CITY OF CARROLLTON, KENTUCKY

BASIC FINANCIAL STATEMENTS, SUPPLEMENTARY INFORMATION, AND INDEPENDENT AUDITOR'S REPORTS

Year Ended June 30, 2014

CITY OF CARROLLTON, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS

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CITY OF CARROLLTON, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS

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RAISOR, ZAPP & WOODS, P.S.C.

Certified Public Accountants

513 HIGHLAND AVENUE
P.O. BOX 354
CARROLLTON, KENTUCKY 41008
(502) 732-6655 FAX (502) 732-6161

INDEPENDENT AUDITOR'S REPORT

The Mayor and Members of the City Council
of the City of Carrollton
Carrollton, 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 City of Carrollton, Kentucky, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Carrollton, Kentucky, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Members - Private Companies Practice Section of the American Institute of CPA's
Members - Kentucky Society of Certified Public Accountants

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 10 and 51 through 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in 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 of Carrollton, Kentucky's basic financial statements. The combining non-major fund financial statements and schedules listed in the table of contents 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is also not a required part of the basic financial statements.

The combining non-major fund financial statements, the schedule of expenditures of federal awards, and the schedules listed in the table of contents 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 combining non-major fund financial statements, the schedule of expenditures of federal awards, and the schedules listed in the table of contents are 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 January 16, 2015, on our consideration of the City of Carrollton, Kentucky'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 City of Carrollton, Kentucky's internal control over financial reporting and compliance.

Raisor, Zapp & Woods, PSC

RAISOR, ZAPP & WOODS, PSC
Certified Public Accountants
Carrollton, Kentucky

January 16, 2015

Our discussion and analysis of the City of Carrollton's financial performance provides an overview of the City's financial activities for the year ended June 30, 2014. Please read it in conjunction with the City's financial statements, which begin on page 11.

FINANCIAL HIGHLIGHTS

- This year's sidewalk improvements resulted in a total expenditure of $8,350

  $90,111 was spent this year on City Streets with Municipal Road Air funds.

- The City's capital outlay for riverfront development includes the following:

  $10,373 for land purchases for the Riverwalk
  $14,000 to Kemper Construction for riverbank excavation prior to construction of the Riverwalk.
  $ 23,818 to Heritage Engineering to oversee the construction of the Riverwalk
  $186,190 to Walter Martin Excavating for construction of the Riverwalk
  A $100,000 federal grant helped pay for the Riverwalk.

  The City spent $24,449 for a new Police vehicle.

- The City spent $39,015 to purchase property at 306 Sycamore Street adjacent to the Public Works barn. The house on the property was razed.
- The City spent $23,254 for a 2013 Ford Pickup for Public Works.
- The City spent $12,300 for a storage barn at Public Works.
- The City spent $8,349 for a riding mower to replace a broken one.
- The City spent $2,930 for a trailer to be used by Public Works.
- The City spent $13,284 for a combo tool, Honda pump and fire hose for the Fire Dept., with State Aid funds paying for $8,250 of this.

- City's total net position increased by $296,958, primarily due to the capital asset investments.

- In the City's business-type activities, charges for service increased to $52,302,832 (or 27.3%) and expenses increased to $51,942,848 (or 26.3%).
- The City's business-type activities spent $1,095,854 for the Countywide Underserved Project for replacement of aging infrastructure at the water treatment plant.
- The City obtained financing through the Kentucky Infrastructure Authority through the Environmental Protection Agency Capitalization Grants for Clean Water State Revolving Funds in the amount of $1,977,731 at 1.00% interest with 35% principal forgiveness. The proceeds from this loan were used to fund the Carroll County Fiscal Court Countywide Underserved Improvement Project. This is a regional and joint project with Carrollton Utilities and West Carroll Water District that provided upgrades to the Carrollton Utilities water treatment plant, replacing aging infrastructure, extending water service to unserved and improving water service to underserved customers in the West Carroll Water District. Construction began on this project in the 2013-2014 fiscal year and was complete by May 30, 2014. The City has recorded a receivable for $573,220 for the amount of the loan less principal forgiveness due from West Carroll Water District to Carrollton Utilities for their portion of the project.

- The City's business-type activities spent $74,471 for 2015 Hino Dump Truck.
- The City's business-type activities spent $190,451 on (5) CNG trucks and $11,398 for a crane bed and bed topper for (2) of those trucks.
- The City's business-type activities spent $458,616 on gas mains and service lines extensions in Owenton.
- The City's business-type activities spent $44,442 on the installation of a Compressed Natural Gas (CNG) fueling station on their 6th Street Property.
- The City's business-type activities spent $42,017 to replace water main lines in the Ware/Fisher/Framme Street area.
- The City's business-type activities spent $77,164 for a new billing and financial software system.
- The City's business-type activities spent $4,501 for (4) new pc's and monitors.
- The City's business-type activities spent $11,000 on replacement and repair of manholes on Hawkins Street from 7th to 11th Street.

USING THIS ANNUAL REPORT

This annual report contains a series of financial statements. The Statement of Net Position and the Statement of Activities (on pages 11-13) provide information about the activities of the City as a whole and present a long-term view of the City's finances. Fund financial statements start on page 14. For governmental activities, these statements reflect how these services were financed and what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statements by including information about the City's most significant funds.

Reporting the City as a Whole:

The Statement of Net Position and the Statement of Activities

Our analysis of the City as a whole begins on page 5. The Statement of Net Position and the Statement of Activities provide information about the City as a whole and about its activities in a way to show if the City is better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Position - the difference between assets and liabilities - is one way to measure the City's financial health. Increases or decreases in the City's net position - over a period of time - is one indicator of whether the City's financial health is improving or deteriorating. Other nonfinancial factors such as changes in the City's property tax base, the condition of its infrastructure assets, and advances in the City's utility services must be considered to assess the overall health of the City.

In the Statement of Net Position and the Statement of Activities, we divide the City into two kinds of activities.

* Governmental activities - Most of the City's basic services are reported here, including the police, fire, general administration, public works, and code enforcement. Property taxes, franchise fees, insurance premium taxes, and state and federal grants finance these activities.

* Business-type activities - The City's proprietary fund, Carrollton Utilities, which charges fees to customers to fund the City's water, sewer, and natural gas systems, are reported here.

Reporting the City's Most Significant Funds:

Fund Financial Statements

Our analysis of the City's major funds begins on page 8. The fund financial statements begin on page 14 and provide detailed information about the most significant funds. Some funds are required to be established by State law, like the Municipal Street Aid Fund and the L.G.E.A. Fund. The City's two kinds of funds - governmental and proprietary - use different accounting approaches.

* Governmental funds - The City's services are reported in governmental funds, which focus on how money flows in and out of those funds and the balances left at year-end that are available for carry-over funds for the next budget year. These funds are reported on the modified accrual accounting basis, which measures cash and all other financial assets that can be readily converted to cash.

* Proprietary funds - Business Type-Activities. The City reports the Carrollton Utilities as a proprietary fund. The City charges customers for the services of gas, water and sewer provided through the Carrollton Utilities. These are reported on the accrual accounting basis and are included in the Statement of Net Position on page 11.

THE CITY AS A WHOLE

The City's combined net position increased from $47.6 million to $48.6 million. The net position and net expenses of governmental and business-type activities show two different results. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the City's governmental and business-type activities.

TABLE 1
NET POSITION

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTAL GOVERNMENT	
	12/13	13/14	12/13	13/14	12/13	13/14
CURRENT AND OTHER ASSETS	2,539,802	2,573,374	10,944,537	12,516,365	13,484,339	15,089,739
CAPITAL ASSETS	6,304,664	6,313,861	38,577,769	39,795,680	44,882,433	46,109,541
TOTAL ASSETS	**8,844,466**	**8,887,235**	**49,522,306**	**52,312,045**	**58,366,772**	**61,199,280**
CURRENT LIABILITIES	446,112	503,873	4,552,392	5,791,514	4,998,504	6,295,387
NON-CURRENT LIABILITIES	638,018	326,068	5,145,234	5,916,621	5,783,252	6,242,689
TOTAL LIABILITIES	**1,084,130**	**829,941**	**9,697,626**	**11,708,135**	**10,781,756**	**12,538,076**
NET POSITION:						
NET INVESTMENT IN CAPITAL ASSETS	5,371,713	5,680,503	32,430,765	32,910,806	37,802,478	38,591,309
RESTRICTED	133,287	136,452	472,322	425,461	605,609	561,913
UNRESTRICTED	2,255,336	2,240,339	6,921,593	7,267,643	9,176,929	9,507,982
TOTAL NET POSITION	**7,760,336**	**8,057,294**	**39,824,680**	**40,603,910**	**47,585,016**	**48,661,204**

Net position of the City's governmental activities increased by 3.82% ($8,057,294 compared to $7,760,336). Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - changed from $2,255,336 at June 30, 2013 to $2,240,339 at the end of June 30, 2014.

The net position of our business-type activities increased by 1.96% ($40,603,910 compared to $39,824,680). Unrestricted net assets changed from $6,921,593 at the end of June 30, 2013 to $7,267,643 at the end of June 30, 2014. The City generally can only use the unrestricted net assets to finance the continuing operations of the gas, water and sewer operations.

TABLE 2
CHANGES IN NET POSITION

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTAL GOVERNMENT	
	12/13	**13/14**	**12/13**	**13/14**	**12/13**	**13/14**
REVENUES:						
PROGRAM REVENUES:						
CHARGES FOR SERVICES	759,953	825,072	41,078,335	52,302,832	41,838,288	53,127,904
FEDERAL GRANTS	71,872	115,102	48,980	0	120,852	115,102
STATE GRANTS/ENTITLEMENTS	108,633	129,846			108,633	129,846
LOCAL GRANTS/CONTRIBUTION	26,409	27,285			26,409	27,285
PRINCIPLE FORGIVENESS - KIA				383,549		1,303,549
GENERAL REVENUES:						
PROPERTY TAXES	435,780	456,661			435,780	456,661
FRANCHISE TAXES	134,693	156,196			134,693	156,196
PEAK ANNUAL RETURN	1,528,177	1,497,472			1,528,177	1,497,472
INSURANCE LICENSES	476,277	459,739			476,277	459,739
OTHER GENERAL REVENUES	1,198	241	25,784	35,697	26,982	35,938
TOTAL REVENUES:	**3,542,992**	**3,667,614**	**41,153,099**	**52,722,078**	**44,696,091**	**56,389,692**
PROGRAM EXPENSES:						
GENERAL GOVERNMENT	676,952	581,437			676,952	581,437
PUBLIC SAFETY	1,478,018	1,462,681			1,478,018	1,462,681
PUBLIC WORKS	681,419	770,620			681,419	770,620
HEALTH & SANITATION	307,674	315,767			307,674	315,767
PARKS & RECREATION	176,354	188,305			176,354	188,305
COMMUNITY SERVICE	16,966	22,869			16,966	22,869
INTEREST: LONG TERM DEBT	39,837	28,977			39,837	28,977
GAS			37,926,157	48,571,706	37,926,157	48,571,706
WATER			987,147	1,052,876	987,147	1,052,876
SEWER			2,023,194	2,114,342	2,023,194	2,114,342
MANAGEMENT SERVICES			188,185	203,924	188,185	203,924
TOTAL EXPENSES:	**3,377,220**	**3,370,656**	**41,124,683**	**51,942,848**	**44,501,903**	**55,313,504**
INCREASE (DECREASE) IN NET POSITION	165,772	296,958	28,416	779,230	194,188	1,076,188
BEGINNING NET POSITION	7,594,564	7,760,336	39,796,264	39,824,680	47,390,828	47,585,016
ENDING NET POSITION	**7,760,336**	**8,057,294**	**39,824,680**	**40,603,910**	**47,585,016**	**48,661,204**

The City's total revenues increased by $11,693,601. The total cost of all programs and services increased by $10,811,601. Our analysis below separately considers the operations of governmental and business-type activities.

Governmental Activities

Revenues for the City's governmental activities increased by 3.5 percent ($124,622) and total expenses decreased by .19 percent ($6,564). The increase in net position for governmental activities was $296,958 in FY 2013-2014. This compares to a $165,772 increase in net position in FY 2012-2013.

- The City budgeted several capital outlay projects:

  $240,000 for development of the Riverwalk with $100,000 Grant
  $28,935 for police cruiser
  $26,605 for a Ford F350 Pickup truck for Public Works
  $12,300 for new tool shed for Public Works' equipment

- The City budgeted a 3% increase in departmental salaries.

- The City kept the health insurance with Anthem with a 6% premium increase and kept the deductibles at $3,000 / $9,000. The City's H.R.A. (health reimbursement account) will pay $2,500 / $8,000 deductible above the employees $500 / $1,000 cost.

- The City's retirement plan (C.E.R.S.) employer contribution was decreased from 19.55 percent to 18.89 percent by the Commonwealth of Kentucky.

The cost of all governmental activities this year was $3,370,656 compared to $3,377,220 last year. As shown in the Statement of Activities on pages 12-13, the amount that our taxpayers financed for these activities was $825,072, and some of the cost was paid by other governments and organizations that subsidized certain programs with grants and contributions of $272,233. Overall, the City's governmental program revenues, including intergovernmental aid and fees for services increased from $966,867 to $1,097,305.

Table 3 presents the cost of each of the City's departments - General Government, Fire Department, Police Department, Public Works Department, and Sanitation. The net cost shows the financial burden that was placed on the City's taxpayers by each of these functions.

TABLE 3
GOVERNMENTAL ACTIVITIES

	TOTAL COST OF SERVICES		NET COST OF SERVICES	
	12-13	13-14	12-13	13-14
GENERAL GOVERNMENT	676,952	581,437	(531,209)	(434,332)
FIRE DEPARTMENT	215,607	196,132	(162,403)	(176,287)
POLICE DEPARTMENT	1,262,411	1,266,549	(992,553)	(989,381)
PUBLIC WORKS DEPARTMENT	681,419	770,620	(587,390)	(679,495)
SANITATION	307,674	315,767	44,263	45,788
ALL OTHERS	233,157	240,151	(181,061)	(39,644)
TOTALS:	3,377,220	3,370,656	(2,410,353)	(2,273,351)

Business-type Activities

Total revenues of the City's business type activities (see Table 2) increased by 28.11 percent in FY 13-14 compared to a 4.9 percent increase in FY 12-13. The expenses in FY 13-14 increased by 26.31 percent.

The approximate 28% increase in revenues and expenses of the City's business-type activities is directly related to the gas services provided by Carrollton Utilities. Whereas, the program revenues and expenses of the water, sewer and management services of Carrollton Utilities stayed relatively constant compared to the prior year, the revenues and expenses of the gas services increased by 29% ($10,998,501) and 28% ($10,645,549), respectively. (See Table 4 below detailing Program Revenues-Charges for Services of the Business-type Activities.

TABLE 4
BUSINESS-TYPE ACTIVITIES

	Program Revenues - Charges for Services			Expenses	
	12-13	13-14		12-13	13-14
Gas	38,144,920	49,143,421		37,926,157	48,571,706
Water	1,002,621	1,049,618		987,147	1,052,876
Sewer	1,730,392	1,859,290		2,023,194	2,114,342
Management Services	200,402	250,503		188,185	203,924
Totals:	41,078,335	52,302,832		41,124,683	51,942,848

THE CITY'S FUNDS

As the City completed fiscal year 2013-2014, its governmental funds (as presented in the balance sheet on page 14) reported a combined fund balance of $1,407,886 which represents a decrease of $31,719 from last year's total of $1,439,605. The primary reasons for the General Fund's decrease mirror the governmental activities analysis highlighted on page 7. In addition, these other changes in fund balances should be noted:

- The City's PEAK revenue was $1,486,664.
- The City's total expenditures increased by $31,738 with the majority of the increase attributable to capital expenditures.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City Council revised the General Fund budget one time for fiscal year ending June 30, 2014. This amendment accounted for increases in revenues from property taxes, and decreases in licenses/permits and charges for services. In addition, it accounted for the increases in all departments as a result of the annual salary increases.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2014, the City had $44,963,914 (net of accumulated depreciation) invested in capital assets including buildings, utilities, police, fire, and public works equipment, park facilities, city streets, and water, sewer, and gas lines. (See table below.) This represents a net increase of $762,773 or 1.73%.

TABLE 5
CAPITAL ASSETS AT YEAR-END
(NET OF DEPRECIATION)

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTALS	
	2013	2014	2013	2014	2013	2014
LAND	1,046,299	1,104,050	643,278	643,278	1,689,577	1,747,328
BUILDINGS & IMPROVEMENTS	2,571,772	2,727,192	5,178,205	5,013,613	7,749,977	7,740,805
EQUIPMENT	772,088	730,258	2,838,207	2,885,590	3,610,295	3,615,848
INFRASTRUCTURE	1,889,454	1,750,989	29,088,359	29,910,754	30,977,813	31,661,743
CONSTRUCTION-IN-PROGRESS	25,051	1,372	148,428	196,818	173,479	198,190
TOTALS:	**6,304,664**	**6,313,861**	**37,896,477**	**38,650,053**	**44,201,141**	**44,963,914**

This year's major additions included:

- $220,371 for the Riverwalk with a Federal grant paying for $100,000
- $12,300 for an equipment tool shed for Public Works
- $57,751 for properties at 306 Sycamore Street adjacent to Public Works barn
- $ 23,254 for 2013 Ford F250 pickup for Public Works
- $ 32,340 for new Police Cruiser/Equipment
- $11,279 for new riding lawn mower/Trailer
- $8,350 for sidewalk improvements
- $19,040 for Fire Department equipment with State Aid paying for $8,250
- $10,271 for Welcome Signs
- $9,500 for Bridge
- $74,471 for 2015 Hino Dump Truck
- $190,451 for (5) Compressed Natural Gas (CNG) trucks
- $44,442 for the installation of CNG fill station
- $11,398 for a crane bed and topper for (2) trucks
- $458,616 for gas main and services installation in Owenton
- $77,164 for a new billing and financial software system
- $11,000 on replacement and repair of manholes on Hawkins Street from 7th to 11th Street.
- $1,095,854 on replacement of aging infrastructure at the Water Treatment Plant for the Countywide Underserved Project.
- $42,017 for replacement of water main lines in the Ware/Fisher/Framme Street area.

Debt

At year-end, the City had $6,853,387 in capital lease, notes payable and bonds payable compared to $6,401,984 last year as shown in Table 6.

TABLE 6
OUTSTANDING DEBT AT YEAR-END

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTALS	
	2013	2014	2013	2014	2013	2014
CAPITAL LEASE	932,951	633,358	220,874	66,324	1,153,825	699,682
NOTES PAYABLE			5,248,159	6,153,705	5,248,159	6,153,705
TOTALS	**932,951**	**633,358**	**5,469,033**	**6,220,029**	**6,401,984**	**6,853,387**

Other obligations of the City represents accrued compensated absences for $44,359 compared to $34,912 last year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2013-2014 budget. One of those factors is the economy - specifically the Consumer Price Index (CPI). The CPI was reported at 1.7408 % according to the Commonwealth of Kentucky. Council decided to allocate a 3% increase for departmental salaries.

The City chose to raise the property tax rate by 4% as per KRS 132.027. This meant an increase of revenue of $11,721 in property tax receipts.

As for the City's business-type activities, the Commission has budgeted an approximate 5% increase in gas revenues and expenses, a 2% (in town) and 3% (out of town) increase in water rates, and a 2% (in town) and 3% (out of town) increase in sewer rates.

The city will complete construction on a natural gas main extension in the City of Owenton in Owen County. This project has a budget of $225,000 and will provide natural gas service to approximately 150 additional customers.

The City was approved for a Kentucky Infrastructure Authority loan in the amount $1,657,988 at 1.00% interest with 25% principal forgiveness. The proceeds from this loan will be used to fund the Carroll County Interconnect Project. This is a regional and joint project with Carrollton Utilities, West Carroll Water District and Carroll County Water District #1 that will provide interconnection and infrastructure additions to all three districts. Construction will begin on this project in the 2014-2015 fiscal year and should be complete by June 30, 2015.

The City was approved for a Kentucky Infrastructure Authority Loan in the amount of $963,931 at 1.00% interest with 50% principal forgiveness. The proceeds from this loan will be used to fund the Focusing on Core Mission and Infrastructure Project. This project will focus on preventative measures and the replacement of obsolete equipment for Carrollton Utilities in association with Henry County Water District, Carroll County Water District, and West Carroll Water District. Construction will begin on this project in the 2015-2016 fiscal year and should be complete by April 30, 2016.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Treasurer's Office at 750 Clay Street, Carrollton, Kentucky 41008.

LEATHA S. GRIMES, CMC
City Clerk-Treasurer

BILL R. OSBORNE
Carrollton Utilities General Manager

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2014

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets			
Cash, Including Time Deposits	$ 559,040	$ 7,129,023	$ 7,688,063
Investments	649,570	-	649,570
Interest Receivable	-	2,430	2,430
Accounts Receivable (Net)	224,220	4,931,482	5,155,702
Other Receivables	-	1,192,630	1,192,630
Due from Other Governments	80,635	257,710	338,345
Due from Other Funds	1,052,931	(1,052,931)	-
Current Portion - Interlocal Receivable	-	8,490	8,490
Prepaid Expense	6,978	47,531	54,509
Total Current Assets	$ 2,573,374	$ 12,516,365	$ 15,089,739
Noncurrent Assets			
Restricted Assets			
Cash, Including Time Deposits	$ -	$ 580,476	$ 580,476
Interest Receivable	-	421	421
Interlocal Receivable	-	564,730	564,730
Capital Assets (Net)	6,313,861	38,650,053	44,963,914
Total Noncurrent Assets	$ 6,313,861	$ 39,795,680	$ 46,109,541
Total Assets	$ 8,887,235	$ 52,312,045	$ 61,199,280
LIABILITIES			
Current Liabilities			
Accounts Payable	$ 55,554	$ 4,912,252	$ 4,967,806
Accrued Compensated Absences	16,596	6,067	22,663
Accrued Wages	43,090	45,864	88,954
Accrued Interest Payable	909	275	1,184
Unearned Income	5,350	-	5,350
Construction Retainage Payable	71,531	350,148	421,679
Current Portion - Capital Lease Obligations	310,843	66,324	377,167
Current Liabilities Payable from Restricted Assets:			
Accrued Interest	-	6,680	6,680
Notes Payable	-	403,904	403,904
Total Current Liabilities	$ 503,873	$ 5,791,514	$ 6,295,387
Noncurrent Liabilities			
Accrued Compensated Absences	$ 3,553	$ 18,143	$ 21,696
Obligations Under Capital Leases	322,515	-	322,515
Notes Payable	-	5,749,801	5,749,801
Noncurrent Liabilities Payable from Restricted Assets:			
Customer Deposits Payable	-	148,677	148,677
Total Noncurrent Liabilities	$ 326,068	$ 5,916,621	$ 6,242,689
Total Liabilities	$ 829,941	$ 11,708,135	$ 12,538,076
NET POSITION			
Net Investment in Capital Assets	$ 5,680,503	$ 32,910,806	$ 38,591,309
Restricted for:			
Debt Service	-	425,461	425,461
Other Purposes	136,452	-	136,452
Unrestricted	2,240,339	7,267,643	9,507,982
Total Net Position	$ 8,057,294	$ 40,603,910	$ 48,661,204

See accompanying notes to the basic financial statements

Net (Expense) Revenue and Changes in Net Position		
Governmental Activities	Business-type Activities	Total
$ (434,332)	$ -	$ (434,332)
(176,287)	-	(176,287)
(989,381)	-	(989,381)
(679,495)	-	(679,495)
45,788	-	45,788
(12,839)	-	(12,839)
2,172	-	2,172
(28,977)	-	(28,977)
$ (2,273,351)	$ -	$ (2,273,351)
$ -	$ 571,715	$ 571,715
-	380,291	380,291
-	(255,052)	(255,052)
-	46,579	46,579
$ -	$ 743,533	$ 743,533
$ (2,273,351)	$ 743,533	$ (1,529,818)
$ 456,661	$ -	$ 456,661
156,196	-	156,196
1,497,472	-	1,497,472
459,739	-	459,739
241	7,911	8,152
-	3,208	3,208
-	24,578	24,578
$ 2,570,309	$ 35,697	$ 2,606,006
$ 296,958	$ 779,230	$ 1,076,188
7,760,336	39,824,680	47,585,016
$ 8,057,294	$ 40,603,910	$ 48,661,204

See accompanying notes to the basic financial statements

CITY OF CARROLLTON, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash, Including Time Deposits	$ 391,755	$ 167,285	$ 559,040
Investments	649,570	-	649,570
Accounts Receivable: (Net of Allowance for Uncollectibles)			
Insurance Licenses	111,612	-	111,612
Business Licenses	14,617	-	14,617
Ad Valorem Tax	3,796	-	3,796
Franchise Fees	16,629	-	16,629
Miscellaneous	73,704	-	73,704
Due from Other Governments	59,508	8,474	67,982
Due from Other Funds	80,577	35,265	115,842
Total Assets	$ 1,401,768	$ 211,024	$ 1,612,792
LIABILITIES			
Accounts Payable	$ 105,563	$ -	$ 105,563
Accrued Compensated Absences	15,638	-	15,638
Accrued Wages	43,090	-	43,090
Deferred Revenue	5,350		5,350
Due to Other Funds	35,265		35,265
Total Liabilities	$ 204,906	$ -	$ 204,906
FUND BALANCES			
Restricted	$ -	$ 136,452	$ 136,452
Committed	-	42,382	42,382
Assigned	-	32,190	32,190
Unassigned	1,196,862	-	1,196,862
Total Fund Balances	$ 1,196,862	$ 211,024	$ 1,407,886
Total Liabilities and Fund Balances	$ 1,401,768	$ 211,024	$ 1,612,792

See accompanying notes to the basic financial statements

CITY OF CARROLLTON, KENTUCKY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2014

Total Governmental Fund Balances		$	1,407,886
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Total capital assets $10,626.860 net of accumulated depreciation $4,312,999.			6,313,861
Revenues that do not provide current financial resources are not reported as revenues in the funds. Amounts due on such revenues but not received subsequent to year end within 60 days have been reported as receivable in the Statement of Net Position.			988,869
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:			
Accrued Compensated Absences	$ 4,511		
Accrued Interest on Capital Leases	909		
Construction Retainage Payable	21,522		
Capital Leases Payable	633,358		
			(660,300)
Expenditures that have used current financial resources but have been made for goods and services to be received subsequent to year end have been reported as a prepaid expense in the Statement of Net Position.			6,978
Net Position of Governmental Activities		$	8,057,294

See accompanying notes to the basic financial statements

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2014

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Payments in Lieu of Taxes	$ 32,216	$ -	$ 32,216
Ad Valorem Taxes	412,005	35,265	447,270
Franchise Fees	130,260	-	130,260
Garbage Collection	361,555	-	361,555
Bank Franchise Deposit Tax	24,869	-	24,869
Business Licenses	96,224	-	96,224
Insurance Licenses	459,739	-	459,739
Building Permits	3,642	-	3,642
Penalty & Interest	9,391	-	9,391
Interest Revenue	(11)	252	241
PEAK Revenue	1,486,664	-	1,486,664
Campground Receipts	78,858	-	78,858
Other Revenue/Donations	16,590	25,984	42,574
Proceeds from Outside Sources:			
HB413/Citations Revenue	7,605	-	7,605
C.C. Fiscal Court - Public Safety Salaries	232,716	-	232,716
Police & Firefighter's Incentive Pay	28,524	-	28,524
Kentucky Municipal Road Aid	-	91,125	91,125
Local Government Economic Assistance	-	1,948	1,948
State Fire Aid	8,250	-	8,250
Police Grant	6,607	-	6,607
U.S. Department of Homeland Security (FEMA) Grant	8,495	-	8,495
U.S. Department of Transportation Recreational Trails Program Grant	87,347		87,347
Total Revenues	$ 3,491,546	$ 154,574	$ 3,646,120
EXPENDITURES			
Current			
Administrative	$ 875,684	$ 6,558	$ 882,242
Public Safety			
Fire Department	130,097	-	130,097
Police Department	1,234,887	-	1,234,887
Public Works	500,933	90,111	591,044
Parks and Recreation	83,240	-	83,240
Community Service	-	22,869	22,869
Capital Outlay	403,388	1,071	404,459
Debt Repayment			
Principal	299,593	-	299,593
Interest	29,408	-	29,408
Total Expenditures	$ 3,557,230	$ 120,609	$ 3,677,839
Excess of Revenues Over (Under) Expenditures	$ (65,684)	$ 33,965	$ (31,719)
Fund Balances - July 1	1,262,546	177,059	1,439,605
Fund Balances - June 30	$ 1,196,862	$ 211,024	$ 1,407,886

See accompanying notes to the basic financial statements

CITY OF CARROLLTON, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

Net Change in Fund Balances - Total Governmental Funds	$ (31,719)
Amounts reported for governmental activities in the Statement of Activities are different because:	
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 as depreciation expense.	
Capitalized Expenditures	404,459
Depreciation Expense	(396,562)
Repayment of capital lease obligation principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.	299,593
Some expenses reported in the Statement of Activities (current year) do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds until paid.	
Compensated Absences	521
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	22,210
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	431
Expenditures in the Statement of Revenues, Expenditures, and Changes in Fund Balances that are for goods and services not yet received are not reported as expenses in the Statement of Activities.	(1,975)
Change in Net Position of Governmental Activities	$ 296,958

See accompanying notes to the basic financial statements

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUND
June 30, 2014

		Carrollton Utilities Enterprise Fund
ASSETS		
Current Assets		
Cash, Including Time Deposits	$	7,129,023
Interest Receivable		2,430
Accounts Receivable (Net)		4,931,482
Other Receivables		1,192,630
Due from Other Governments		257,710
Current Portion - Interlocal Receivable		8,490
Prepaid Expense		47,531
Total Current Assets	$	13,569,296
Noncurrent Assets		
Restricted Assets		
Cash, Including Time Deposits	$	580,476
Interest Receivable		421
Interlocal Receivable		564,730
Capital Assets (Net)		38,650,053
Total Noncurrent Assets	$	39,795,680
Total Assets	$	53,364,976
LIABILITIES		
Current Liabilities		
Accounts Payable	$	4,912,252
Due to Other Funds		1,052,931
Accrued Compensated Absences		6,067
Accrued Salaries, Wages & Benefits		45,864
Accrued Interest Payable		275
Construction Retainage Payable		350,148
Capital Lease Obligations		66,324
Current Liabilities Payable from Restricted Assets:		
Accrued Interest Payable		6,680
Notes Payable		403,904
Total Current Liabilities	$	6,844,445
Noncurrent Liabilities		
Accrued Compensated Absences	$	18,143
Notes Payable		5,749,801
Noncurrent Liabilities Payable from Restricted Assets:		
Customer Deposits Payable		148,677
Total Noncurrent Liabilities	$	5,916,621
Total Liabilities	$	12,761,066
NET POSITION		
Net Investment in Capital Assets	$	32,910,806
Restricted for:		
Debt Service		425,461
Unrestricted		7,267,643
Total Net Position	$	40,603,910

See accompanying notes to the basic financial statements

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
For the Year Ended June 30, 2014

		Carrollton Utilities Enterprise Fund
Operating Revenues:		
Charges for Services:		
Gas Utility Charges (Net)	$	49,111,073
Water Utility Charges (Net)		1,034,951
Sewer Utility Charges (Net)		1,703,867
Connection Fees & Service Charges		194,341
Contractual Services		250,503
Total Charges for Services	$	52,294,735
Miscellaneous Revenues		8,097
Total Operating Revenues	$	52,302,832
Operating Expenses:		
Cost of Goods Sold	$	46,586,881
Operation & Maintenance		1,661,786
General & Administrative		1,936,882
Depreciation		1,672,567
Total Operating Expenses	$	51,858,116
Net Operating Income	$	444,716
Nonoperating Revenue (Expenses):		
Interest Income	$	12,804
Interest and Fiscal Charges		(83,096)
Lease Fees		(3,321)
Gain (Loss) from Sale of Assets		24,578
Total Nonoperating Revenue (Expenses)	$	(49,035)
Net Income Before Capital Contributions	$	395,681
Capital Contributions		383,549
Change in Net Position	$	779,230
Net Position - July 1		39,824,680
Net Position - June 30	$	40,603,910

See accompanying notes to the basic financial statements

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2014

	Carrollton Utilities Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	$ 51,267,619
Payments to Suppliers	(47,766,928)
Payments to Employees	(1,529,609)
Receipts of Customer Meter Deposits	77,570
Refunds of Customer Meter Deposits	(128,232)
Net Cash Provided (Used) by Operating Activities	$ 1,920,420
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Proceeds from Noncapital Debt	$ 881,877
Interest Paid on Noncapital Debt	(1,685)
Net Cash Provided (Used) by Noncapital Financing Activities	$ 880,192
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Contributions	$ 383,549
Proceeds from Sale of Capital Assets	24,578
Purchases of Capital Assets	(2,093,043)
Proceeds from Capital Debt	454,595
Principal Paid on Capital Debt	(534,529)
Interest Paid on Capital Debt	(81,464)
Net Cash Provided (Used) by Capital and Related Financing Activities	$ (1,846,314)
CASH FLOWS FROM INVESTING ACTIVITIES	
Advance - Interlocal Receivable	$ (881,877)
Purchase of Certificates of Deposits	(8,182)
Interest Received	11,122
Net Cash Provided (Used) by Investing Activities	$ (878,937)
Net Increase (Decrease) in Cash and Cash Equivalents	$ 75,361
Balances-July 1	6,267,182
Balances-June 30	$ 6,342,543

	Balances Per June 30, 2014 Statement of Net Position	Balances Per June 30, 2014 Statement of Cash Flows
Cash	$ 6,153,829	$ 6,153,829
Time Deposits	975,194	-
Restricted Cash	188,714	188,714
Restricted Time Deposits	391,762	-
Total	$ 7,709,499	$ 6,342,543

(Continued)

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUND
For the Year Ended June 30, 2014

	Carrollton Utilities Enterprise Fund
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating Income (Loss)	$ 444,716
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation Expense	1,672,567
Change in Assets and Liabilities:	
Receivables, Net (Increase) Decrease	(999,719)
Other Receivables (Increase) Decrease	(99,935)
Prepaid Expenses (Increase) Decrease	(3,819)
Accounts and Other Payables Increase (Decrease)	893,160
Due to Other Funds Increase (Decrease)	(19,856)
Customer Meter Deposits Payable Increase (Decrease)	(50,662)
Accrued Expenses Increase (Decrease)	83,968
Net Cash Provided by Operating Activities	$ 1,920,420

At June 30, 2014, Carrollton Utilities had received principal forgiveness on its non-capital debt through the Kentucky Infrastructure Authority. Under the debt agreement, an interlocal agreement with West Carroll Water District was approved under which Carrollton Utilities used a portion of the debt proceeds to finance line improvements to the West Carroll Water District distribution system. Additionally, under the interlocal agreement, the debt forgiveness attributable to West Carroll's portion of the proceeds, reduced the funds receivable from West Carroll for its portion of the debt. The amount of debt forgiveness attributable to West Carroll's portion of the debt was $308,657.

At June 30, 2014, Carrollton Utilities had $350,148 outstanding retainage payable.

CITY OF CARROLLTON, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of entity: The City of Carrollton, Kentucky is a fourth class city with population of approximately 4,000. It is operated under Kentucky Revised Statutes mayor/council form of government. The entity serves approximately 4,700 water, sewer and gas customers. The city complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting principles are discussed in subsequent subsections of this Note.

1.A. FINANCIAL REPORTING ENTITY

The City's financial reporting entity comprises the following:

Primary Government:	City of Carrollton
Blended Component Units:	Utilities Commission of Carrollton

In determining the financial reporting entity, the City complies with the provisions of GASB Statement No. 61, "The Financial Reporting Entity: Omnibus," and includes all component units of which the City appointed a voting majority of the units' board; the City is either able to impose its will on the unit or a financial benefit or burden relationship exists.

Blended Component Units

Blended component units are separate entities that meet the component unit criteria described above and whose governing body is the same as or designated by the City Council or the component unit provides services entirely to the City. These component units' funds are blended into those of the City's by appropriate activity type.

Component units that are blended into the reporting activity types of the City's report are presented below:

Component Unit	Brief Description/Inclusion Criteria	Reporting
Utilities Commission of Carrollton (CU)	The Commission operates a combined utilities system to provide residents of the City and certain outlying areas with natural gas, water, sanitary sewers, and sewage treatment facilities. The City's mayor appoints the Commissioners and also designates management of the Commission. The City Council approves the utility rates charged by the Commission. The long-term debt of the Commission is backed by the full faith and credit of the City and is, therefore, a contingent liability to the general government. The Cities of Carrollton, Glencoe, Sanders, Sparta, Owenton, Prestonville, Worthville, Campellsburg, and Ghent and the Counties of Carroll, Gallatin, Owen, and Henry entered into interlocal agreements for the construction, operation and maintenance of a regional sewer facility. Under these agreements the City of Carrollton, through Carrollton Utilities, owns and operates the system. In recognition of Carrollton's ownership of the completed facility, and its operation of same through its Enterprise Fund (Carrollton Utilities), the transactions of the regional sewer are included in the financial statements as part of that fund.	Enterprise Fund

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.A. FINANCIAL REPORTING ENTITY (Continued)

Excluded from the reporting entity:

Carrollton Housing Authority – This potential component unit has a separate appointed board and provides services to residents, generally within the geographic boundaries of the City. It is excluded from the reporting entity because the City does not have the ability to exercise influence or control over its daily operations, approve budgets or provide funding.

Carrollton-Carroll County, Kentucky Recreation and Tourism Commission – This potential component unit has been appointed jointly by the area governments' governing bodies. It is an independent unit that selects management staff, establishes budgets and controls all aspects of its daily activities.

Carroll County/City of Carrollton E-911 Dispatch Commission – This potential component unit was established under an interlocal agreement between Carroll County Fiscal Court and the City of Carrollton in November, 1994 to operate the E-911 Dispatch. The Commission has two members – the Carroll County Judge Executive and the Mayor of the City of Carrollton. Under the interlocal agreement the members are to share the costs of operating the E-911 Dispatch equally. The Commission's bank accounts are maintained by Fiscal Court and included in its financial reports.

Public Energy Authority of Kentucky (PEAK) – formerly PEAK, Inc. – This potential component unit is a Kentucky nonprofit corporation created by the cities of Carrollton and Henderson, Kentucky, under the provisions of Kentucky Revised Statutes, Sections 273.161 through 273.390, Sections 65.210 through 65.300 and Section 58.180, as amended, and the Public Energy Authority of Kentucky, Inc. Interlocal Agreement dated March 1, 2003. Effective September 5, 2008 under the Natural Gas Acquisition Authority Act of the State of Kentucky, PEAK Inc. was converted into the Public Energy Authority of Kentucky (PEAK). The newly created entity assumed all assets, liabilities, and on going operations of PEAK Inc. PEAK was created for the purposes of providing gas acquisition, delivery and other related services to the Cities and other public agencies that may become signatories to the Interlocal Agreement (the Members). PEAK is excluded from the reporting entity because of the following: (i) It has a 4-member Board of Directors, which is appointed by the Membership; (ii) PEAK is a separate legal entity; and (iii) It is fiscally independent in that its budgets and charges are determined without substantive member approval.

1.B. BASIS OF PRESENTATION

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function or program of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.B. BASIS OF PRESENTATION (Continued)

Government-wide Financial Statements: (Continued)

and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and

b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

The General Fund is the primary operating fund of the City and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes.

Capital Project Funds

The Capital Project Funds are used to account for resources restricted for the acquisition or construction of specific capital projects or items.

Proprietary Fund

Enterprise Fund

Enterprise Funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the Carrollton Utilities Commission Enterprise Fund.

Fiduciary Funds (Not included in government-wide statements)

None

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.B. BASIS OF PRESENTATION (Continued)

Major and Nonmajor Funds

The funds are further classified as major or nonmajor as follows:

Fund	Brief Description
Major:	
General Fund	See above for description.
Proprietary Fund:	
Carrollton Utilities	Accounts for activities in providing water, wastewater, and gas services to the public.
Nonmajor:	
Special Revenue Funds:	
L.G.E.A. Fund	Accounts for revenues and expenditures from the state mineral severance tax.
Municipal Road Aid	Accounts for revenues and expenditures from the state gasoline tax.
Enterprise Improvement Fund	Accounts for tax revenues designated for beautification improvement projects.
Shop With A Cop Fund	Accounts for contributions and expenditures associated with the Police Department's community service program for underprivileged children.

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b. below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

b. The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Continued)

c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

1.D. ASSETS, LIABILITIES, AND EQUITY

Cash and Investments

For the purpose of the Statement of Net Position, "cash, including time deposits" includes all demand, savings accounts, and certificates of deposits of the City. For the purpose of the proprietary fund Statement of Cash Flows, "cash and cash equivalents" include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

Investments are carried at fair value. Fair value is based on quoted market price.

Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Short-term interfund loans are reported as "interfund receivables and payables." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include insurance license taxes, franchise taxes, and amounts due from other governments. Business-type activities report utility billing and gas activities as their major receivables.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.D. ASSETS, LIABILITIES, AND EQUITY (Continued)

Receivables (Continued)

In the fund financial statements, material receivables in governmental funds include revenue accruals such as insurance license tax, franchise tax, and grants and other similar intergovernmental revenues since they are usually both measurable and available. Nonexchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable, interest earnings and construction grants compose the majority of proprietary fund receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

Interlocal Receivable

The City of Carrollton f/b/o Carrollton Utilities has entered into an interlocal agreement with the West Carroll Water District under which the West Carroll Water District is the sub recipient of loan proceeds from the Kentucky Infrastructure Authority funding the Countywide Underserved Project. The City of Carrollton f/b/o Carrollton Utilities is the recipient of the loan proceeds. Carrollton Utilities is also the entity overseeing the engineering and construction contracts, and other general costs associated with the project. West Carroll Water District, under the interlocal agreement, has agreed to pay Carrollton Utilities for the portion of the debt associated with improvements made to its distribution system. At June 30, 2014, $881,877 had been expended toward line extensions and improvements on the West Carroll Water District's distribution system. The amount due from West Carroll Water District to Carrollton Utilities after principal forgiveness of $308,657 from Kentucky Infrastructure Authority is $573,220. An Interlocal Receivable is presented in the Statement of Net Position to represent this amount due from the West Carroll Water District to the City of Carrollton f/b/o Carrollton Utilities.

Inventories

The cost of consumable materials and supplies on hand are immaterial to the financial statements, and the City has therefore chosen to report these items as expenditures/expenses at the time of purchase.

Fixed Assets

The accounting treatment over property, plant, and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable and updated for additions and retirements during the year. Donated fixed assets are recorded at their estimated fair value at the date of donation. The City maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Estimated historical cost was used to value the majority of the assets acquired prior to July 1, 1989.

Prior to July 1, 2002, governmental funds' infrastructure assets were not capitalized. Only major general infrastructure assets acquired, significantly reconstructed, or significantly improved in fiscal years ending after June 30, 1980 have been included. These assets have been valued at estimated historical cost.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.D. ASSETS, LIABILITIES, AND EQUITY (Continued)

Government-wide Statements (Continued)

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

- Buildings	25-40 years
- Improvements	20-25 years
- Machinery and Equipment	4-20 years
- Utility System	20-60 years
- Infrastructure	25 years

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

Restricted Assets

Restricted assets include cash of the proprietary fund that is legally restricted as to use. The primary restricted cash assets are related to debt obligation accounts and utility meter deposits.

Capital Lease Expenses

Proprietary Fund capital lease fees are expensed as incurred.

Long-term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of notes payable, capital lease obligations and accrued compensated absences.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for the proprietary fund is the same in the fund statements as it is in the government-wide statements.

Compensated Absences

Under the City's policies employees accumulate vacation time. Unused vacation time cannot be carried into the next calendar year. A portion of accumulated sick leave is available to employees at retirement. Employees are not paid for accumulated sick leave upon other termination. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.D. ASSETS, LIABILITIES, AND EQUITY (Continued)

Equity Classifications

Government-wide Statements

Equity is classified as net position and displayed in three components:

a. Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

b. Restricted net position – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

c. Unrestricted net position – All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as follows:

a. Nonspendable fund balance – amounts that are not in a spendable form (such as inventory) or are required to be maintained intact (such as the corpus of an endowment fund).

b. Restricted – amounts that can be used only for specific purposes because of (a) constitutional provisions or enabling legislation or (b) externally imposed constraints.

c. Committed – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint.

d. Assigned – amounts intended to be used for specific purposes but that do not meet the criteria to be classified as restricted or committed. This is the residual fund balance classification for all governmental funds except the general fund.

   The City Council is the City's highest level of decision making authority. Formal approval of a motion made at a public meeting of the City Council is necessary to establish (and modify or rescind) a fund balance commitment or assignment.

e. Unassigned – this is the residual classification for the general fund.

1.E. REVENUES, EXPENDITURES, AND EXPENSES

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is 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. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within sixty days of the fiscal year-end.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.E. REVENUES, EXPENDITURES, AND EXPENSES (Continued)

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, insurance license taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Insurance license taxes are recognized to the extent known in the period for which the insurance company reports the fee collected. 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, revenue from non-exchange transactions must also be available before it can be recognized.

Property Tax

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and are due and payable at that time. All unpaid taxes levied October 1 become delinquent January 1, of the following year.

Property taxes receivable and deferred revenues are recognized when an enforceable legal claim has arisen.

Property tax revenues are recognized when they become available. In the fund financial statements, property taxes are recorded as revenue in the period levied to the extent they are collected within sixty days after year end. An allowance for uncollectible delinquent property taxes is provided to the extent that their collectibility is improbable. Due to the immaterial amount of any additional property taxes receivable after the sixty-day period, no additional accrual is made in the government-wide financial statements.

Insurance License Tax

The City levies an 8% (eight percent) license fee upon each insurance company which issues insurance policies on the lives of persons residing within the corporate limits of the City of the first year's premiums actually collected.

The City levies an 8% (eight percent) license fee upon each insurance company which issues any insurance policy which is not a life insurance policy of the premiums actually collected for policies on risks located within the corporate limits of the City. The tax imposed upon premium receipts is not levied upon premiums received for insuring employers against personal injuries to their employees, or death caused thereby, under the provisions of the Workers Compensation Act, or health insurance provided for state employees under KRS 18A.225(2). Insurance license fees are payable to the City within 30 (thirty) days after the end of each calendar quarter.

PEAK Project Returns

In consideration of the City's participation in the long-term gas supply projects through the Public Energy Authority of Kentucky, the City receives monthly and annual returns. The monthly return is $.18 per MMBtu of gas billed. The annual return is based on deemed excess revenues of the project, total gas supply sold to all project participants, and the amount of gas purchased by the City. Annual returns are not guaranteed.

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.E. REVENUES, EXPENDITURES, AND EXPENSES (Continued)

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds-By Character:	Current (further classified by function) Debt Service Capital Outlay

Proprietary Fund-By Operating and Nonoperating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

The City adheres to the use restrictions established by Kentucky Revised Statutes when expenses are incurred for which both restricted and unrestricted net position is available. The City has no policy defining which resources (restricted or unrestricted) to use first.

Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. For the purposes of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

By its nature as a local government unit, the City and its component unit are subject to various federal, state, and local laws and contractual regulations. An analysis of the City's compliance with significant laws and regulations and demonstration of its stewardship over City resources follows.

2.A. FUND ACCOUNTING REQUIREMENTS

The City complies with all state and local laws and regulations requiring separate accounting or use of separate funds. Those funds requiring separate accounting used by the City include the following:

Fund	Required By
Municipal Road Aid	State Law
L.G.E.A.F.	State Law
Enterprise Improvement	Local Regulation

2.B. DEPOSITS AND INVESTMENTS, LAWS AND REGULATIONS

In accordance with state law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at the lower of market or par. Acceptable collateral includes certain U.S. Government or Government Agency securities, certain State of Kentucky or political subdivision debt obligations, or surety bonds. As required by the Financial Institutions Reform, Recovery and Enforcement Act of 1989, all financial institutions pledging collateral to the City must have a written collateral agreement approved by the board of directors or loan committee.

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

2.B. DEPOSITS AND INVESTMENTS, LAWS AND REGULATIONS (Continued)

KRS 66.480 authorizes the City to invest in obligations of the United States and its agencies and instrumentalities including repurchase agreements, through sources including national and state banks chartered in Kentucky, obligations and contracts for future delivery backed by the full faith of the United States or its Agency, certificates of deposit and interest bearing accounts in institutions insured by the Federal Depository Insurance Corporation and other investments described therein provided that approved securities are pledged to secure those funds on deposit in an amount equal to the amount of those funds. The City may also invest in mutual funds meeting the requirements of the statute.

2.C. REVENUE RESTRICTIONS

The City has various restrictions placed over certain revenue sources from state or local requirements. The primary restricted revenue sources include:

Revenue Source	Legal Restrictions of Use
Municipal Road Aid	Street & Alley Purposes
County Dispatch Revenue	E-911 Emergency Services Purposes
Water, Sewer, and Gas Revenue	Debt Service and Utility Operations
EIP/Facade Revenue	Beautification Improvement Projects
Law Enforcement Grants	Police Programs/Salaries
Local Government Economic Assistance Funds	Approved Expenditures
State Fire Aid	Fire Equipment Expenditures
Federal Emergency Management Agency (FEMA)/Department of Homeland Security (DHS)	Fire Equipment Expenditures/Water Security Systems
U.S. Department of Transportation Federal Highway Administration (FHWA) Recreational Trails Program Project	Riverwalk Project
Environmental Protection Agency – Clean Water State Revolving Funds	Underserved Project
Environmental Protection Agency – Drinking Water State Revolving Funds	Interconnect Project and Focus on Care Mission Project

For the year ended June 30, 2014, the City complied, in all material respects, with these revenue restrictions.

2.D. DEBT RESTRICTIONS AND COVENANTS

Kentucky Infrastructure Authority Maintenance, Replacement Reserve – Loans AO1-03, B99-03 and AO5-01.

Funded Maintenance, Replacement Reserve Accounts are required by the City's Assistance Agreements AO1-03, B99-03, AO5-01, B08-06, and F11-15 with the Kentucky Infrastructure Authority. Under the agreements, the City must deposit into these accounts $8,000 annually, $236 semi-annually, $30,000 annually, and $2,250 annually, until the amounts accumulated on deposit are equal to $80,000, $5,610, $300,000, and $22,500, respectively. The reserve accounts for agreements A01-03, B99-03 and AO5-01 are fully funded. The reserve account for B08-06 began to be funded in December, 2013. The reserve account for F11-15 will begin to be funded in 2015.

Kentucky League of Cities Lease Debt Service Reserve Funds

If the City, through Carrollton Utilities, fails to make any part of a lease rental payment when due, Debt Service Reserve Funds will be created and funded as prescribed by the lease agreements and used to satisfy lease rental payments. At June 30, 2014, the City was in compliance with the lease agreements and therefore, no Debt Service Reserve Funds have been created.

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

3.A. CASH AND INVESTMENTS

Deposits

The City of Carrollton, Kentucky's policies regarding deposits of cash are in accordance with the state statutes described in Note 2.B. The table presented below is designed to disclose the level of custody credit risk assumed by the City based upon how its deposits were insured or secured with collateral at June 30, 2014. The categories of credit risk are defined as follows:

Category 1 – Insured by FDIC or collateralized with securities held by the City (public trust) or by its agent in its name.

Category 2 – Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

Category 3 – Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the City's name; or collateralized with no written or approved collateral agreement.

Governmental Activities

Type of Deposits	Total Bank Balance	Custody Credit Risk Category 1	2	3	Total Carrying Value
Demand Deposits	$ 16,360	$ 16,360	$ -	$ -	$ 16,216
Time/Savings Deposits	633,423	370,000	195,352	68,071	541,206
Total Deposits	$ 649,783	$ 386,360	$ 195,352	$ 68,071	$ 557,422

Business-type Activities

Type of Deposits	Total Bank Balance	Custody Credit Risk Category 1	2	3	Total Carrying Value
Demand Deposits	$ 6,311,417	$ 500,000	$ 5,811,417	$ -	$ 6,340,866
Time/Savings Deposit	1,414,172	964,137	450,035	-	1,367,383
Total Deposits	$ 7,725,589	$ 1,464,137	$ 6,261,452	$ -	$ 7,708,249

	Governmental Activities	Business-type Activities	Total
Reconcilement to Statement of Net Position			
Cash, including Time Deposits	$ 559,040	$ 7,129,023	$ 7,688,063
Restricted Cash, including Time Deposits	-	580,476	580,476
	$ 559,040	$ 7,709,499	$ 8,268,539
Total Carrying Value	$ 557,422	$ 7,708,249	$ 8,265,671
Plus: Cash on Hand	1,618	1,250	2,868
	$ 559,040	$ 7,709,499	$ 8,268,539

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.A. CASH AND INVESTMENTS (Continued)

Investments

The City's policies and applicable laws regarding investments are discussed in Note 2.B.

At June 30, 2014, investments consisted of the following:

Deposits in the Kentucky League of Cities Investment Pool Plus in the amount of $649,570. This investment is made up of the pooled assets of several cities. The City of Carrollton holds a percentage of the pool's assets equal to its balance divided by the pool balance. The City of Carrollton, Kentucky's percentage of ownership was 72.16% of pool assets at June 30, 2014. The investments held in the pool include Freddie Mac, Fannie Mae, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal Farm Credit Bank, Fannie Discount Notes, and U.S. Treasury Notes. The investment account is managed by Fifth Third Bank of Kentucky.

The Kentucky League of Cities Investment Pool Plus was invested in the following at June 30, 2014:

	Cost	Market Value	% of Assets	Maturity
Bonds (see description above)	$ 882,534	$ 877,240	97.80%	7/02/14-9/11/15
Money Market/Short Term Investments	20,479	20,479	2.20%	N.A.
Total	$ 903,013	$ 897,719	100.00%	

3.B. RESTRICTED ASSETS

Restricted assets consists of the following:

	Cash	Interest Receivable	Total
KIA Loan Reserve Accounts	$ 431,717	$ 421	$ 432,138
Customer Deposits	148,677	-	148,677
Interconnect Construction Account	82	-	82
Total	$ 580,476	$ 421	$ 580,897

In addition to these restrictions, the Utility Commission has established certificates of deposit in the amount of $651,507 as reserved to mitigate the risk associated with industrial sales.

3.C. ACCOUNTS RECEIVABLE

Accounts receivable of the business-type activities consists of utilities receivable. Accounts receivable of the governmental activities consists of franchise tax (7%), insurance licenses (50%), property tax (2%), business licenses (7%) and other (34%) receivables. Receivables detail at June 30, 2014, is as follows:

	Governmental Activities	Business-type Activities	Total
Accounts receivable	$ 230,082	$ 5,002,821	$ 5,232,903
Allowance for doubtful accounts	(5,862)	(71,339)	(77,201)
Net accounts receivable	$ 224,220	$ 4,931,482	$ 5,155,702

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.D. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014, was as follows:

	Balance at July 1, 2013	Additions	Disposals	Balance at June 30, 2014
Governmental Activities:				
Land	$ 1,046,299	$ 57,751	$ -	$ 1,104,050
Buildings & Improvements	3,230,723	256,352	-	3,487,075
Machinery & Equipment	2,345,899	106,985	(38,047)	2,414,837
Infrastructure	3,611,176	8,350	-	3,619,526
Construction in Process	25,051	220,373	(244,052)	1,372
Totals at Historical Cost	$ 10,259,148	$ 649,811	$ (282,099)	$ 10,626,860
Less: Accumulated Depreciation				
Buildings & Improvements	$ 658,951	$ 100,932	$ -	$ 759,883
Machinery & Equipment	1,573,811	148,815	(38,047)	1,684,579
Infrastructure	1,721,722	146,815	-	1,868,537
Total Accumulated Depreciation	$ 3,954,484	$ 396,562	$ (38,047)	$ 4,312,999
Governmental Activities - Capital Assets, Net	$ 6,304,664	$ 253,249	$ (244,052)	$ 6,313,861

Depreciation Expense was charged to governmental activities as follows:

General Government	$ 19,623
Public Safety	
Fire Department	66,413
Police Department	39,850
Public Works	33,578
Parks & Recreation	90,282
Infrastructure (included with Public Works)	146,816
Total Depreciation Expense	$ 396,562

$1,748,541 of assets have been recorded under capital leases associated with the RV Recreational Park. Accumulated depreciation of $187,678 is associated with these assets.

Land and Construction in process are assets which are not depreciated. $1,504,438 of depreciable assets are fully depreciated.

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.D. CAPITAL ASSETS (Continued)

	Balance at July 1, 2013	Additions	Disposals	Balance at June 30, 2014
Business-type Activities:				
Land & Right of Ways	$ 643,278	$ -	$ -	$ 643,278
Structures & Improvements	7,672,571	61,157	-	7,733,728
Distribution System	43,459,852	1,838,260	-	45,298,112
Wells	400,333	-	-	400,333
Plant, Machinery & Equipment	9,902,475	480,612	(44,355)	10,338,732
Construction in Process	148,428	1,144,244	(1,095,854)	196,818
Totals at Historical Cost	$ 62,226,937	$ 3,524,273	$ (1,140,209)	$ 64,611,001
Less: Accumulated Depreciation				
Structures & Improvements	$ 2,494,366	$ 225,749	$ -	$ 2,720,115
Distribution System	14,509,892	995,174	-	15,505,066
Wells	261,934	20,691	-	282,625
Plant, Machinery & Equipment	7,064,268	430,953	(42,079)	7,453,142
Total Accumulated Depreciaton	$ 24,330,460	$ 1,672,567	$ (42,079)	$ 25,960,948
Business-type Activities Capital Assets, Net	$ 37,896,477	$ 1,851,706	$ (1,098,130)	$ 38,650,053

Depreciation Expense was charged to the Business-type Activities as follows:

Gas	$ 549,787
Water	144,019
Sewer	978,761
Total Depreciation Expense	$ 1,672,567

$3,823,481 of assets have been recorded under capital leases associated with the Gas Distribution System. Accumulated depreciation of $1,660,305 is associated with these assets.

Land, right of ways, and construction in process are capital assets not being depreciated. $10,524,820 of depreciable assets are fully depreciated.

3.E. LONG-TERM DEBT

The reporting entity's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities.

Governmental Activities:

Capital Lease Obligations:

RV Recreation Park - $1,500,000 fixed rate lease agreement assigned to PNC Equipment Finance, LLC by the Kentucky League of Cities Funding Trust dated June, 2011. Terms are: 5 years; interest charged at 3.692%, secured by revenue of the City. Monthly payments are $27,417, with final maturity June 16, 2016.

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.E. LONG-TERM DEBT (Continued)

Governmental Activities: (Continued)

Current Portion	$	310,843
Noncurrent Portion		322,515
Total Capital Lease Obligations	$	633,358

Accrued Compensated Absences:

Current Portion	$	16,596
Noncurrent Portion		3,553
Total Accrued Compensated Absences	$	20,149

Business-type Activities:

As of June 30, 2014, the long-term debt payable from proprietary fund resources consisted of the following:

Notes Payable:

Kentucky Infrastructure Authority represents a 30 year loan secured by sewer revenues. Interest is charged at 1.6% per annum. The original principal balance was $112,200. Semi-annual payments with final maturity June 1, 2032.	$	73,626
Kentucky Infrastructure Authority represents a 20 year loan secured by sewer revenues. Interest is charged at the rate of 1.8%. The original principal balance was $2,518,301. Semi-annual payments with final maturity December 1, 2022.		1,181,253
Kentucky Infrastructure Authority represents a 20 year loan secured by sewer revenues. Interest is charged at the rate of 1.0%. The original principal balance was $4,288,600. Semi-annual payments with final maturity December 1, 2026.		2,805,018
Kentucky Infrastructure Authority represents a 20 year loan secured by sewer revenues. Interest is charged at the rate of 1.07%. The original principal balance was $867,091. Semi-annual payments with final maturity December 1, 2032.		808,283
Kentucky Infrastructure Authority represents a 30 year loan secured by sewer revenues. Interest is charged at 1.00% per annum. In addition a loan servicing fee of .25 percent of the annual outstanding loan balance will be payable to the authority as a part of each interest payment. Total draws on the loan were $1,977,731. The note has been reduced by principal forgiveness of $692,206.		1,285,525
Total Notes Payable	$	6,153,705
Current Portion	$	403,904
Noncurrent Portion		5,749,801
Total Notes Payable	$	6,153,705

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.E. LONG-TERM DEBT (Continued)

Business-type Activities: (Continued)

Capital Lease Obligations:

U.S. Highway 42 natural gas pipeline expansion - $1,300,000 fixed rate lease agreement with Kentucky League of Cities Funding Trust Program dated October, 2004. 10 years, 3.440% effective interest rate, secured by gas revenues. Monthly payments with final maturity of October 4, 2014.	$	66,324
Total Capital Lease Obligations	$	66,324
Current Portion	$	66,324
Noncurrent Portion		-
Total Capital Lease Obligations	$	66,324

Accrued Compensated Absences:

Current Portion	$	6,067
Noncurrent Portion		18,143
Total	$	24,210

Changes in Long-term Debt

The following is a summary of changes in long-term debt for the fiscal year ended June 30, 2014:

Type of Debt	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014	Current Portion
Governmental Activities					
Capital Lease Obligations	$ 932,951	$ -	$ 299,593	$ 633,358	$ 310,843
Accrued Compensated Absences	20,827	15,866	16,544	20,149	16,596
Total General Long-term Debt	$ 953,778	$ 15,866	$ 316,137	$ 653,507	$ 327,439
Business-type Activities					
Notes Payable	$ 5,248,159	$ 1,977,731	$ 1,072,185	$ 6,153,705	$ 403,904
Capital Lease Obligations	220,874	-	154,550	66,324	66,324
Accrued Compensated Absences	14,085	110,222	100,097	24,210	6,067
Total Enterprise Fund Debt	$ 5,483,118	$ 2,087,953	$ 1,326,832	$ 6,244,239	$ 476,295

Description of Debt Activity:

Governmental Activities

Capital Lease Obligation – Kentucky League of Cities

On June 16, 2011, the City of Carrollton, Kentucky entered into a $1,500,000 lease agreement assigned to PNC Equipment Finance, LLC by the Kentucky League of Cities Funding Trust. The proceeds of the lease were used to finance the construction of a RV Recreation Park on the Kentucky River. The lease may be terminated at any time by paying to the lessor the optional prepayment price (3% penalty) as provided in the agreement.

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.E. LONG-TERM DEBT (Continued)

Description of Debt Activity: (Continued)

Governmental Activities (Continued)

Capital Lease Obligation – Kentucky League of Cities (Continued)

Assuming the lease is not liquidated prior to maturity, the annual minimum obligation of the lease at June 30, 2014, is as follows:

Fiscal Year	Principal Payment	Interest Payment	Total Payment	Balance at End of Year
				$ 633,358
2014-15	$ 310,843	$ 18,158	$ 329,001	322,515
2015-16	322,515	6,486	329,001	-
	$ 633,358	$ 24,644	$ 658,002	$ -

Business-type Activities

Capital Lease Obligations-Kentucky League of Cities

On October 4, 2004, the City of Carrollton, Kentucky entered into a $1,300,000 lease agreement with the Kentucky League of Cities Funding Trust. The proceeds of the lease were used to fund an expansion of natural gas lines along U.S. Highway 42.

The amount shown in the accompanying financial statements as lease obligations represents Carrollton Utilities' future obligations to make lease payments under its fixed lease agreements with the Kentucky League of Cities Funding Trust Program, aggregating $66,324. The lease was made with proceeds from the $50,000,000 Kentucky League of Cities Funding Trust Lease Program Revenue Bonds, variable rate 2004 Series A, issued by the City of Morehead, Kentucky.

The City Utilities' Commission has an option to purchase the property under lease at any time by paying to the lessor the optional prepayment price as provided in the indenture.

Assuming the lease is not liquidated prior to maturity, the annual minimum obligation of the lease at June 30, 2014, is as follows:

Fiscal Year	Principal Payment	Interest Payment	Fiscal Charges	Total Payment	Balance at End of Year
					$ 66,324
2014-15	$ 66,324	$ 539	$ 355	$ 67,218	-
	$ 66,324	$ 539	$ 355	$ 67,218	$ -

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.E. LONG-TERM DEBT (Continued)

Description of Debt Activity: (Continued)

Business-type Activities (Continued)

Notes Payable to Kentucky Infrastructure Authority

On October 18, 2002, Carrollton Utilities closed a $112,200 loan with Kentucky Infrastructure Authority that provided financing for the extension of sewer service to industrial sites on U.S. Highway 42. The first amortized payment commenced on December 1, 2002.

A second loan was closed on March 19, 2003. The $2,518,301 Kentucky Infrastructure Authority loan provided financing for the Regional Sewer Project. The first amortized payment commenced on June 1, 2003.

A third loan was closed in March, 2010. The $4,288,600 Kentucky Infrastructure Authority loan provided financing for the Wastewater Treatment Plant Project. The first amortized payment commenced on June 1, 2007.

A fourth loan was closed in April, 2013. The $867,091 Kentucky Infrastructure Authority Loan provided financing for the Eagle Creek Sewer Extension Project. The first amortized payment commenced on June 1, 2013.

A fifth loan with Kentucky Infrastructure had not been closed as of June 30, 2014. The $1,977,731 loan provided financing for the Countywide Underserved Project under which improvements were made to the distribution systems of both Carrollton Utilities and West Carroll Water District. The loan contained a principal forgiveness clause in the amount of thirty-five percent (35%). An interlocal receivable from the West Carroll Water District was recorded in the amount of $881,877 less the District's share of the principal forgiveness recognized, $308,657, to account for the West Carroll Water District's portion of the loan. Principal forgiveness for Carrollton Utilities has been recognized in the amount of $484,549. Principal forgiveness was granted at the time of loan draws. The first amortized payment will commence in 2015. An estimated amortization schedule is included.

The combined obligations of the outstanding notes at June 30, 2014 are as follows:

Fiscal Year	Principal Payment	Interest Payment	Servicing Fee	Total Payment	Balance at End of Year
					$ 6,153,705
2014-15	$ 403,904	$ 68,907	$ 10,883	$ 483,694	5,749,801
2015-16	425,562	65,524	11,924	503,010	5,324,239
2016-17	431,033	60,129	11,066	502,228	4,893,206
2017-18	436,580	54,661	10,195	501,436	4,456,626
2018-19	442,204	49,117	9,313	500,634	4,014,422
2019-24	2,070,371	161,761	33,113	2,265,245	1,944,051
2024-29	1,041,723	67,787	15,939	1,125,449	902,328
2029-34	397,380	34,669	9,122	441,171	504,948
2034-39	232,223	19,594	5,509	257,326	272,725
2039-44	247,152	7,897	2,277	257,326	25,573
2044-45	25,573	124	36	25,733	-
	$ 6,153,705	$ 590,170	$ 119,377	$ 6,863,252	$ -

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.E. LONG-TERM DEBT (Continued)

Description of Debt Activity: (Continued)

Business-type Activities (Continued)

Notes Payable to Kentucky Infrastructure Authority (Continued)

Annual Debt Service Requirements

The annual debt service requirements to maturity, including principal, interest, fiscal charges and servicing fees for long-term debt as of June 30, 2014 are as follows:

	Governmental Activities		Business-type Activities	
Fiscal Year	Principal	Interest & Fiscal Charges	Principal	Interest & Fiscal Charges
2014-15	$ 310,843	$ 18,158	$ 470,228	$ 80,684
2015-16	322,515	6,486	425,562	77,448
2016-17	-	-	431,033	71,195
2017-18	-	-	436,580	64,856
2018-19	-	-	442,204	58,430
2019-24	-	-	2,070,371	194,874
2024-29	-	-	1,041,723	83,726
2029-34	-	-	397,380	43,791
2034-39			232,223	25,103
2039-44			247,152	10,174
2044-45			25,573	160
Total	$ 633,358	$ 24,644	$ 6,220,029	$ 710,441

3.F. INTEREST EXPENSE AND FISCAL CHARGES

Interest expense and fiscal charges for the Governmental Funds was $28,977. Interest expense and fiscal charges for the Enterprise Fund for the year ended June 30, 2014, was $83,086. No interest was capitalized during the year ended June 30, 2014.

3.G. INTERFUND TRANSACTIONS AND BALANCES

Interfund balances reported in the financial statements at June 30, 2014, consisted of the following individual fund receivables and payables:

Receivable Fund	Payable Fund	Amount	Purpose
General Fund	Enterprise Fund	$ 1,052,931	Sanitation Receipt Reimbursements/ PEAK Returns/Insurance Reimbursement
Enterprise Improvement Program Fund	General Fund	35,265	Property Tax Allocable to EIP Fund
Total		$ 1,088,196	

3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.H. FUND EQUITY

Restricted Net Position

The following table shows the restricted net position as shown on the Statement of Net Position:

Governmental Activities

Activity	Restricted by		
Other Purposes:			
Municipal Road Aid	State Law	$	127,030
L.G.E.A.F.	State Law		9,422
		$	136,452

Business-type Activities

Restricted for Debt Service:		
Kentucky Infrastructure Authority (KIA) Notes Payable		
Cash & Investments	$	431,717
Add: Accrued Interest Receivable		424
Less: Accrued Interest Payable		(6,680)
Total KIA Notes Payable	$	425,461

Fund Balance Classifications

The following classifications of fund balance on the Governmental Funds Balance Sheet (Fund Financial Statement) have been made:

Restricted for the following purposes under Kentucky Statutes:

Other Governmental Funds:		
Municipal Road Aid	$	127,030
L.G.E.A. F.		9,422
	$	136,452

Committed for the following purposes by ordinance, resolution or contract by action of the City Council:

Other Governmental Funds:		
Community Development Projects (EIP)	$	42,382

Assigned for expenditures associated with the Shop with a Cop and Riverwalk Development program as constrained to that purpose:

Other Governmental Funds:		
Shop with a Cop	$	26,360
Riverwalk Development		5,830
	$	32,190

NOTE 4. OTHER NOTES

4.A. PENSION PLAN

Entry into the Commonwealth of Kentucky's County Employees' Retirement System (CERS) was authorized by the City Council and Carrollton Utilities Commission as of July 15, 1988 and September 1, 1992, respectfully. The most recent financial report on CERS is included in the Kentucky Retirement System's annual report, June 30, 2014. Copies of this report will be distributed to each participating employer in the Kentucky Employees Retirement System, County Employees Retirement System, and State Police Retirement System. Copies will also be available to Legislative personnel and state libraries.

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in non-hazardous duty position of each participating county, city, and school board, and any additional eligible local agencies electing to participate in CERS. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Prior to July 1, 2009, cost-of-living adjustments (COLAs) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year.

Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least twelve months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than twelve months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the twelve months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce the COLA if, in its judgment, the welfare of the Commonwealth so demands. On July 1, 2013, the COLA was not granted.

Contributions – For the fiscal years ended June 30, 2014 and 2013, plan members who began participating prior to September 1, 2008, were required to contribute 5% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the fiscal years ended June 30, 2014 and 2013, participating employers contributed 18.89% and 19.55%, respectively, of each employer's creditable compensation. The actuarially determined rates set by the Board for the fiscal year ended June 30, 2014 and 2013, were 18.89% and 19.55%, respectively. Administrative costs of KRS are financed through employer contributions and investment earnings.

In accordance with House Bill 1, signed by the Governor on June 27, 2008, plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 6% of their annual creditable compensation. Five percent of the contribution was deposited to the member's account while the 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). Interest is paid each June 30 on members' accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(h) account is non-refundable and is forfeited. For plan members who began participating prior to September 1, 2008, their contributions remain at 5% of their annual creditable compensation.

NOTE 4. OTHER NOTES

4.A. PENSION PLAN (Continued)

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Non-hazardous members contribute 5% of their annual creditable compensation and 1% to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

The City's General Fund total payroll for the fiscal year ended June 30, 2014, was $1,296,878. Contributions were based on $1,080,879 (eligible gross wages). The total pension expense for the year ended June 30, 2014, was $211,034 and $61,808 for the employer and employees, respectively. All contributions were made as required during the fiscal year ending June 30, 2014.

The City's Proprietary Fund total payroll for the fiscal year ended June 30, 2014, was $1,549,136. Contributions were based on $1,309,423 (eligible gross wages). The total pension expense for the fiscal year ended June 30, 2014, was $264,374 and $74,721 for the employer and employees, respectively. All contributions were made as required during this fiscal year. There have been no changes in the plan since inception.

The City's contribution for the year ended June 30, 2014, (general fund and proprietary fund combined) was .13 percent of the System's total contribution requirements for all employers.

For non-hazardous duty, the required contributions to the plan for all participating employees were as follows ($ in thousands):

County Employees Retirement System (CERS) - Pension Funds

	Annual Required Contributions	Actual Contributions	Actual Contributions as a Percentage of Covered Employee Payroll
June 30, 2014	324,231	324,231	14.27%
June 30, 2013	294,914	294,914	13.19%
June 30, 2012	261,764	275,736	12.33%

County Employees Retirement System (CERS) - Insurance Funds

	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 2014	130,652	123,278	94.40%
June 30, 2013	195,561	159,993	81.80%
June 30, 2012	214,421	171,925	80.20%

The Kentucky Retirement Systems Insurance Fund (Fund) was established to provide hospital and medical insurance for members receiving benefits from CERS. The Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance for current beneficiaries.

NOTE 4. OTHER NOTES

4.B. RISK MANAGEMENT

Insurance and Related Activities

The City is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risks are covered through the purchase of commercial insurance. The City is also subject to the risks associated with employee injury. These risks are covered through premiums paid to the Kentucky League of Cities, Workers' Compensation Trust. Such coverage is retrospectively rated and premiums may be adjusted based on experience.

Under the health insurance plan adopted by the City, employee deductibles are $3,000 (single plan)/ $9,000 (family plan). The City will pay for eligible medical expenditures incurred by employees above the maximum employee costs determined by the City of $500 single/$1,000 family up to the deductible of the plan ($2,500 single/$8,000 family). Any unused deductible remains with the City and does not accrue to the benefit of the employee. The estimated yearly potential liability to the City under this policy is $263,500. No accrual has been recorded in the financial statements due to the contingent nature of this liability.

Due to the economic dependence of the City's utility system on gas purchases made by seven local industries, Carrollton Utilities is at risk for the financial impact on its cash flows and financial position from economic impacts on those industries that would affect each industry's ability to meet its obligations for such purchases. Credit risk insurance has been acquired to minimize this risk.

4.C. COMMITMENTS, CONTINGENCIES & SUBSEQUENT EVENTS

Each employee is granted sick leave at the rate of eight hours per month up to a maximum of 1,040 hours. Employees shall not be paid for unused sick leave credit upon termination of employment, except that employees who retire and receive CERS retirement benefits may personally receive payment for unused sick leave for the same amount that CERS would charge for applying the accrued sick leave to extend retirement benefits. The total liability for accumulated sick leave at June 30, 2014 was $557,666. No accrual has been recorded in the financial statements due to the contingent nature of this liability.

The City receives funding from Federal, State, and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based on the grantor's review, the funds are considered not to have been used for the intended purposes, the grantors may request a refund of monies advanced, or refuse to reimburse the City for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the City's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

Carroll County/City of Carrollton E-911 Dispatch Commission – Amounts maintained in the Commission's accounts above the reserve established by the interlocal agreement, may be made available to the Commission's members to finance each member's share of the E-911 Dispatch's cost of operation after member approval.

Carrollton Utilities has access to storage as part of its transportation services with Texas Gas Transmission. Gas is withdrawn from its storage account during the winter period (November – February) to be replenished the following summer period (March – October). At June 30, 2014, Carrollton Utilities has an unpaid and accrued storage liability estimated to be $261,146.

The City has entered into an interlocal operating agreement with the City of Prestonville, Kentucky whereby Carrollton, through the Carrollton Utilities Commission, will operate and maintain the Prestonville Wastewater Collection System. This operation and maintenance includes ordinary and extraordinary repairs to the system and the collection of fees.

NOTE 4. OTHER NOTES (Continued)

4.C. COMMITMENTS, CONTINGENCIES & SUBSEQUENT EVENTS (Continued)

Ownership of the wastewater system remains with Prestonville. Under the agreement, Carrollton Utilities bills Prestonville customers the sanitary sewer service rate currently in effect for Carrollton customers plus an amount (Debt Service Surcharge – PDSS) designated by Prestonville to pay the debts incurred in construction. Carrollton Utilities forwards the PDSS billed to Prestonville. This debt service surcharge ended August 2014.

The Carrollton Utilities Commission has an operational agreement with West Carroll Water District. Under the agreement, Carrollton Utilities provides operation and maintenance of the West Carroll Water Distribution System, as well as, customer billing services, accounting functions, and other agreed related services. The annual compensation to Carrollton Utilities for providing these services has been set at $250,503 for the 2013-2014 fiscal year.

Carrollton Utilities is currently disputing long distance telephone charges with their provider due to a change in their long distance telephone plan. Carrollton Utilities contends that they do not owe for charges and are working with their provider to mitigate these charges. At June 30, 2014, these charges with proposed penalty and interest, amounted to $14,435. No accrual has been recorded for this liability.

The City is the subject of various pending claims or lawsuits. The ultimate disposition of any settlement or other legal decision is not determined at the present time.

Long Term Gas Supply Arrangements

Public Energy Authority of Kentucky (Formerly Public Energy Authority of Kentucky, Inc.)

The Public Energy Authority of Kentucky, Inc. (the Authority) is a nonprofit corporation organized in 2003 by the City of Carrollton, Kentucky, and the City of Henderson, Kentucky (collectively, the Cities), under the Provisions of Kentucky Revised Statutes, Sections 273.161 through 273.390, Section 65.210 through 65.300, and Section 58.180, as amended, and the Public Energy Authority of Kentucky, Inc. Interlocal Agreement dated March 1, 2003, for the purposes of providing gas acquisition, delivery and other related services to the Cities and other public agencies that may become signatories to the Interlocal Agreement (the Members). The Public Energy Authority of Kentucky, Inc. was the operating entity at July 1, 2008.

The Kentucky Legislature enacted the Natural Gas Acquisition Authority Act with the legislation effective on July 15, 2008. Effective September 5, 2008 the Public Energy Authority of Kentucky, Inc. was converted to the Public Energy Authority of Kentucky (the Authority). The Public Energy Authority of Kentucky is a Natural Gas Acquisition Authority under the Provisions of the Kentucky Revised Statutes, Section 353.400 through 353.410, as amended, and the Public Energy Authority of Kentucky Interlocal Agreement dated as of July 15, 2008, for the purposes of providing gas acquisition, delivery and other related services to the Cities and other public agencies that may become signatories to the Interlocal Agreement (the Members). The newly created Authority assumed all assets, liabilities, and ongoing operations of the Public Energy Authority of Kentucky, Inc. in 2008.

The Public Energy Authority of Kentucky has entered in Gas Sale Contracts with the Cities, other municipal utilities, and joint action agencies (the Participants) providing for the sale of specific quantities of gas. Under the terms of the various agreements, the Authority is guaranteed to receive agreed-upon quantities of gas over an initial period of 10 to 20 years. The Participants are obligated under the contracts to make payments to the Authority from revenues of their public gas utilities as an operating and maintenance expense and as a cost of purchased natural gas.

NOTE 4. OTHER NOTES (Continued)

4.C. COMMITMENTS, CONTINGENCIES & SUBSEQUENT EVENTS (Continued)

PEAK issues separate financial statements available through its administrative offices. Summarized totals for PEAK, from its audited financial statements for the year ended June 30, 2014, are as follows:

Assets and Deferred Outflows	$ 523,332,846
Liabilities and Deferred Inflows	518,994,999
Total Net Position	4,337,847
Costs Recoverable from Future Billings	*(17,281,684)

* The long term gas supply contracts establish a pricing mechanisim outlining the methods for billing Members and project participants for gas supply services provided under the contract. Expenses in excess of amounts currently billable to the Members and project participants will be recovered from future billings.

Subsequent Event

In September, 2014, the City resolved to enter into a settlement agreement and mutual release with Kevco Construction, LLC for all claims associated with the construction of the City's RV Campground facilities. Under the resolution the City will keep the retainage ($21,522) on the contract to correct deficiencies in the construction.

Carroll County Interconnect Project

The City was approved for a Kentucky Infrastructure Authority loan in the amount $1,657,988 at 1.00% interest with 25% principal forgiveness. The proceeds from this loan will be used to fund the Carroll County Interconnect Project. This is a regional and joint project with Carrollton Utilities, West Carroll Water District and Carroll County Water District #1 that will provide interconnection and infrastructure additions to all three entities. Design began on this project in the 2013-2014 fiscal year and should be complete in the 2014 – 2015 fiscal year.

Focusing on Core Mission and Infrastructure Project

The City was approved for a Kentucky Infrastructure Authority Loan in the amount of $963,931 at 1.00% interest with 50% principal forgiveness. The proceeds from this loan will be used to fund the Focusing on Core Mission and Infrastructure Project. This project will focus on preventative measures and the replacement of obsolete equipment for Carrollton Utilities in association with Henry County Water District, Carroll County Water District, and West Carroll Water District. Construction will begin on this project in the 2014-2015 fiscal year and should be complete in the 2015 – 2016 fiscal year.

Carrollton Utilities has several smaller projects that the Utilities plans to complete during 2014 – 2015 fiscal year.

4.D. MISCELLANEOUS

Bad Debt Expense

Utility revenue charges have been netted with an estimated bad debt expense of $7,268, $7,507, and $21,708 for gas, water and sewer services, respectively.

Income Tax Status

The City is exempt from federal and state income taxes. Accordingly, the financial statements include no provision for income taxes.

NOTE 4. OTHER NOTES (Continued)

4.D. MISCELLANEOUS (Continued)

Segment Information – Enterprise Fund

The City maintains an enterprise fund which provides gas, water, and sewer services. Selected financial information for business segments of the enterprise fund for the year ended June 30, 2014, is presented as follows:

CONDENSED STATEMENT OF NET POSITION

	Gas	Water	Sewer	Total
Assets:				
Current Assets	$ 14,049,019	$ (124,923)	$ (354,800)	$ 13,569,296
Other Noncurrent Assets	70,278	588,632	486,717	1,145,627
Capital Assets (Net)	10,874,058	3,464,855	24,311,140	38,650,053
Total Assets	$ 24,993,355	$ 3,928,564	$ 24,443,057	$ 53,364,976
Liabilities:				
Due to Other Funds	$ 1,024,093	$ 28,838	$ -	$ 1,052,931
Other Current Liabilities	4,862,898	419,975	508,641	5,791,514
Noncurrent Liabilities	87,290	1,290,741	4,538,590	5,916,621
Total Liabilities	$ 5,974,281	$ 1,739,554	$ 5,047,231	$ 12,761,066
Net Position:				
Net Investment in Capital Assets	$ 10,759,968	$ 2,707,878	$ 19,442,960	$ 32,910,806
Restricted	-	-	425,461	425,461
Unrestricted	8,259,106	(518,868)	(472,595)	7,267,643
Total Net Position	$ 19,019,074	$ 2,189,010	$ 19,395,826	$ 40,603,910

CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

	Gas	Water	Sewer	Total
Operating Revenues	$ 49,143,421	$ 1,300,121	$ 1,859,290	$ 52,302,832
Depreciation Expense	(549,787)	(144,019)	(978,761)	(1,672,567)
Other Operating Expenses	(48,011,914)	(1,110,687)	(1,062,948)	(50,185,549)
Net Operating Income (Loss)	$ 581,720	$ 45,415	$ (182,419)	$ 444,716
Nonoperating Revenues (Expenses):				
Interest Income	6,918	1,610	2,591	11,119
Interest & Fiscal Charges	(6,684)	(2,094)	(72,633)	(81,411)
Lease Fees	(3,321)	-	-	(3,321)
Gain (Loss) on Sale of Assets	24,578	-	-	24,578
Capital Contributions	-	383,549	-	383,549
Change in Net Postion	$ 603,211	$ 428,480	$ (252,461)	$ 779,230
Beginning Net Position	18,415,863	1,760,530	19,648,287	39,824,680
Ending Net Position	$ 19,019,074	$ 2,189,010	$ 19,395,826	$ 40,603,910

CONDENSED STATEMENT OF CASH FLOWS

Net Cash Provided (Used) by:	Gas	Water	Sewer	Total
Operating Activities	$ 1,094,441	$ 35,579	$ 790,400	$ 1,920,420
Noncapital Financing Activities	-	880,192	-	880,192
Capital and Related Financing Activities	(1,051,588)	(159,887)	(634,839)	(1,846,314)
Investing Activities	(218)	(880,309)	1,590	(878,937)
Net Increase (Decrease)	$ 42,635	$ (124,425)	$ 157,151	$ 75,361
Beginning Cash and Cash Equivalents	7,569,767	(608,168)	(694,417)	6,267,182
Ending Cash and Cash Equivalents	$ 7,612,402	$ (732,593)	$ (537,266)	$ 6,342,543

NOTE 4. OTHER NOTES (Continued)

4.D. MISCELLANEOUS (Continued)

Economic Dependence

Carrollton Utilities Commission provides natural gas to residential, commercial, and industrial customers. It should be noted that 99% of the total gas revenue is received from seven industrial customers. As described in Note 4.C., all natural gas purchases are made through the Public Energy Authority of Kentucky (PEAK). $44,461,879 of the $46,586,881 gas cost of goods sold are for natural gas purchases, excluding related transportation costs. Additionally, 42.5% of the City's General Fund revenues are attributable to gas prepurchase agreements with PEAK.

Related Party Transactions

For the year ended June 30, 2014, the City received $32,216 from the Carrollton Housing Authority as payments in lieu of tax.

Carrollton Utilities Natural Gas Hedge Policy

Carrollton Utilities encounters financial risk because natural gas accounts for the vast majority of its expenses, and the price of this commodity is extremely volatile. This price risk can be managed with hedging techniques. Carrollton Utilities engages in hedge transactions that are consistent with prudent risk management practices. Hedge transactions must be related to Carrollton Utilities gas sales or acquisition commitments (including fixed price commitments made on behalf of customers), existing assets and liabilities, and foreseeable future purchase and sales requirements. Carrollton Utilities does not engage in speculation. Unless otherwise authorized by resolution of the Carrollton Utilities Commission, Carrollton Utilities executes financial hedges only with the Public Energy Authority of Kentucky (PEAK).

Subject to certain guidelines, Carrollton Utilities executes hedges for its large industrial customers without specific approval of the Carrollton Utilities Commission. The Commission shall approve all other hedges, including those relating to system supply gas requirements, *i.e.,* gas requirements for residential, commercial and industrial customers with annual requirements less than 15,000 Mcf per year.

4.E. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 2012, GASB issued Statement 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27.* GASB 68 is effective for periods beginning after June 15, 2014. Under this statement governments will be required to report the net pension liability associated with its employee's pensions as a liability in their accrual-based financial statements (for example, the government-wide Statement of Net Position). A government has a present obligation to pay deferred benefits earned by its employees. *"Net Pension Liability"* represents the government's obligation to pay deferred benefits when the total pension [plan's] liability exceeds the pension plan's net assets. This reporting requirement is an important change that will more clearly depict the government's financial position. While this information will, in some cases give the appearance that a government is financially weaker than it was previously, the financial reality of the government's situation will not have changed. Management is currently evaluating the impact of the adoption of this statement on the City's financial statements.

CITY OF CARROLLTON, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
Budgetary Fund Balance, July 1	$ 986,952	$1,040,456	$1,043,595	$ 3,139
ESTIMATED REVENUES				
Payments in Lieu of Taxes	$ 25,000	$ 32,217	$ 32,216	$ (1)
Ad Valorem Taxes	423,715	422,910	412,005	(10,905)
Franchise Fees	110,000	110,000	130,260	20,260
Garbage Collection	348,850	358,000	361,555	3,555
Bank Franchise Deposit Tax	23,000	24,870	24,869	(1)
Business Licenses	103,000	103,000	96,224	(6,776)
Insurance Licenses	450,000	450,000	459,739	9,739
Building Permits	1,500	1,000	3,642	2,642
Penalty & Interest	7,500	7,800	9,391	1,591
Interest Revenue	1,400	1,225	(11)	(1,236)
PEAK Annual Return	1,495,500	1,495,304	1,486,664	(8,640)
Two Rivers Campground Receipts	9,000	60,000	78,858	18,858
Other Revenue	11,130	12,150	16,590	4,440
Proceeds from Outside Sources:				
Carroll County Tourism	15,000	15,000	-	(15,000)
HB413/Citations	15,000	10,000	7,605	(2,395)
CC Fiscal Court - Public Safety Salaries	219,021	219,021	232,716	13,695
Police & Firefighter's Incentive Pay	34,100	34,100	28,524	(5,576)
State Fire Aid	8,250	8,250	8,250	-
Police Grants	50	-	6,607	6,607
U.S. Department of Homeland Security (FEMA) Grant	-	41,348	8,495	(32,853)
U.S. Department of Transportation - Recreational Trails Grant Program	-	75,000	87,347	12,347
Transfers from other funds	908,667	835,174	-	(835,174)
Total Estimated Revenues	$4,209,683	$4,316,369	$3,491,546	$ (824,823)
Total Resources Available for Appropriation	$5,196,635	$5,356,825	$4,535,141	$ (821,684)
APPROPRIATIONS				
Administrative	$ 946,833	$ 926,418	$ 875,684	$ 50,734
Public Safety				
Fire Department	147,891	149,659	130,097	19,562
Police Department	1,206,953	1,186,827	1,234,887	(48,060)
Public Works	554,764	489,432	500,933	(11,501)
Parks and Recreation	68,556	82,811	83,240	(429)
Capital Outlay	443,400	365,989	403,388	(37,399)
Transfers to other funds	951,000	868,915	-	868,915
Debt Retirement	329,002	329,002	329,001	1
Total Appropriations	$4,648,399	$4,399,053	$3,557,230	$ 841,823
Excess of Resources and Revenues Over (Under) Appropriations	$ 548,236	$ 957,772	$ 977,911	$ 20,139
Estimated Fund Balances at June 30, 2014	$ 548,236	$ 957,772	$ 977,911	$ 20,139

See accompanying notes to budgetary comparison schedule

CITY OF CARROLLTON, KENTUCKY
NOTES TO BUDGETARY COMPARISON SCHEDULE
June 30, 2014

Budgetary Accounting

The City Council follows these procedures in establishing the budgetary data for the general fund included in the required supplementary information.

(1) The Mayor and City Clerk-Treasurer submit to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year. Detailed line item budgets are included for administrative control. The level of control for the detailed budgets is at the department head\function level.

(2) Public hearings are conducted to obtain taxpayer comment.

(3) Prior to June 30, the budget is legally enacted through passage of an ordinance.

(4) The City Clerk-Treasurer presents monthly financial statements to the City Council comparing actual year to date expenditures to budgeted expenditures.

(5) Formal budgetary integration is employed as a management control device during the year.

(6) The City Council may authorize supplemental appropriations during the year. The budget was amended by ordinance at year end.

Budget to Actual Reconciliation

An explanation of the differences between budgetary inflows and outflows and revenues and expenditures determined in accordance with generally accepted accounting principles follows:

	General Fund
Sources/inflows of resources:	
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	$ 4,535,141
Differences - budget to GAAP:	
The fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes and consists of available cash	(1,043,595)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$ 3,491,546
Uses/outflows of resources:	
Actual amounts (budgetary basis) "total appropriations" from the budgetary comparison schedule	$ 3,557,230
Differences - budget to GAAP:	
None	-
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$ 3,557,230

CITY OF CARROLLTON, KENTUCKY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2014

	Special Revenue Funds					
	Municipal Road Aid	L.G.E.A.F. Program	Enterprise Improvement Program	Shop With A Cop	Riverwalk Development Fund	Total Nonmajor Governmental Funds
ASSETS						
Cash	$ 118,849	$ 9,129	$ 7,117	$ 26,360	$ 5,830	$ 167,285
Due from Other Governments	8,181	293	-	-	-	8,474
Due from Other Funds	-	-	35,265	-	-	35,265
Total Assets	$ 127,030	$ 9,422	$ 42,382	$ 26,360	$ 5,830	$ 211,024
LIABILITIES						
Accounts Payable	$ -	$ -	$ -	$ -	$ -	$ -
Total Liabilities	$ -	$ -	$ -	$ -	$ -	$ -
FUND BALANCES						
Restricted	$ 127,030	$ 9,422	$ -	$ -	$ -	$ 136,452
Committed	-	-	42,382	-	-	42,382
Assigned	-	-	-	26,360	5,830	32,190
Total Fund Balances	$ 127,030	$ 9,422	$ 42,382	$ 26,360	$ 5,830	$ 211,024
Total Liabilities and Fund Balances	$ 127,030	$ 9,422	$ 42,382	$ 26,360	$ 5,830	$ 211,024

See accompanying notes to the basic financial statements

CITY OF CARROLLTON, KENTUCKY
COMBINING STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2014

	Special Revenue Funds					
	Municipal Road Aid	L.G.E.A.F. Program	Enterprise Improvement Program	Shop With A Cop	Riverwalk Development Fund	Total Nonmajor Governmental Funds
REVENUES						
Ad Valorem Taxes	$ -	$ -	$ 35,265	$ -	$ -	$ 35,265
Kentucky Municipal Road Aid	91,125	-	-	-	-	91,125
Local Government Economic Assistance	-	1,948	-	-	-	1,948
Donations	-	-	-	25,041	943	25,984
Interest / Investment Revenue	191	12	11	38	-	252
Total Revenues	$ 91,316	$ 1,960	$ 35,276	$ 25,079	$ 943	$ 154,574
EXPENDITURES						
Current:						
Administrative	$ -	$ -	$ 6,558	$ -	$ -	$ 6,558
Public Works	90,111	-	-	-	-	90,111
Community Service	-	-	-	22,869	-	22,869
Capital Outlay	-	-	1,071	-	-	1,071
Total Expenditures	$ 90,111	$ -	$ 7,629	$ 22,869	$ -	$ 120,609
Excess of Revenues Over (Under) Expenditures	$ 1,205	$ 1,960	$ 27,647	$ 2,210	$ 943	$ 33,965
Fund Balances - July 1	125,825	7,462	14,735	24,150	4,887	177,059
Fund Balances - June 30	$ 127,030	$ 9,422	$ 42,382	$ 26,360	$ 5,830	$ 211,024

See accompanying notes to the basic financial statements.

CITY OF CARROLLTON, KENTUCKY
SCHEDULE OF DEPARTMENTAL OPERATING REVENUES AND EXPENSES
ENTERPRISE FUND
(CARROLLTON UTILITIES)
For the Year Ended June 30, 2014

	Departments				
	Gas	Water	Sewer	Contractual Services	Total
Operating Revenues:					
Charges for Services:					
Utility Charges (Net of Bad Debt Expense)	$ 49,111,073	$1,034,951	$ 1,703,867	$ -	$ 51,849,891
Connection Fees & Service Charges	28,470	12,390	153,481	-	194,341
Contractual Services	-	-	-	250,503	250,503
Total Charges for Services	$ 49,139,543	$1,047,341	$ 1,857,348	$ 250,503	$ 52,294,735
Miscellaneous Revenues	3,877	2,278	1,942	-	8,097
Total Operating Revenues	$ 49,143,420	$1,049,619	$ 1,859,290	$ 250,503	$ 52,302,832
Operating Expenses:					
Cost of Goods Sold	$ 46,586,881	$ -	$ -	$ -	$ 46,586,881
Operation & Maintenance	394,804	523,023	639,681	104,278	1,661,786
General & Administrative	1,030,229	383,740	423,267	99,646	1,936,882
Depreciation	549,787	144,019	978,761	-	1,672,567
Total Operating Expenses	$ 48,561,701	$1,050,782	$ 2,041,709	$ 203,924	$ 51,858,116
Net Operating Income (Loss)	$ 581,719	$ (1,163)	$ (182,419)	$ 46,579	$ 444,716

See accompanying notes to the basic financial statements

CITY OF CARROLLTON, KENTUCKY
SCHEDULE OF OPERATION & MAINTENANCE, GENERAL &
ADMINISTRATIVE EXPENSES BY DEPARTMENT
ENTERPRISE FUND
(CARROLLTON UTILITIES)
For the Year Ended June 30, 2014

	Departments				
	Gas	Water	Sewer	Contractual Services	Total
OPERATION & MAINTENANCE					
Customer Service	$ 77,382	$ 56,940	$ 1,000	$ 68,697	$ 204,019
Mains	99,396	52,442	71,010	16,788	239,636
Transportation	46,436	23,767	49,578	13,241	133,022
Plant and Equipment	162,658	249,443	404,331	5,552	821,984
Chemicals	-	71,515	50,306	-	121,821
Electric, Light and Power	8,932	68,916	63,456	-	141,304
Total	$ 394,804	$ 523,023	$ 639,681	$ 104,278	$ 1,661,786
GENERAL & ADMINISTRATIVE EXPENSES					
Office Salaries	$ 240,359	$ 70,251	$ 90,041	$ 16,892	$ 417,543
Employee Benefits	395,317	168,331	196,809	70,635	831,092
Payroll Taxes	47,104	29,287	26,156	8,398	110,945
Commissioner Fees	3,269	3,245	3,245	-	9,759
Office Expenses	59,457	52,885	51,873	-	164,215
Professional and Outside Services	127,486	16,852	14,795	-	159,133
Insurance	95,089	11,879	11,879	-	118,847
Other	62,148	31,010	28,469	3,721	125,348
Total	$ 1,030,229	$ 383,740	$ 423,267	$ 99,646	$ 1,936,882

See accompanying notes to the basic financial statements

RAISOR, ZAPP & WOODS, P.S.C.

Certified Public Accountants

513 HIGHLAND AVENUE
P.O. BOX 354
CARROLLTON, KENTUCKY 41008
(502) 732-6655 FAX (502) 732-6161

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*

The Mayor and Members of the City Council
of the City of Carrollton
Carrollton, 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 City of Carrollton, Kentucky as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise City of Carrollton, Kentucky's basic financial statements and have issued our report thereon dated January 16, 2015.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered City of Carrollton, Kentucky'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 City of Carrollton, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Carrollton, Kentucky'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. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies (Items 2014-001 and 2014-002).

Members - Private Companies Practice Section of the American Institute of CPA's
Members - Kentucky Society of Certified Public Accountants

COMPLIANCE AND OTHER MATTERS

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

CITY OF CARROLLTON, KENTUCKY'S RESPONSE TO FINDINGS

City of Carrollton, Kentucky's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Carrollton, Kentucky'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 entity'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.

Raisor, Zapp & Woods, PSC

RAISOR, ZAPP & WOODS, PSC
Certified Public Accountants
Carrollton, Kentucky

January 16, 2015

RAISOR, ZAPP & WOODS, P.S.C.

Certified Public Accountants

513 HIGHLAND AVENUE
P.O. BOX 354
CARROLLTON, KENTUCKY 41008
(502) 732-6655 FAX (502) 732-6161

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

The Mayor and Members of the City Council
of the City of Carrollton
Carrollton, Kentucky

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

Opinion on Each Major Federal Program

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

Members - Private Companies Practice Section of the American Institute of CPA's
Members - Kentucky Society of Certified Public Accountants

Report on Internal Control over Compliance

Management of City of Carrollton, Kentucky, 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 City of Carrollton, Kentucky's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Carrollton, Kentucky'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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Raisor, Zapp & Woods, PSC

RAISOR, ZAPP & WOODS, PSC
Certified Public Accountants
Carrollton, Kentucky

January 16, 2015

CITY OF CARROLLTON, KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2014

Federal Grant/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. Department of Transportation - Federal Highway Administration			
Pass-through the Kentucky Department of Local Government			
Recreation Trails Program	20.219	RTP Project 439-11	$ 100,000
Total Pass-through the Kentucky Department of Local Government			$ 100,000
U.S. Department of Transportation - National Highway Traffic Safety Administration (NHTSA)			
Pass-through the Kentucky Sheriffs' Association and Carroll County Fiscal Court	20.614	Project Number DTNH 22-11-R-00479	$ 6,607
Total Pass-through the Kentucky Sheriffs' Association and Carroll County Fiscal Court			$ 6,607
Total U.S. Department of Transportation			$ 106,607
U.S. Department of Homeland Security, Federal Emergency Management Agency			
Direct Program			
Assistance to Firefighters Grant (AFG)	97.044	-	$ 8,495
Total Direct Program from U.S. Department of Homeland Security, Federal Emergency Management Agency			$ 8,495
Environmental Protection Agency			
Pass-through Kentucky Infrastructure Authority			
Capitalization Grants for Clean Water State Revolving Funds	66.458	F11-05	$ 1,458,145
Total Pass-through the Kentucky Infrastructure Authority			$ 1,458,145
Total Environmental Protection Agency			$ 1,458,145
Total Expenditures of Federal Awards			$ 1,573,247

CITY OF CARROLLTON, KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2014

Note A: Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of City of Carrollton, Kentucky under programs of the federal government for the year ended June 30, 2014, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. Because the Schedule presents only a selected portion of the operations of the City of Carrollton, Kentucky, it is not intended to and does not present the financial position, changes in net position, or cash flows of City of Carrollton, Kentucky.

Note B: Subrecipients

Of the federal expenditures presented in the Schedule, City of Carrollton, Kentucky provided federal awards to Subrecipients as follows:

CFDA No.	Program Name	Amount Provided
66.458	Capitalization Grants for Clean Water State Revolving Funds	$650,192

Provided to the West Carroll Water District to boost water pressure to underserved customers and provide extensions to serve known unserved customers in the District.

Note C: Estimates

The Interconnect Project and the Focusing on Core Missions Project have not been included in the schedule of expenditures of Federal Awards as these include both state and federal funding and are awarded state funding first. Based upon the estimated total project the amounts expended for these programs in fiscal year 2014 are 100% state funded.

Note D: Insurance

The City of Carrollton, Kentucky did not receive any other federal awards in the form of non-cash assistance, insurance contracts, or loan guarantees for the year ended June 30, 2014.

CITY OF CARROLLTON, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2014

A. SUMMARY OF AUDITOR'S RESULTS:

1. The auditor's report expresses an unmodified opinion on the financial statements of the City of Carrollton, Kentucky.

2. Two deficiencies in internal control disclosed during the audit of the financial statements are reported in the 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. Items 2014-001 and 2014-002 are reported as significant deficiencies.

3. No instances of noncompliance material to the financial statements of City of Carrollton, Kentucky, that would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.

4. No significant deficiencies in internal control over major federal award programs were disclosed during the audit or reported in the Report on Compliance for Each Major Program and on Internal Control over Compliance required by OMB Circular A-133.

5. The auditor's report on compliance for the major federal award programs for the City of Carrollton, Kentucky expresses an unmodified opinion on all major federal programs.

6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.

7. The programs tested as major programs were:

	CFDA No.
Environmental Protection Agency:	
Capitalization Grants for Clean Water State Revolving Funds	66.458

8. The threshold used for distinguishing between Type A and Type B programs was $300,000.

9. The City of Carrollton, Kentucky did not qualify as a low risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

DEFICIENCIES IN INTERNAL CONTROL

GOVERNMENT AUDITING STANDARDS

2014-001 SIZE OF ENTITY, CROSS-TRAINING AND CHECKING PROCEDURES

CONDITION:

Due to the size of the entity, cross-training and checking procedures are not in place for certain administrative positions and reconciliation procedures. Review and reconciliation procedures were not implemented for all revenue sources included in the Governmental Funds. Also, due to computerized ledger closing procedures, the general ledger of the governmental funds did not balance. These conditions limit internal control. This condition was cited in the schedule of findings and responses for the year ended June 30, 2013 as a significant deficiency as Item 2013-1.

B. FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)

DEFICIENCIES IN INTERNAL CONTROL (CONTINUED)

GOVERNMENT AUDITING STANDARDS (CONTINUED)

2014-001 SIZE OF ENTITY, CROSS-TRAINING AND CHECKING PROCEDURES (CONTINUED)

CRITERIA:

Internal controls should be implemented to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and allow timely preparation of financial data consistent with management assertions.

CAUSE:

Responsibilities associated with individual positions limit the availability of individuals to rotate duties, implement checking procedures, and to reconcile subsidiary ledgers and source documents to financial reports.

EFFECT:

This limitation may affect the ability to timely record, process, summarize and report financial data. Depreciation subsidiary ledgers for prior years' asset purchases are not detailed for personnel to determine that all assets listed are still in service. Amounts due for rentals at the RV facility may not have been collected. Fund balances as reported in the City's general ledger did not equal the prior audited balances.

RECOMMENDATION:

Management should strive to provide cross-training for all positions, implement checking processes, and establish expanded control procedures when new revenue sources or agreements are initiated, changes in personnel occur, or changes in processes occur.

RESPONSE:

Efforts have continued to cross-train employees and implement additional checking procedures. Reconciliation procedures have been initiated for the Two Rivers Recreational Vehicle Campground facility and the City is working with its software provider on correcting closing entry errors. Personnel are working to identify additional checking procedures to implement. We will continue our efforts to improve our review processes.

2014-002 FAILURE TO PREPARE A COMPLETE SET OF FINANCIAL STATEMENTS INCLUDING REQUIRED NOTE DISCLOSURES

CONDITION:

City financial statements, including the required disclosures are prepared as part of the annual audit. This condition was also cited as a significant deficiency in the schedule of findings and responses for the year ended June 30, 2013 as Item 2013-2.

B. FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)

DEFICIENCIES IN INTERNAL CONTROL (CONTINUED)

GOVERNMENT AUDITING STANDARDS (CONTINUED)

2014-002 FAILURE TO PREPARE A COMPLETE SET OF FINANCIAL STATEMENTS INCLUDING REQUIRED NOTE DISCLOSURES (CONTINUED)

CRITERIA:

Internal controls should be in place to provide management with reasonable, but not absolute, assurance that financial statements and required notes are prepared in accordance with generally accepted accounting principles.

CAUSE:

The City prepares fund trial balances. However, the draft financial statements and disclosures are prepared during the audit process. Entries for the government-wide financial statements are not entered into the City's general ledger/financial reports.

EFFECT:

Management engaged the auditor to prepare draft financial statements and related notes. Management reviewed, approved and accepted responsibility for the financial statements prior to their issuance.

RECOMMENDATION:

The outsourcing of this service is not unusual for a City this size and is a result of management's cost benefit decision to use others' accounting expertise rather than incur internal resource costs. We recommend that City management continue to enhance its knowledge of reporting requirements in providing oversight of this service.

RESPONSE:

We concur with the recommendation and will continue to improve our overall accounting knowledge in performing our oversight responsibilities.

COMPLIANCE

None

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

SIGNIFICANT DEFICIENCIES

None

COMPLIANCE

None

CITY OF CARROLLTON, KENTUCKY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Fiscal Year Ended June 30, 2014

There were no prior year audit findings to report.