000 | 50,000 |
| Accrued compensated absences, current | 155,233 | 256,301 | 411,534 |
| Current portion of long-term debt | 358,320 | 1,281,487 | 1,639,807 |
| Net pension liabilities | 28,964,805 | 15,971,676 | 44,936,481 |
| Accrued compensated absences, non-current | 789,106 | - | 789,106 |
| Capital lease obligations, non-current | 5,257,769 | 1,335,417 | 6,593,186 |
| Revenue and Improvement bonds, net of discounts | - | 6,630,611 | 6,630,611 |
| Kentucky Infrastructure Authority loans, non-current | - | 8,345,812 | 8,345,812 |
| General obligation bonds, non-current, plus premiums | 2,344,273 | - | 2,344,273 |
| Total liabilities | 41,819,418 | 36,232,409 | 78,051,827 |
| **NET POSITION** | | | |
| Net investment in capital assets | 50,917,007 | 32,498,757 | 83,415,764 |
| Restricted | | | |
| Capital projects | 361,072 | - | 361,072 |
| Debt service | - | 1,182,163 | 1,182,163 |
| Grant programs | 64,265 | - | 64,265 |
| Sewer improvements | - | 6,528,457 | 6,528,457 |
| Other | - | 227,054 | 227,054 |
| Unrestricted | (18,421,408) | (9,065,437) | (27,486,845) |
| Total net position | $ 32,920,936 | $ 31,370,994 | $ 64,291,930 |

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, 2016**

| | | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | | |
|---|---|---|---|---|---|---|---|
| Functions/Programs | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Total |
| **Governmental Activities** | | | | | | | |
| General government | $ 3,097,166 | $ 13,771,619 | $ 38,538 | $ - | $ 10,712,991 | $ - | $ 10,712,991 |
| Finance | 652,648 | - | - | - | (652,648) | - | (652,648) |
| Public services | 5,890,739 | 2,227,692 | 683,098 | - | (2,979,949) | - | (2,979,949) |
| Planning and code enforcement | 675,281 | - | - | - | (675,281) | - | (675,281) |
| Police | 6,074,675 | - | 30,894 | - | (6,043,781) | - | (6,043,781) |
| Fire | 7,104,407 | - | - | - | (7,104,407) | - | (7,104,407) |
| Engineering | 212,573 | - | 8,539 | - | (204,034) | - | (204,034) |
| Community and cultural | 3,321,283 | 264,106 | 3,001,322 | - | (55,855) | - | (55,855) |
| Debt service - interest | 284,471 | - | - | - | (284,471) | - | (284,471) |
| Total governmental activities | 27,313,243 | 16,263,417 | 3,762,391 | - | (7,287,435) | - | (7,287,435) |
| **Business-Type Activities** | | | | | | | |
| Utilities | 14,920,959 | 16,725,888 | - | - | - | 1,804,929 | 1,804,929 |
| Recreation | 1,093,886 | 55,835 | 41,607 | - | - | (996,444) | (996,444) |
| Cemetery | 274,980 | 122,174 | - | - | - | (152,806) | (152,806) |
| Bus | 1,196,534 | 56,356 | 336,732 | 422,164 | - | (381,282) | (381,282) |
| Total business-type activities | 17,486,359 | 16,960,253 | 378,339 | 422,164 | - | 274,397 | 274,397 |
| Total primary government | $ 44,799,602 | $ 33,223,670 | $ 4,140,730 | $ 422,164 | $ (7,287,435) | $ 274,397 | $ (7,013,038) |
| **General Revenues:** | | | | | | | |
| Property and other local taxes | | | | | $ 7,720,589 | $ - | $ 7,720,589 |
| Interest income | | | | | 2,081 | 24,270 | 26,351 |
| Other revenues | | | | | 236,159 | 838,162 | 1,074,321 |
| Total general revenues | | | | | 7,958,829 | 862,432 | 8,821,261 |
| Transfers | | | | | (1,487,097) | 1,487,097 | - |
| Total general revenues and transfers | | | | | 6,471,732 | 2,349,529 | 8,821,261 |
| Change in net position | | | | | (815,703) | 2,623,926 | 1,808,223 |
| Net position, June 30, 2015 (as restated) | | | | | 33,736,639 | 28,747,068 | 62,483,707 |
| Net position, June 30, 2016 | | | | | $ 32,920,936 | $ 31,370,994 | $ 64,291,930 |

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

**CITY OF ASHLAND**
**BALANCE SHEET**
**GOVERNMENTAL FUNDS**
**JUNE 30, 2016**

| | | Special Revenue Funds | | | | | |
|---|---|---|---|---|---|---|---|
| | General | Municipal Aid Road | Floodwall Operating | Community Development | Housing Assistance | Capital Projects | Total Governmental Funds |
| **Assets** | | | | | | | |
| Cash | $ 5,643,194 | $ 149,754 | $ 24,151 | $ 54,168 | $ 76,385 | $ - | $ 5,947,652 |
| Taxes receivable | 2,742,139 | - | 179,204 | - | - | - | 2,921,343 |
| Allowance for uncollectible taxes | (475,872) | - | (29,602) | - | - | - | (505,474) |
| Grants receivable | 15,981 | 39,671 | - | 68,066 | - | - | 123,718 |
| Due from other funds | 1,473,847 | 202,870 | - | - | - | 857,356 | 2,534,073 |
| Program receivables | 32,381 | - | - | - | - | - | 32,381 |
| Allowance for uncollectible accounts | (32,381) | - | - | - | - | - | (32,381) |
| Other receivables | 388,234 | - | 774 | 6 | 66,117 | - | 455,131 |
| Allowance for uncollectible accounts | - | - | - | - | (63,818) | - | (63,818) |
| Investments | 600,018 | - | - | - | - | - | 600,018 |
| Prepaid items | 51,300 | - | - | - | - | - | 51,300 |
| Inventories - supplies | 68,716 | - | - | - | - | - | 68,716 |
| Total assets | $ 10,507,557 | $ 392,295 | $ 174,527 | $ 122,240 | $ 78,684 | $ 857,356 | $ 12,132,659 |
| **Liabilities and Fund Balances** | | | | | | | |
| Liabilities: | | | | | | | |
| Accounts payable | $ 553,647 | $ - | $ 27,056 | $ 9,266 | $ 3,484 | $ 496,284 | $ 1,089,737 |
| Due to other funds | 3,534,521 | - | 70,252 | 45,667 | 22,387 | - | 3,672,827 |
| Due to Board of Education | 51,423 | - | - | - | - | - | 51,423 |
| Accrued compensated absences | 151,922 | - | 1,519 | 953 | 839 | - | 155,233 |
| Accrued expenditures | 658,410 | - | 2,403 | 917 | 3,690 | - | 665,420 |
| Total liabilities | 4,949,923 | - | 101,230 | 56,803 | 30,400 | 496,284 | 5,634,640 |
| Fund Balances: | | | | | | | |
| Non-spendable | 120,016 | - | - | - | - | - | 120,016 |
| Restricted for grant programs | 15,981 | - | - | - | 48,284 | - | 64,265 |
| Assigned for capital projects | - | - | - | - | - | 361,072 | 361,072 |
| Assigned for special revenue funds | - | 392,295 | 73,297 | 65,437 | - | - | 531,029 |
| Unassigned | 5,421,637 | - | - | - | - | - | 5,421,637 |
| Total fund balances | 5,557,634 | 392,295 | 73,297 | 65,437 | 48,284 | 361,072 | 6,498,019 |
| Total liabilities and fund balances | $ 10,507,557 | $ 392,295 | $ 174,527 | $ 122,240 | $ 78,684 | $ 857,356 | $ 12,132,659 |

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, 2016**

| | | |
|---|---|---|
| Total fund balance - total governmental funds | | $ 6,498,019 |
| Amounts reported for governmental activities in the statement of net position are different because: | | |
| Capital assets of $117,901,716 net of accumulated depreciation of $59,115,451 used in governmental activities are not financial resources and therefore are not reported in the governmental funds. | | 58,786,265 |
| 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 | 91,104 | 241,104 |
| Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds: | | |
| Deferred differences in pension experience | 448,866 | |
| Deferred pension investment earnings | 168,891 | |
| Deferred changes in pension assumptions | 2,189,875 | |
| Deferred changes in proportionate share of liability | 609,640 | |
| Deferred pension contributions | 1,724,807 | 5,142,079 |
| 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 | (28,964,805) | |
| Bonds payable | (2,474,273) | |
| Accrued interest payable | (32,258) | |
| Accrued compensated absences | (789,106) | |
| Capital lease obligations | (5,486,089) | (37,746,531) |
| Net position, end of year - Governmental Activities | | $ 32,920,936 |

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, 2016**

| | | Special Revenue Funds | | | | | |
|---|---|---|---|---|---|---|---|
| | General | Municipal Aid Road | Floodwall Operating | Community Development | Housing Assistance | Capital Projects | Total Governmental Funds |
| **Revenues** | | | | | | | |
| Property and other local taxes | $ 7,480,926 | $ - | $ 239,663 | $ - | $ - | $ - | $ 7,720,589 |
| Licenses and permits | 12,062,385 | - | - | - | - | - | 12,062,385 |
| Charges for services | 2,227,692 | - | - | - | - | - | 2,227,692 |
| Fees, fines and reimbursements | 1,709,234 | - | - | - | - | - | 1,709,234 |
| Grant income | 330,277 | 430,792 | - | 608,544 | 2,392,778 | - | 3,762,391 |
| Administration fee income | - | - | - | - | 264,106 | - | 264,106 |
| Interest income | 1,886 | 12 | 27 | - | 156 | - | 2,081 |
| Other income | 230,952 | - | - | - | - | 5,207 | 236,159 |
| Total revenues | 24,043,352 | 430,804 | 239,690 | 608,544 | 2,657,040 | 5,207 | 27,984,637 |
| **Expenditures** | | | | | | | |
| General government | 2,574,262 | - | - | - | - | 501 | 2,574,763 |
| Finance | 605,840 | - | - | - | - | - | 605,840 |
| Public services | 4,703,267 | 127,972 | 193,025 | - | - | - | 5,024,264 |
| Planning and code enforcement | 623,160 | - | - | - | - | - | 623,160 |
| Police | 5,222,557 | - | - | - | - | - | 5,222,557 |
| Fire | 6,152,534 | - | - | - | - | - | 6,152,534 |
| Engineering | 147,025 | - | - | - | - | - | 147,025 |
| Community and cultural | - | - | - | 608,544 | 2,680,474 | - | 3,289,018 |
| Capital outlay | - | - | - | - | - | 728,055 | 728,055 |
| Debt service: | | | | | | | |
| Principal retirement | 437,821 | - | - | - | - | - | 437,821 |
| Interest charges | 284,526 | - | - | - | - | - | 284,526 |
| Total expenditures | 20,750,992 | 127,972 | 193,025 | 608,544 | 2,680,474 | 728,556 | 25,089,563 |
| Excess (deficiency) of Revenues Over (Under) Expenditures | 3,292,360 | 302,832 | 46,665 | - | (23,434) | (723,349) | 2,895,074 |
| **Other Financing Sources (Uses)** | | | | | | | |
| Transfers in | - | - | - | - | - | 973,928 | 973,928 |
| Transfers out | (2,461,025) | - | - | - | - | - | (2,461,025) |
| Total other financing sources (uses) | (2,461,025) | - | - | - | - | 973,928 | (1,487,097) |
| Net change in fund balances | 831,335 | 302,832 | 46,665 | - | (23,434) | 250,579 | 1,407,977 |
| Fund balances beginning of year | 4,726,299 | 89,463 | 26,632 | 65,437 | 71,718 | 110,493 | 5,090,042 |
| Fund balances end of year | $ 5,557,634 | $ 392,295 | $ 73,297 | $ 65,437 | $ 48,284 | $ 361,072 | $ 6,498,019 |

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, 2016**

| | | |
|---|---|---|
| Net change in fund balances - total governmental funds | | $ 1,407,977 |
| 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 | 1,698,085 | |
| Depreciation expense | (2,480,258) | (782,173) |
| 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 | | (15,163) |
| Amortization of deferred savings from refunding bonds | | (6,876) |
| Amortization of bond discounts and premiums | | 5,563 |
| Accrued interest payable | | 1,368 |
| 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. | | |
| Net change in Police & Firefighters pension liability | 39,841 | |
| CERS contributions | (1,022,301) | |
| CERS pension expense | (875,869) | (1,858,329) |
| 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. | | 437,821 |
| Losses on disposal of capital assets are not recognized in the fund financial statements. However, in the statement of activities, these losses are recognized. | | (5,891) |
| Change in net position of governmental activities | | $ (815,703) |

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

**CITY OF ASHLAND**
**STATEMENT OF NET POSITION**
**PROPRIETARY FUNDS**
**JUNE 30, 2016**

| | Business-Type Activities | | | | | Governmental Activity - |
|---|---|---|---|---|---|---|
| | Utility Fund | Ashland Bus Fund | Recreation Fund | Cemetery Fund | Total | Internal Service Fund |
| **ASSETS** | | | | | | |
| Unrestricted Assets: | | | | | | |
| Cash and cash equivalents | $ 2,001,864 | $ 94,574 | $ 40,722 | $ 9,928 | $ 2,147,088 | $ 372,105 |
| Accounts receivable | 2,835,504 | 12 | 126 | 1,237 | 2,836,879 | 7,581 |
| Allowance for doubtful accounts | (195,595) | - | - | - | (195,595) | - |
| Due from other funds | 727,444 | - | - | 15,462 | 742,906 | 1,731,388 |
| Grants receivable - capital | - | 149,876 | - | - | 149,876 | - |
| Grants receivable - operating | - | 327,270 | - | - | 327,270 | - |
| Prepaid expenses | 68,400 | - | - | - | 68,400 | - |
| Inventories - | | | | | | |
| Repair parts and supplies | 472,527 | 18,012 | 7,670 | - | 498,209 | - |
| Lots and vaults | - | - | - | 2,371,680 | 2,371,680 | - |
| Total unrestricted assets | 5,910,144 | 589,744 | 48,518 | 2,398,307 | 8,946,713 | 2,111,074 |
| Restricted Assets: | | | | | | |
| Cash and cash equivalents | 4,631,330 | - | - | 37,054 | 4,668,384 | - |
| Investments - | | | | | | |
| Certificates of deposit | 2,893,492 | - | 190,000 | - | 3,083,492 | - |
| Money market mutual fund | 185,798 | - | - | - | 185,798 | - |
| Total restricted assets | 7,710,620 | - | 190,000 | 37,054 | 7,937,674 | - |
| Total current assets | 13,620,764 | 589,744 | 238,518 | 2,435,361 | 16,884,387 | 2,111,074 |
| Capital Assets: | | | | | | |
| Land and easements | 358,925 | - | 58,223 | 18,453 | 435,601 | - |
| Utility plant | 92,482,829 | - | - | - | 92,482,829 | - |
| Buildings and improvements | 662,733 | 1,498,076 | 100,529 | 2,312,809 | 4,574,147 | - |
| Operating equipment | 4,623,166 | 1,121,195 | 921,942 | 66,150 | 6,732,453 | - |
| Office and computer equipment | 217,772 | 31,829 | 5,320 | - | 254,921 | - |
| Construction in progress | 1,019,513 | - | - | - | 1,019,513 | - |
| | 99,364,938 | 2,651,100 | 1,086,014 | 2,397,412 | 105,499,464 | - |
| Less: Accumulated depreciation | (53,182,065) | (1,442,354) | (573,704) | (347,821) | (55,545,944) | - |
| Total capital assets - net | 46,182,873 | 1,208,746 | 512,310 | 2,049,591 | 49,953,520 | - |
| Total noncurrent assets | 46,182,873 | 1,208,746 | 512,310 | 2,049,591 | 49,953,520 | - |
| Total assets | 59,803,637 | 1,798,490 | 750,828 | 4,484,952 | 66,837,907 | 2,111,074 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | | | | |
| Deferred savings from refunding bonds | 188,564 | - | - | - | 188,564 | - |
| Deferred differences in pension experience | 53,268 | 7,606 | 5,669 | 1,143 | 67,686 | - |
| Deferred pension investment earnings | 57,460 | 8,204 | 6,115 | 1,233 | 73,012 | - |
| Deferred changes in pension assumptions | 646,368 | 92,292 | 68,782 | 13,870 | 821,312 | - |
| Deferred changes in proportionate share of liability | 114,032 | 16,282 | 12,135 | 2,447 | 144,896 | - |
| Deferred pension contributions | 402,364 | 57,451 | 42,817 | 8,633 | 511,265 | - |
| Total deferred outflows of resources | 1,462,056 | 181,835 | 135,518 | 27,326 | 1,806,735 | - |

| | Business-Type Activities | | | | | Governmental Activity - Internal Service Fund |
|---|---|---|---|---|---|---|
| | Utility Fund | Ashland Bus Fund | Recreation Fund | Cemetery Fund | Total | |
| **LIABILITIES** | | | | | | |
| Current liabilities (payable from current assets): | | | | | | |
| Accounts payable | $ 493,503 | $ 101,126 | $ 33,688 | $ 5,332 | $ 633,649 | $ 688,246 |
| Due to other funds | 652,280 | 702,674 | 338,566 | - | 1,693,520 | - |
| Accrued compensated absences | 193,818 | 29,275 | 27,922 | 5,285 | 256,300 | - |
| Other accrued liabilities | 327,809 | 39,155 | 14,739 | 42,029 | 423,732 | 1,422,828 |
| Customer deposits | 130,186 | - | - | - | 130,186 | - |
| Total current liabilities (payable from current assets) | 1,797,596 | 872,230 | 414,915 | 52,646 | 3,137,387 | 2,111,074 |
| Current liabilities (payable from restricted assets): | | | | | | |
| Matured revenue bonds and notes | 50,000 | - | - | - | 50,000 | - |
| Customer deposits | 521,258 | - | - | - | 521,258 | - |
| 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) | 1,852,745 | - | - | - | 1,852,745 | - |
| Total current liabilities | 3,650,341 | 872,230 | 414,915 | 52,646 | 4,990,132 | 2,111,074 |
| Long-term liabilities: | | | | | | |
| Capital lease obligations | 1,335,417 | - | - | - | 1,335,417 | - |
| Revenue and Improvement bonds, net of discount and premium | 6,630,611 | - | - | - | 6,630,611 | - |
| Kentucky Infrastructure Authority loans | 8,345,812 | - | - | - | 8,345,812 | - |
| Net pension liabilities | 14,262,467 | 852,441 | 712,394 | 144,374 | 15,971,676 | |
| Total long-term liabilities | 30,574,307 | 852,441 | 712,394 | 144,374 | 32,283,516 | - |
| Total liabilities | 34,224,648 | 1,724,671 | 1,127,309 | 197,020 | 37,273,648 | 2,111,074 |
| **NET POSITION** | | | | | | |
| Net investment in capital assets | 28,728,110 | 1,208,746 | 512,310 | 2,049,591 | 32,498,757 | - |
| Restricted for debt service | 1,182,163 | - | - | - | 1,182,163 | - |
| Restricted for sewer improvements | 6,528,457 | - | - | - | 6,528,457 | - |
| Other | - | - | 190,000 | 37,054 | 227,054 | - |
| Unrestricted | (9,397,685) | (953,092) | (943,273) | 2,228,613 | (9,065,437) | - |
| Total net position | $ 27,041,045 | $ 255,654 | $ (240,963) | $ 4,315,258 | $ 31,370,994 | $ - |

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, 2016**

| | Business-Type Activities | | | | | Governmental Activity - |
|---|---|---|---|---|---|---|
| | Utility Fund | Ashland Bus Fund | Recreation Fund | Cemetery Fund | Total | Internal Service Fund |
| OPERATING REVENUES | | | | | | |
| Residential and commercial meter sales | $ 4,142,435 | $ - | $ - | $ - | $ 4,142,435 | $ - |
| Sewer service | 7,387,292 | - | - | - | 7,387,292 | - |
| Industrial meter sales | 3,520,404 | - | - | - | 3,520,404 | - |
| Other municipalities | 1,569,760 | - | - | - | 1,569,760 | - |
| Industrial pretreatment | 28,967 | - | - | - | 28,967 | - |
| Water and sewer taps | 77,030 | - | - | - | 77,030 | - |
| Concession sales | - | - | 24,684 | - | 24,684 | - |
| Lot and vault sales | - | - | - | 48,524 | 48,524 | - |
| Opening and closing fees | - | - | - | 73,650 | 73,650 | - |
| Passenger fares | - | 56,356 | - | - | 56,356 | - |
| Admission fees | - | - | 31,151 | - | 31,151 | - |
| Premium charges | - | - | - | - | - | 6,152,074 |
| Miscellaneous | 866,336 | - | - | 12,862 | 879,198 | - |
| Total operating revenues | 17,592,224 | 56,356 | 55,835 | 135,036 | 17,839,451 | 6,152,074 |
| OPERATING EXPENSES | | | | | | |
| Administration - Director | 200,634 | - | - | - | 200,634 | - |
| Administration - Cashier | 903,673 | - | - | - | 903,673 | - |
| Water - Production | 2,393,336 | - | - | - | 2,393,336 | - |
| Water - Distribution | 3,430,624 | - | - | - | 3,430,624 | - |
| Sewer - Pretreatment | 1,710,694 | - | - | - | 1,710,694 | - |
| Sewer - Collection | 1,507,626 | - | - | - | 1,507,626 | - |
| Depreciation | 2,193,973 | 145,908 | 44,674 | 50,594 | 2,435,149 | - |
| Insurance | 206,187 | 23,617 | 17,793 | 6,158 | 253,755 | - |
| Other operating expenses | 1,880,896 | 459,681 | 462,465 | 72,268 | 2,875,310 | 6,719 |
| Salaries | - | 460,742 | 379,558 | 75,721 | 916,021 | - |
| Utilities | - | 25,763 | 132,589 | 10,905 | 169,257 | - |
| Operating supplies | - | 80,823 | 56,807 | 59,334 | 196,964 | - |
| Premiums and claims | - | - | - | - | - | 6,145,687 |
| Total operating expenses | 14,427,643 | 1,196,534 | 1,093,886 | 274,980 | 16,993,043 | 6,152,406 |
| OPERATING INCOME (LOSS) | 3,164,581 | (1,140,178) | (1,038,051) | (139,944) | 846,408 | (332) |
| NON-OPERATING REVENUES (EXPENSES) | | | | | | |
| Gain (loss) on disposal of assets | - | (41,036) | - | - | (41,036) | - |
| Interest income | 23,754 | 59 | 396 | 61 | 24,270 | 332 |
| Grant income | - | 336,732 | 41,607 | - | 378,339 | - |
| Interest on revenue bonds and notes | (493,316) | - | - | - | (493,316) | - |
| Total non-operating revenues (expenses) | (469,562) | 295,755 | 42,003 | 61 | (131,743) | 332 |
| INCOME (LOSS) BEFORE TRANSFERS AND CAPITAL CONTRIBUTIONS | 2,695,019 | (844,423) | (996,048) | (139,883) | 714,665 | - |
| TRANSFERS | | | | | | |
| From General Fund | - | 440,307 | 917,300 | 129,490 | 1,487,097 | - |
| Total transfers in | - | 440,307 | 917,300 | 129,490 | 1,487,097 | - |
| CAPITAL CONTRIBUTIONS | | | | | | |
| Federal/state grants | - | 422,164 | - | - | 422,164 | - |
| Total capital contributions | - | 422,164 | - | - | 422,164 | - |
| INCREASE (DECREASE) IN NET POSITION | 2,695,019 | 18,048 | (78,748) | (10,393) | 2,623,926 | - |
| NET POSITION, JUNE 30, 2015 (as restated) | 24,346,026 | 237,606 | (162,215) | 4,325,651 | 28,747,068 | - |
| NET POSITION, JUNE 30, 2016 | $ 27,041,045 | $ 255,654 | $ (240,963) | $ 4,315,258 | $ 31,370,994 | $ - |

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, 2016**

| | Business-Type Activities | | | | | Governmental Activity - |
|---|---|---|---|---|---|---|
| | Utility Fund | Ashland Bus Fund | Recreation Fund | Cemetery Fund | Total | Internal Service Fund |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | | |
| Cash received from customers | $ 17,037,369 | $ 56,344 | $ 70,880 | $ 129,817 | $ 17,294,410 | $ - |
| Cash payments to suppliers for goods and services | (7,164,496) | 27,879 | (403,520) | (133,606) | (7,673,743) | (6,719) |
| Cash payments to employees | (4,262,160) | (367,750) | (326,799) | (61,335) | (5,018,044) | - |
| Other operating revenues | 866,336 | - | - | 12,862 | 879,198 | - |
| Payments for internal services | (1,420,315) | (183,608) | (181,952) | (56,996) | (1,842,871) | - |
| Cash received for internal services | - | - | - | - | - | 6,033,925 |
| Payments for premiums and claims | - | - | - | - | - | (5,869,722) |
| Net cash provided by (used for) operating activities | 5,056,734 | (467,135) | (841,391) | (109,258) | 3,638,950 | 157,484 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | | | |
| Grant income | - | 79,484 | 41,607 | - | 121,091 | - |
| Transfers from other funds | - | 440,307 | 917,300 | 129,490 | 1,487,097 | - |
| Net cash provided by noncapital financing activities | - | 519,791 | 958,907 | 129,490 | 1,608,188 | - |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | | | |
| Acquisition and construction of capital assets | (2,204,033) | (295,546) | (90,115) | (19,000) | (2,608,694) | - |
| Proceeds from sale of assets | - | 4,700 | - | - | 4,700 | - |
| Principal paid on bonds, notes, and lease obligations | (1,281,487) | - | - | - | (1,281,487) | - |
| Interest paid on bonds, notes, and lease obligations | (493,316) | - | - | - | (493,316) | - |
| Capital grants received | - | 310,530 | - | - | 310,530 | - |
| Net cash provided by (used for) capital and related financing activities | (3,978,836) | 19,684 | (90,115) | (19,000) | (4,068,267) | - |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | | |
| Withdrawal of investment securities | 161,392 | - | - | - | 161,392 | - |
| Investment income | 23,754 | 59 | 396 | 61 | 24,270 | 332 |
| Net cash provided by investing activities | 185,146 | 59 | 396 | 61 | 185,662 | 332 |
| Net increase in cash and cash equivalents | 1,263,044 | 72,399 | 27,797 | 1,293 | 1,364,533 | 157,816 |
| Cash and cash equivalents, June 30, 2015 | 5,555,948 | 22,175 | 12,925 | 45,689 | 5,636,737 | 214,289 |
| Cash and cash equivalents, June 30, 2016 | $ 6,818,992 | $ 94,574 | $ 40,722 | $ 46,982 | $ 7,001,270 | $ 372,105 |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES | | | | | | |
| Operating income (loss) | $ 3,164,581 | $ (1,140,178) | $ (1,038,051) | $ (139,944) | $ 846,408 | $ (332) |
| Adjustments: | | | | | | |
| Depreciation | 2,193,973 | 145,908 | 44,674 | 50,594 | 2,435,149 | - |
| Amortization | 22,146 | - | - | - | 22,146 | - |
| Net pension adjustment | (8,403) | 66,665 | 50,117 | 10,110 | 118,489 | - |
| Changes in assets and liabilities: | | | | | | |
| (Increase) decrease in accounts receivable | 249,761 | (12) | 15,045 | 7,643 | 272,437 | 370,201 |
| (Increase) decrease in inventories | (56,188) | 3,870 | 2,923 | 47,050 | (2,345) | - |
| (Increase) decrease in due from other funds | (286,058) | - | - | (15,462) | (301,520) | (488,350) |
| Increase (decrease) in accounts payable | (60,598) | 79,195 | (66,291) | (919) | (48,613) | 283,469 |
| Increase (decrease) in due to other funds | (256,038) | 351,090 | 147,550 | (72,606) | 169,996 | - |
| Increase (decrease) in compensated absences | 16,346 | 2,612 | 1,445 | 978 | 21,381 | - |
| Increase (decrease) in other accrued liabilities | 15,492 | 23,715 | 1,197 | 3,298 | 43,702 | (7,504) |
| Increase (decrease) in customer deposits | 61,720 | - | - | - | 61,720 | - |
| Net cash provided by (used for) operating activities | $ 5,056,734 | $ (467,135) | $ (841,391) | $ (109,258) | $ 3,638,950 | $ 157,484 |

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

**CITY OF ASHLAND**
**STATEMENT OF NET POSITION**
**FIDUCIARY FUNDS**
**JUNE 30, 2016**

| | Pension Trust Funds |
|---|---|
| **ASSETS** | |
| Cash and cash equivalents | $ 507,644 |
| Accrued interest receivable | 912 |
| Due from other funds | 652,280 |
| Investments, at fair value | |
| Certificates of deposit | 2,016,128 |
| Total assets | 3,176,964 |
| **LIABILITIES** | |
| Due to other funds | 294,301 |
| Total liabilities | 294,301 |
| **NET POSITION - RESTRICTED FOR PENSION BENEFITS** | $ 2,882,663 |

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, 2016**

| | Pension Trust Funds |
|---|---|
| ADDITIONS: | |
| CONTRIBUTIONS | |
| Employer | $ 1,202,346 |
| Total contributions | 1,202,346 |
| INVESTMENT INCOME | |
| Interest income | 14,389 |
| Total investment income | 14,389 |
| Total additions | 1,216,735 |
| DEDUCTIONS: | |
| Benefits | 1,246,575 |
| Administrative expenses | 7,129 |
| Total deductions | 1,253,704 |
| NET DECREASE | (36,969) |
| NET POSITION - RESTRICTED FOR PENSION BENEFITS: | |
| Beginning of year | 2,919,632 |
| End of year | $ 2,882,663 |

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, 2016**

| | Original Budget | Revisions | Revised Budget | Actual | Variance Positive (Negative) |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Property and other local taxes | $ 7,525,432 | $ - | $ 7,525,432 | $ 7,480,926 | $ (44,506) |
| Licenses and permits | 11,480,625 | - | 11,480,625 | 12,062,385 | 581,760 |
| Charges for services | 2,189,338 | - | 2,189,338 | 2,227,692 | 38,354 |
| Fees, fines and reimbursements | 1,897,770 | - | 1,897,770 | 1,709,234 | (188,536) |
| Interest income | 2,100 | - | 2,100 | 1,886 | (214) |
| Grant income | 22,261 | 300,742 | 323,003 | 330,277 | 7,274 |
| Other income | 188,234 | - | 188,234 | 230,952 | 42,718 |
| Total revenues | 23,305,760 | 300,742 | 23,606,502 | 24,043,352 | 436,850 |
| **Expenditures** | | | | | |
| General government | 3,005,838 | 281,474 | 3,287,312 | 2,574,262 | 713,050 |
| Finance | 605,507 | - | 605,507 | 605,840 | (333) |
| Public services | 4,822,342 | 177,415 | 4,999,757 | 4,703,267 | 296,490 |
| Planning and code enforcement | 643,902 | (12,000) | 631,902 | 623,160 | 8,742 |
| Police | 5,243,735 | (60,684) | 5,183,051 | 5,222,557 | (39,506) |
| Fire | 6,027,415 | 1,600 | 6,029,015 | 6,152,534 | (123,519) |
| Engineering | 148,030 | 36,798 | 184,828 | 147,025 | 37,803 |
| Debt service: | | | | | |
| Principal retirement | 437,821 | - | 437,821 | 437,821 | - |
| Interest and fiscal charges | 286,722 | - | 286,722 | 284,526 | 2,196 |
| Total expenditures | 21,221,312 | 424,603 | 21,645,915 | 20,750,992 | 894,923 |
| Excess of Revenues Over (Under) Expenditures | 2,084,448 | (123,861) | 1,960,587 | 3,292,360 | 1,331,773 |
| **Other Financing Sources (Uses)** | | | | | |
| Transfers out | (2,084,448) | (310,959) | (2,395,407) | (2,461,025) | (65,618) |
| Total other financing sources (uses) | (2,084,448) | (310,959) | (2,395,407) | (2,461,025) | (65,618) |
| Net change in fund balance | - | (434,820) | (434,820) | 831,335 | 1,266,155 |
| Fund balance beginning of year | 4,726,299 | - | 4,726,299 | 4,726,299 | - |
| Fund balance end of year | $ 4,726,299 | $ (434,820) | $ 4,291,479 | $ 5,557,634 | $ 1,266,155 |

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, 2016**

| | 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 | 430,792 | (104,208) |
| Administration fee income | - | - | - | - | - |
| Interest income | 30 | - | 30 | 12 | (18) |
| Other income | - | - | - | - | - |
| Total revenues | 535,030 | - | 535,030 | 430,804 | (104,226) |
| **Expenditures** | | | | | |
| General government | - | - | - | - | - |
| Finance | - | - | - | - | - |
| Public services | 535,030 | - | 535,030 | 127,972 | 407,058 |
| Planning and code enforcement | - | - | - | - | - |
| Police | - | - | - | - | - |
| Fire | - | - | - | - | - |
| Engineering | - | - | - | - | - |
| Community and cultural | - | - | - | - | - |
| Other | - | - | - | - | - |
| Debt service: | | | | | |
| Principal retirement | - | - | - | - | - |
| Interest and fiscal charges | - | - | - | - | - |
| Total expenditures | 535,030 | - | 535,030 | 127,972 | 407,058 |
| Excess of Revenues Over (Under) Expenditures | - | - | - | 302,832 | 302,832 |
| **Other Financing Sources (Uses)** | | | | | |
| Transfers out | - | - | - | - | - |
| Total other financing sources (uses) | - | - | - | - | - |
| Net change in fund balance | - | - | - | 302,832 | 302,832 |
| Fund balance beginning of year | 89,463 | - | 89,463 | 89,463 | - |
| Fund balance end of year | $ 89,463 | $ - | $ 89,463 | $ 392,295 | $ 302,832 |

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, 2016**

| | 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 | 1,292,155 | - | 1,292,155 | 608,544 | (683,611) |
| Administration fee income | - | - | - | - | - |
| Interest income | - | - | - | - | - |
| Other income | - | - | - | - | - |
| Total revenues | 1,292,155 | - | 1,292,155 | 608,544 | (683,611) |
| **Expenditures** | | | | | |
| General government | - | - | - | - | - |
| Finance | - | - | - | - | - |
| Public services | - | - | - | - | - |
| Planning and code enforcement | - | - | - | - | - |
| Police | - | - | - | - | - |
| Fire | - | - | - | - | - |
| Engineering | - | - | - | - | - |
| Community and cultural | 1,292,155 | - | 1,292,155 | 608,544 | 683,611 |
| Other | - | - | - | - | - |
| Capital outlay | - | - | - | - | - |
| Debt service: | | | | | |
| Principal retirement | - | - | - | - | - |
| Interest and fiscal charges | - | - | - | - | - |
| Total expenditures | 1,292,155 | - | 1,292,155 | 608,544 | 683,611 |
| 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, 2016**

| | 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 | 2,453,042 | - | 2,453,042 | 2,392,778 | (60,264) |
| Administration fee income | 249,458 | - | 249,458 | 264,106 | 14,648 |
| Interest income | 235 | - | 235 | 156 | (79) |
| Other income | - | - | - | - | - |
| Total revenues | 2,702,735 | - | 2,702,735 | 2,657,040 | (45,695) |
| **Expenditures** | | | | | |
| General government | - | - | - | - | - |
| Finance | - | - | - | - | - |
| Public services | - | - | - | - | - |
| Planning and code enforcement | - | - | - | - | - |
| Police | - | - | - | - | - |
| Fire | - | - | - | - | - |
| Engineering | - | - | - | - | - |
| Community and cultural | 2,702,735 | - | 2,702,735 | 2,680,474 | 22,261 |
| Other | - | - | - | - | - |
| Capital outlay | - | - | - | - | - |
| Debt service: | | | | | |
| Principal retirement | - | - | - | - | - |
| Interest and fiscal charges | - | - | - | - | - |
| Total expenditures | 2,702,735 | - | 2,702,735 | 2,680,474 | 22,261 |
| Excess of Revenues Over (Under) Expenditures | - | - | - | (23,434) | (23,434) |
| **Other Financing Sources (Uses)** | | | | | |
| Transfers in | - | - | - | - | - |
| Transfers out | - | - | - | - | - |
| Total other financing sources (uses) | - | - | - | - | - |
| Net change in fund balance | - | - | - | (23,434) | (23,434) |
| Fund balance beginning of year | 71,718 | - | 71,718 | 71,718 | - |
| Fund balance end of year | $ 71,718 | $ - | $ 71,718 | $ 48,284 | $ (23,434) |

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, 2016**

| | Original Budget | Revisions | Revised Budget | Actual | Variance Positive (Negative) |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Property and other local taxes | $ 226,842 | $ - | $ 226,842 | $ 239,663 | $ 12,821 |
| Licenses and permits | - | - | - | - | - |
| Charges for services | - | - | - | - | - |
| Fees, fines and reimbursements | - | - | - | - | - |
| Grant income | - | - | - | - | - |
| Administration fee income | - | - | - | - | - |
| Interest income | 25 | - | 25 | 27 | 2 |
| Other income | - | - | - | - | - |
| Total revenues | 226,867 | - | 226,867 | 239,690 | 12,823 |
| **Expenditures** | | | | | |
| General government | - | - | - | - | - |
| Finance | - | - | - | - | - |
| Public services | 226,867 | - | 226,867 | 193,025 | 33,842 |
| Planning and code enforcement | - | - | - | - | - |
| Police | - | - | - | - | - |
| Fire | - | - | - | - | - |
| Engineering | - | - | - | - | - |
| Community and cultural | - | - | - | - | - |
| Other | - | - | - | - | - |
| Debt service: | | | | | |
| Principal retirement | - | - | - | - | - |
| Interest and fiscal charges | - | - | - | - | - |
| Total expenditures | 226,867 | - | 226,867 | 193,025 | 33,842 |
| Excess of Revenues Over (Under) Expenditures | - | - | - | 46,665 | 46,665 |
| **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 | 46,665 | (89,101) |
| Fund balance beginning of year | 26,632 | - | 26,632 | 26,632 | - |
| Fund balance end of year | $ 162,398 | $ - | $ 162,398 | $ 73,297 | $ (89,101) |

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

## (1) REPORTING ENTITY

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

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

Based on the previous criteria, the City has determined that as of June 30, 2016 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.

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.

At June 30, 2016, the City's investments consists of certificate of deposits and money market funds, which are valued at cost.

### E. Inventories

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

### F. Capital Assets and Depreciation

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

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

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

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

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

### G. Encumbrances

Encumbrance accounting is used by the City whereby purchase orders, contracts, and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrances outstanding at year-end are reported as reservations of fund balances in the General, Special Revenue, Enterprise and Capital Projects Funds, since the encumbrances do not constitute expenditures or liabilities, even though the City intends to honor those commitments. At June 30, 2016, 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 an 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 represents 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, 2015 information to conform with the 2016 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 Net 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

In February 2015, the GASB issued GASB Statement No. 72, *Fair Value Measurement and Application* ("GASB 72"), which addresses accounting and financial reporting issues related to fair value measurements. GASB 72 provides guidance for determining a fair value measurement for financial reporting purposes and the related disclosures. It requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value and establishes a hierarchy of inputs to valuation techniques used to measure fair value. GASB 72 also requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. The adoption of this standard did not have a material effect on the City's financial statements.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* ("GASB 76"). GASB 76 supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* and reduces the GAAP hierarchy to two categories of authoritative GAAP. The adoption of this standard did not have a material effect on the City's financial statements.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pension Plans* ("GASB 75"). GASB 75 replaces Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*. It establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures for other postemployment benefits ("OPEB"). In addition, GASB 75 details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. GASB 75 will be effective for the City beginning with its year ending June 30, 2018.

In March 2016, the GASB issued Statement No. 82, *Pension Issues* ("GASB 82"). GASB 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements that arose during the implementation of GASB Statement No. 68. GASB 82 will be effective for the City beginning with its year ending June 30, 2017.

## (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, 2016, the carrying amounts of the City's deposits held in banks were $18,737,443 and the bank balances were $19,370,729. 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, 2016, the City had the following investments and maturities:

| | Investment Maturities (in years) | | | | |
|---|---|---|---|---|---|
| Investment Type - | Balance | Less than 1 | 1 - 5 | 6 - 10 | More than 10 |
| **General Fund** | | | | | |
| Money Market Mutual Fund | $ 600,018 | $ 600,018 | $ - | $ - | $ - |
| **Utility Fund** | | | | | |
| Money Market Mutual Fund | 185,798 | 185,798 | - | - | - |
| Certificates of Deposit | 2,893,492 | 2,893,492 | - | - | - |
| **Recreation Fund** | | | | | |
| Certificates of Deposit | 190,000 | - | 190,000 | - | - |
| **Fiduciary Funds** | | | | | |
| Certificates of Deposit | 2,016,128 | 2,016,128 | - | - | - |

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 2016 assessed value for real property and tangible property was $874,574,783 and $111,317,166, respectively. The tax rate adopted was $.2898 per $100 valuation.

## (5) GRANTS RECEIVABLE

Grants receivable from other governmental units as of June 30, 2016, are as follows:

| | |
|---|---|
| General Fund - | |
| Kentucky Transportation Cabinet | $ 1,381 |
| Homeland Security Grant | 14,600 |
| | 15,981 |
| Special Revenue Funds - | |
| Municipal Aid Road Fund | 39,671 |
| Community Development Fund, program allocation | 68,066 |
| | 107,737 |
| Enterprise Funds - | |
| Ashland Bus System - FTA operations | 327,270 |
| Ashland Bus System - FTA capital | 149,876 |
| | 477,146 |
| | $ 600,864 |

## (6) CAPITAL ASSETS

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

| *Governmental Activities* | June 30, 2015 | Increases | Decreases | June 30, 2016 |
|---|---|---|---|---|
| **Capital Assets, Not Depreciated:** | | | | |
| Land | $ 18,936,298 | $ - | $ - | $ 18,936,298 |
| Construction in progress | 194,792 | 532,060 | (194,792) | 532,060 |
| **Capital Assets, Depreciated:** | | | | |
| Buildings | 8,872,607 | 213,166 | - | 9,085,773 |
| Building improvements | 3,164,358 | 61,203 | - | 3,225,561 |
| Automotive equipment | 3,512,823 | 73,458 | (103,668) | 3,482,613 |
| Office furniture and equipment | 506,651 | 14,101 | (16,315) | 504,437 |
| Operating equipment | 3,990,998 | 33,089 | (77,486) | 3,946,601 |
| Capital improvements | 603,166 | 125,654 | - | 728,820 |
| Infrastructure | 76,619,407 | 840,146 | - | 77,459,553 |
| Totals | 116,401,100 | 1,892,877 | (392,261) | 117,901,716 |
| Accumulated Depreciation: | | | | |
| Buildings | 2,062,800 | 181,311 | - | 2,244,111 |
| Building improvements | 1,969,696 | 92,346 | - | 2,062,042 |
| Automotive equipment | 2,790,406 | 151,175 | (100,789) | 2,840,792 |
| Office furniture and equipment | 428,435 | 13,649 | (16,315) | 425,769 |
| Operating equipment | 2,656,376 | 181,651 | (74,473) | 2,763,554 |
| Capital improvements | 223,633 | 40,632 | - | 264,265 |
| Infrastructure | 46,695,424 | 1,819,494 | - | 48,514,918 |
| Totals | 56,826,770 | 2,480,258 | (191,577) | 59,115,451 |
| **Governmental Activities Capital Assets, Net** | $ 59,574,330 | $ (587,381) | $ (200,684) | $ 58,786,265 |
| ***Business-type Activities*** | | | | |
| **Capital Assets, Not Depreciated:** | | | | |
| Land | $ 435,601 | $ - | $ - | $ 435,601 |
| Construction in progress | 829,856 | 255,471 | (65,814) | 1,019,513 |
| **Capital Assets, Depreciated:** | | | | |
| Buildings | 3,846,513 | - | - | 3,846,513 |
| Building improvements | 708,634 | 19,000 | - | 727,634 |
| Utility and sewage plants | 90,893,828 | 1,589,001 | - | 92,482,829 |

| | | | | |
|---|---|---|---|---|
| Automotive equipment | 2,057,006 | 641,468 | (374,945) | 2,323,529 |
| Office furniture and equipment | 262,907 | - | (7,986) | 254,921 |
| Operating equipment | 3,547,433 | 114,753 | (48,900) | 3,613,286 |
| Recreation equipment | 329,349 | - | (58,250) | 271,099 |
| Capital improvement | 469,724 | 54,815 | - | 524,539 |
| Totals | 103,380,851 | 2,674,508 | (555,895) | 105,499,464 |
| Accumulated Depreciation: | | | | |
| Buildings | 1,021,216 | 89,646 | - | 1,110,862 |
| Building improvements | 447,686 | 27,444 | - | 475,130 |
| Utility and sewage plants | 47,587,057 | 1,973,505 | - | 49,560,562 |
| Automotive equipment | 1,599,236 | 145,349 | (329,209) | 1,415,376 |
| Office furniture and equipment | 226,295 | 6,348 | (7,986) | 224,657 |
| Operating equipment | 2,223,018 | 159,664 | (45,050) | 2,337,632 |
| Recreation equipment | 274,091 | 5,056 | (58,250) | 220,897 |
| Capital improvements | 172,691 | 28,137 | - | 200,828 |
| Totals | 53,551,290 | 2,435,149 | (440,495) | 55,545,944 |
| **Business-type Activities** | | | | |
| **Capital Assets, Net** | $ 49,829,561 | $ 239,359 | $ (115,400) | $ 49,953,520 |

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

| | |
|---|---|
| Governmental activities: | |
| General government | $ 494,442 |
| Finance | 367 |
| Public services | 1,577,233 |
| Planning and code enforcement | 7,570 |
| Police | 192,051 |
| Fire | 141,555 |
| Engineering | 54,495 |
| Community and cultural | 12,545 |
| | $ 2,480,258 |
| Business-type activities: | |
| Utilities | $ 2,193,973 |
| Bus | 145,908 |
| Recreation | 44,674 |
| Cemetery | 50,594 |
| | $ 2,435,149 |

## (7) RETIREMENT PLANS

Net pension liabilities of the City as of June 30, 2016 are as follows:

| | |
|---|---|
| Governmental activities: | |
| Policemen and Firefighters Pension Fund | $ 4,397,356 |
| County Employees Retirement System | |
| Nonhazardous | 6,181,389 |
| Hazardous | 18,386,060 |
| | $ 28,964,805 |
| Business-type activities: | |
| Utility Employees Pension Fund | $ 8,048,107 |
| County Employees Retirement System | |
| Nonhazardous | 7,923,569 |
| | $ 15,971,676 |

## 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, 2016, 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, with an update to roll forward information to June 30, 2016.

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, 2016, 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, 2016.

### 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:

| | PENSION TRUST FUNDS | | |
|---|---|---|---|
| | Utility Pension Fund | Policemen & Firefighters Pension Fund | Total |
| **STATEMENT OF NET POSITION** | | | |
| **ASSETS** | | | |
| Cash and cash equivalents | $ 449,131 | $ 58,513 | $ 507,644 |
| Accrued interest receivable | 661 | 251 | 912 |
| Due from other funds | 652,280 | - | 652,280 |
| Investments, at fair value - | | | |
| Certificates of deposit | 1,258,064 | 758,064 | 2,016,128 |
| Total assets | 2,360,136 | 816,828 | 3,176,964 |
| **LIABILITIES** | | | |
| Due to other funds | - | 294,301 | 294,301 |
| Total liabilities | - | 294,301 | 294,301 |
| NET POSITION - RESTRICTED FOR PENSION BENEFITS | $ 2,360,136 | $ 522,527 | $ 2,882,663 |
| **STATEMENT OF CHANGES IN NET POSITION** | | | |
| **ADDITIONS** | | | |
| Contributions - | | | |
| Employer | $ 782,736 | $ 419,610 | $ 1,202,346 |
| Plan members | - | - | - |
| Total contributions | 782,736 | 419,610 | 1,202,346 |
| Investment income - | | | |
| Interest income | 10,395 | 3,994 | 14,389 |
| Total investment income | 10,395 | 3,994 | 14,389 |
| Total additions | 793,131 | 423,604 | 1,216,735 |

| | | | |
|---|---|---|---|
| **DEDUCTIONS** | | | |
| Benefits | 768,315 | 478,260 | 1,246,575 |
| Administrative expenses | 5,102 | 2,027 | 7,129 |
| Total deductions | 773,417 | 480,287 | 1,253,704 |
| NET INCREASE (DECREASE) | 19,714 | (56,683) | (36,969) |
| NET POSITION - RESTRICTED FOR PENSION BENEFITS: | | | |
| Beginning of year | 2,340,422 | 579,210 | 2,919,632 |
| End of year | $ 2,360,136 | $ 522,527 | $ 2,882,663 |

**Pension Expense**

For the year ended June 30, 2016, the City recognized pension expense of $306,067 and $379,769 for the Utility Pension Fund and Policemen and Firefighters Pension Fund, respectively. At June 30, 2016, the effect of all changes in assumptions and difference between and expected and actual experience were recognized in pension expense due to there being no active employees participating.

**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:

| | Utility Pension Fund | Policemen and Firefighters Pension Fund | |
|---|---|---|---|
| Governing Authority | City Ordinance and KRS | City Ordinance and KRS | |
| Determination of contribution requirements | Actuarially | Actuarially | |
| Contribution rates as a percentage of covered payroll: | | | |
| Employer | N/A | N/A | |
| Plan Members | N/A | N/A | |
| Funding of administrative costs | Investment Earnings | Investment Earnings | |
| Period required to vest | 20 | 10 | |
| Post retirement benefit increases | As approved by City Commission | As approved by City Commission | |
| Eligibility for distribution | Age 50, with 20 years | N/A | |
| Provisions for: | | | |
| Disability benefits | Yes | Yes | |
| Death benefits | Yes | Yes | |
| Membership of the plans are as follows: | | | |
| Retirees and beneficiaries currently receiving benefits | 27 | 24 | Totals 51 |
| Active plan participants: | | | |
| Vested | - | - | - |
| Non-Vested | - | - | - |
| | 27 | 24 | 51 |

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

| | Utility Pension Fund | Policemen And Firefighters Pension Fund |
|---|---|---|
| Valuation date | 06-30-15, updated through 06-30-16 | 06-30-16 |
| 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 % | 4.00 % |
| 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 % | 4.00 % |
| Mortality | RP-2000 Mortality Table | RP-2000 Mortality Table |
| Changes of assumptions since prior valuation | None | Discount rate reduced from 5.0% to 4.0% |

**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) |
|---|---|---|---|---|---|---|
| Utility Pension Fund | | | | | | |
| 06/30/15 | $ 2,340,422 | $ 10,865,198 | $ 8,524,776 | 21.5% | $ ** N/A | ** N/A |
| 06/30/16 | 2,360,136 | 10,408,243 | 8,048,107 | 22.7% | ** N/A | ** N/A |
| Policemen and Firefighters Pension Fund | | | | | | |
| 06/30/15 | $ 579,210 | $ 5,016,407 | $ 4,437,197 | 11.5% | $ ** N/A | ** N/A |
| 06/30/16 | 522,527 | 4,919,883 | 4,397,356 | 10.6% | ** 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, 2016:

Utility Pension Fund

| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a) – (b) |
|---|---|---|---|
| Balance, June 30, 2015 | $ 10,865,198 | $ 2,340,422 | $ 8,524,776 |
| Changes for the year: | | | |
| Interest on total pension liability | 417,961 | - | 417,961 |
| Difference in expected and actual experience | 205,645 | - | 205,645 |
| Effect of changes in benefit terms | (312,246) | - | (312,246) |
| Benefit payments | (768,315) | - | (768,315) |
| Employer contributions | - | 782,736 | (782,736) |
| Investment income, net of expenses | - | 10,395 | (10,395) |
| Benefit payments | - | (768,315) | 768,315 |
| Administrative expenses | - | (5,102) | 5,102 |
| Net changes | (456,955) | 19,714 | (476,669) |
| Balance, June 30, 2016 | $ 10,408,243 | $ 2,360,136 | $ 8,048,107 |

Policemen and Firefighters Pension Fund

| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a) – (b) |
|---|---|---|---|
| Balance, June 30, 2015 | $ 5,016,407 | $ 579,210 | $ 4,437,197 |
| Changes for the year: | | | |
| Interest on total pension liability | 237,867 | - | 237,867 |
| Difference in expected and actual experience | (100,203) | - | (100,203) |
| Effect of changes in assumptions | 380,261 | - | 380,261 |
| Effect of changes in benefit terms | (136,189) | - | (136,189) |
| Benefit payments | (478,260) | - | (478,260) |
| Employer contributions | - | 419,610 | (419,610) |
| Investment income, net of expenses | - | 3,994 | (3,994) |
| Benefit payments | - | (478,260) | 478,260 |
| Administrative expenses | - | (2,027) | 2,027 |
| Net changes | (96,524) | (56,683) | (39,841) |
| Balance, June 30, 2016 | $ 4,919,883 | $ 522,527 | $ 4,397,356 |

**Discount Rate**

The following represents the effect on the total 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% | $ 8,048,107 | $ 4,397,356 |
| Pension liability at a discount rate: | | |
| 1% higher (5.0%) | $ 7,148,671 | $ 4,034,596 |
| 1% lower (3.0%) | $ 9,102,833 | $ 4,819,225 |

**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, 2016:

| | | |
|---|---|---|
| Governmental activities: | | |
| Policemen and Firefighters Pension Fund | $ | - |
| Business-type activities: | | |
| Utility Pension Fund | $ | 652,280 |

**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 17.06% nonhazardous (12.42% - pension, 4.64% insurance) and 32.95% hazardous (20.26% - pension, 12.69% insurance) 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, 2016, the City reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2015. An expected total pension liability as of June 30, 2015 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, 2015. At June 30 2015, the City's proportion for nonhazardous and hazardous was 0.328% and 1.198%, respectively.

For the year ended June 30, 2016, the City recognized pension expense of $1,033,000 and $1,460,000 for nonhazardous and hazardous, respectively. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Nonhazardous | | |
| Differences between expected actual experience | $ 117,217 | $ - |
| Changes of assumptions | 1,422,331 | - |
| Net difference between projected and actual earnings on investments | 126,440 | - |
| Changes in proportion and differences between City contributions and proportionate share of contributions | 250,928 | - |
| City contributions subsequent to the measurement date | 885,400 | - |
| | $ 2,802,316 | $ - |
| Hazardous | | |
| Differences between expected actual experience | $ 399,335 | $ - |
| Changes of assumptions | 1,588,856 | - |
| Net difference between projected and actual earnings on investments | 115,463 | - |
| Changes in proportion and differences between City contributions and proportionate share of contributions | 503,608 | - |
| City contributions subsequent to the measurement date | 1,350,672 | - |
| | $ 3,957,934 | $ - |

At June 30, 2016, the City reported deferred outflows of resources for City contributions subsequent to the measurement date of $885,400 and $1,350,672 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.

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. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions are amortized over the average service life of all members. These will be recognized in pension expense as follows:

| Year | Nonhazardous | Hazardous |
|---|---|---|
| 2017 | $ 670,693 | $ 582,605 |
| 2018 | 670,693 | 582,605 |
| 2019 | 321,158 | 696,825 |
| 2020 | 254,372 | 745,227 |
| | $ 1,916,916 | 2,607,262 |

Actuarial Methods and Assumptions

| | |
|---|---|
| Valuation Date | June 30, 2015 |
| Experience Study | July 1, 2008 – June 30, 2013 |
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | Level percentage of payroll, closed |
| Remaining Amortization Period | 28 years |
| Asset Valuation Method | 5-year smoothed market |
| Inflation | 3.25% |
| Salary Increase | 4.00%, average, including inflation |
| Investment Rate of Return | 7.50%, net of pension plan investment expense, including inflation |

The following represents the changes in assumptions from the prior valuation to the valuation performed as of June 30, 2015:

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.
- The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for CERS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013 is outlined in a report dated April 30, 2014. 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 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:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Combined Equity | 44.0% | 5.40% |
| Combined Fixed Income | 19.0% | 1.50% |
| Real Return (Diversified Inflation Strategies) | 10.0% | 3.50% |
| Real Estate | 5.0% | 4.50% |
| Absolute Return (Diversified Hedge Funds) | 10.0% | 4.25% |
| Private Equity | 10.0% | 8.50% |
| Cash Equivalent | 2.0% | -0.25% |
| | 100.0% | |

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. 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 7.50%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50 %, 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 (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

| | 1% Decrease (6.50%) | Current discount rate (7.50%) | 1% Increase (8.50%) |
|---|---|---|---|
| City's proportionate share of the net pension liability | | | |
| Nonhazardous | $ 18,010,000 | $ 14,104,958 | $ 10,760,000 |
| Hazardous | $ 23,530,000 | $ 18,386,060 | $ 14,120,000 |

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, 2016, there was $359,965 in payables to CERS for nonhazardous and hazardous.

## (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, 2016:

| ***Governmental Activities*** | Balance June 30, 2015 | Additions | Reductions | Balance June 30, 2016 |
|---|---|---|---|---|
| General Obligation Bond Series 2015 | $ 2,520,000 | $ - | $ 125,000 | $ 2,395,000 |
| Capital lease - Police Station | 4,095,576 | - | 157,404 | 3,938,172 |
| Capital lease – Refinancing | 90,417 | - | 90,417 | - |
| Capital lease – Melody Mtn. Phase II | 1,612,917 | - | 65,000 | 1,547,917 |
| Premium on bonds | 84,836 | - | 5,563 | 79,273 |
| Compensated absences obligation | 773,943 | 15,305 | 142 | 789,106 |
| Total Governmental Activities | $ 9,177,689 | $ 15,305 | $ 443,526 | $ 8,749,468 |

| ***Business-type Activities*** | Balance June 30, 2015 | Additions | Reductions | Balance June 30, 2016 |
|---|---|---|---|---|
| Revenue & Improvement Bond Series 2013 | $ 4,085,000 | $ - | $ 410,000 | $ 3,675,000 |
| Water & Sewer Revenue Bond Series 2015 | 3,620,000 | - | 175,000 | 3,445,000 |
| Capital lease - Radio Meters | 1,525,417 | - | 95,000 | 1,430,417 |
| Kentucky Infrastructure Authority Loan | 1,020,073 | - | 119,956 | 900,117 |

| | | | | |
|---|---|---|---|---|
| Kentucky Infrastructure Authority Loan | 2,295,592 | - | 200,039 | 2,095,553 |
| Kentucky Infrastructure Authority Loan | 6,233,121 | - | 281,492 | 5,951,629 |
| Premium on bonds | 124,137 | - | 7,759 | 116,378 |
| Discount on bonds | (23,734) | - | (2,967) | (20,767) |
| Total Business-type Activities | $ 18,879,606 | $ - | $ 1,286,279 | $ 17,593,327 |

At June 30, 2016, 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 $377,000 set aside for the costs of extensions, improvements, renewals and replacements to the sewer system. As of June 30, 2016, the City had reserve funds of $1,124,163.

***Governmental Activities***

**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, 2016, are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 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 | 145,000 | 53,625 | 198,625 |
| 2022-2026 | 815,000 | 195,975 | 1,010,975 |
| 2027-2031 | 900,000 | 69,000 | 969,000 |
| | $ 2,395,000 | $ 574,425 | $ 2,969,425 |

**Capital Lease - Police Station**

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

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

| Year Ending June 30, | Principal | Interest and fees | Total |
|---|---|---|---|
| 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 | 189,204 | 121,771 | 310,975 |
| 2022-2026 | 1,057,800 | 493,886 | 1,551,686 |
| 2027-2031 | 1,271,348 | 274,250 | 1,545,598 |
| 2032-2034 | 728,901 | 41,242 | 770,143 |
| | $ 3,938,172 | $ 1,486,006 | $ 5,424,178 |

**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.

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

| Year Ending June 30, | Principal | Interest and fees | Total |
|---|---|---|---|
| 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 | 72,084 | 44,996 | 117,080 |
| 2022-2026 | 399,168 | 188,132 | 587,300 |
| 2027-2031 | 473,332 | 117,100 | 590,432 |
| 2032-2035 | 331,249 | 27,628 | 358,877 |
| | $ 1,547,917 | $ 574,512 | $ 2,122,429 |

**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, 2016, are as follows:

| | Accrued Long-Term Obligation | Current Obligation | Total Compensated Absences |
|---|---|---|---|
| General Fund | $ 772,272 | $ 151,922 | $ 924,194 |
| Community Development Fund | 4,843 | 953 | 5,796 |
| Housing Assistance Fund | 4,267 | 839 | 5,106 |
| Floodwall Fund | 7,724 | 1,519 | 9,243 |
| Ashland Bus System | - | 29,275 | 29,275 |
| Recreation Fund | - | 27,922 | 27,922 |
| Cemetery Fund | - | 5,285 | 5,285 |
| Utility Fund | - | 193,818 | 193,818 |
| | $ 789,106 | $ 411,533 | $ 1,200,639 |

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, 2016, there was one series of Industrial Revenue Bonds outstanding, with an aggregate principal amount payable of approximately $120 million.

***Business-Type Activities***

**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 $4,410,000 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, 2016, are as follows:

| Year ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 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 | 465,000 | 41,155 | 506,155 |
| 2022-2024 | 1,480,000 | 65,585 | 1,545,585 |
| | $ 3,675,000 | $ 342,660 | $ 4,017,660 |

**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, 2016, are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 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 | 210,000 | 81,475 | 291,475 |
| 2022-2026 | 1,140,000 | 309,425 | 1,449,425 |
| 2027-2031 | 1,320,000 | 127,250 | 1,447,250 |
| | $ 3,445,000 | $ 903,150 | $ 4,348,150 |

### 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 |
|---|---|---|---|
| 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 | 112,083 | 41,192 | 153,275 |
| 2022-2026 | 615,416 | 143,119 | 758,535 |
| 2027-2029 | 291,667 | 21,737 | 313,404 |
| | $ 1,430,417 | $ 404,763 | $ 1,835,180 |

### 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, 2016 are as follows:

| Year ending June 30, | Principal | Interest | Fees | Total |
|---|---|---|---|---|
| 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 | 144,799 | 12,792 | 842 | 158,433 |
| 2022-2023 | 227,678 | 8,706 | 573 | 236,957 |
| | $ 900,117 | $ 124,218 | $ 8,172 | $ 1,032,507 |

### 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, 2016, are as follows:

| Year ending June 30, | Principal | Interest | Fees | Total |
|---|---|---|---|---|
| 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 | 232,153 | 35,264 | 2,939 | 270,356 |
| 2022-2025 | 1,000,931 | 68,737 | 5,729 | 1,075,397 |
| | $ 2,095,553 | $ 311,198 | $ 25,934 | $ 2,432,685 |

### 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, 2016 are as follows:

| Year ending June 30, | Principal | Interest | Fees | Total |
|---|---|---|---|---|
| 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 | 310,943 | 93,812 | 9,381 | 414,136 |
| 2022-2026 | 1,651,014 | 372,758 | 37,276 | 2,061,048 |
| 2027-2031 | 1,823,748 | 200,026 | 20,003 | 2,043,777 |
| 2032-2034 | 982,225 | 29,662 | 2,966 | 1,014,853 |
| | $ 5,951,629 | $ 1,131,577 | $ 113,157 | $ 7,196,363 |

## (9) INTERFUND TRANSACTIONS

### Interfund Receivable and Payables

The composition of interfund balances as of June 30, 2016 is as follows:

Due to/from other funds:

| Receivable Fund | Payable Fund | Amount |
|---|---|---|
| General Fund | Ashland Bus System | $ 702,674 |
| General Fund | Recreation Fund | 338,566 |
| General Fund | Housing Assistance | 22,387 |
| General Fund | Floodwall Operating Fund | 70,252 |
| General Fund | Community Development | 45,667 |
| General Fund | Police and Fire Fighters Pension | 294,301 |
| Utility Fund | General Fund | 727,444 |
| Cemetery Fund | General Fund | 15,462 |
| Municipal Aid Road Fund | General Fund | 202,870 |
| Capital Project | General Fund | 857,356 |
| Internal Service Fund | General Fund | 1,731,388 |
| Utility Pension Fund | Utility Fund | 652,280 |
| Total | | $ 5,660,647 |

### Interfund Transfers

The following transfers were made during the year:

| Type | From Fund | To Fund | Purpose | Amount |
|---|---|---|---|---|
| Operating | General | Ashland Bus System | Matching | $ 440,307 |
| Operating | General | Recreation | Operations | 917,300 |
| Operating | General | Capital Projects | Capital Purchases | 973,928 |
| Operating | General | Cemetery | Operations | 129,490 |

## (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, 2016, the City paid $393,399 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 $327,270 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.

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, 2016, the City has $6,528,457 restricted for the sewer improvements.

### Construction Projects

The City is obligated on commitments for various contracts in progress at June 30, 2016. A summary of these commitments is as follows:

| Fund | Project Description | Total Approved Contract | Paid or Accrued to Date | Out-standing Commitment |
|---|---|---|---|---|
| Utility Fund | CSO-29th St. Storm Water | $ 189,876 | $ 131,117 | $ 58,759 |
| Utility Fund | Backwash System Design | 59,035 | 54,104 | 4,931 |
| Utility Fund | Pump Station Improvements | 33,000 | 31,163 | 1,837 |
| Utility Fund | 31st St. Drainage | 167,291 | 87,549 | 79,742 |
| Utility Fund | Boyd Co. MS Waterline | 159,979 | 105,933 | 54,046 |
| Utility Fund | Water Pump Station | 228,048 | 140,984 | 87,064 |
| Utility Fund | New Water & Sewer Facility | 80,605 | - | 80,605 |
| | | $ 917,834 | $ 550,850 | $ 366,984 |

## (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 $688,246 reported in the Internal Service Fund at June 30, 2016, 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 2015 and 2016 were:

| | Beginning of Fiscal Year Liability | Current Year Claims | Claim Payments | Balance At Fiscal Year End |
|---|---|---|---|---|
| 2015 | $ 656,119 | $ 5,242,102 | $ 5,493,444 | $ 404,777 |
| 2016 | 404,777 | 5,525,815 | 5,242,346 | 688,246 |

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, 2016 totaled $386,666.

## (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 $9,320 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, 2015, the date of the latest actuarial valuation, the plan had 92,157 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, 2015 was as follows:

| | 000's omitted |
|---|---|
| Total medical benefit obligation | $ 4,411,843 |
| Net position available for benefits at actuarial value | (3,085,164) |
| Unfunded medical benefit obligation | $ 1,326,679 |

## (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, 2016, the Recreation Fund had a negative net position of $240,963. 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) PRIOR PERIOD ADJUSTMENT

Net position as of June 30, 2015, has been restated for an error in the implementation of 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 deferred outflows for changes of assumptions in calculating the City's pension liability for the City's single employer pension plans described in Note 7 should not have been recorded as of June 30, 2015. These amounts should have been recognized in pension expense due to all participants of the plans being retired.

Net position as of June 30, 2015 has been restated as follows:

| | Governmental Activities | Utility Fund | Total Business-Type Activities | Total |
|---|---|---|---|---|
| Net position as previously reported at June 30, 2015 | $ 34,727,339 | $ 27,659,002 | $ 32,060,044 | $ 66,787,383 |
| Reversal of Deferred Outflows | (990,700) | (3,312,976) | (3,312,976) | (4,303,676) |
| Net position as restated, June 30, 2015 | $ 33,736,639 | $ 24,346,026 | $ 28,747,068 | $ 62,483,707 |

# REQUIRED SUPPLEMENTAL INFORMATION

**CITY OF ASHLAND**
**DEFINED BENEFIT PENSION TRUSTS**
**SCHEDULE OF EMPLOYER CONTRIBUTIONS AND INVESTMENT RETURNS**
**JUNE 30, 2016**

| | UTILITY EMPLOYEES PENSION FUND | | | | | | | POLICEMEN AND FIREFIREFIGHTERS PENSION FUND | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Percentage of Covered Payroll | | | | | | | Percentage of Covered Payroll | | |
| | Amount Contributed | ADC | Contribution Deficiency (Excess) | Covered Payroll | ARC | Amount Contributed | Annual* M-W Rate of Return, net | Amount Contributed | ADC | Contribution Deficiency (Excess) | Covered Payroll | Payroll ARC | Amount Contributed | Annual* M-W Rate of Return, net |
| 2007 | $ 410,483 | $316,858 | $ (93,625) | $40,408 | 784% | 1016% | *N/A | $ 288,463 | $293,551 | $ 5,088 | **N/A | **N/A | **N/A | *N/A |
| 2008 | 504,621 | 325,015 | (179,606) | 40,458 | 803% | 1247% | *N/A | 355,128 | 293,551 | (61,577) | **N/A | **N/A | **N/A | *N/A |
| 2009 | 684,266 | 325,025 | (359,241) | 43,264 | 751% | 1582% | *N/A | 481,553 | 267,003 | (214,550) | **N/A | **N/A | **N/A | *N/A |
| 2010 | 608,977 | 309,647 | (299,330) | 44,414 | 697% | 1371% | *N/A | 448,250 | 267,003 | (181,247) | **N/A | **N/A | **N/A | *N/A |
| 2011 | 570,018 | 309,647 | (260,371) | 44,541 | 695% | 1280% | *N/A | 367,165 | 270,665 | (96,500) | **N/A | **N/A | **N/A | *N/A |
| 2012 | 567,529 | 316,165 | (251,364) | **N/A | **N/A | **N/A | *N/A | 367,165 | 270,665 | (96,500) | **N/A | **N/A | **N/A | *N/A |
| 2013 | 567,529 | 567,529 | - | **N/A | **N/A | **N/A | *N/A | 367,165 | 342,502 | (24,663) | **N/A | **N/A | **N/A | *N/A |
| 2014 | 650,912 | 383,103 | (267,809) | **N/A | **N/A | **N/A | 0.17% | 316,277 | 425,142 | 108,865 | **N/A | **N/A | **N/A | 0.18% |
| 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 | **N/A | 0.50% |
| 2016 | 782,736 | 603,145 | (179,591) | **N/A | **N/A | **N/A | 0.81% | 419,610 | 564,043 | 144,433 | **N/A | **N/A | **N/A | 0.53% |

* 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, 2016**

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) |
|---|---|---|---|---|---|---|---|
| 06/30/07 | * | $ 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 |
| 06/30/16 | | 2,360,136 | 10,408,243 | 8,048,107 | 22.7% | **N/A | **N/A |

POLICEMEN AND FIREFIGHTERS PENSION FUND

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 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 |
| 06/30/16 | * | 522,527 | 4,919,883 | 4,397,356 | 10.6% | **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 LIABILITIES**
**FOR THE YEAR ENDED JUNE 30, 2016**

| | UTILITY EMPLOYEES PENSION FUND | | | POLICEMEN AND FIREFIREFIGHTERS PENSION FUND | | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2014 | 2016 | 2015 | 2014 |
| **TOTAL PENSION LIABILITY** | | | | | | |
| Service cost | $ - | $ - | $ - | $ - | $ - | $ - |
| Interest on total pension liability | 417,961 | 482,003 | 353,293 | 237,867 | 249,990 | 199,178 |
| Effect of changes in benefit terms | (312,246) | - | 848,025 | (136,189) | - | 436,571 |
| Difference in expected and actual experience | 205,645 | 66,792 | (108,429) | (100,203) | 24,498 | (28,280) |
| Effect of changes in assumptions | - | 3,246,184 | - | 380,261 | 966,202 | 14,282 |
| Benefit payments | (768,315) | (753,040) | (731,999) | (478,260) | (562,644) | (582,431) |
| Net change in total pension liability | (456,955) | 3,041,939 | 360,890 | (96,524) | 678,046 | 39,320 |
| Total pension liability, beginning of year | 10,865,198 | 7,823,259 | 7,462,369 | 5,016,407 | 4,338,361 | 4,299,041 |
| Total pension liability, end of year (a) | 10,408,243 | 10,865,198 | 7,823,259 | 4,919,883 | 5,016,407 | 4,338,361 |
| **FIDUCIARY NET POSITION** | | | | | | |
| Employer contributions | $ 782,736 | $ 728,300 | $ 650,912 | $ 419,610 | $ 411,220 | $ 316,277 |
| Member contributions | - | - | - | - | - | - |
| Investment income, net of investment expenses | 10,395 | 4,570 | 879 | 3,994 | 3,787 | 857 |
| Benefit payments and refund of contributions | (768,315) | (753,040) | (731,999) | (478,260) | (562,644) | (582,431) |
| Administrative expenses | (5,102) | (2,212) | (6,360) | (2,027) | (4,554) | (3,195) |
| Net change in plan fiduciary net position | 19,714 | (22,382) | (86,568) | (56,683) | (152,191) | (268,492) |
| Fiduciary net position, beginning of year | 2,340,422 | 2,362,804 | 2,449,372 | 579,210 | 731,401 | 999,893 |
| Fiduciary net position, end of year (b) | 2,360,136 | 2,340,422 | 2,362,804 | 522,527 | 579,210 | 731,401 |
| **Net pension liability, ending = (a)-(b)** | $ 8,048,107 | $ 8,524,776 | $ 5,460,455 | $ 4,397,356 | $ 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 CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
# FOR THE YEAR ENDED JUNE 30, 2016

| | Reporting Fiscal Year (Measurement Date) | | | |
|---|---|---|---|---|
| | 2016 (2015) | | 2015 (2014) | |
| | **Nonhazardous** | **Hazardous** | **Nonhazardous** | **Hazardous** |
| City's proportion of the net pension liability | 0.33% | 1.20% | 0.32% | 1.15% |
| City's proportionate share of the net pension liability | $ 14,104,958 | $ 18,386,060 | $ 10,328,000 | $ 13,818,000 |
| City's covered-employee payroll | $ 7,627,360 | $ 6,041,405 | $ 7,271,891 | $ 5,782,361 |
| City's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 184.926% | 304.334% | 142.026% | 238.968% |
| Plan fiduciary net position as a percentage of the total pension liability | 59.97% | 57.52% | 66.80% | 63.46% |

**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 PENSION CONTRIBUTIONS**
**FOR THE YEAR ENDED JUNE 30, 2016**

| | 2016 | | 2015 | | 2014 | |
|---|---|---|---|---|---|---|
| | **Nonhazardous** | **Hazardous** | **Nonhazardous** | **Hazardous** | **Nonhazardous** | **Hazardous** |
| Contractually required contribution | $ 966,485 | $ 1,255,795 | $ 972,488 | $ 1,252,383 | $ 999,158 | $ 1,258,820 |
| Contributions in relation to the contractually required contribution | 966,485 | 1,255,795 | 972,488 | 1,252,383 | 999,158 | 1,258,820 |
| Contribution deficiency (excess) | - | - | - | - | - | - |
| City's covered-employee payroll | $ 7,781,684 | $ 6,198,395 | $ 7,627,360 | $ 6,041,405 | $ 7,271,891 | $ 5,782,361 |
| City's contributions as a percentage of its covered-employee payroll | 12.42% | 20.26% | 12.75% | 20.73% | 13.74% | 21.77% |

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

## (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

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.

In the 2014 valuation update, 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

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2015:

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.
- The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

## (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 |

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 | 4.0%, net of pension plan investment expense, including inflation |

CERS

The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal years ended 2016 and 2017, determined as of July 1, 2015. 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 contribution rates 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 | 28 years |
| Asset Valuation Method | 5-year smoothed market |
| Inflation | 3.25% |
| Salary Increase | 4.00%, average, including inflation |
| Investment Rate of Return | 7.50%, net of pension plan investment expense, including inflation |

## (3) CHANGES OF BENEFIT TERMS

CERS

There were no changes in benefit terms for CERS.

UTILITY EMPLOYEES PENSION FUND

The most recent valuation was prepared with the assumption of a "substantively automatic" 3% cost of living adjustment. However, the Commissioners elected not to provide a cost of living adjustment for fiscal year 2017.

POLICEMEN AND FIREFIGHTERS PENSION FUND

The most recent valuation was prepared with the assumption of a "substantively automatic" 3% cost of living adjustment. However, the Commissioners elected not to provide a cost of living adjustment for fiscal year 2017.

# 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, 2016**

| | Original Budget | Revisions | Revised Budget | Actual | Variance Positive (Negative) |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Property and other local taxes | $ - | $ - | $ - | $ - | $ - |
| Licenses and permits | - | - | - | - | - |
| Charges for services | - | - | - | - | - |
| Fees, fines and reimbursements | - | - | - | - | - |
| Grant income | - | - | - | - | - |
| Administration fee income | - | - | - | - | - |
| Interest income | - | - | - | - | - |
| Other income | - | 5,207 | 5,207 | 5,207 | - |
| Total revenues | - | 5,207 | 5,207 | 5,207 | - |
| **Expenditures** | | | | | |
| General government | 250 | - | 250 | 501 | (251) |
| Finance | - | - | - | - | - |
| Public services | - | - | - | - | - |
| Planning and code enforcement | - | - | - | - | - |
| Police | - | - | - | - | - |
| Fire | - | - | - | - | - |
| Engineering | - | - | - | - | - |
| Community and cultural | - | - | - | - | - |
| Other | - | - | - | - | |
| Capital outlay | 571,691 | 463,425 | 1,035,116 | 728,055 | 307,061 |
| Debt service: | | | | | |
| Principal retirement | - | - | - | - | - |
| Interest and fiscal charges | - | - | - | - | - |
| Total expenditures | 571,941 | 463,425 | 1,035,366 | 728,556 | 306,810 |
| Excess of Revenues Over (Under) Expenditures | (571,941) | (458,218) | (1,030,159) | (723,349) | 306,810 |
| **Other Financing Sources (Uses)** | | | | | |
| Transfers in | 571,941 | 371,172 | 943,113 | 973,928 | 30,815 |
| Total other financing sources (uses) | 571,941 | 371,172 | 943,113 | 973,928 | 30,815 |
| Net change in fund balance | - | (87,046) | (87,046) | 250,579 | 337,625 |
| Fund balance beginning of year | 110,493 | - | 110,493 | 110,493 | - |
| Fund balance end of year | $ 110,493 | $ (87,046) | $ 23,447 | $ 361,072 | $ 337,625 |

# CITY OF ASHLAND

## GENERAL FUND

## BALANCE SHEET

## JUNE 30, 2016

### ASSETS

| | |
|---|---|
| Cash | $ 5,643,194 |
| Taxes receivable | 2,742,139 |
| Allowance for uncollectible taxes | (475,872) |
| Grants receivable | 15,981 |
| Due from other funds | 1,473,847 |
| Other receivables | 420,615 |
| Allowance for uncollectible accounts | (32,381) |
| Investments | 600,018 |
| Inventories - supplies | 68,716 |
| Prepaid items | 51,300 |
| Total assets | $ 10,507,557 |

### LIABILITIES AND FUND BALANCE

| | |
|---|---|
| Liabilities: | |
| Accounts payable | $ 553,647 |
| Due to other funds | 3,534,521 |
| Due to Board of Education | 51,423 |
| Accrued compensated absences | 151,922 |
| Accrued expenses | 658,410 |
| Total liabilities | 4,949,923 |
| Fund Balance: | |
| Non-spendable | 120,016 |
| Restricted for grant programs | 15,981 |
| Committed | - |
| Unassigned | 5,421,637 |
| Total fund balance | 5,557,634 |
| Total liabilities and fund balance | $ 10,507,557 |

## CITY OF ASHLAND

## GENERAL FUND

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

## FOR THE YEAR ENDED JUNE 30, 2016

| | Budget | Actual | Variance |
|---|---|---|---|
| REVENUES: | | | |
| Taxes - | | | |
| General property taxes | $ 2,750,982 | $ 2,591,460 | $ (159,522) |
| Penalties and interest | 21,935 | 28,633 | 6,698 |
| Delinquent taxes | 196,750 | 176,274 | (20,476) |
| Vehicle property taxes | 415,000 | 441,093 | 26,093 |
| Bank franchise taxes | 88,140 | 90,948 | 2,808 |
| Other franchise taxes | 154,125 | 138,028 | (16,097) |
| Insurance premiums taxes | 3,898,500 | 4,014,490 | 115,990 |
| Total taxes | 7,525,432 | 7,480,926 | (44,506) |
| Licenses and permits - | | | |
| Occupational license fees | 9,405,475 | 9,690,716 | 285,241 |
| Business privilege licenses | 1,420,000 | 1,674,687 | 254,687 |
| Alcoholic beverage licenses | 610,000 | 611,787 | 1,787 |
| Construction permit fees | 44,000 | 84,510 | 40,510 |
| Other licenses and permits | 1,150 | 685 | (465) |
| Total licenses and permits | 11,480,625 | 12,062,385 | 581,760 |
| Charge for services - | | | |
| Garbage collection fee | 2,114,488 | 2,146,692 | 32,204 |
| Greyhound ticket sales | 19,500 | 12,648 | (6,852) |
| Rental revenue | 55,350 | 68,352 | 13,002 |
| Total charges for services | 2,189,338 | 2,227,692 | 38,354 |
| Fees, fines and reimbursements - | | | |
| Parking meter fees and fines | 20,000 | 9,488 | (10,512) |
| Taxes collection fees | 130,000 | 136,313 | 6,313 |
| State rebate - District Court | 28,300 | 29,248 | 948 |
| Street lighting franchise | 1,055,250 | 971,873 | (83,377) |
| Telecommunication franchise | 273,600 | 276,187 | 2,587 |
| Other | 390,620 | 286,125 | (104,495) |
| Total fees, fines and reimbursements | 1,897,770 | 1,709,234 | (188,536) |
| Other revenues - | | | |
| Police grants | 19,620 | 30,894 | 11,274 |
| Miscellaneous grants | 303,383 | 299,383 | (4,000) |
| Coal severance - LGEA | 23,000 | 21,553 | (1,447) |
| Interest earned | 2,100 | 1,886 | (214) |
| Other | 165,234 | 209,399 | 44,165 |
| Total other revenues | 513,337 | 563,115 | 49,778 |
| Total revenues | 23,606,502 | 24,043,352 | 436,850 |

CITY OF ASHLAND

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2016

| | Budget | Actual | Variance |
|---|---|---|---|
| EXPENDITURES: | | | |
| General Government - | | | |
| Mayor and Commissioners | 128,361 | 128,480 | (119) |
| City Manager | 175,696 | 152,809 | 22,887 |
| City Clerk/Legal | 189,472 | 189,419 | 53 |
| Economic Development | 126,668 | 122,609 | 4,059 |
| Human Resources | 165,546 | 168,652 | (3,106) |
| Unclassified | 2,501,569 | 1,812,293 | 689,276 |
| | 3,287,312 | 2,574,262 | 713,050 |
| Department of Finance - | | | |
| Director of Finance | 569,026 | 569,399 | (373) |
| Data Processing | 36,481 | 36,441 | 40 |
| | 605,507 | 605,840 | (333) |
| Department of Public Services - | | | |
| Director of Public Services | 245,184 | 245,018 | 166 |
| Street maintenance | 2,863,153 | 2,676,269 | 186,884 |
| Sanitation services | 1,450,082 | 1,332,322 | 117,760 |
| Central garage | 365,659 | 379,262 | (13,603) |
| Animal control | 75,679 | 70,396 | 5,283 |
| | 4,999,757 | 4,703,267 | 296,490 |
| Department of Planning and Code Enforcement | 631,902 | 623,160 | 8,742 |
| Department of Police - | | | |
| Technical services | 1,547,308 | 1,536,778 | 10,530 |
| Field operations | 3,635,743 | 3,685,779 | (50,036) |
| | 5,183,051 | 5,222,557 | (39,506) |

CITY OF ASHLAND

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2016

| | Budget | Actual | Variance |
|---|---|---|---|
| Department of Fire | 6,029,015 | 6,152,534 | (123,519) |
| Department of Engineering | 184,828 | 147,025 | 37,803 |
| Debt Service | 724,543 | 722,347 | 2,196 |
| Total expenditures | 21,645,915 | 20,750,992 | 894,923 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | 1,960,587 | 3,292,360 | 1,331,773 |
| OTHER FINANCING SOURCES (USES): | | | |
| Transfer to Capital Projects Fund | (943,113) | (973,928) | (30,815) |
| Transfer to Recreation Fund | (937,136) | (917,300) | 19,836 |
| Transfer to Ashland Bus Fund | (430,512) | (440,307) | (9,795) |
| Transfer to Ashland Cemetery Fund | (84,646) | (129,490) | (44,844) |
| Total other financing sources (uses) | (2,395,407) | (2,461,025) | (65,618) |
| NET CHANGE IN FUND BALANCE | (434,820) | 831,335 | 1,266,155 |
| FUND BALANCE, June 30, 2015 | 4,726,299 | 4,726,299 | - |
| FUND BALANCE, June 30, 2016 | $ 4,291,479 | $ 5,557,634 | $ 1,266,155 |

## CITY OF ASHLAND

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

### JUNE 30, 2016

| | Land & Buildings | Building Improvements | Automotive Equipment | Operating Equipment | Office Furniture & Equipment | Capital Improvements | Infrastructure | CIP | Total |
|---|---|---|---|---|---|---|---|---|---|
| Dept of General Gov't | $ 2,822,024 | $ 1,946,772 | $ 19,960 | $ 86,741 | $ 183,566 | $ 39,275 | $ 11,904,209 | $ 91,949 | $ 17,094,496 |
| Dept of Finance | - | - | - | 56,244 | 14,836 | - | - | - | 71,080 |
| Dept of Public Services | 15,978,343 | 725,840 | 482,631 | 2,803,656 | 6,299 | 595,738 | 64,105,955 | - | 84,698,462 |
| Dept of Planning & Community Development | - | 13,033 | 93,220 | 6,799 | - | - | - | - | 113,052 |
| Department of Police | 4,949,556 | 246,711 | 653,302 | 608,597 | 129,051 | 19,350 | - | - | 6,606,567 |
| Department of Fire | 3,869,125 | 172,047 | 2,073,007 | 251,972 | 53,246 | - | - | 440,111 | 6,859,508 |
| Department of Engineering | - | - | 98,782 | - | 79,170 | 74,457 | 1,257,664 | - | 1,510,073 |
| Floodwall Operations | 15,121 | 5,150 | 61,711 | 132,592 | - | - | - | - | 214,574 |
| Community Development | 237,869 | 103,058 | - | - | 18,623 | - | 191,725 | - | 551,275 |
| Housing Assistance Programs | 150,033 | 12,950 | - | - | 19,646 | - | - | - | 182,629 |
| | $ 28,022,071 | $ 3,225,561 | $ 3,482,613 | $ 3,946,601 | $ 504,437 | $ 728,820 | $ 77,459,553 | $ 532,060 | $ 117,901,716 |

## CITY OF ASHLAND

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

## JUNE 30, 2016

| | |
|---|---|
| Land and buildings | $ 28,022,071 |
| Building improvements | 3,225,561 |
| Automotive equipment | 3,482,613 |
| Operating equipment | 3,946,601 |
| Office furniture and equipment | 504,437 |
| Capital improvements | 728,820 |
| Infrastructure | 77,459,553 |
| Construction in progress | 532,060 |
| Total | $ 117,901,716 |
| Investment in capital assets by source | |
| General Fund | $ 91,435,209 |
| Special Revenue Funds | 5,906,814 |
| Capital Projects Fund | 20,559,693 |
| Total | $ 117,901,716 |

## CITY OF ASHLAND HOUSING AUTHORITY

## STATEMENT OF NET POSITION

## JUNE 30, 2016

| | Rental Vouchers |
|---|---|
| **ASSETS** | |
| Cash - unrestricted | $ 76,385 |
| Accounts receivable | 2,299 |
| Building and equipment, net | 93,353 |
| Total assets | $ 172,037 |
| **LIABILITIES AND NET POSITION** | |
| LIABILITIES: | |
| Accounts payable | $ 3,484 |
| Accounts payable - other governmental | 22,387 |
| Accrued expenses | 3,690 |
| Accrued compensated absences - current | 839 |
| Accrued compensated absences - noncurrent | 4,267 |
| Total liabilities | 34,667 |
| **NET POSITION**: | |
| Invested in capital assets | 93,353 |
| Unrestricted | 44,017 |
| Restricted | - |
| | 137,370 |
| Total liabilities and net position | $ 172,037 |

## CITY OF ASHLAND HOUSING AUTHORITY

## STATEMENT OF REVENUES AND EXPENSES

## FOR THE YEAR ENDED JUNE 30, 2016

| | Rental Vouchers |
|---|---|
| REVENUES | |
| Housing assistance payments | $ 2,392,778 |
| Administrative fee revenue | 264,106 |
| Interest income | 156 |
| Total revenues | 2,657,040 |
| EXPENSES | |
| Administrative salaries | 136,598 |
| Audit | 8,426 |
| Employee benefit contributions | 19,147 |
| Travel | 5,832 |
| Other administrative | 9,650 |
| Utilities | 1,654 |
| Maintenance | 13,043 |
| Property insurance | 195 |
| General liability insurance | 2,273 |
| Workers compensation | 299 |
| Other insurance | 41,852 |
| Other general | 18,918 |
| Compensated absences | (142) |
| Housing assistance payments | 2,415,432 |
| Depreciation | 3,955 |
| Total expenses | 2,677,132 |
| EXCESS OF EXPENSES OVER REVENUES | $ (20,092) |

**CITY OF ASHLAND**
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**
**FOR THE YEAR ENDED JUNE 30, 2016**

| Federal Grantor/Pass-Through Grantor/Program Title | Federal CFDA Number | Pass-Through Grantor's Number | Passed Through to Subrecipients | Expenditures |
|---|---|---|---|---|
| U.S. Department of HUD | | | | |
| Direct Programs: | | | | |
| CDBG Entitlement | 14.218 | - | $ 54,600 | $ 608,544 |
| Housing Choice Voucher Program | 14.871 | - | - | 2,680,474 * |
| Total U.S. Department of HUD | | | | 3,289,018 |
| U.S. Department of Transportation | | | | |
| Direct Programs: | | | | |
| Federal Transit Cluster | | | | |
| FTA - Operating Assistance Grant | 20.507 | - | - | 336,732 |
| FTA - Capital Assistance Grant | 20.507 | - | - | 375,257 |
| | | | | 711,989 |
| Passed through Kentucky Transportation Cabinet : | | | | |
| Highway Planning and Construction | 20.205 | PO2-628 | - | 8,539 |
| Dept of State Police Highway Safety Program | 20.600 | AL-14-02 | - | 176 |
| Dept of State Police Highway Safety Program | 20.600 | PF-15-01 | - | 248 |
| Dept of State Police Highway Safety Program | 20.600 | M2HVE-16-01 | - | 2,354 |
| | | | | 11,317 |
| Total U.S. Department of Transportation | | | | 723,306 |
| U.S. Department of Homeland Security | | | | |
| Passed through Kentucky Department of Homeland Security: | | | | |
| Public Assistance Program | 97.036 | FEMA-DR-4216-KY | - | 217,688 |
| Homeland Security Grant Program | 97.067 | EMW-2015-SS-0032 | - | 14,600 |
| Total U.S. Department of Homeland Security | | | | 232,288 |
| Total expenditures of Federal awards | | | | $ 4,244,612 |

* Denotes major program.

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Ashland under the programs of the federal government for the year ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the City of Ashland, 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, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State and Local Governments*, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE C - INDIRECT COST RATE

The City of Ashland has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Kelley Galloway
Smith Goolsby, PSC
Certified Public Accountants and Advisors

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, 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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 21, 2016.

## 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. [2016-001].

## 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2016-002.

## 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.

Kelley Galloway Smith Goolsby, PSC

Ashland, Kentucky
October 21, 2016

Kelley Galloway
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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, 2016, 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.

**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 the Uniform Guidance, 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.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Kelley Galloway Smith Gerkeley, PSC

Ashland, Kentucky
October 21, 2016

## CITY OF ASHLAND

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

## FOR THE YEAR ENDED JUNE 30, 2016

### A. SUMMARY OF AUDITOR'S RESULTS

***Financial Statements***

| | |
|---|---|
| Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: | 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 federal 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 federal programs: | Unmodified |
| Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | ____ Yes __X__ No |
| Identification of Major Programs: Housing Choice Voucher Program | CFDA No. 14.871 |
| Dollar threshold used to distinguish between type A and type B programs: | $750,000 |
| Auditee qualified as low risk auditee? | ____ Yes __X__ No |

## B. FINANCIAL STATEMENT FINDINGS

### 2016-001 UTILITY FUND INVENTORY

*Condition*: While performing our observation of the physical inventory as of June 30, 2016, we noted that 16 of the 67 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:* Our current practice is to have two separate individuals count inventory separately then supply the count sheets to the inventory control clerk. The clerk currently checks many of the items to verify accuracy then types all results into the inventory control sheet. In the future, the inventory control clerk will count all items in addition to the other two individual counts. All three counts will be provided separately to the Supervisor to confirm all three counts match. All three raw counts will be kept on file for a few months. The Supervisor will also verify that all the counts are accurately typed into the final inventory sheet accurately. Also the count will begin by June 15th in order to not have a rushed count.

The prices for all inventory will have a note indicating the source of the price (including date & vendor). If the inventory is very old and the price has been carried through a number of years, a new price will be obtained for the material's current replacement value. The source of the replacement value will be indicated.

*Contact Person Responsible for Corrective Action:* Ryan Eastwood, Director of Engineering and Utilities..

*Anticipated Completion Date:* June 30, 2017

### 2016-002 COMMUNITY DEVELOPMENT BLOCK GRANT

*Condition*: During our testing of disbursements under the Community Development Block Grant ("CDBG") program, we noted payments totaling approximately $16,000 as part of the homeowner rehabilitation for an individual that did not meet the income requirements of the program.

The program administrator estimated the individuals' annual gross income based on a check history report for June 2015. A Verification of Employment form was properly completed by the payroll department on July 22, 2015. This form stated a gross base pay that included a raise as of July 1, 2015, and stated overtime and bonuses are expected to be earned over the next year. Based on the information on this form, we estimated annual gross income, including estimated overtime and bonuses, to be greater than the amount allowed.

*Criteria*: In order to receive assistance through the CDBG program, an individual's annual gross income must be within HUD's income guidelines. For the CDBG program, annual gross income is defined as "the gross amount of income of all adult household members that is anticipated to be received during the coming 12-month period." Bonuses and overtime should be included in the calculation if they are expected to be earned. Based on the individual's family size of two, annual gross income had to be lower than $34,600.

*Cause*: Annual gross income was not calculated based on the information provided on the Verification of Employment form.

*Effect*: Noncompliance with CDBG program requirements.

*Recommendation*: We recommend that the City contact HUD to determine the procedures to be taken to properly correct this error.

*Management's Response and Corrective Action Plan:* Management has provided additional guidance to employee calculating income. Also, in instances that the income is within 15% of the Low to Mod Max income, a second party will verify the income. City will contact HUD to determine the procedures to be taken to properly correct this error.

*Contact Person Responsible for Corrective Action:* Mike D. Miller, Director of Planning and Community Development Department

*Anticipated Completion Date:* June 30, 2017

## 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, 2016

| Findings | Findings/Noncompliance |
|---|---|
| 2015-001 | We recommend that employees responsible for the inventory counts and inventory valuation be reminded of the proper procedures.<br><br>Status: Repeat finding (2016-001)<br><br>Person Responsible for Corrective Action: Ryan Eastwood, Director of Engineering & Utilities. |