

CITY OF CARROLLTON, KENTUCKY
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITORS' REPORTS

Year Ended June 30, 2012

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS

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The Honorable Gene McMurry, Mayor
and Members of the City Council
of the City of Carrollton
Carrollton, Kentucky

INDEPENDENT AUDITORS' REPORT

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, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Carrollton, Kentucky's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Carrollton, Kentucky, as of June 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated January 28, 2013, 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 and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 10 and 50 through 51 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.

The Honorable Gene McMurry, Mayor
and Members of the City Council
of the City of Carrollton
Carrollton, Kentucky
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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Carrollton, Kentucky's financial statements as a whole. The combining nonmajor 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 combining nonmajor fund financial statements and other supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Raisor, Zapp & Woods, PSC

RAISOR, ZAPP & WOODS, PSC
Certified Public Accountants

January 28, 2013

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, 2012. 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 \$6,190.
- The City's capital outlay for riverfront development includes the following:
 - \$ 1,161,340 to OVA for Two Rivers Campground
 - \$ 411,063 to KEVCO for Two Rivers Campground
 - \$ 57,641 to CED Nashville for lighting in Two Rivers Campground
- The City spent \$65,103 for architectural/engineering services for the Two Rivers Campground.
- The City spent \$19,012 for inspection services for the Two Rivers Campground.
- The City spent \$2,875 for surveying including \$300 for Two Rivers RV Park and \$2,575 for the River walk.
- The City spent \$27,323 for a new police vehicle and \$25,984 for a new fire pickup F150 truck.
- The City spent \$ 13,105 for sound system for Council Room.
- The City spent \$ 17,838 for tax billing software, \$3,936 for public access door opener [ADA], and \$4,359 for computer equipment.
- City's total net assets increased by \$78,671, primarily due to the capital asset investments.
- In the City's business-type activities, charges for service decreased to \$38,651,164 (or 16.95%) and expenses decreased to \$38,164,956 (or 17.54%).
- The City's business-type activities spent \$23,316 for an odorizer for the natural gas distribution system.
- The City's business-type activities spent \$7,941 for a Kawasaki side by side ATV for the natural gas system.
- The City's business-type activities spent \$23,332 for an RMLD laser gas leak detector and a GSV gas measurement instrument.
- The City's business-type activities spent \$26,481 for a 2012 Ford F150.
- The City's business-type activities spent \$12,375 for purchase and installation of pullet resistant glass and other security system improvements at the office.
- The City's business-type activities spent \$11,876 for purchase and installation of a pole barn at the 3rd Street gas warehouse location.
- The City's business-type activities spent \$25,826 for software and equipment upgrades to the GIS system.
- The City's business-type activities spent \$243,327 to replace the 12" fire protection line along Highway 227 and Airport Road.
- The City's business-type activities spent \$2,210 for an Aquascope leak detection device for the water distribution system and \$3,800 for an enclosed trailer for a portable generator at the water treatment plant.
- The City's business-type activities spent \$17,472 for (2) Zero Turn lawn mowers for the natural gas and water departments.
- The City's business-type activities spent \$14,439 to clean and rebuild Water Well C.
- The City's business-type activities spent \$190,378 for a new Recarbination Unit at the water treatment plant.
- The City's business-type activities spent \$12,495 to rebuild the Sewer Jet.
- The City's business-type activities spent \$12,622 for a new Algae Control System at the wastewater treatment plant.
- The City's business-type activities received \$586,958 in capital assets from the City of Ghent for the wastewater system in Ghent.

USING THIS ANNUAL REPORT

This annual report contains a series of financial statements. The Statement of Net Assets 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 Assets and the Statement of Activities

Our analysis of the City as a whole begins on page 5. The Statement of Net Assets 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 Assets - the difference between assets and liabilities - is one way to measure the City's financial health. Increases or decreases in the City's net assets - 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 Assets 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 in 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 Assets on page 11.

THE CITY AS A WHOLE

The City's combined net assets increased from \$46.2 million to \$47.3 million. The net assets and net expenses of governmental and business-type activities show two different results. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's governmental and business-type activities.

**TABLE 1
NET ASSETS**

	GOVERNMENTAL		BUSINESS-TYPE		TOTAL	
	ACTIVITIES		ACTIVITIES		GOVERNMENT	
	10/11	11/12	10/11	11/12	10/11	11/12
CURRENT AND OTHER ASSETS	2,886,593	2,582,704	9,535,658	8,147,935	12,422,251	10,730,639
CAPITAL ASSETS	6,376,117	6,345,080	39,721,234	40,210,414	46,097,351	46,555,494
TOTAL ASSETS	9,262,710	8,927,784	49,256,892	48,358,349	58,519,602	57,286,133
NON-CURRENT LIABILITIES	1,233,842	941,487	5,981,934	5,590,840	7,215,776	6,532,327
CURRENT LIABILITIES	512,975	391,733	4,539,345	2,971,245	5,052,320	3,362,978
TOTAL LIABILITIES	1,746,817	1,333,220	10,521,279	8,562,085	12,268,096	9,895,305
NET ASSETS:						
INVESTED IN CAPITAL ASSETS						
[NET OF DEBT]	4,632,512	5,123,379	32,323,209	32,999,076	36,955,721	38,122,455
RESTRICTED	1,467,199	51,794	866,005	501,291	2,333,204	553,085
UNRESTRICTED	1,416,182	2,419,391	5,546,399	6,295,897	6,962,581	8,715,288
TOTAL NET ASSETS	7,515,893	7,594,564	38,735,613	39,796,264	46,251,506	47,390,828

Net assets of the City's governmental activities increased by 1.05 percent (\$7,594,564 compared to \$7,515,893). Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - changed from \$1,416,182 at June 30, 2011 to \$2,419,391 at the end of June 30, 2012.

The net assets of our business-type activities increased by 2.67% (\$39,796,264 compared to \$38,735,613). Unrestricted net assets changed from \$5,546,399 at the end of June 30, 2011 to \$6,295,897 at the end of June 30, 2012. 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 ASSETS**

	GOVERNMENTAL		BUSINESS-TYPE		TOTAL	
	ACTIVITIES		ACTIVITIES		GOVERNMENT	
	10/11	11/12	10/11	11/12	10/11	11/12
REVENUES:						
PROGRAM REVENUES:						
CHARGES FOR SERVICES	792,316	748,266	46,539,385	38,651,162	47,331,701	39,399,428
FEDERAL GRANTS	153,053	36,684	1,692,595	251,908	1,845,648	288,592
STATE GRANTS/ENTITLEMENTS	255,250	118,056	47,010		302,260	118,056
LOCAL GRANTS/CONTRIBUTION			5,003,921	304,318	5,003,921	304,318
GENERAL REVENUES:						
PROPERTY TAXES	425,087	431,719			425,087	431,719
FRANCHISE TAXES	135,010	124,574			135,010	124,574
PEAK ANNUAL RETURN	1,500,633	1,429,135			1,500,633	1,429,135
INSURANCE LICENSES	451,548	442,891			451,548	442,891
OTHER GENERAL REVENUES	3,789	4,765	32,543	18,217	36,332	22,982
TOTAL REVENUES:	3,716,686	3,336,090	53,315,454	39,225,605	57,032,140	42,561,695
PROGRAM EXPENSES:						
GENERAL GOVERNMENT	553,249	652,022	-	-	553,249	652,022
PUBLIC SAFETY	1,349,379	1,385,851	-	-	1,349,379	1,385,851
PUBLIC WORKS	752,135	708,765	-	-	752,135	708,765
HEALTH & SANITATION	375,591	303,597	-	-	375,591	303,597
PARKS & RECREATION	47,941	142,656	-	-	47,941	142,656
COMMUNITY SERVICE	22,366	14,348	-	-	22,366	14,348
INTEREST: LONG TERM DEBT	2,276	50,180	-	-	2,276	50,180
GAS			43,284,117	35,045,731	43,284,117	35,045,731
WATER			946,353	959,710	946,353	959,710
SEWER			1,880,116	1,954,393	1,880,116	1,954,393
MANAGEMENT SERVICES			172,475	205,120	172,475	205,120
TOTAL EXPENSES:	3,102,937	3,257,419	46,283,061	38,164,954	49,385,998	41,422,373
EXCESS (DEFICIENCY) BEFORE TRANSFERS	613,749	78,671	7,032,393	1,060,651	7,646,142	1,139,322
TRANSFERS					-	
INCREASE (DECREASE) IN NET ASSETS	613,749	78,671	7,032,393	1,060,651	7,646,142	1,139,322
BEGINNING NET ASSETS	6,902,144	7,515,893	31,703,220	38,735,613	38,605,364	46,251,506
ENDING NET ASSETS	7,515,893	7,594,564	38,735,613	39,796,264	46,251,506	47,390,828

The City's total revenues decreased by \$14,470,445. The total cost of all programs and services decreased by \$7,963,625. Our analysis below separately considers the operations of governmental and business-type activities.

Governmental Activities

Revenues for the City's governmental activities decreased by 10.25 percent (\$380,596) and total expenses increased by 4.98 percent (\$154,482). The increase in net assets for governmental activities was \$78,671 in FY 2011-2012. This compares to a \$613,749 increase in net assets in FY 2010-2011.

The City's management took several actions this year which increased expenses:

- The City budgeted several capital outlay projects:
 - \$1,714,459 for the new Two Rivers Campground
 - \$ 2,575 for Riverwalk surveying.
 - \$ 25,095 for police cruiser
 - \$ 25,984 for fire F150 pickup truck
 - \$ 22,097 for tax billing software and computer upgrades
 - \$ 17,041 for sound equipment for council chambers and \$3,936 for ADA door opener.
 - \$ 11,403 for police department door access, evidence room, and storage/vault room.
- The City budgeted a 3 % increase in departmental salaries.
- The City moved the health insurance to Anthem with a 20.5% premium increase by keeping 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.) was raised from 16.93 percent to 18.96 percent by the Commonwealth of Kentucky.

The cost of all governmental activities this year was \$3,257,419 compared to \$3,102,937 last year. As shown in the Statement of Activities on pages 12-13, the amount that our taxpayers financed for these activities was \$738,266, and some of the cost was paid by other governments and organizations that subsidized certain programs with grants and contributions of \$154,740. Overall, the City's governmental program revenues, including intergovernmental aid and fees for services, decreased in 2010/2011 from \$931,846 to \$903,006, due mainly to Polk Street grant money received in 2010/11.

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		NET COST	
	OF SERVICES		OF SERVICES	
	10/11	11-12	10-11	11-12
GENERAL GOVERNMENT	553,249	652,022	(407,033)	(509,332)
FIRE DEPARTMENT	499,976	292,628	(272,224)	(277,083)
POLICE DEPARTMENT	849,403	1,093,223	(772,551)	(803,501)
PUBLIC WORKS DEPARTMENT	752,135	708,765	(422,220)	(617,822)
SANITATION	375,591	303,597	44,293	43,051
ALL OTHERS	72,583	207,184	(50,576)	(189,726)
TOTALS:	3,102,937	3,257,419	(1,902,318)	(2,354,413)

Business-type Activities

Total revenues of the City's business type activities (see Table 2) decreased by 26.4 percent in FY 11-12 compared to a 2.75 percent increase in FY 10-11. The expenses in FY 11-12 decreased by 17.5 percent.

The approximate 20.5% decrease 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 decreased by 18.4% (\$8,078,731) and 19.0% (\$8,238,386), 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	
	10-11	11-12	10-11	11-12
Gas	43,797,499	35,718,768	43,284,117	35,045,731
Water	962,355	1,016,822	946,353	959,710
Sewer	1,594,231	1,721,007	1,880,116	1,954,393
Management Services	185,300	194,565	172,475	205,120
Totals:	46,539,385	38,651,162	46,283,061	38,164,954

THE CITY'S FUNDS

As the City completed fiscal year 2011-2012, its governmental funds (as presented in the balance sheet on page 14) reported a combined fund balance of \$1,609,297 which represents a decrease of \$1,580,837 from last year's total of \$3,190,134. 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 \$1,501,715.
- The City's total expenditures increased by \$154,482 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, 2012. 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, 2012, the City had \$6,345,080 (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 \$ 1,472,713 or 30.23%.

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

	GOVERNMENTAL		BUSINESS-TYPE		TOTALS	
	ACTIVITIES		ACTIVITIES			
	2011	2012	2011	2012	2011	2012
LAND	844,425	890,941	593,122	593,622	1,437,547	1,484,563
BUILDINGS & IMPROVEMENTS	992,775	2,671,251	5,532,934	5,347,576	6,525,709	8,018,827
EQUIPMENT	619,031	732,104	3,256,822	3,046,969	3,875,853	3,779,073
INFRASTRUCTURE	2,176,280	2,034,303	29,151,526	29,805,471	31,327,806	31,839,774
CONSTRUCTION-IN-PROGRESS	239,856	16,481	158,238	67,195	398,094	83,676
TOTALS:	4,872,367	6,345,080	38,692,642	38,860,833	43,565,009	45,205,913

This year's major additions included:

- \$1,714,459 for the new Two Rivers Campground
- \$ 6,190 of sidewalk improvements
- \$ 2,575 for surveying for the River walk.
- \$ 27,323 for police equipment.
- \$ 22,097 of computer upgrades
- \$ 25,984 of fire equipment
- \$ 28,444 of city hall building upgrades
- \$ 46,648 for natural gas odorizer and leak detection equipment
- \$ 7,971 for Kawasaki side by side ATV for natural gas system
- \$ 26,481 for 2012 Ford F150
- \$ 12,375 for upgrades to office security system
- \$ 11,876 for pole barn at 3rd Street Warehouse location
- \$ 25,826 for GIS software and equipment upgrades
- \$ 243,327 for Replacement of 12" fire protection water main
- \$ 17,472 for (2) Zero turn lawnmowers for natural gas and water departments
- \$ 190,378 for a new Recarbonation Unit at the water treatment plant

Debt

At year-end, the City had \$6,880,243 in capital lease, notes payable and bonds payable compared to \$7,880,368 last year as shown in Table 6.

**TABLE 6
OUTSTANDING DEBT AT YEAR-END**

	GOVERNMENTAL		BUSINESS-TYPE		TOTALS	
	ACTIVITIES		ACTIVITIES			
	2011	2012	2011	2012	2011	2012
CAPITAL LEASE	1,500,000	1,221,701	589,351	369,259	2,089,351	1,590,960
NOTES PAYABLE	-	-	5,791,017	5,498,033	5,791,017	5,498,033
BONDS PAYABLE	-	-	-	-	-	-
TOTALS	1,500,000	1,221,701	6,380,368	5,867,292	7,880,368	7,088,993

Other obligations of the City represents accrued compensated absences for \$45,823 compared to \$62,739 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 2011-2012 budget. One of those factors is the economy - specifically the Consumer Price Index (CPI). The CPI was reported at 1.5 % according to the Commonwealth of Kentucky. Council decided to allocate a 3 % increase for departmental salaries.

The City received the 8th year of citations revenue which was to replace the base court revenue. However it still is not the same amount as was promised by the Commonwealth of Kentucky. The City had been collecting \$38,589 from base court revenue but the City only received \$ 17,428 this year. Kentucky League of Cities' lawsuit to have the cities receive the "hold harmless" amount still has not been paid by the state.

The City chose not to raise the property tax rate by 4% as per KRS 132.027. This meant a loss of revenue of \$13,699.92 in property tax receipts.

As for the City's business-type activities, the Commission has budgeted an approximate 9% increase in gas revenues and expenses, a 2% increase in water and sewer rates resulting in an approximate 4% increase in water revenues and expenses, and a 3% decrease in sewer revenues and expenses.

The City was awarded an Office of the Homeland Security Grant in the amount of \$49,400. Purchase of equipment and installation will be complete by December 31, 2012.

The City was approved for a Kentucky Infrastructure Authority loan in the amount of \$1,850,270 at 1.25% interest with 35% principal forgiveness. The proceeds from this loan will be used to fund the Carroll Countywide Underserved Improvement Project. This is a regional and joint project with Carrollton Utilities and West Carroll Water District that will make upgrades to the Carrollton Utilities water treatment plant, replace aging infrastructure, extend water service to unserved and improve water service to underserved customers in the West Carroll Water District. Construction on this project will begin in the 2012-2013 fiscal year and should be complete by December 31, 2013.

The City's business activities completed acquisition of the City of Ghent's wastewater collection system and associated debt. The debt on the system included a \$281,000 Rural Development loan maturing January 1, 2033. Annual debt service on the loan is approximately \$21,000. This debt was repaid in its entirety in the current fiscal year.

The City began construction on a natural gas main extension to the City of Sparta in Gallatin County. This project has a budget of \$94,985 and will provide natural gas service to approximately 50 customers and should be complete by the end of the 2012-2013 fiscal year.

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.

BECKY H. PYLES, MMC
City Clerk-Treasurer

Chastity Robbins
Carrollton Utilities
Director of Finance

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF NET ASSETS
June 30, 2012

ASSETS	Governmental Activities	Business-type Activities	Total
Current Assets			
Cash, Including Time Deposits	\$ 482,330	\$ 5,292,616	\$ 5,774,946
Investments	820,597	-	820,597
Interest Receivable	-	1,469	1,469
Accounts Receivable (Net)	186,838	2,808,164	2,995,002
Other Receivables	-	1,039,072	1,039,072
Due from Other Governments	44,892	-	44,892
Due from Other Funds	1,029,799	(1,029,799)	-
Prepaid Expense	18,248	36,413	54,661
Total Current Assets	\$ 2,582,704	\$ 8,147,935	\$ 10,730,639
Noncurrent Assets			
Restricted Assets			
Cash, Including Time Deposits	\$ -	\$ 1,344,045	\$ 1,344,045
Unamortized Lease Fee	-	5,536	5,536
Capital Assets (Net)	6,345,080	38,860,833	45,205,913
Total Noncurrent Assets	\$ 6,345,080	\$ 40,210,414	\$ 46,555,494
Total Assets	\$ 8,927,784	\$ 48,358,349	\$ 57,286,133
LIABILITIES			
Current Liabilities			
Accounts Payable	\$ 31,524	\$ 2,438,878	\$ 2,470,402
Accrued Compensated Absences	19,788	6,650	26,438
Accrued Wages	6,874	34,031	40,905
Accrued Interest Payable	1,754	1,300	3,054
Construction Retainage Payable	43,043	-	43,043
Current Portion - Capital Lease Obligations	288,750	148,386	437,136
Current Liabilities Payable from Restricted Assets:			
Accrued Interest	-	5,733	5,733
Notes Payable	-	336,267	336,267
Total Current Liabilities	\$ 391,733	\$ 2,971,245	\$ 3,362,978
Noncurrent Liabilities			
Accrued Compensated Absences	\$ 8,536	\$ 10,849	\$ 19,385
Obligations Under Capital Leases	932,951	220,873	1,153,824
Notes Payable	-	5,161,766	5,161,766
Noncurrent Liabilities Payable from Restricted Assets:			
Customer Deposits Payable	-	197,352	197,352
Total Noncurrent Liabilities	\$ 941,487	\$ 5,590,840	\$ 6,532,327
Total Liabilities	\$ 1,333,220	\$ 8,562,085	\$ 9,895,305
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	\$ 5,123,379	\$ 32,999,076	\$ 38,122,455
Restricted for:			
Debt Service	-	501,291	501,291
Other Purposes	51,794	-	51,794
Unrestricted	2,419,391	6,295,897	8,715,288
Total Net Assets	\$ 7,594,564	\$ 39,796,264	\$ 47,390,828

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012

Functions / Programs	Expenses	Program Revenues		
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
General Government	\$ 652,022	\$ 140,521	\$ 2,169	\$ -
Public Safety				
Fire Department	292,628	3,679	3,616	8,250
Police Department	1,093,223	256,654	33,068	-
Public Works	708,765	-	90,943	-
Sanitation	303,597	346,648	-	-
Parks & Recreation	142,656	764	-	-
Community Service	14,348	-	16,694	-
Interest on Long-Term Debt and Associated Lease Issuance Cost Amortization	50,180	-	-	-
Total Governmental Activities	\$ 3,257,419	\$ 748,266	\$ 146,490	\$ 8,250
Business-type Activities				
Gas	\$ 35,045,731	\$ 35,718,768	\$ -	\$ -
Water	959,710	1,016,822	-	-
Sewer	1,954,393	1,721,007	-	556,226
Management Services	205,120	194,565	-	-
Total Business-type Activities	\$ 38,164,954	\$ 38,651,162	\$ -	\$ 556,226
Total Government	\$ 41,422,373	\$ 39,399,428	\$ 146,490	\$ 564,476

General Revenues
Taxes:
 Property Taxes
 Franchise Taxes
 PEAK Returns
 Insurance Licenses
 Unrestricted Investment Income
 Restricted Investment Income
 Total General Revenues
 Change in Net Assets
Net Assets - July 1
Net Assets - June 30

**Net (Expense) Revenue and
Changes in Net Assets**

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (509,332)	\$ -	\$ (509,332)
(277,083)	-	(277,083)
(803,501)	-	(803,501)
(617,822)	-	(617,822)
43,051	-	43,051
(141,892)	-	(141,892)
2,346	-	2,346
<u>(50,180)</u>	<u>-</u>	<u>(50,180)</u>
<u>\$ (2,354,413)</u>	<u>\$ -</u>	<u>\$ (2,354,413)</u>
\$ -	\$ 673,037	\$ 673,037
-	57,112	57,112
-	322,840	322,840
-	<u>(10,555)</u>	<u>(10,555)</u>
<u>\$ -</u>	<u>\$ 1,042,434</u>	<u>\$ 1,042,434</u>
<u>\$ (2,354,413)</u>	<u>\$ 1,042,434</u>	<u>\$ (1,311,979)</u>
\$ 431,719	\$ -	\$ 431,719
124,574	-	124,574
1,429,135	-	1,429,135
442,891	-	442,891
4,765	16,664	21,429
-	1,553	1,553
<u>\$ 2,433,084</u>	<u>\$ 18,217</u>	<u>\$ 2,451,301</u>
<u>\$ 78,671</u>	<u>\$ 1,060,651</u>	<u>\$ 1,139,322</u>
<u>7,515,893</u>	<u>38,735,613</u>	<u>46,251,506</u>
<u>\$ 7,594,564</u>	<u>\$ 39,796,264</u>	<u>\$ 47,390,828</u>

CITY OF CARROLLTON, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash, Including Time Deposits	\$ 390,664	\$ 91,666	\$ 482,330
Investments	820,597	-	820,597
Accounts Receivable: (Net of Allowance for Uncollectibles)			
Insurance Licenses	145,100	-	145,100
Business Licenses	12,442	-	12,442
Ad Valorem Tax	4,153	-	4,153
Franchise Fees	22,740	-	22,740
Miscellaneous	366	-	366
Due from Other Governments	30,436	14,456	44,892
Due from Other Funds	130,460	-	130,460
Total Assets	\$ 1,556,958	\$ 106,122	\$ 1,663,080
LIABILITIES			
Accounts Payable	\$ 31,524	\$ -	\$ 31,524
Accrued Compensated Absences	15,385	-	15,385
Accrued Wages	6,874	-	6,874
Total Liabilities	\$ 53,783	\$ -	\$ 53,783
FUND BALANCES			
Restricted	\$ -	\$ 51,794	\$ 51,794
Committed	133,785	39,671	173,456
Assigned	-	14,657	14,657
Unassigned	1,369,390	-	1,369,390
Total Fund Balances	\$ 1,503,175	\$ 106,122	\$ 1,609,297
Total Liabilities and Fund Balances	\$ 1,556,958	\$ 106,122	\$ 1,663,080

**CITY OF CARROLLTON, KENTUCKY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2012**

Total Governmental Fund Balances **\$ 1,609,297**

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Total capital assets \$10,001,773 net of accumulated depreciation \$3,656,693. 6,345,080

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 Assets. 901,376

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	\$ 12,939	
Accrued Interest on Capital Leases	1,754	
Construction Retainage Payable	43,043	
Capital Leases Payable	<u>1,221,701</u>	(1,279,437)

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 Assets. 18,248

Net Assets of Governmental Activities **\$ 7,594,564**

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2012

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Payments in Lieu of Taxes	\$ 25,392	\$ -	\$ 25,392
Ad Valorem Taxes	423,702	-	423,702
Delinquent Taxes	1,126	-	1,126
Franchise Fees	100,270	-	100,270
Garbage Collection	346,648	-	346,648
Bank Franchise Deposit Tax	23,790	-	23,790
Business Licenses	99,298	-	99,298
Insurance Licenses	442,891	-	442,891
Building Permits	1,038	-	1,038
Penalty & Interest	6,891	-	6,891
Interest Revenue	4,502	263	4,765
PEAK Revenue	1,501,715	-	1,501,715
Other Revenue/Donations	22,735	16,694	39,429
Proceeds from Outside Sources:			
HB413/Citations Revenue	17,428	-	17,428
C.C. Fiscal Court - Public Safety Salaries	234,815	-	234,815
Police & Firefighter's Incentive Pay	34,501	-	34,501
Kentucky Municipal Road Aid	-	87,910	87,910
Local Government Economic Assistance	-	2,169	2,169
State Fire Aid	8,250	-	8,250
Police Grants	2,184	-	2,184
Disaster Relief - FEMA/State	3,944	-	3,944
Total Revenues	\$ 3,301,120	\$ 107,036	\$ 3,408,156
EXPENDITURES			
Current			
Administrative	\$ 932,891	\$ 6,400	\$ 939,291
Public Safety			
Fire Department	230,814	-	230,814
Police Department	1,054,001	-	1,054,001
Public Works	451,172	83,219	534,391
Parks and Recreation	63,572	-	63,572
Community Service	-	14,348	14,348
Capital Outlay	1,823,575	-	1,823,575
Debt Repayment			
Principal	278,299	-	278,299
Interest	50,702	-	50,702
Total Expenditures	\$ 4,885,026	\$ 103,967	\$ 4,988,993
Excess of Revenues Over (Under) Expenditures	\$ (1,583,906)	\$ 3,069	\$ (1,580,837)
Fund Balances - July 1	3,087,081	103,053	3,190,134
Fund Balances - June 30	<u>\$ 1,503,175</u>	<u>\$ 106,122</u>	<u>\$ 1,609,297</u>

**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, 2012**

Net Change in Fund Balances - Total Governmental Funds **\$ (1,580,837)**

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 **1,866,618**

Depreciation Expense **(388,272)**

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 Assets. **278,299**

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	\$ 798	
Construction Retainage	43,043	
		(43,841)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. **(72,066)**

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. **522**

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. **18,248**

Change in Net Assets of Governmental Activities **\$ 78,671**

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2012

		Carrollton Utilities Enterprise Fund
ASSETS		
Current Assets		
Cash, Including Time Deposits	\$	5,932,290
Interest Receivable		1,469
Accounts Receivable (Net)		2,808,164
Other Receivables		1,039,072
Prepaid Expense		36,413
Total Current Assets	\$	9,817,408
Noncurrent Assets		
Restricted Assets		
Cash, Including Time Deposits	\$	704,371
Unamortized Lease Fee		5,536
Capital Assets (Net)		38,860,833
Total Noncurrent Assets	\$	39,570,740
Total Assets	\$	49,388,148
LIABILITIES		
Current Liabilities		
Accounts Payable	\$	2,438,878
Due to Other Funds		1,029,799
Accrued Compensated Absences		6,650
Accrued Salaries, Wages & Benefits		34,031
Accrued Interest Payable		1,300
Capital Lease Obligations		148,386
Current Liabilities Payable from Restricted Assets:		
Accrued Interest Payable		5,733
Notes Payable		336,267
Total Current Liabilities	\$	4,001,044
Noncurrent Liabilities		
Accrued Compensated Absences	\$	10,849
Capital Lease Obligations		220,873
Notes Payable		5,161,766
Noncurrent Liabilities Payable from Restricted Assets:		
Customer Deposits Payable		197,352
Total Noncurrent Liabilities	\$	5,590,840
Total Liabilities	\$	9,591,884
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	\$	32,999,076
Restricted for:		
Debt Service		501,291
Unrestricted		6,295,897
Total Net Assets	\$	39,796,264

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
For the Year Ended June 30, 2012

	<u>Carrollton Utilities Enterprise Fund</u>
Operating Revenues:	
Charges for Services:	
Gas Utility Charges (Net)	\$ 35,691,799
Water Utility Charges (Net)	1,000,981
Sewer Utility Charges (Net)	1,559,723
Connection Fees & Service Charges	155,832
Contractual Services	194,565
Total Charges for Services	<u>\$ 38,602,900</u>
Miscellaneous Revenues	48,264
Total Operating Revenues	<u>\$ 38,651,164</u>
 Operating Expenses:	
Cost of Goods Sold	\$ 33,296,814
Operation & Maintenance	1,443,907
General & Administrative	1,684,269
Depreciation	1,630,202
Total Operating Expenses	<u>\$ 38,055,192</u>
 Net Operating Income	<u>\$ 595,972</u>
 Nonoperating Revenue (Expenses):	
Interest Income	\$ 18,217
Interest and Fiscal Charges	(107,550)
Amortization of Lease Fees	(2,214)
Total Nonoperating Revenue (Expenses)	<u>\$ (91,547)</u>
 Net Income Before Contributions and Gain from Sale of Equipment	<u>\$ 504,425</u>
Capital Contributions	<u>556,226</u>
 Change in Net Assets	<u>\$ 1,060,651</u>
 Net Assets - July 1	<u>38,735,613</u>
 Net Assets - June 30	<u>\$ 39,796,264</u>

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2012

	<u>Carrollton Utilities Enterprise Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	\$ 39,751,202
Payments to Suppliers	(36,519,256)
Payments to Employees	(1,351,025)
Receipts of Customer Meter Deposits	142,304
Refunds of Customer Meter Deposits	(93,641)
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,929,584</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Contributions	\$ 461,199
Purchases of Capital Assets	(1,345,157)
Proceeds from Capital Debt	38,945
Principal Paid on Capital Debt	(856,221)
Interest Paid on Capital Debt	(105,552)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ (1,806,786)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Certificates of Deposits	\$ (17,568)
Interest Received	19,130
Net Cash Provided (Used) by Investing Activities	<u>\$ 1,562</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 124,360
Balances-July 1	<u>5,464,801</u>
Balances-June 30	<u><u>\$ 5,589,161</u></u>

	<u>Balances Per June 30, 2012 Statement of Net Assets</u>	<u>Balances Per June 30, 2012 Statement of Cash Flows</u>
Cash	\$ 4,974,245	\$ 4,974,245
Time Deposits	958,045	-
Restricted Cash	614,916	614,916
Restricted Time Deposits	89,455	-
Total	<u>\$ 6,636,661</u>	<u>\$ 5,589,161</u>

(Continued)

**CITY OF CARROLLTON, KENTUCKY
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUND
For the Year Ended June 30, 2012**

	<u>Carrollton Utilities Enterprise Fund</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating Income (Loss)	\$ 595,972
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation Expense	1,630,202
Change in Assets and Liabilities:	
Receivables, Net (Increase) Decrease	1,030,466
Other Receivables (Increase) Decrease	58,889
Prepaid Expenses (Increase) Decrease	(114)
Accounts and Other Payables Increase (Decrease)	(1,348,091)
Due to Other Funds Increase (Decrease)	(71,436)
Customer Meter Deposits Payable Increase (Decrease)	48,663
Accrued Expenses Increase (Decrease)	<u>(14,967)</u>
Net Cash Provided by Operating Activities	<u>\$ 1,929,584</u>

SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

During the year ended June 30, 2012, the City of Ghent transferred its sewer lines/distribution system to Carrollton Utilities. The value recorded for the transfer was \$851,415 less accumulated depreciation of \$264,457.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
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CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. 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. 14, "The Financial Reporting Entity," 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.	Enterprise Fund

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.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

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.

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 Assets 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 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.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.B. BASIS OF PRESENTATION (Continued)

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

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2012

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
<i>Major:</i>	
General Fund	See above for description.
<i>Proprietary Fund:</i>	
Carrollton Utilities	Accounts for activities in providing water, wastewater, and gas services to the public.
<i>Nonmajor:</i>	
<i>Special Revenue Funds:</i>	
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 Facade 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 Assets 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 assets (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 assets.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

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 Assets 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 Assets, "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 Assets.

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 utilities and interest earnings and gas requirement activities as their major receivables.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

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.

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.

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 Assets. 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

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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, construction accounts, and utility meter deposits. Restricted assets also include construction grants receivable.

Capital Lease Expenses

Proprietary Fund unamortized capital lease fees are deferred and amortized over the life of the respective capital lease using the straight-line method.

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 bonds payable, 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.

Equity Classifications

Government-wide Statements

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

- a. Invested in capital assets, net of related debt – 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.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Equity Classifications (Continued)

Government-wide Statements (Continued)

- b. **Restricted net assets** – Consists of net assets 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 assets** – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

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.

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

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

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 assets are 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:

<u>Fund</u>	<u>Required By</u>
Municipal Road Aid	State Law
L.G.E.A.F.	State Law
Enterprise/Facade Improvement	Local Regulation/Grant Agreement

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.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

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:

<u>Revenue Source</u>	<u>Legal Restrictions of Use</u>
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
Economic Development Administration (EDA) Grant, Community Development Block Grant (CDBG) & KIA Grants	Carrollton Area Regional Economic Development Project (CARED)
Community Development Block Grant & KIA Grants	Eagle Creek Resort & Campground Sewer Project

For the year ended June 30, 2012, 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 and AO5-01 with the Kentucky Infrastructure Authority. Under the agreements, the City must deposit into these accounts \$8,000 annually, \$236 semi-annually, and \$30,000 annually, until the amounts accumulated on deposit are equal to \$80,000, \$5,610, and \$300,000, respectively. The reserve accounts for agreements A01-03, B99-03 and AO5-01 are fully funded.

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, 2012, the City was in compliance with the lease agreements and therefore, no Debt Service Reserve Funds have been created.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2012

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, 2012. 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			Total Carrying Value
		1	2	3	
Non-Interest Deposits	\$ 2,404	\$ 2,404	\$ -	\$ -	\$ 2,404
Time/Savings Deposits	652,285	409,672	203,859	38,754	473,881
Total Deposits	\$ 654,689	\$ 412,076	\$ 203,859	\$ 38,754	\$ 476,285

Business-type Activities

Type of Deposits	Total Bank Balance	Custody Credit Risk Category			Total Carrying Value
		1	2	3	
Non-Interest Deposits	\$ 5,556,954	\$ 5,556,954	\$ -	\$ -	\$ 5,427,756
Time/Savings Deposit	1,207,655	750,000	457,655	-	1,207,655
Total Deposits	\$ 6,764,609	\$ 6,306,954	\$ 457,655	\$ -	\$ 6,635,411

	Governmental Activities	Business-type Activities	Total
Reconcilement to Statement of Net Assets			
Cash, including Time Deposits	\$ 482,330	\$ 5,292,616	\$ 5,774,946
Restricted Cash, including Time Deposits	-	1,344,045	1,344,045
	\$ 482,330	\$ 6,636,661	\$ 7,118,991
Total Carrying Value	\$ 476,285	\$ 6,635,411	\$ 7,111,696
Plus: Cash on Hand	6,045	1,250	7,295
	\$ 482,330	\$ 6,636,661	\$ 7,118,991

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

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, 2012, investments consisted of the following:

Deposits in the Kentucky League of Cities Investment Pool Plus in the amount of \$820,597. 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 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 Kentucky League of Cities Investment Pool Plus was invested in the following at June 30, 2012:

	Cost	Market Value	% of Assets	Maturity
Bonds (see description above)	\$ 1,349,381	\$ 1,337,118	100.00%	8/02/12-11/01/13
Money Market/Short Term Investments	(22,521)	(22,521)	0.00%	N.A.
Total	\$ 1,326,860	\$ 1,314,597	100.00%	

3.B. RESTRICTED ASSETS

Restricted cash consists of the following:

KIA Loan Reserve Accounts	\$ 507,020
Customer Deposits	197,352
	<u>\$ 704,372</u>

In addition to these restrictions, the Utility Commission has established certificates in deposit in the amount of \$639,674 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 (8%), insurance licenses (78%), property tax (5%), business licenses and other (9%) receivables. Receivables detail at June 30, 2012, is as follows:

	Governmental Activities	Business-type Activities	Total
Accounts receivable	\$ 189,938	\$ 2,847,352	\$ 3,037,290
Allowance for doubtful accounts	(3,100)	(39,189)	(42,289)
Net accounts receivable	\$ 186,838	\$ 2,808,163	\$ 2,995,001

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

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

3.D. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012, was as follows:

	Balance at July 1, 2011	Additions	Disposals	Balance at June 30, 2012
<u>Governmental Activities:</u>				
Land	\$ 844,425	\$ 46,516	\$ -	\$ 890,941
Buildings & Improvements	1,450,477	1,780,246	-	3,230,723
Machinery & Equipment	2,051,113	252,998	(49,859)	2,254,252
Infrastructure	3,604,776	4,600	-	3,609,376
Construction in Process	239,856	16,481	(239,856)	16,481
Totals at Historical Cost	<u>\$ 8,190,647</u>	<u>\$ 2,100,841</u>	<u>\$ (289,715)</u>	<u>\$ 10,001,773</u>
Less: Accumulated Depreciation				
Buildings & Improvements	\$ 457,702	\$ 101,770	\$ -	\$ 559,472
Machinery & Equipment	1,432,082	139,925	(49,859)	1,522,148
Infrastructure	1,428,496	146,577	-	1,575,073
Total Accumulated Depreciation	<u>\$ 3,318,280</u>	<u>\$ 388,272</u>	<u>\$ (49,859)</u>	<u>\$ 3,656,693</u>
Governmental Activities - Capital Assets, Net	<u>\$ 4,872,367</u>	<u>\$ 1,712,569</u>	<u>\$ (239,856)</u>	<u>\$ 6,345,080</u>

Depreciation Expense was charged to governmental activities as follows:

General Government	\$ 21,620
Public Safety	
Fire Department	61,814
Police Department	38,880
Public Works	27,797
Parks & Recreation	91,584
Infrastructure (included with Public Works)	146,577
Total Depreciation Expense	<u>\$ 388,272</u>

\$239,856 of assets have been recorded under capital leases associated with the RV Recreational Park. These assets are included in construction in process and were not in service at June 30, 2012.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

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

3.D. CAPITAL ASSETS (Continued)

	Balance at July 1, 2011	Additions	Disposals	Balance at June 30, 2012
<u>Business-type Activities:</u>				
Land & Right of Ways	\$ 593,122	\$ 500	\$ -	\$ 593,622
Structures & Improvements	7,580,210	37,434	-	7,617,644
Distribution System	41,206,783	1,953,357	-	43,160,140
Wells	384,228	14,439	-	398,667
Plant, Machinery & Equipment	9,638,010	148,164	-	9,786,174
Construction in Process	158,238	1,275,808	(1,366,851)	67,195
Totals at Historical Cost	<u>\$ 59,560,591</u>	<u>\$ 3,429,702</u>	<u>\$ (1,366,851)</u>	<u>\$ 61,623,442</u>
Less: Accumulated Depreciation				
Structures & Improvements	\$ 2,047,276	\$ 222,792	\$ -	\$ 2,270,068
Distribution System	12,223,835	1,290,624	-	13,514,459
Wells	215,650	23,227	-	238,877
Plant, Machinery & Equipment	6,381,188	358,017	-	6,739,205
Total Accumulated Depreciaton	<u>\$ 20,867,949</u>	<u>\$ 1,894,660</u>	<u>\$ -</u>	<u>\$ 22,762,609</u>
Business-type Activities Capital Assets, Net	<u>\$ 38,692,642</u>	<u>\$ 1,535,042</u>	<u>\$ (1,366,851)</u>	<u>\$ 38,860,833</u>

Included in additions above, is the contribution of the Ghent sewer line. The net contributed value of \$586,958 is recorded as follows: Distribution system (asset) of \$850,915, land and right of ways (asset) of \$500, and accumulated depreciation - distribution system of \$264,457.

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

Gas	\$ 499,642
Water	933,517
Sewer	197,044
Total Depreciation Expense	<u>\$ 1,630,203</u>

Reconciliation to Accumulated Depreciation Additions:

Depreciation Expense charged to	
Business-type Activities	\$ 1,630,203
Accumulated Depreciation from	
Ghent Sewer Line Asset Transfer	264,457
Total Additions	<u>\$ 1,894,660</u>

\$3,823,481 of assets have been recorded under capital leases associated with the Gas Distribution System. Accumulated depreciation of \$1,441,821 is associated with these assets.

Land, right of ways, and construction in process are capital assets not being depreciated.

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2012

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

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 \$27,416.78, with final maturity June 16, 2016.

Current Portion	\$ 288,750
Noncurrent Portion	932,951
Total Capital Lease Obligations	\$ 1,221,701

Accrued Compensated Absences:

Current Portion	\$ 19,788
Noncurrent Portion	8,536
Total Accrued Compensated Absences	\$ 28,324

Business-type Activities:

As of June 30, 2012, 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.

\$ 80,578

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.

1,434,008

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.

3,222,247

Kentucky Infrastructure Authority represents a 20 year loan secured by sewer revenues. Interest is charged at the rate of 1.07%. The principal balance shall not exceed \$900,000. At June 30, 2012, the outstanding principal balance was \$761,200. Principal payments will begin semi-annually on the due date (June 1 or December 1) which is at least six months after the last draw of funds occurs.

761,200

Total Notes Payable

\$ 5,498,033

Current Portion	\$ 336,267
Noncurrent Portion	5,161,766
Total Notes Payable	\$ 5,498,033

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2012

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.	\$ 369,259
Total Capital Lease Obligations	\$ 369,259
Current Portion	\$ 148,386
Noncurrent Portion	220,873
Total Capital Lease Obligations	\$ 369,259

Accrued Compensated Absences:

Current Portion	\$ 6,650
Noncurrent Portion	10,849
Total	\$ 17,499

Changes in Long-term Debt

The following is a summary of changes in long-term debt for the fiscal year ended June 30, 2012:

<u>Type of Debt</u>	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012	Current Portion
Governmental Activities					
Capital Lease Obligations	\$ 1,500,000	\$ -	\$ 278,299	\$ 1,221,701	\$ 288,750
Accrued Compensated Absences	49,705	-	21,381	28,324	19,788
Total General Long-term Debt	\$ 1,549,705	\$ -	\$ 299,680	\$ 1,250,025	\$ 308,538
Business-type Activities					
Notes Payable	\$ 5,791,017	\$ 38,945	\$ 331,929	\$ 5,498,033	\$ 336,267
Capital Lease Obligations	589,351	-	220,092	369,259	148,386
Accrued Compensated Absences	13,034	4,465	-	17,499	6,650
Total Enterprise Fund Debt	\$ 6,393,402	\$ 43,410	\$ 552,021	\$ 5,884,791	\$ 491,303

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.

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2012

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, 2012, is as follows:

<u>Fiscal Year</u>	<u>Principal Payment</u>	<u>Interest Payment</u>	<u>Total Payment</u>	<u>Balance at End of Year</u>
				\$ 1,221,701
2012-13	\$ 288,750	\$ 40,251	\$ 329,001	932,951
2013-14	299,593	29,408	329,001	633,358
2014-15	310,842	18,159	329,001	322,516
2015-16	322,516	6,485	329,001	-
	<u>\$ 1,221,701</u>	<u>\$ 94,303</u>	<u>\$ 1,316,004</u>	<u>\$ -</u>

Business-type Activities

Capital Lease Obligations-Kentucky League of Cities

On February 1, 2005, the City of Carrollton, Kentucky entered into a \$720,000 lease agreement with the Kentucky League of Cities Funding Trust. The proceeds of the lease were used to redeem the bonds outstanding from the City's 1992 Utilities Revenue Bonds (principal, interest, and 2% redemption premium as required).

The total cash flow required to service the (old) 1992 bond issue was \$914,626. This exceeded the cash flow required to service the new lease of \$844,933 by \$69,693. The economic gain to the City was \$45,725 as calculated on a present value basis.

In the Statement of Net Assets, the net costs associated with the early debt retirement of the 1992 issue are deferred and amortized over the remaining life of the defeased debt. The amount deferred is reported as a decrease (contra liability) to the book value of the new debt issued to finance the refunding. Total deferred costs were \$38,225. Amortization for the year was \$3,185 and is included as a component of interest expense. (Total amortization equals \$38,225.)

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 \$589,351 (original principal balances of the leases were \$2,020,000). The leases were 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.

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2012

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

3.E. LONG-TERM DEBT (Continued)

Description of Debt Activity: (Continued)

Business-type Activities (Continued)

Capital Lease Obligations-Kentucky League of Cities (Continued)

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 leases are not liquidated prior to maturity, the annual minimum obligation of the leases at June 30, 2012, are as follows:

Fiscal Year	Principal Payment	Interest Payment	Fiscal Charges	Total Payment	Balance at End of Year
					\$ 369,260
2012-13	\$ 148,386	\$ 10,364	\$ 2,675	\$ 161,425	220,874
2013-14	154,550	5,184	1,633	161,367	66,324
2014-15	66,324	539	355	67,218	-
	<u>\$ 369,260</u>	<u>\$ 16,087</u>	<u>\$ 4,663</u>	<u>\$ 390,010</u>	<u>\$ -</u>

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.

At June 30, 2012, a loan was open and subject to future draws. During the 2010-2011 and 2011-2012 fiscal years, additional draws of \$722,255 and \$38,945, respectively were made. The principal balance cannot exceed \$900,000. Payments will not begin until the final draw(s) is/are made. Excluding this note, the combined obligations of the outstanding notes at June 30, 2012 are as follows:

Fiscal Year	Principal Payment	Interest Payment	Servicing Fee	Total Payment	Balance at End of Year
					\$ 4,736,834
2012-13	\$ 336,267	\$ 58,232	\$ 9,306	\$ 403,805	4,400,567
2013-14	340,669	53,831	8,632	403,132	4,059,898
2014-15	345,131	49,367	7,947	402,445	3,714,767
1015-16	349,659	44,840	7,255	401,754	3,365,108
2016-17	354,250	40,248	6,554	401,052	3,010,858
2018-22	1,842,466	130,029	21,917	1,994,412	1,168,392
2023-27	1,145,778	29,842	5,703	1,181,323	22,614
2028-32	22,614	1,006	126	23,746	-
	<u>\$ 4,736,834</u>	<u>\$ 407,395</u>	<u>\$ 67,440</u>	<u>\$ 5,211,669</u>	<u>\$ -</u>

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2012

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

3.E. LONG-TERM DEBT (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, 2012 (excluding the Kentucky Infrastructure Loan not closed at year end), are as follows:

Fiscal Year	Governmental Activities		Business-type Activities	
	Principal	Interest & Fiscal Charges	Principal	Interest & Fiscal Charges
2012-13	\$ 288,750	\$ 40,251	\$ 484,653	\$ 80,577
2013-14	299,593	29,408	495,219	69,280
2014-15	310,842	18,159	411,455	58,208
2015-16	322,516	6,485	349,659	52,095
2016-17	-	-	354,250	46,802
2018-22	-	-	1,842,466	151,946
2023-27	-	-	1,145,778	35,545
2028-32	-	-	22,614	1,132
2033-37	-	-	-	-
2038	-	-	-	-
Total	\$ 1,221,701	\$ 94,303	\$ 5,106,094	\$ 495,585

3.F. INTEREST EXPENSE AND FISCAL CHARGES

Interest expense and fiscal charges for the Governmental Funds was \$50,180. Interest expense and fiscal charges for the Enterprise Fund for the year ended June 30, 2012, was \$107,550. No interest was capitalized during the year ended June 30, 2012.

3.G. INTERFUND TRANSACTIONS AND BALANCES

Interfund balances as reported in the fund financial statements at June 30, 2012, consisted of the following individual fund receivables and payables:

Receivable Fund	Payable Fund	Amount	Purpose
General Fund	Enterprise Fund	\$ 1,029,799	Sanitation Receipt Reimbursements/ PEAK Returns
Total		\$ 1,029,799	

3.H. FUND EQUITY

Restricted Net Assets

The following table shows the restricted net assets as shown on the Statement of Net Assets:

Governmental Activities

Activity	Restricted by	
Other Purposes:		
Municipal Road Aid	State Law	\$ 45,815
L.G.E.A.F.	State Law	5,979
		\$ 51,794

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2012

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

3.H. FUND EQUITY (Continued)

Business-type Activities

Restricted for Debt Service:

Kentucky Infrastructure Authority (KIA) Notes Payable	
Cash & Investments	\$ 507,020
Add: Accrued Interest Receivable	4
Less: Accrued Interest Payable	(5,733)
Total KIA Notes Payable	\$ 501,291

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	\$ 45,815
L.G.E.A. F.	5,979
	\$ 51,794

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

General Fund:

Land and Water Grant Match	\$ 79,254
Contracts Outstanding	54,531
	\$ 133,785

Other Governmental Funds:

Community Development Projects (EIP)	\$ 39,671
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Assigned for expenditures associated with the Shop with a Cop program as constrained to that purpose:

Other Governmental Funds:

Shop with a Cop	\$ 14,657
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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, respectively. The most recent financial report on CERS is included in the Kentucky Retirement System's annual report, June 30, 2011. 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 positions of each 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 under the plan will vary based on final compensation, years of service and other factors as fully described in the plan documents. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of the State Legislature.

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2012

NOTE 4. OTHER NOTES

4.A. PENSION PLAN (Continued)

Contributions – For the fiscal year ended June 30, 2012, plan members were required to contribute 5% (6% for new members to CERS after September 1, 2008) of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565 (3), normal contribution and past service contribution rates shall be determined by the Board of Trustees of the Kentucky Retirement Systems (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 year ended June 30, 2012, participating employers contributed 18.96% of each employee's creditable compensation. The actuarially determined rate set by the Board for the fiscal year ended June 30, 2012, was 18.96% of creditable compensation. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

The City's General Fund total payroll for the fiscal year ended June 30, 2012, was \$1,266,126. Contributions were based on \$1,128,475 (eligible gross wages). The total pension expense for the year ended June 30, 2012, was \$214,611 and \$57,735 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 Proprietary Fund total payroll for the fiscal year ended June 30, 2012, was \$1,356,567. Contributions were based on \$1,256,278 (eligible gross wages). The total pension expense for the fiscal year ended June 30, 2012, was \$238,016 and \$64,988 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, 2011, (general fund and proprietary fund combined) was .07 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:

	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Retiree Drug Subsidy Contributions</u>	<u>Percentage Contribution</u>
June 30, 2011	432,414,052	435,404,150	-	100.7%
June 30, 2010	453,055,709	373,682,939	9,156,991	84.5%
June 30, 2009	425,830,683	303,046,162	7,623,628	72.9%

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.

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.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

NOTE 4. OTHER NOTES

4.B. RISK MANAGEMENT (Continued)

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 potential liability to the City under this policy is \$250,424. 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 1,440 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, 2012 was \$554,323. 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.

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, 2012, Carrollton Utilities has an unpaid and accrued storage liability estimated to be \$121,850.

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.

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.

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 \$194,565 for the 2012-2013 fiscal year.

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.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

NOTE 4. OTHER NOTES (Continued)

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

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.

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.

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, 2012, are as follows:

Assets	\$973,297,291
Liabilities	970,311,409
Total Net Assets	2,985,882
Costs Recoverable from Future Billings	(53,041,050) *

* The gas supply contracts establish the billing procedures under which the Members are charged. Expenses in excess of amounts currently billable to the Members under these procedures will be recoverable from future billings to the Members. In fiscal year 2012, PEAK recognized gain on settlement of 2007 project in the amount of \$57,962,418.

Subsequent Event

Carroll Countywide Underserved Improvement Project

The City was approved for a Kentucky Infrastructure Authority loan in the amount of \$1,850,270 at 1.25% interest with 35% principal forgiveness. The proceeds from this loan will be used to fund the Carroll Countywide Underserved Improvement Project. This is a regional and joint project with Carrollton Utilities and West Carroll Water District that will make upgrades to the Carrollton Utilities water treatment

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

NOTE 4. OTHER NOTES (Continued)

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

Subsequent Event (Continued)

Carroll Countywide Underserved Improvement Project (Continued)

plant, replace aging infrastructure, extend water service to unserved and improve water service to underserved customers in the West Carroll Water District. West Carroll Water District's pro rata share is estimated to be \$868,097. Construction on this project will begin in the 2012-2013 fiscal year and should be complete by December 31, 2013.

4.D. MISCELLANEOUS

Bad Debt Expense

Utility revenue charges have been netted with an estimated bad debt expense of \$3,515, \$4,164, and \$13,979 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.

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, 2012, is presented as follows:

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2012

NOTE 4. OTHER NOTES (Continued)

4.D. MISCELLANEOUS (Continued)

Segment Information – Enterprise Fund (Continued)

CONDENSED STATEMENT OF NET ASSETS

	Gas	Water	Sewer	Total
Assets:				
Current Assets	\$ 11,211,324	\$ (489,906)	\$ (904,010)	\$ 9,817,408
Other Noncurrent Assets	124,822	21,268	563,817	709,907
Capital Assets (Net)	10,717,064	2,247,334	25,896,435	38,860,833
Total Assets	\$ 22,053,210	\$ 1,778,696	\$ 25,556,242	\$ 49,388,148
Liabilities:				
Due to Other Funds	\$ 1,003,485	\$ 26,314	\$ -	\$ 1,029,799
Other Current Liabilities	2,510,752	48,609	411,884	2,971,245
Noncurrent Liabilities	350,574	21,485	5,218,781	5,590,840
Total Liabilities	\$ 3,864,811	\$ 96,408	\$ 5,630,665	\$ 9,591,884
Net Assets:				
Invested in Capital Assets, Net of Related Debt	\$ 10,353,341	\$ 2,247,334	\$ 20,398,401	\$ 32,999,076
Restricted	-	-	501,291	501,291
Unrestricted	7,835,058	(565,046)	(974,115)	6,295,897
Total Net Assets	\$ 18,188,399	\$ 1,682,288	\$ 19,925,577	\$ 39,796,264

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

	Gas	Water	Sewer	Total
Operating Revenues	\$ 35,718,768	\$ 1,211,388	\$ 1,721,008	\$ 38,651,164
Depreciation Expense	(499,642)	(197,044)	(933,516)	(1,630,202)
Other Operating Expenses	(34,525,279)	(963,479)	(936,232)	(36,424,990)
Net Operating Income (Loss)	\$ 693,847	\$ 50,865	\$ (148,740)	\$ 595,972
Nonoperating Revenues (Expenses):				
Interest Income	10,880	2,855	4,482	18,217
Interest & Fiscal Charges	(18,597)	(4,310)	(84,643)	(107,550)
Amortization of Lease Fees	-	-	(2,214)	(2,214)
Capital Contributions	-	-	556,226	556,226
Change in Net Assets	\$ 686,130	\$ 49,410	\$ 325,111	\$ 1,060,651
Beginning Net Assets	17,502,269	1,632,878	19,600,466	38,735,613
Ending Net Assets	\$ 18,188,399	\$ 1,682,288	\$ 19,925,577	\$ 39,796,264

CONDENSED STATEMENT OF CASH FLOWS

	Gas	Water	Sewer	Total
Net Cash Provided (Used) by:				
Operating Activities	\$ 967,923	\$ 245,714	\$ 715,947	\$ 1,929,584
Capital and Related Financing Activities	(357,823)	(546,072)	(902,891)	(1,806,786)
Investing Activities	(3,619)	2,554	2,627	1,562
Net Increase (Decrease)	\$ 606,481	\$ (297,804)	\$ (184,317)	\$ 124,360
Beginning Cash and Cash Equivalents	6,314,586	(344,311)	(505,474)	5,464,801
Ending Cash and Cash Equivalents	\$ 6,921,067	\$ (642,115)	\$ (689,791)	\$ 5,589,161

Economic Dependence

Carrollton Utilities Commission provides natural gas to residential, commercial, and industrial customers. It should be noted that 95% 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). \$31,011,176 of the \$33,296,814 gas cost of goods sold are for natural gas purchases, excluding related transportation costs. Additionally, 41% of the City's General Fund revenues are attributable to gas prepurchase agreements with PEAK.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

NOTE 4. OTHER NOTES (Continued)

4.D. MISCELLANEOUS (Continued)

Related Party Transactions

For the year ended June 30, 2012, the City received \$25,392 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.

Expenditure Presentation

The Dispatcher/Telecommunication department of the City of Carrollton was removed from the fire department function and placed under the police department function. This resulted in wages and the associated fringe benefits and expenditures to be reported similarly. The total cost was approximately \$240,000.

CITY OF CARROLLTON, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance With Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		<u>Actual Amounts</u>
Budgetary Fund Balance, July 1	\$ 1,500,887	\$ 2,968,079	\$ 2,967,430	\$ (649)
ESTIMATED REVENUES				
Payments in Lieu of Taxes	\$ 20,000	\$ 22,000	\$ 25,392	\$ 3,392
Ad Valorem Taxes	370,100	422,364	423,702	1,338
Delinquent Taxes	46,000	1,967	1,126	(841)
Franchise Fees	100,000	99,185	100,270	1,085
Garbage Collection	351,000	345,000	346,648	1,648
Bank Franchise Deposit Tax	20,000	23,790	23,790	-
Business Licenses	95,000	100,000	99,298	(702)
Insurance Licenses	450,000	430,000	442,891	12,891
Building Permits	2,500	1,000	1,038	38
Penalty & Interest	4,000	4,800	6,891	2,091
Interest Revenue	3,700	6,233	4,502	(1,731)
PEAK Annual Return	1,352,000	1,486,196	1,501,715	15,519
Other Revenue	2,550	5,850	22,735	16,885
Proceeds from Outside Sources:				
Carroll County Tourism	15,000	15,000	-	(15,000)
HB413/Citations	15,000	15,654	17,428	1,774
CC Fiscal Court - Public Safety Salaries	219,135	219,135	234,815	15,680
Police & Firefighter's Incentive Pay	37,200	32,153	34,501	2,348
State Fire Aid	8,250	8,250	8,250	-
Police Grants	15,000	8,700	2,184	(6,516)
Disaster Relief FEMA/State	-	3,944	3,944	-
Litter Abatement	2,100	1,188	-	(1,188)
Transfers from other funds	1,266,525	967,040	-	(967,040)
Health Insurance Reimbursements	10,300	7,370	-	(7,370)
Proceeds Kentucky League of Cities Lease	1,000,000	-	-	-
Total Estimated Revenues	\$ 5,405,360	\$ 4,226,819	\$ 3,301,120	\$ (925,699)
Total Resources Available for Appropriation	\$ 6,906,247	\$ 7,194,898	\$ 6,268,550	\$ (926,348)
APPROPRIATIONS				
Administrative	\$ 937,196	\$ 1,072,062	\$ 932,891	\$ 139,171
Public Safety				
Fire Department	445,623	239,680	230,814	8,866
Police Department	824,681	1,087,112	1,054,001	33,111
Public Works	583,616	476,113	451,172	24,941
Parks and Recreation	11,600	33,863	63,572	(29,709)
Capital Outlay	1,212,983	2,091,070	1,823,575	267,495
Transfers to other funds	1,315,000	967,223	-	967,223
Debt Retirement	350,000	350,000	329,001	20,999
Total Appropriations	\$ 5,680,699	\$ 6,317,123	\$ 4,885,026	\$ 1,432,097
Excess of Resources and Revenues Over (Under) Appropriations	\$ 1,225,548	\$ 877,775	\$ 1,383,524	\$ 505,749
Estimated Fund Balances at June 30, 2012	\$ 1,225,548	\$ 877,775	\$ 1,383,524	\$ 505,749

CITY OF CARROLLTON, KENTUCKY
NOTES TO BUDGETARY COMPARISON SCHEDULE
 June 30, 2012

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	\$ 6,268,550
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	(2,967,430)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	\$ 3,301,120
Uses/outflows of resources:	
Actual amounts (budgetary basis) "total appropriations" from the budgetary comparison schedule	\$ 4,885,026
Differences - budget to GAAP:	
None	-
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	\$ 4,885,026

Due to changes in departmental responsibilities, costs associated with telecommunication salaries were reclassified from Fire to Police on the amended budget.

CITY OF CARROLLTON, KENTUCKY
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2012

	Special Revenue Funds				Total Nonmajor Governmental Funds
	Municipal Road Aid	L.G.E.A.F. Program	Enterprise / Facade Improvement Program	Shop With A Cop	
ASSETS					
Cash	\$ 31,732	\$ 5,606	\$ 39,671	\$ 14,657	\$ 91,666
Due from Other Governments	14,083	373	-	-	14,456
Total Assets	<u>\$ 45,815</u>	<u>\$ 5,979</u>	<u>\$ 39,671</u>	<u>\$ 14,657</u>	<u>\$ 106,122</u>
LIABILITIES					
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ -
Total Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
FUND BALANCES					
Restricted	\$ 45,815	\$ 5,979	\$ -	\$ -	\$ 51,794
Committed	-	-	39,671	-	39,671
Assigned	-	-	-	14,657	14,657
Total Fund Balances	<u>\$ 45,815</u>	<u>\$ 5,979</u>	<u>\$ 39,671</u>	<u>\$ 14,657</u>	<u>\$ 106,122</u>
Total Liabilities and Fund Balances	<u>\$ 45,815</u>	<u>\$ 5,979</u>	<u>\$ 39,671</u>	<u>\$ 14,657</u>	<u>\$ 106,122</u>

CITY OF CARROLLTON, KENTUCKY
 COMBINING STATEMENT OF REVENUES,
 EXPENDITURES, AND CHANGES IN FUND BALANCES -
 NONMAJOR GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2012

	Special Revenue Funds				Total Nonmajor Governmental Funds
	Municipal Road Aid	L.G.E.A.F. Program	Enterprise / Facade Improvement Program	Shop With A Cop	
REVENUES					
Kentucky Municipal Road Aid	\$ 87,910	\$ -	\$ -	\$ -	\$ 87,910
Local Government Economic Assistance	-	2,169	-	-	2,169
Donations	-	-	-	16,694	16,694
Interest / Investment Revenue	143	10	63	47	263
Total Revenues	\$ 88,053	\$ 2,179	\$ 63	\$ 16,741	\$ 107,036
EXPENDITURES					
Current:					
Administrative	\$ -	\$ -	\$ 6,400	\$ -	\$ 6,400
Public Works	83,219	-	-	-	83,219
Community Service	-	-	-	14,348	14,348
Total Expenditures	\$ 83,219	\$ -	\$ 6,400	\$ 14,348	\$ 103,967
Excess of Revenues Over (Under) Expenditures	\$ 4,834	\$ 2,179	\$ (6,337)	\$ 2,393	\$ 3,069
Fund Balances - July 1	40,981	3,800	46,008	12,264	103,053
Fund Balances - June 30	\$ 45,815	\$ 5,979	\$ 39,671	\$ 14,657	\$ 106,122

CITY OF CARROLLTON, KENTUCKY
SCHEDULE OF DEPARTMENTAL OPERATING REVENUES AND EXPENSES
ENTERPRISE FUND
(CARROLLTON UTILITIES)
For the Year Ended June 30, 2012

	Departments			Contractual Services	Total
	Gas	Water	Sewer		
Operating Revenues:					
Charges for Services:					
Utility Charges (Net of Bad Debt Expense)	\$ 35,691,799	\$ 1,000,981	\$ 1,559,723	\$ -	\$ 38,252,503
Connection Fees & Service Charges	15,398	7,940	132,494	-	155,832
Contractual Services	-	-	-	194,565	194,565
Total Charges for Services	<u>\$ 35,707,197</u>	<u>\$ 1,008,921</u>	<u>\$ 1,692,217</u>	<u>\$ 194,565</u>	<u>\$ 38,602,900</u>
Miscellaneous Revenues	11,571	7,902	28,791	-	48,264
Total Operating Revenues	<u>\$ 35,718,768</u>	<u>\$ 1,016,823</u>	<u>\$ 1,721,008</u>	<u>\$ 194,565</u>	<u>\$ 38,651,164</u>
Operating Expenses:					
Cost of Goods Sold	\$ 33,296,814	\$ -	\$ -	\$ -	\$ 33,296,814
Operation & Maintenance	355,602	415,653	559,256	113,396	1,443,907
General & Administrative	872,863	342,702	376,976	91,728	1,684,269
Depreciation	499,642	197,044	933,516	-	1,630,202
Total Operating Expenses	<u>\$ 35,024,921</u>	<u>\$ 955,399</u>	<u>\$ 1,869,748</u>	<u>\$ 205,124</u>	<u>\$ 38,055,192</u>
Net Operating Income (Loss)	<u>\$ 693,847</u>	<u>\$ 61,424</u>	<u>\$ (148,740)</u>	<u>\$ (10,559)</u>	<u>\$ 595,972</u>

CITY OF CARROLLTON, KENTUCKY
SCHEDULE OF OPERATION & MAINTENANCE, GENERAL &
ADMINISTRATIVE EXPENSES BY DEPARTMENT
ENTERPRISE FUND
(CARROLLTON UTILITIES)
For the Year Ended June 30, 2012

	Departments				Total
	Gas	Water	Sewer	Contractual Services	
OPERATION & MAINTENANCE					
Customer Service	\$ 70,489	\$ 37,670	\$ -	\$ 65,870	\$ 174,029
Mains	129,781	34,410	74,369	30,368	268,928
Transportation	37,947	26,710	38,881	7,849	111,387
Plant and Equipment	111,048	203,827	357,354	9,309	681,538
Chemicals	-	54,046	30,859	-	84,905
Electric, Light and Power	6,337	58,990	57,793	-	123,120
Total	<u>\$ 355,602</u>	<u>\$ 415,653</u>	<u>\$ 559,256</u>	<u>\$ 113,396</u>	<u>\$ 1,443,907</u>
GENERAL & ADMINISTRATIVE EXPENSES					
Office Salaries	\$ 256,671	\$ 62,635	\$ 82,207	\$ 14,738	\$ 416,251
Employee Benefits	324,411	153,895	171,297	63,617	713,220
Payroll Taxes	39,006	22,169	25,563	9,719	96,457
Commissioner Fees	3,286	3,260	3,260	-	9,806
Office Expenses	43,971	38,122	39,029	-	121,122
Professional and Outside Services	83,306	22,442	22,353	-	128,101
Insurance	73,515	9,382	9,382	-	92,279
Other	48,697	30,797	23,885	3,654	107,033
Total	<u>\$ 872,863</u>	<u>\$ 342,702</u>	<u>\$ 376,976</u>	<u>\$ 91,728</u>	<u>\$ 1,684,269</u>

The Honorable Gene McMurry, Mayor
and Members of the City Council
of the City of Carrollton
Carrollton, Kentucky

**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**

We have audited 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, 2012, which collectively comprise the City of Carrollton, Kentucky's basic financial statements and have issued our report thereon dated January 28, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting (Items 12-1 and 12-2). 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.

The Honorable Gene McMurry, Mayor
and Members of the City Council
of the City of Carrollton
Page Two

COMPLIANCE AND OTHER MATTERS

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

We noted certain matters that we reported to management of City of Carrollton, Kentucky in a separate letter dated January 28, 2013.

City of Carrollton, Kentucky's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit City of Carrollton, Kentucky's response and, accordingly, we express no opinion on it.

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

Raisor, Zapp & Woods, PSC

RAISOR, ZAPP & WOODS, PSC
Certified Public Accountants

January 28, 2013

**CITY OF CARROLLTON, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended June 30, 2012**

A. SUMMARY OF AUDITORS' RESULTS:

1. The auditors' report expresses an unqualified 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.
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.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

DEFICIENCIES IN INTERNAL CONTROL

GOVERNMENT AUDITING STANDARDS

12-1 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. This limits internal control. This condition was cited as a material weakness in the schedule of findings and questioned costs for the year ended June 30, 2011 as 11-1.

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 and implement checking procedures.

EFFECT:

This limitation may affect the ability to timely record, process, summarize and report financial data.

RECOMMENDATION:

Management should strive to provide cross-training for all positions and implement checking processes.

RESPONSE:

Efforts have continued to cross-train employees and implement additional checking procedures. We will continue our efforts to improve our review process.

CITY OF CARROLLTON, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
For the Fiscal Year Ended June 30, 2012

B. FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)

DEFICIENCIES IN INTERNAL CONTROL (CONTINUED)

GOVERNMENT AUDITING STANDARDS (CONTINUED)

12-2 FAILURE TO PREPARE A COMPLETE SET OF FINANCIAL STATEMENTS INCLUDING REQUIRED NOTE DISCLOSURES

CONDITION:

City government-wide 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 questioned costs for the year ended June 30, 2011 as 11-2.

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 financial statements. However, the draft accrual basis (government wide) financial statements and disclosures are prepared during the audit process. Entries 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.