

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

Year Ended June 30, 2019

CITY OF CARROLLTON, KENTUCKY

INDEX

| | |
|---|-------|
| Independent Auditor's Report | 1-2 |
| Management's Discussion and Analysis | 3-10 |
| Basic Financial Statements: | |
| Statement of Net Position | 11 |
| Statement of Activities | 12-13 |
| Balance Sheet – Governmental Funds | 14 |
| Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position | 15 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds | 16 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 17 |
| Statement of Net Position – Proprietary Fund | 18 |
| Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Fund | 19 |
| Statement of Cash Flows – Proprietary Fund | 20-21 |
| Notes to Basic Financial Statements | 22-61 |
| Required Supplemental Information | |
| Budgetary Comparison Schedule – General Fund | 62 |
| Notes to Budgetary Comparison Schedule | 63 |
| Schedule of the City's Proportionate Share of the Net Pension Liability – County Employees Retirement System | 64 |
| Schedule of the City's Contributions (Pension) – County Employees Retirement System | 65 |
| Schedule of the City's Proportionate Share of the Net OPEB Liability – County Employees Retirement System | 66 |
| Schedule of the City's Contributions (OPEB) – County Employees Retirement System | 67 |
| Other Supplemental Information | |
| Combining Balance Sheet – Nonmajor Governmental Funds | 68 |
| Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds | 69 |
| Schedule of Departmental Operating Revenues and Expenses – Enterprise Fund – (Carrollton Utilities) | 70 |
| Schedule of Operation & Maintenance, General & Administrative Expenses By Department – Enterprise Fund – (Carrollton Utilities) | 71 |
| Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> | 72-73 |
| Schedule of Findings and Responses | 74-76 |

RAISOR, ZAPP & WOODS, PSC

Certified Public Accountants

Dennis S. Raisor, CPA
Jerilyn P. Zapp, CPA
Jeffery C. Woods, CPA
Susan A. Dukes, CPA

P.O. Box 354 • 513 Highland Ave • Carrollton, KY 41008
502-732-6655 • taxes@rzwcpas.com

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Carrollton, Kentucky, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City of Carrollton, Kentucky's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Carrollton, Kentucky, as of June 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 4.E. to the financial statements, the City's net position as of June 30, 2018 has been restated to reflect the correction of a misstatement in the presentation of the proprietary fund's other accounts receivable, project gas supply credits payable, and due to other funds, and the general fund's due from other funds arising from transactions occurring prior to July 1, 2017.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on Pages 3 through 10, and other required supplemental information on pages 62 to 67 in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Carrollton, Kentucky's basic financial statements. The combining non-major governmental fund financial statements and the enterprise fund schedules listed in the table of contents as other supplemental information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining non-major governmental fund financial statements and the enterprise fund schedules listed in the table of contents as other supplemental information, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining non-major governmental fund financial statements and the enterprise fund schedules listed in the table of contents as other supplemental information, are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2020, 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 solely 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 the effectiveness of the City of Carrollton, Kentucky's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Carrollton, Kentucky's internal control over financial reporting and compliance.

Raisor, Zapp & Woods, PSC

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

January 7, 2020

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, 2019. Please read it in conjunction with the City's financial statements, which begin on page 11.

FINANCIAL HIGHLIGHTS

- The City's capital outlay includes the following:
 - The City spent \$33,395 on a new police cruiser.
 - This year's sidewalk improvements resulted in a total expenditure of \$34,224.
 - The City installed new playground equipment at Point Park totaling \$45,016 and at Welty Park for \$18,995.
 - The Splash Park project at Point Park totaled \$214,702.
 - The City spent \$13,460 for a security camera system and \$16,627 on a networking system at Point Park.
 - The City spent \$24,170 on upgrading dispatch's radio system from analog to digital.
 - The City purchased 13 mobile radios and 10 portable radios for the police department totaling \$19,749.
 - The City replaced some fire gear totaling \$8,837.
 - The City spent \$9,226 upgrading the Administrative firewall system.
 - The City purchased property at 118 Court Street for \$261,272.
- City's total net position of its governmental funds decreased by \$330,654.
- In prior years (before fiscal year ended June 30, 2018), contracts held by PEAK either terminated normally at the end of a term, ended early as a result of some factor out of the control of PEAK, or partially terminated impacting current & future contract values and revenues under various contracts. These terminations resulted in payments to PEAK attributable to Carrollton Utilities for quantities of gas already taken or expected to be taken. These payments were retained by PEAK to provide future project benefits to Carrollton. During the current fiscal year, it was determined that the City of Carrollton proportionate share was not recorded in the City's general fund or its proprietary fund, Carrollton Utilities, when the terminations and payments to PEAK occurred and were payable to the City of Carrollton. The effect of this error has been reported as a restatement of the City's financial statement (Net Position) as of June 30, 2018. The effect of this adjustment is an increase of \$2,242,277 to the City's net position. Note 4E further describes this prior period adjustment.
- In the City's business-type activities, charges for services increased from \$40,494,383 to \$41,329,300 and expenses increased from \$40,457,624 to \$41,396,343.
- The City's total net position of its business-type activities decreased by \$20,080.
- Capital outlay expended through the City's business-type activities includes the following:
 - \$17,761 for new gas service to serve Cabot.
 - \$12,029 to install a new a gas service at Steel Technologies.
 - \$95,808 on the new Wrights Ridge boiler.
 - \$73,804 to finish the tie-in and moving PMC's gas connection from the 10" gas line to the 6" gas line
 - \$157,948 to finish the construction and installation of a new gas meter set and Ultra Sonic gas meter at North American Stainless.
 - \$47,337 for a new skid steer with bucket and attachments.
 - \$26,894 for a new 2019 Ford Ranger
 - \$961,686 to finish the new distribution operations center located behind the office building on Clay Street.
 - \$88,910 on the Industrial Customer Expansion (ICE) Project.
 - \$748,454 to repair damages to the 18" Sewer Line caused by the March 2019 Flooding.

USING THIS ANNUAL REPORT

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

Reporting on the City as a Whole:

The Statement of Net Position and the Statement of Activities

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

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

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

- * Governmental activities - Most of the City's basic services are reported here, including the police, fire, general administration, public works, and code enforcement. Property taxes, franchise fees, insurance premium taxes, and state and federal grants finance these activities.
- * Business-type activities - The City's proprietary fund, Carrollton Utilities, which charges fees to customers to fund the City's water, sewer, and natural gas systems, are reported here.

Reporting on the City's Most Significant Funds:

Fund Financial Statements

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

- * Governmental funds - The City's services are reported in governmental funds, which focus on how money flows in and out of those funds and the balances left at year-end that are available for carry-over funds for the next budget year. These funds are reported on the modified accrual accounting basis, which measures cash and all other financial assets that can be readily converted to cash.
- * Proprietary funds - Business Type-Activities. The City reports the Carrollton Utilities as a proprietary fund. The City charges customers for the services of gas, water and sewer provided through the Carrollton Utilities. These are reported on the accrual accounting basis and are included in the Statement of Net Position on page 11.

THE CITY AS A WHOLE

The City's combined net position decreased from \$48.4 million to \$48.0 million. The net position and net expenses of governmental and business-type activities show two different results. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the City's governmental and business-type activities. Net position as of June 30, 2018 has been restated to reflect PEAK funds receivable.

**TABLE 1
NET POSITION**

| | GOVERNMENTAL ACTIVITIES | | BUSINESS-TYPE ACTIVITIES | | TOTAL GOVERNMENT | |
|-------------------------------------|----------------------------|----------------------|-----------------------------|----------------------|------------------------|----------------------|
| | 17/18 (as restated) | 18/19 | 17/18 (as restated) | 18/19 | 17/18 (as restated) | 18/19 |
| CURRENT AND OTHER ASSETS | \$ 5,716,234 | \$ 5,734,834 | \$ 14,369,394 | \$ 12,996,745 | \$ 20,085,628 | \$ 18,731,579 |
| CAPITAL ASSETS | 6,280,899 | 6,245,492 | 41,218,945 | 41,742,370 | 47,499,844 | 47,987,862 |
| TOTAL ASSETS | \$ 11,997,133 | \$ 11,980,326 | \$ 55,588,339 | \$ 54,739,115 | \$ 67,585,472 | \$ 66,719,441 |
| DEFERRED OUTFLOWS OF RESOURCES | \$ 1,293,998 | \$ 1,076,459 | \$ 1,504,671 | \$ 1,387,820 | \$ 2,798,669 | \$ 2,464,279 |
| NON-CURRENT LIABILITIES | 3,999,306 | 4,048,430 | 12,281,204 | 11,852,033 | 16,280,510 | 15,900,463 |
| CURRENT LIABILITIES | 195,985 | 181,170 | 4,765,500 | 4,152,897 | 4,961,485 | 4,334,067 |
| TOTAL LIABILITIES | \$ 4,195,291 | \$ 4,229,600 | \$ 17,046,704 | \$ 16,004,930 | \$ 21,241,995 | \$ 20,234,530 |
| DEFERRED INFLOWS OF RESOURCES | \$ 343,299 | \$ 405,298 | \$ 408,270 | \$ 504,049 | \$ 751,569 | \$ 909,347 |
| NET POSITION: | | | | | | |
| NET INVESTMENT IN CAPITAL ASSETS | \$ 6,265,923 | \$ 6,234,260 | \$ 35,276,204 | \$ 36,473,741 | \$ 41,542,127 | \$ 42,708,001 |
| RESTRICTED | 64,814 | 34,149 | 616,083 | 625,228 | 680,897 | 659,377 |
| UNRESTRICTED | 2,421,804 | 2,153,478 | 3,745,749 | 2,518,987 | 6,167,553 | 4,672,465 |
| TOTAL NET POSITION | \$ 8,752,541 | \$ 8,421,887 | \$ 39,638,036 | \$ 39,617,956 | \$ 48,390,577 | \$ 48,039,843 |

Net position of the City's governmental activities decreased by 3.9 percent (\$8,421,887 compared to \$8,752,541). Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - changed from \$2,421,804 (as restated) at June 30, 2018 to \$2,153,478 at the end of June 30, 2019.

The net position of our business-type activities remained relatively constant (\$39,617,956 compared to \$39,638,036). Unrestricted net position changed from \$3,745,749 at the end of June 30, 2018 to \$2,518,987 at the end of June 30, 2019. The City generally can only use the unrestricted net position to finance the continuing operations of the gas, water and sewer operations.

**TABLE 2
CHANGES IN NET POSITION**

| | GOVERNMENTAL ACTIVITIES | | BUSINESS-TYPE ACTIVITIES | | TOTAL GOVERNMENT | |
|--|----------------------------|---------------------|-----------------------------|----------------------|----------------------|----------------------|
| | 17/18 * | 18/19 | 17/18 | 18/19 | 17/18 * | 18/19 |
| REVENUES: | | | | | | |
| PROGRAM REVENUES: | | | | | | |
| CHARGES FOR SERVICES | \$ 1,079,397 | \$ 1,199,338 | \$ 40,494,383 | \$ 41,329,300 | \$ 41,573,780 | \$ 42,528,638 |
| STATE GRANTS/ENTITLEMENTS | 135,656 | 210,149 | - | 3,692 | 135,656 | 213,841 |
| LOCAL GRANTS/CONTRIBUTION | 338,292 | 57,141 | - | - | 338,292 | 57,141 |
| GENERAL REVENUES: | | | | | | |
| PROPERTY TAXES | 459,915 | 479,797 | - | - | 459,915 | 479,797 |
| FRANCHISE TAXES | 360,144 | 362,586 | - | - | 360,144 | 362,586 |
| PEAK ANNUAL RETURN | 1,083,351 | 1,123,182 | - | - | 1,083,351 | 1,123,182 |
| INSURANCE LICENSES | 571,985 | 596,895 | - | - | 571,985 | 596,895 |
| OTHER GENERAL REVENUES | 15,336 | 11,152 | 87,156 | 169,677 | 102,492 | 180,829 |
| TOTAL REVENUES: | \$ 4,044,076 | \$ 4,040,240 | \$ 40,581,539 | \$ 41,502,669 | \$ 44,625,615 | \$ 45,542,909 |
| PROGRAM EXPENSES: | | | | | | |
| GENERAL GOVERNMENT | \$ 603,608 | \$ 578,157 | \$ - | \$ - | \$ 603,608 | \$ 578,157 |
| PUBLIC SAFETY | 2,168,206 | 2,278,751 | - | - | 2,168,206 | 2,278,751 |
| PUBLIC WORKS | 1,048,123 | 923,768 | - | - | 1,048,123 | 923,768 |
| CODE ENFORCEMENT | 74,887 | 81,197 | - | - | 74,887 | 81,197 |
| HEALTH & SANITATION | 346,180 | 345,220 | - | - | 346,180 | 345,220 |
| PARKS & RECREATION | 186,491 | 213,597 | - | - | 186,491 | 213,597 |
| COMMUNITY SERVICE | 14,598 | 11,047 | - | - | 14,598 | 11,047 |
| LOSS ON DISPOSITION OF ASSETS | - | 105,385 | - | 106,712 | - | 212,097 |
| GAS | - | - | 36,598,772 | 37,126,868 | 36,598,772 | 37,126,868 |
| WATER | - | - | 1,383,166 | 1,489,667 | 1,383,166 | 1,489,667 |
| SEWER | - | - | 2,227,483 | 2,514,020 | 2,227,483 | 2,514,020 |
| MANAGEMENT SERVICES | - | - | 248,203 | 265,788 | 248,203 | 265,788 |
| TOTAL EXPENSES: | \$ 4,442,093 | \$ 4,537,122 | \$ 40,457,624 | \$ 41,503,055 | \$ 44,899,717 | \$ 46,040,177 |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | \$ (398,017) | \$ (496,882) | \$ 123,915 | \$ (386) | \$ (274,102) | \$ (497,268) |
| TRANSFERS | - | 166,228 | - | (166,228) | - | - |
| CAPITAL CONTRIBUTIONS | - | - | - | 146,534 | - | 146,534 |
| CHANGE IN NET POSITION | \$ (398,017) | \$ (330,654) | \$ 123,915 | \$ (20,080) | \$ (274,102) | \$ (350,734) |
| BEGINNING NET POSITION | 6,908,281 | 8,752,541 | 39,514,121 | 39,638,036 | 46,422,402 | 48,390,577 |
| RESTATEMENT PRIOR YEARS BALANCES PEAK INCOME (NOTE 4.E) | 2,242,277 | - | - | - | 2,242,277 | - |
| ENDING NET POSITION | \$ 8,752,541 | \$ 8,421,887 | \$ 39,638,036 | \$ 39,617,956 | \$ 48,390,577 | \$ 48,039,843 |

*2017-18 general revenues and the change in net position have not been restated to reflect the effect of the prior period adjustment due to PEAK Revenues.

The City's total revenues increased by \$917,294. The total cost of all programs and services increased by \$1,140,460. Our analysis below separately considers the operations of governmental and business-type activities.

Governmental Activities

Revenues for the City's governmental activities remained relatively constant (a decrease of \$3,836) due mainly to grant revenues received associated with E-911 equipment upgrades and FEMA Project, and an Inter Local Agreement with the Carroll County Board of Education to provide a resource officer. Total expenses increased by 2 percent (\$95,029) due mainly to a loss on disposition of assets. The decrease in net position for governmental activities was \$330,654 in FY 2018-2019. This compares to a \$398,017 decrease in net position in FY 2017-2018 (prior to restatement).

The City budgeted the following capital outlay projects:

- \$90,290 new equipment for Police Department
- \$226,505 Capital Projects at Point Park
- \$125,000 for new equipment for Dispatch
- \$34,224 for sidewalks
- \$11,724 new equipment for Public Works
- \$261,772 Capital land purchases

- The City budgeted a 3% increase in departmental salaries.
- The City continued with the self-insured health insurance plan along with several other Northern Kentucky government entities with a budgeted 7% premium increase and offered several different options to the employees with different deductibles. Also, if employees chose a Healthy Plan their plan would be provided at no cost to them when choosing certain plans.
- The City's retirement plan (CERS) contribution rate was increased from 19.18 percent to 21.48 percent by the Commonwealth of Kentucky.

The cost of all governmental activities this year was \$4,431,737 compared to \$4,442,093 last year. As shown in the Statement of Activities on pages 12-13, the amount that our taxpayers financed for these activities was \$1,199,338, and some of the cost was paid by other governments and organizations that subsidized certain programs with grants and contributions of \$267,290. Overall, the City's governmental program revenues, including intergovernmental aid and fees for services decreased from \$1,553,345 to \$1,466,628.

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

TABLE 3
GOVERNMENTAL ACTIVITIES

| | TOTAL COST OF SERVICES | | NET COST OF SERVICES | |
|----------------------------|---------------------------|---------------------|-------------------------|----------------------|
| | 17/18 | 18/19 | 17/18 | 18/19 |
| GENERAL GOVERNMENT | \$ 603,608 | \$ 578,157 | \$ (460,671) | \$ (422,689) |
| FIRE DEPARTMENT | 256,548 | 255,972 | (238,837) | (227,425) |
| POLICE DEPARTMENT/DISPATCH | 1,911,658 | 2,022,779 | (1,299,176) | (1,446,024) |
| PUBLIC WORK DEPARTMENT | 1,048,123 | 923,768 | (970,913) | (803,748) |
| CODE ENFORCEMENT | 74,887 | 81,197 | (74,887) | (81,197) |
| SANITATION | 346,180 | 345,220 | 43,702 | 44,797 |
| ALL OTHERS | 201,089 | 224,644 | 112,034 | (28,823) |
| TOTALS: | <u>\$ 4,442,093</u> | <u>\$ 4,431,737</u> | <u>\$ (2,888,748)</u> | <u>\$(2,965,109)</u> |

Business-type Activities

Total revenues and total expenses of the City's business type activities (see Table 2) both increased 2 percent in FY 18-19 compared to FY 17-18.

**TABLE 4
BUSINESS-TYPE ACTIVITIES**

| | PROGRAM REVENUES - CHARGES FOR SERVICES | | EXPENSES | |
|---------------------|--|----------------------|----------------------|----------------------|
| | 17/18 | 18/19 | 17/18 | 18/19 |
| GAS | \$ 36,808,102 | \$ 37,388,249 | \$ 36,598,772 | \$ 37,126,868 |
| WATER | 1,173,719 | 1,185,315 | 1,383,166 | 1,489,667 |
| SEWER | 2,264,384 | 2,507,558 | 2,227,483 | 2,514,020 |
| MANAGEMENT SERVICES | 248,178 | 248,178 | 248,203 | 265,788 |
| TOTALS: | \$ 40,494,383 | \$ 41,329,300 | \$ 40,457,624 | \$ 41,396,343 |

THE CITY'S FUNDS

As the City completed fiscal year 2018-2019, its governmental funds (as presented in the balance sheet on page 14) reported a combined fund balance of \$3,062,686 which represents an increase of \$104,295 from last year's total of \$2,958,391.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City Council revised the General Fund budget one time for fiscal year ending June 30, 2019. 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, 2019, the City had \$47,987,862 (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 \$488,018 or 1%.

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

| | GOVERNMENTAL ACTIVITIES | | BUSINESS-TYPE ACTIVITIES | | TOTALS | |
|--------------------------|----------------------------|---------------------|-----------------------------|----------------------|----------------------|----------------------|
| | 17/18 | 18/19 | 17/18 | 18/19 | 17/18 | 18/19 |
| LAND | \$ 1,140,777 | \$ 1,103,757 | \$ 834,439 | \$ 811,789 | \$ 1,975,216 | \$ 1,915,546 |
| BUILDINGS & IMPROVEMENTS | 2,264,430 | 2,906,956 | 5,841,568 | 6,753,441 | 8,105,998 | 9,660,397 |
| EQUIPMENT | 967,881 | 939,333 | 2,422,209 | 2,425,689 | 3,390,090 | 3,365,022 |
| INFRASTRUCTURE | 1,438,159 | 1,295,446 | 30,768,908 | 31,390,671 | 32,207,067 | 32,686,117 |
| CONSTRUCTION-IN-PROGRESS | 469,652 | | 1,351,821 | 360,780 | 1,821,473 | 360,780 |
| TOTALS: | \$ 6,280,899 | \$ 6,245,492 | \$ 41,218,945 | \$ 41,742,370 | \$ 47,499,844 | \$ 47,987,862 |

This year's major additions included:

- \$90,290 for new Police Cruisers/Equipment
- \$24,170 for upgrading dispatch's radio system from analog to digital
- \$214,702 for the Splash Park projected at Point Park
- \$34,224 for sidewalks
- \$45,016 for playground equipment for Point Park
- \$18,995 for playground equipment for Welty Park
- \$9,226 for upgrading the Administrative firewall system
- \$261,272 for the purchase of property at 118 Court Street
- \$13,460 for a security camera system at Point Park
- \$16,627 for a networking system at Point Park
- \$17,761 for new gas service to serve Cabot.
- \$12,029 to install a new a gas service at Steel Technologies.
- \$95,808 on the new Wrights Ridge boiler.
- \$73,804 to finish the tie-in and moving PMC's gas connection from the 10" gas line to the 6" gas line
- \$157,948 to finish the construction and installation of a new gas meter set and Ultra Sonic gas meter at North American Stainless.
- \$47,337 for a new skid steer with bucket and attachments.
- \$26,894 for a new 2019 Ford Ranger
- \$961,686 to finish the new distribution operations center located behind the office building on Clay Street.
- \$88,910 on the Industrial Customer Expansion (ICE) Project.
- \$748,454 to repair damages to the 18" Sewer Line caused by the March 2019 Flooding.

During fiscal year 2019, \$5,555,168 of fully depreciated assets that were no longer in service were removed from the depreciation schedule.

Debt

At year-end, the City's long-term debt for its governmental funds consisted of one outstanding capital lease for police equipment. No notes payable or bonds payable were outstanding in the governmental funds.

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

| | GOVERNMENTAL ACTIVITIES | | BUSINESS-TYPE ACTIVITIES | | TOTALS | |
|----------------|----------------------------|------------------|-----------------------------|---------------------|---------------------|---------------------|
| | 17/18 | 18/19 | 17/18 | 18/19 | 17/18 | 18/19 |
| CAPITAL LEASE | \$ 14,976 | \$ 11,232 | \$ - | \$ - | \$ 14,976 | \$ 11,232 |
| NOTES PAYABLE | - | - | 6,082,673 | 5,587,108 | 6,082,673 | 5,587,108 |
| TOTALS: | \$ 14,976 | \$ 11,232 | \$ 6,082,673 | \$ 5,587,108 | \$ 6,097,649 | \$ 5,598,340 |

Other obligations of the City represent accrued compensated absences for \$103,936 compared to \$79,873 last year. Project Gas Supply Credits Payable of \$2,231,740 represents amounts that will be payable to long-term gas supply contract customers as a credit to their industrial gas bill as terms and conditions of those long-term gas supply contracts are met in future years.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2018-2019 budget. One of those factors is the economy - specifically the Consumer Price Index (CPI). The CPI was reported at .7% according to the Commonwealth of Kentucky. Council decided to allocate a 3% increase for departmental salaries.

The City chose not to raise the property tax rate by 4% as per KRS 132.027 in FY18-19 which made the property tax rate at \$.307 per \$100 of assessment. This meant a loss of revenue of \$17,220 in property tax receipts. Next year's budget, FY19-20 includes Capital Projects for dispatch. Host/Remote equipment totaling \$97,410 will be installed in dispatch. The City was approved by the Kentucky 911 Service Board for a grant in the amount of \$78,000 for the Host/Remote equipment. Dispatch will also be making improvements to their CAD system totaling \$107,728. For this project the City was approved for a grant in the amount of \$93,728 by the Kentucky 911 Service Board. Two new police cruisers for \$75,000 and a new sweeper truck for \$170,000 were budgeted for next year.

As for the City's business-type activities, the Commission has budgeted an approximate 7.2% increase in gas revenues and expenses, no increase in water or sewer rates.

The City's business-type activities distribution and operations center (DOC) was substantially complete in April 2019. The total project budget was \$1.6 million, and the project was completed under budget for \$1.47 million.

The City's business-type activities spent approximately \$750,000 repairing an 18" sewer line break that was caused by the flooding in March of 2019. An application has been submitted to FEMA for reimbursement for 75% of the total project cost. The project worksheet for FEMA has not yet been approved.

The City applied for an Economic Development Association grant for a \$1.2 million project to expand the wastewater system in order to increase the transport capacity of the collection system between Nucor and the wastewater treatment plant. The expansion is needed due to the industrial development occurring on US 42 between Carrollton and Markland Dam. This project was approved and began construction in early 2019. It is expected to be complete early 2020.

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.

MELINDA WRIGHT-MOORE
City Clerk-Treasurer

BILL R. OSBORNE
Carrollton Utilities General Manager

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2019

| | <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Total</u> |
|---|------------------------------------|-------------------------------------|----------------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash, Including Time Deposits | \$ 2,676,000 | \$ 7,322,655 | \$ 9,998,655 |
| Interest Receivable | - | 519 | 519 |
| Accounts Receivable (Net) | 229,143 | 2,849,385 | 3,078,528 |
| Other Receivables | - | 1,380,389 | 1,380,389 |
| Due from Other Governments | 165,102 | 232,976 | 398,078 |
| Due from Other Funds | 1,103,360 | (1,103,360) | - |
| Current Portion - Interlocal Receivable | - | 24,691 | 24,691 |
| Prepaid Expense | 11,869 | 42,091 | 53,960 |
| Total Current Assets | <u>\$ 4,185,474</u> | <u>\$ 10,749,346</u> | <u>\$ 14,934,820</u> |
| Noncurrent Assets | | | |
| Restricted Assets | | | |
| Cash, Including Time Deposits | \$ - | \$ 836,256 | \$ 836,256 |
| Due from Other Funds | 1,549,360 | (1,549,360) | - |
| Other Receivables - Noncurrent | - | 2,258,715 | 2,258,715 |
| Interlocal Receivable | - | 701,788 | 701,788 |
| Capital Assets (Net) | 6,245,492 | 41,742,370 | 47,987,862 |
| Total Noncurrent Assets | <u>\$ 7,794,852</u> | <u>\$ 43,989,769</u> | <u>\$ 51,784,621</u> |
| Total Assets | <u>\$ 11,980,326</u> | <u>\$ 54,739,115</u> | <u>\$ 66,719,441</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Attributable to Employer Pension Plan | \$ 818,713 | \$ 1,042,850 | \$ 1,861,563 |
| Attributable to Employer OPEB Plan | 257,746 | 344,970 | 602,716 |
| Total Deferred Outflows of Resources | <u>\$ 1,076,459</u> | <u>\$ 1,387,820</u> | <u>\$ 2,464,279</u> |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Accounts Payable | \$ 73,180 | \$ 2,505,361 | \$ 2,578,541 |
| Accrued Compensated Absences | 49,262 | 7,499 | 56,761 |
| Accrued Wages | 46,309 | 43,938 | 90,247 |
| Sales Tax Payable | 2,784 | 9,742 | 12,526 |
| Project Gas Supply Credits Payable | - | 682,380 | 682,380 |
| Construction Retainage Payable | - | 408,002 | 408,002 |
| Deferred Revenues | 5,891 | - | 5,891 |
| Lease Payable - Current Portion | 3,744 | - | 3,744 |
| Current Liabilities Payable from Restricted Assets: | | | |
| Accrued Interest | - | 6,344 | 6,344 |
| Notes Payable | - | 489,631 | 489,631 |
| Total Current Liabilities | <u>\$ 181,170</u> | <u>\$ 4,152,897</u> | <u>\$ 4,334,067</u> |
| Noncurrent Liabilities | | | |
| Accrued Compensated Absences | \$ 15,269 | \$ 31,906 | \$ 47,175 |
| Project Gas Supply Credits Payable | - | 1,549,360 | 1,549,360 |
| Notes Payable | - | 5,097,477 | 5,097,477 |
| Lease Payable | 7,488 | - | 7,488 |
| Net Pension Liability | 3,117,018 | 3,847,124 | 6,964,142 |
| Net OPEB Liability | 908,655 | 1,121,482 | 2,030,137 |
| Noncurrent Liabilities Payable from Restricted Assets: | | | |
| Customer Deposits Payable | - | 204,684 | 204,684 |
| Total Noncurrent Liabilities | <u>\$ 4,048,430</u> | <u>\$ 11,852,033</u> | <u>\$ 15,900,463</u> |
| Total Liabilities | <u>\$ 4,229,600</u> | <u>\$ 16,004,930</u> | <u>\$ 20,234,530</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Attributable to Employer Pension Plan | \$ 232,804 | \$ 291,230 | \$ 524,034 |
| Attributable to Employer OPEB Plan | 172,494 | 212,819 | 385,313 |
| Total Deferred Inflows of Resources | <u>\$ 405,298</u> | <u>\$ 504,049</u> | <u>\$ 909,347</u> |
| NET POSITION | | | |
| Net Investment in Capital Assets | \$ 6,234,260 | \$ 36,473,741 | \$ 42,708,001 |
| Restricted for: | | | |
| Debt Service | - | 625,228 | 625,228 |
| Other Purposes | 34,149 | - | 34,149 |
| Unrestricted | 2,153,478 | 2,518,987 | 4,672,465 |
| Total Net Position | <u>\$ 8,421,887</u> | <u>\$ 39,617,956</u> | <u>\$ 48,039,843</u> |

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2019

| | Program Revenues | | | |
|---------------------------------------|-------------------------|-----------------------------|---|---|
| | Expenses | Charges For Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Functions / Programs | | | | |
| Governmental Activities | | | | |
| General Government | \$ 578,157 | \$ 150,827 | \$ 4,641 | \$ - |
| Public Safety | | | | |
| Fire Department | 255,972 | - | 28,547 | - |
| Dispatch | 573,092 | 332,535 | - | 47,141 |
| Police Department | 1,449,687 | 149,559 | 47,520 | - |
| Public Works | 923,768 | - | 120,020 | - |
| Sanitation | 345,220 | 390,017 | - | - |
| Code Enforcement | 81,197 | - | - | - |
| Parks & Recreation | 213,597 | 176,400 | - | 10,000 |
| Community Service | 11,047 | - | 9,421 | - |
| Total Governmental Activities | \$ 4,431,737 | \$ 1,199,338 | \$ 210,149 | \$ 57,141 |
| Business-type Activities | | | | |
| Gas | \$ 37,126,868 | \$ 37,388,249 | \$ 2,630 | \$ - |
| Water | 1,489,667 | 1,185,315 | - | - |
| Sewer | 2,514,020 | 2,507,558 | 1,062 | 146,534 |
| Management Services | 265,788 | 248,178 | - | - |
| Total Business-type Activities | \$ 41,396,343 | \$ 41,329,300 | \$ 3,692 | \$ 146,534 |
| Total Government | \$ 45,828,080 | \$ 42,528,638 | \$ 213,841 | \$ 203,675 |

General Revenues

Taxes:

 Property Taxes

 Franchise Taxes

PEAK Returns

Insurance Licenses

Unrestricted Investment Income

Restricted Investment Income

Miscellaneous

Gain (Loss) on Disposition of Assets

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position - July 1 (As Previously Stated)

Restatement - Prior Years Balances PEAK Income

Net Position - July 1 (As Restated)

Net Position - June 30

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

| <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Total</u> |
|------------------------------------|-------------------------------------|-----------------------|
| \$ (422,689) | \$ - | \$ (422,689) |
| (227,425) | - | (227,425) |
| (193,416) | - | (193,416) |
| (1,252,608) | - | (1,252,608) |
| (803,748) | - | (803,748) |
| 44,797 | - | 44,797 |
| (81,197) | - | (81,197) |
| (27,197) | - | (27,197) |
| (1,626) | - | (1,626) |
| <u>\$ (2,965,109)</u> | <u>\$ -</u> | <u>\$ (2,965,109)</u> |
| | | |
| \$ - | \$ 264,011 | \$ 264,011 |
| - | (304,352) | (304,352) |
| - | 141,134 | 141,134 |
| - | (17,610) | (17,610) |
| <u>\$ -</u> | <u>\$ 83,183</u> | <u>\$ 83,183</u> |
| | | |
| \$ (2,965,109) | \$ 83,183 | \$ (2,881,926) |
| | | |
| \$ 479,797 | \$ - | \$ 479,797 |
| 362,586 | - | 362,586 |
| 1,123,182 | - | 1,123,182 |
| 596,895 | - | 596,895 |
| 11,152 | 113,157 | 124,309 |
| - | 9,130 | 9,130 |
| - | 47,390 | 47,390 |
| (105,385) | (106,712) | (212,097) |
| 166,228 | (166,228) | - |
| <u>\$ 2,634,455</u> | <u>\$ (103,263)</u> | <u>\$ 2,531,192</u> |
| | | |
| \$ (330,654) | \$ (20,080) | \$ (350,734) |
| | | |
| \$ 6,510,264 | \$ 39,638,036 | \$ 46,148,300 |
| 2,242,277 | - | 2,242,277 |
| <u>\$ 8,752,541</u> | <u>\$ 39,638,036</u> | <u>\$ 48,390,577</u> |
| | | |
| <u>\$ 8,421,887</u> | <u>\$ 39,617,956</u> | <u>\$ 48,039,843</u> |

CITY OF CARROLLTON, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2019

| | <u>General Fund</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|-------------------------|---|---|
| ASSETS | | | |
| Cash, Including Time Deposits | \$ 2,643,928 | \$ 32,072 | \$ 2,676,000 |
| Accounts Receivable: (Net of Allowance for Uncollectibles) | | | |
| Insurance Licenses | 141,898 | - | 141,898 |
| Business Licenses | 12,687 | - | 12,687 |
| Ad Valorem Tax | 2,388 | - | 2,388 |
| Franchise Fees | 66,872 | - | 66,872 |
| Miscellaneous | 2,153 | - | 2,153 |
| Due from Other Governments | 154,795 | 10,307 | 165,102 |
| Due from Other Funds | 173,012 | - | 173,012 |
| Total Assets | <u>\$ 3,197,733</u> | <u>\$ 42,379</u> | <u>\$ 3,240,112</u> |
| LIABILITIES | | | |
| Accounts Payable | \$ 73,180 | \$ - | \$ 73,180 |
| Sales Tax Payable | 2,784 | - | 2,784 |
| Accrued Compensated Absences | 49,262 | - | 49,262 |
| Accrued Wages | 46,309 | - | 46,309 |
| Unearned Revenues | 5,891 | - | 5,891 |
| Total Liabilities | <u>\$ 177,426</u> | <u>\$ -</u> | <u>\$ 177,426</u> |
| FUND BALANCES | | | |
| Restricted | \$ - | \$ 34,149 | \$ 34,149 |
| Committed | 215,254 | - | 215,254 |
| Assigned | - | 8,230 | 8,230 |
| Unassigned | 2,805,053 | - | 2,805,053 |
| Total Fund Balances | <u>\$ 3,020,307</u> | <u>\$ 42,379</u> | <u>\$ 3,062,686</u> |
| Total Liabilities and Fund Balances | <u>\$ 3,197,733</u> | <u>\$ 42,379</u> | <u>\$ 3,240,112</u> |

**CITY OF CARROLLTON, KENTUCKY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2019**

| | | |
|--|-----------|------------------|
| Total Governmental Fund Balances | \$ | 3,062,686 |
| <i>Amounts reported for governmental activities in the statement of net position are different because:</i> | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Total capital assets \$12,418,769 net of accumulated depreciation \$6,173,277. | | 6,245,492 |
| Revenues that do not provide current financial resources are not reported as revenues in the funds. Amounts due on such revenues but not received subsequent to year end within 60 days have been reported as receivable in the Statement of Net Position. | | 2,482,853 |
| Long-term liabilities 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 | \$ | 15,269 |
| Lease Payable | | 11,232 |
| Net Pension Liability | | 3,117,018 |
| Net OPEB Liability | | 908,655 |
| | | (4,052,174) |
| Expenditures that have used current financial resources but have been made for goods and services to be received subsequent to year end have been reported as a prepaid expense in the Statement of Net Position. | | 11,869 |
| Deferred Outflows of Resources: | | |
| Attributable to CERS Employer Pension Plan | \$ | 818,713 |
| Attributable to CERS Employer OPEB Plan | | 257,746 |
| | | 1,076,459 |
| Deferred Inflows Of Resources: | | |
| Attributable to CERS Employer Pension Plan | \$ | 232,804 |
| Attributable to CERS Employer OPEB Plan | | 172,494 |
| | | (405,298) |
| Net Position of Governmental Activities | \$ | 8,421,887 |

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2019

| REVENUES | General Fund | Other Governmental Funds | Total Governmental Funds |
|--|-------------------------|---|---|
| Taxes: | | | |
| Property Taxes | \$ 469,823 | \$ - | \$ 469,823 |
| Franchise Taxes | 333,920 | - | 333,920 |
| Insurance Taxes | 596,895 | - | 596,895 |
| Bank Deposits | 28,666 | - | 28,666 |
| Licenses and Permits | 97,336 | - | 97,336 |
| Intergovernmental Revenues | 583,289 | 82,606 | 665,895 |
| PEAK Revenue | 1,195,861 | - | 1,195,861 |
| Charges for Sanitation Services | 390,017 | - | 390,017 |
| Recreation Facility Services | 176,400 | - | 176,400 |
| CRMS/Landline E-911 Revenues | 93,321 | - | 93,321 |
| Interest Revenue | 10,473 | 679 | 11,152 |
| Miscellaneous | 44,212 | 9,421 | 53,633 |
| Total Revenues | \$ 4,020,213 | \$ 92,706 | \$ 4,112,919 |
| EXPENDITURES | | | |
| Current | | | |
| Administrative | \$ 864,945 | \$ - | \$ 864,945 |
| Public Safety | | | |
| Fire Department | 179,120 | - | 179,120 |
| Emergency Dispatch | 490,964 | - | 490,964 |
| Police Department | 1,223,823 | - | 1,223,823 |
| Public Works | 626,981 | 78,229 | 705,210 |
| Parks and Recreation | 97,155 | 3,000 | 100,155 |
| Community Service | - | 11,047 | 11,047 |
| Code Enforcement | 69,358 | - | 69,358 |
| Capital Outlay | 587,402 | 32,706 | 620,108 |
| Debt Service - Principal | 3,744 | - | 3,744 |
| Total Expenditures | \$ 4,143,492 | \$ 124,982 | \$ 4,268,474 |
| Excess of Revenues Over (Under) Expenditures | \$ (123,279) | \$ (32,276) | \$ (155,555) |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers In | \$ 59,520 | \$ - | \$ 59,520 |
| Transfers Out | - | (59,520) | (59,520) |
| Proceeds from Asset Sales | 259,850 | - | 259,850 |
| Total Other Financing Sources (Uses) | \$ 319,370 | \$ (59,520) | \$ 259,850 |
| Net Change in Fund Balance | \$ 196,091 | \$ (91,796) | \$ 104,295 |
| Fund Balances - Beginning of Year | 2,824,216 | 134,175 | 2,958,391 |
| Fund Balances - End of Year | <u>\$ 3,020,307</u> | <u>\$ 42,379</u> | <u>\$ 3,062,686</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, 2019**

| | |
|--|---------------------|
| Net Change in Fund Balances - Total Governmental Funds | \$ 104,295 |
| <i>Amounts reported for governmental activities in the Statement of Activities are different because:</i> | |
| Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. | |
| Capitalized Expenditures | 620,108 |
| Depreciation Expense | (456,508) |
| Repayment of capital lease obligation principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. | 3,744 |
| Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds until paid. | |
| Compensated Absences | (8,796) |
| Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. | (72,679) |
| Expenditures in the Statement of Revenues, Expenditures, and Changes in Fund Balances that are for goods and services not yet received are not reported as expenses in the Statement of Activities. | 1,799 |
| Governmental funds report city pension contributions as expenditures. However in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense. | (288,302) |
| Governmental funds report city OPEB contributions as expenditures. However in the Statement of Activities, the cost of OPEB benefits earned net of employee contributions is reported as OPEB expense. | (35,308) |
| Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the Statement of Activities, a gain or loss is reported for each disposal. This is the difference in the amount of the gain/loss vs. the proceeds received on asset disposals. | (365,235) |
| Assets transferred from the City's proprietary fund are not included in the governmental funds statement. In the Statement of Activities, the net book value is included as a transfer. | <u>166,228</u> |
| Change in Net Position of Governmental Activities | <u>\$ (330,654)</u> |

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUND
June 30, 2019

**Carrollton
Utilities
Enterprise Fund**

ASSETS

Current Assets

| | | |
|---|----|------------|
| Cash, Including Time Deposits | \$ | 7,322,655 |
| Interest Receivable | | 519 |
| Accounts Receivable (Net) | | 2,849,385 |
| Other Receivables | | 1,380,389 |
| Due from Other Governments | | 232,976 |
| Current Portion - Interlocal Receivable | | 24,691 |
| Prepaid Expense | | 42,091 |
| Total Current Assets | \$ | 11,852,706 |

Noncurrent Assets

| | | |
|--------------------------------|----|------------|
| Restricted Assets | | |
| Cash, Including Time Deposits | \$ | 836,256 |
| Other Receivables - Noncurrent | | 2,258,715 |
| Interlocal Receivable | | 701,788 |
| Capital Assets (Net) | | 41,742,370 |
| Total Noncurrent Assets | \$ | 45,539,129 |

| | | |
|--------------|----|------------|
| Total Assets | \$ | 57,391,835 |
|--------------|----|------------|

DEFERRED OUTFLOWS OF RESOURCES

| | | |
|---------------------------------------|----|-----------|
| Attributable to Employer Pension Plan | \$ | 1,042,850 |
| Attributable to Employer OPEB | | 344,970 |
| Total Deferred Outflows | \$ | 1,387,820 |

LIABILITIES

Current Liabilities

| | | |
|--|----|-----------|
| Accounts Payable | \$ | 2,505,361 |
| Due to Other Funds | | 1,103,360 |
| Accrued Compensated Absences | | 7,499 |
| Accrued Salaries, Wages & Benefits | | 43,938 |
| Sales Tax Payable | | 9,742 |
| Project Gas Supply Credits Payable | | 682,380 |
| Construction Retainage Payable | | 408,002 |
| Current Liabilities Payable from Restricted Assets: | | |
| Accrued Interest Payable | | 6,344 |
| Notes Payable | | 489,631 |
| Total Current Liabilities | \$ | 5,256,257 |

Noncurrent Liabilities

| | | |
|---|----|------------|
| Accrued Compensated Absences | \$ | 31,906 |
| Project Gas Supply Credits Payable | | 1,549,360 |
| Due to Other Funds | | 1,549,360 |
| Notes Payable | | 5,097,477 |
| Net Pension Liability | | 3,847,124 |
| Net OPEB Liability | | 1,121,482 |
| Noncurrent Liabilities Payable from Restricted Assets: | | |
| Customer Deposits Payable | | 204,684 |
| Total Noncurrent Liabilities | \$ | 13,401,393 |

| | | |
|-------------------|----|------------|
| Total Liabilities | \$ | 18,657,650 |
|-------------------|----|------------|

DEFERRED INFLOWS OF RESOURCES

| | | |
|---------------------------------------|----|---------|
| Attributable to Employer Pension Plan | \$ | 291,230 |
| Attributable to Employer OPEB | | 212,819 |
| Total Deferred Inflows | \$ | 504,049 |

NET POSITION

| | | |
|----------------------------------|----|------------|
| Net Investment in Capital Assets | \$ | 36,473,741 |
| Restricted for: | | |
| Debt Service | | 625,228 |
| Unrestricted | | 2,518,987 |
| Total Net Position | \$ | 39,617,956 |

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
For the Year Ended June 30, 2019

**Carrollton
Utilities
Enterprise Fund**

Operating Revenues:

Charges for Services:

| | |
|-----------------------------------|---------------|
| Gas Utility Charges (Net) | \$ 36,995,436 |
| Water Utility Charges (Net) | 1,178,302 |
| Sewer Utility Charges (Net) | 2,194,277 |
| Connection Fees & Service Charges | 260,375 |
| Contractual Services | 248,178 |
| Miscellaneous Service Revenues | 452,732 |
| Total Charges for Services | \$ 41,329,300 |
| Miscellaneous Revenues | 47,390 |
| Total Operating Revenues | \$ 41,376,690 |

Operating Expenses:

| | |
|--------------------------|---------------|
| Cost of Goods Sold | \$ 34,816,230 |
| Operation & Maintenance | 1,892,631 |
| General & Administrative | 2,720,201 |
| Depreciation | 1,892,747 |
| Total Operating Expenses | \$ 41,321,809 |

| | |
|----------------------|-----------|
| Net Operating Income | \$ 54,881 |
|----------------------|-----------|

Nonoperating Revenue (Expenses):

| | |
|--|-------------|
| FEMA Grant Revenue | \$ 3,692 |
| Interest Income | 122,287 |
| Interest and Fiscal Charges | (74,534) |
| Gain (Loss) from Disposition of Assets | (106,712) |
| Total Nonoperating Revenue (Expenses) | \$ (55,267) |

| | |
|--|-----------------|
| Net Income Before Capital Contributions | \$ (386) |
|--|-----------------|

| | |
|-----------------------|-----------|
| Capital Contributions | 146,534 |
| Transfers | (166,228) |
| | (19,694) |

| | |
|------------------------|-------------|
| Change in Net Position | \$ (20,080) |
|------------------------|-------------|

| | |
|-----------------------|---------------|
| Net Position - July 1 | \$ 39,638,036 |
|-----------------------|---------------|

| | |
|------------------------|---------------|
| Net Position - June 30 | \$ 39,617,956 |
|------------------------|---------------|

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2019

| | Carrollton Utilities Enterprise Fund |
|--|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Receipts from Customers | \$ 41,786,404 |
| Payments to Suppliers | (36,461,615) |
| Payments to Employees | (1,831,066) |
| Receipts of Customer Meter Deposits | 84,644 |
| Refunds of Customer Meter Deposits | (70,495) |
| Net Cash Provided (Used) by Operating Activities | <u>\$ 3,507,872</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Proceeds from Sale of Capital Assets | \$ 3,344 |
| Purchases of Capital Assets | (2,745,746) |
| Principal Paid on Capital Debt | (495,565) |
| Interest Paid on Capital Debt | (74,548) |
| Net Cash Provided (Used) by Capital and Related Financing Activities | <u>\$ (3,312,515)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Principal Received on Interlocal Debt | \$ 24,971 |
| Interest and Fees Received on Interlocal Debt | 8,724 |
| Purchase of Certificates of Deposits | (3,472,577) |
| Interest Received | 113,580 |
| Net Cash Provided (Used) by Investing Activities | <u>\$ (3,325,302)</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | \$ (3,129,945) |
| Balances-July 1 | <u>6,650,619</u> |
| Balances-June 30 | <u><u>\$ 3,520,674</u></u> |

| | Balances Per June 30, 2019 Statement of Net Position | Balances Per June 30, 2019 Statement of Cash Flows |
|--------------------------|---|---|
| Cash | \$ 3,087,374 | \$ 3,087,374 |
| Time Deposits | 4,235,281 | - |
| Restricted Cash | 433,300 | 433,300 |
| Restricted Time Deposits | 402,956 | - |
| Total | <u>\$ 8,158,911</u> | <u><u>\$ 3,520,674</u></u> |

(Continued)

**CITY OF CARROLLTON, KENTUCKY
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUND
For the Year Ended June 30, 2019**

| | <u>Carrollton Utilities Enterprise Fund</u> |
|--|---|
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | |
| Operating Income (Loss) | \$ 54,881 |
| Adjustments to Reconcile Operating Income to Net Cash | |
| Provided (Used) by Operating Activities: | |
| Depreciation Expense | 1,892,747 |
| Pension Expense | 376,524 |
| OPEB Expense | 51,214 |
| Change in Assets and Liabilities: | |
| Receivables, Net (Increase) Decrease | 414,392 |
| Other Receivables (Increase) Decrease | 1,334,931 |
| Prepaid Expenses (Increase) Decrease | 1,290 |
| Accounts and Other Payables Increase (Decrease) | (592,032) |
| Due to Other Funds Increase (Decrease) | (60,319) |
| Customer Meter Deposits Payable Increase (Decrease) | 14,149 |
| Accrued Expenses Increase (Decrease) | <u>20,095</u> |
| Net Cash Provided by Operating Activities | <u><u>\$ 3,507,872</u></u> |

At June 30, 2019, Carrollton Utilities had \$408,002 outstanding construction retainage payable.

At June 30, 2018, Carrollton Utilities had \$611,518 outstanding construction retainage payable.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS

INDEX

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity
- B. Basis of Presentation
- C. Measurement Focus and Basis of Accounting
- D. Assets, Liabilities, Deferred Outflows and Inflows of Resources and Equity
- E. Revenues, Expenditures, and Expenses

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

- A. Fund Accounting Requirements
- B. Deposits and Investments, Laws and Regulations
- C. Revenue Restrictions
- D. Debt Restrictions and Covenants

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

- A. Cash and Cash Equivalents and Investments
- B. Restricted Assets
- C. Accounts Receivable
- D. Other Receivables
- E. Interlocal Receivable
- F. Interfund Transactions and Balances
- G. Capital Assets
- H. Long-term Debt
- I. Interest Expense and Fiscal Charges
- J. Fund Equity

NOTE 4. OTHER NOTES

- A. County Employees Retirement System – Nonhazardous Employees Pension Plan and Post Employment Healthcare Benefit (Insurance) Plan
- B. Risk Management
- C. Commitments and Contingencies
- D. Miscellaneous
- E. Prior Period Restatement
- F. Subsequent Event

CITY OF CARROLLTON, KENTUCKY
NOTES TO BUDGETARY COMPARISON SCHEDULE
June 30, 2019

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1.A. FINANCIAL REPORTING ENTITY

The City's financial reporting entity comprises the following:

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

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

Blended Component Units

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

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

| Component Unit | Brief Description/Inclusion Criteria | Reporting |
|---|---|------------------|
| Utilities Commission of Carrollton (CU) | <p>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.</p> <p>The Cities of Carrollton, Glencoe, Sanders, Sparta, Owenton, Prestonville, Worthville, Campbellsburg, 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.</p> | Enterprise Fund |

Joint Venture:

The Carroll County/E-911 Advisory Committee was established under an interlocal agreement between Carroll County Fiscal Court and the City of Carrollton in March 2018 to operate the E-911 Dispatch. The Committee has ten members. Under the interlocal agreement Carroll County and the City of Carrollton share the costs of administering the E-911 Dispatch equally. Carroll County's telephone 911 surcharge tax and E-911 wireless tax are placed in a restricted fund held by the Carroll County Treasurer and distributed equally to the general funds of Carroll County and the City of Carrollton bi-annually on January 15 and July 15 of each year. Dispatchers and other personnel employed by the E-911 system are City of Carrollton employees. Equipment is owned and maintained jointly. Fiscal court remits its share of expenses monthly. The Carroll County/E-911 Advisory Committee does not produce separate financial statements.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

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

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

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

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.B. BASIS OF PRESENTATION (Continued)

Government-wide Financial Statements: (Continued)

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

Fund Financial Statements:

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

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

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

Special Revenue Funds

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

Capital Project Funds

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

Proprietary Fund

Enterprise Fund

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

Fiduciary Funds (Not included in government-wide statements)

None

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.B. BASIS OF PRESENTATION (Continued)

Major and Nonmajor Funds

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

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

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

Measurement Focus

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

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

- a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Basis of Accounting

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

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

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

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

1.D. ASSETS, LIABILITIES, DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES AND EQUITY

Cash and Investments

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

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

Interfund Receivables and Payables

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

Receivables

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

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**1.D. ASSETS, LIABILITIES, DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES 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, gas supply project receivables, and construction grants comprise the majority of proprietary fund receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

In the proprietary fund financial statements, Interlocal Receivables are recorded for amounts due under Interlocal Agreements with other governmental entities who were subrecipients of loan proceeds from the Kentucky Infrastructure Authority. Such proceeds were used by those entities to fund various improvement projects.

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 Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

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

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**1.D. ASSETS, LIABILITIES, DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES AND EQUITY
(Continued)**

Fixed Assets (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 and utility meter deposits.

Capital Lease Expenses

Proprietary Fund capital lease fees are expensed as incurred.

Long-term Debt

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

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

Long-term debt of governmental funds are 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.

Debt Issuance Costs are expensed as incurred.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Commonwealth of Kentucky's County Employees' Retirement System (CERS), and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS.

Post Employment Benefits Other Than Pensions

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense, information about the fiduciary net position of the Commonwealth of Kentucky's County Employees' Retirement System (CERS), and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS.

Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred Outflows of Resources and Deferred Inflows of Resources are not assets or liabilities; revenues or expenses. Rather, they represent resources or the use of resources related to future periods.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.D. ASSETS, LIABILITIES, DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES AND EQUITY (Continued)

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 position and displayed in three components:

- a. Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net position – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position – All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

Fund Statements

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

- a. Nonspendable fund balance – amounts that are not in a spendable form (such as inventory) or are required to be maintained intact (such as the corpus of an endowment fund).
- b. Restricted – amounts that can be used only for specific purposes because of (a) constitutional provisions or enabling legislation or (b) externally imposed constraints.
- c. Committed – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint.
- d. Assigned – amounts intended to be used for specific purposes but that do not meet the criteria to be classified as restricted or committed. This is the residual fund balance classification for all governmental funds except the general fund.

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

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

Proprietary fund equity is classified the same as in the government-wide statements.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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 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. PEAK revenues also include payments due on project contract amendments in the general fund.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

Expenditures/Expenses

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

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

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

Proprietary Fund-By Operating and Nonoperating

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

The City adheres to the use restrictions established by Kentucky Revised Statutes when expenses are incurred for which both restricted and unrestricted net position is available. The City has no policy defining which resources (restricted or unrestricted) to use first. Restricted and committed amounts are considered to have been spent when an expenditure is incurred for the purpose of such classifications.

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 governmental 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 |

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, 2019

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 |
| Law Enforcement Grants | Police Programs/Salaries |
| Local Government Economic Assistance Funds | Approved Expenditures |
| State Fire Aid | Fire Equipment Expenditures |
| KY Department of Local Government – National Recreational Trails Fund Grant | Approved Grant Expenditures – Ohio River Trail |
| Federal Land and Water Conservation Fund Grant | Approved Grant Expenditures – Kentucky River Trail |
| Federal Emergency Management Agency | Approved Grant Expenditures – Flood Damage |
| Kentucky Office of Homeland Security (KDHS) Kentucky 911 Services Grant | PSAP E911 Host/Remote Project |
| Federal Economic Development Act | Approved Grant Expenditures – Sewer Lines |

For the year ended June 30, 2019, the City complied, in all material respects, with these revenue restrictions.

2.D. DEBT RESTRICTIONS AND CONVENANTS

Kentucky Infrastructure Authority Maintenance, Replacement Reserve – Loans AO1-03, B99-03, AO5-01, B08-06, F11-15, F13-007, and F14-013.

Funded Maintenance, Replacement Reserve Accounts are required by the City's Assistance Agreements AO1-03, B99-03, AO5-01, B08-06, F11-15, F13-007, and F14-013, with the Kentucky Infrastructure Authority. Under the agreements, the City must deposit into these accounts \$8,000 annually, \$236 semi-annually, \$30,000 annually, \$2,250 annually, \$5,100 annually, \$4,100 annually and \$2,400 annually, until the amounts accumulated on deposit are equal to \$80,000, \$5,610, \$300,000, \$22,500 and \$51,000, respectively. The reserve accounts for agreements A01-03, B99-03, AO5-01, B08-06, F11-15, F13-007, and F14-13 are fully funded. The reserve for B08-06, F11-15, F13-007, and F14-013 were fully funded upon inception.

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

3.A. CASH AND CASH EQUIVALENTS AND INVESTMENTS

Deposits

City of Carrollton, Kentucky's policies regarding deposits of cash are in accordance with the state statutes. Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of June 30, 2019, in accordance with the City's policy \$8,089,887 of the City's deposits were covered by federal depository insurance and \$3,125,206 respectively, were collateralized by securities held by the pledging financial institution's agent in the City's name. The City had \$4,776 deposits that were exposed to custodial credit risk.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

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

3.A. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

Deposits (Continued)

Cash and cash equivalents and investments at June 30, 2019, consisted of the following:

Governmental Activities

| <u>Type of Deposits</u> | <u>Total Bank Balance</u> | <u>Total Carrying Value</u> |
|-------------------------|-------------------------------|---------------------------------|
| Demand Deposits | \$ 2,717 | \$ 2,717 |
| Time/Savings Deposits | 2,728,709 | 2,671,734 |
| Total Deposits | <u>\$ 2,731,426</u> | <u>\$ 2,674,451</u> |

Business-type Activities

| <u>Type of Deposits</u> | <u>Total Bank Balance</u> | <u>Total Carrying Value</u> |
|-------------------------|-------------------------------|---------------------------------|
| Demand Deposits | \$ 4,638,237 | \$ 4,638,237 |
| Time/Savings Deposit | 3,850,206 | 3,519,424 |
| Total Deposits | <u>\$ 8,488,443</u> | <u>\$ 8,157,661</u> |

| | <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Total</u> |
|--|------------------------------------|-------------------------------------|----------------------|
| Reconcilement to Statement of Net Position | | | |
| Cash, including Time Deposits | \$ 2,676,000 | \$ 7,322,655 | \$ 9,998,655 |
| Restricted Cash, including Time Deposits | - | 836,256 | 836,256 |
| | <u>\$ 2,676,000</u> | <u>\$ 8,158,911</u> | <u>\$10,834,911</u> |
| | | | |
| Total Carrying Value | \$ 2,674,451 | \$ 8,157,661 | \$ 10,832,112 |
| Plus: Cash on Hand | 1,549 | 1,250 | 2,799 |
| | <u>\$ 2,676,000</u> | <u>\$ 8,158,911</u> | <u>\$ 10,834,911</u> |

3.B. RESTRICTED ASSETS

Restricted assets consist of the following:

| | <u>Cash</u> |
|---------------------------|-------------------|
| KIA Loan Reserve Accounts | \$ 631,572 |
| Customer Deposits | 204,684 |
| Total | <u>\$ 836,256</u> |

In addition to these restrictions, the Utility Commission has designated certificates of deposit in the amount of \$683,082 and demand deposits of \$27,500 as reserved to mitigate the risk associated with industrial sales.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BUDGETARY COMPARISON SCHEDULE
June 30, 2019

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

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 (29%) insurance licenses (61%), business licenses (5%) and other (5%) receivables. Receivables detail at June 30, 2019, is as follows:

| | Governmental Activities | Business-type Activities | Total |
|---------------------------------|------------------------------------|-------------------------------------|---------------------|
| Accounts receivable | \$ 237,581 | \$ 2,867,514 | \$ 3,105,095 |
| Allowance for doubtful accounts | (8,438) | (18,129) | (26,567) |
| Net accounts receivable | <u>\$ 229,143</u> | <u>\$ 2,849,385</u> | <u>\$ 3,078,528</u> |

3.D. OTHER RECEIVABLES

Other Receivables of the business type activities consists of 98.9% gas supply contract payments receivable from PEAK. Of the \$3,600,348, \$1,341,633 will be received within one year. The remaining \$2,258,715 will be received over the remaining life of the TEAC gas supply project.

3.E. INTERLOCAL RECEIVABLE

The City of Carrollton f/b/o Carrollton Utilities entered into interlocal agreements with West Carroll Water District and Carroll County Water District under which West Carroll Water District and Carroll County Water District were the subrecipients of loan proceeds from the Kentucky Infrastructure Authority with loan forgiveness provisions to fund various system improvement projects. The City of Carrollton f/b/o Carrollton Utilities was the recipient of the loan proceeds. Carrollton Utilities was also the entity overseeing the engineering and construction contracts, and other general costs associated with the projects. West Carroll Water District and Carroll County Water District, under the interlocal agreements, have agreed to pay Carrollton Utilities for the portion of the debt associated with improvements made to their respective distribution systems. Interlocal receivables are presented in the Statement of Net Position to represent the amounts due from West Carroll Water District and Carroll County Water District to the City of Carrollton f/b/o Carrollton Utilities as follows:

| <u>Project:</u> | <u>District:</u> | <u>Original Balance of KIA</u> | <u>Debt</u> | <u>Net Loan</u> | <u>Interlocal Agreement Balance</u> |
|-----------------------------|----------------------|--|--------------------|--------------------|---|
| | | <u>Loan</u> | <u>Forgiveness</u> | <u>To District</u> | <u>June 30, 2019</u> |
| Countywide Underserved | West Carroll Water | \$ 881,877 | \$ 308,657 | \$ 573,220 | \$ 497,782 |
| Carroll County Interconnect | West Carroll Water | \$ 44,310 | \$ 11,077 | \$ 33,233 | \$ 29,728 |
| Carroll County Interconnect | Carroll County Water | \$ 301,721 | \$ 75,430 | \$ 226,291 | \$ 198,969 |

3.F. INTERFUND TRANSACTIONS AND BALANCES

Interfund balances reported in the financial statements at June 30, 2019, consisted of the following individual fund receivables and payables:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> | <u>Purpose</u> |
|------------------------|---------------------|---------------------|--|
| General Fund | Enterprise Fund | \$ 2,652,720 | Sanitation Receipt Reimbursements/ PEAK Returns |
| Total | | <u>\$ 2,652,720</u> | |

Of the \$2,652,720 due from the City's proprietary fund to the General Fund, \$1,103,360 is anticipated to be received within one year. The remaining \$1,549,360 is subject to the policies and contracts surrounding long term gas contracts and will be paid to the General Fund as these conditions are met. Separately, a project gas supply credit payable has been recorded in the amount of \$1,549,360 to reflect the estimated percentage portion payable to long-term gas supply contract customers subject to contract terms and conditions.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BUDGETARY COMPARISON SCHEDULE
June 30, 2019

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

3.G. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2019, was as follows:

| | Balance at July 1, 2018 | Additions | Disposals | Balance at June 30, 2019 |
|--|----------------------------|---------------------|---------------------|-----------------------------|
| Governmental Activities: | | | | |
| Land | \$ 1,140,777 | \$ 261,772 | \$ (298,792) | \$ 1,103,757 |
| Buildings & Improvements | 3,465,553 | 878,392 | - | 4,343,945 |
| Machinery & Equipment | 3,073,957 | 173,884 | (90,874) | 3,156,967 |
| Infrastructure | 3,843,665 | - | (29,565) | 3,814,100 |
| Construction in Process | 469,652 | - | (469,652) | - |
| Totals at Historical Cost | <u>\$ 11,993,604</u> | <u>\$ 1,314,048</u> | <u>\$ (888,883)</u> | <u>\$ 12,418,769</u> |
| Less: Accumulated Depreciation | | | | |
| Buildings & Improvements | \$ 1,201,123 | \$ 235,866 | \$ - | \$ 1,436,989 |
| Machinery & Equipment | 2,106,076 | 199,431 | (87,873) | 2,217,634 |
| Infrastructure | 2,405,506 | 124,383 | (11,235) | 2,518,654 |
| Total Accumulated Depreciation | <u>\$ 5,712,705</u> | <u>\$ 559,680</u> | <u>\$ (99,108)</u> | <u>\$ 6,173,277</u> |
| Governmental Activities - Capital Assets, Net | <u>\$ 6,280,899</u> | <u>\$ 754,368</u> | <u>\$ (789,775)</u> | <u>\$ 6,245,492</u> |

Additions include a building transferred from the City's proprietary fund to the City's general fixed assets: Cost \$269,400; accumulated depreciation \$103,172.

Depreciation Expense was charged to governmental activities as follows:

| | |
|---|-------------------|
| General Government | \$ 22,160 |
| Public Safety | |
| E911 Dispatch | 21,068 |
| Fire Department | 64,518 |
| Police Department | 80,429 |
| Public Works | 30,103 |
| Parks & Recreation | 111,367 |
| Code Enforcement | 2,480 |
| Infrastructure (included with Public Works) | 124,383 |
| Total Depreciation Expense | <u>\$ 456,508</u> |

Land and Construction in process are assets which are not depreciated. \$2,271,166 of depreciable assets are fully depreciated. Police department assets of \$19,376 are recorded under capital leases. Accumulated depreciation associated with these assets was \$6,782 at June 30, 2019.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

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

3.G. CAPITAL ASSETS (Continued)

| | Balance at July 1, 2018 | Additions | Disposals | Balance at June 30, 2019 |
|--|----------------------------|---------------------|-----------------------|-----------------------------|
| <u>Business-type Activities:</u> | | | | |
| Land & Right of Ways | \$ 834,439 | \$ 39,756 | \$ (62,406) | \$ 811,789 |
| Structures & Improvements | 9,440,527 | 1,330,094 | (1,053,559) | 9,717,062 |
| Distribution System | 50,180,759 | 1,865,195 | (973,906) | 51,072,048 |
| Wells | 815,727 | - | - | 815,727 |
| Plant, Machinery & Equipment | 11,421,062 | 448,451 | (3,874,696) | 7,994,817 |
| Construction in Process | 1,351,821 | 2,759,958 | (3,750,999) | 360,780 |
| Totals at Historical Cost | <u>\$ 74,044,335</u> | <u>\$ 6,443,454</u> | <u>\$ (9,715,566)</u> | <u>\$ 70,772,223</u> |
| Less: Accumulated Depreciation | | | | |
| Structures & Improvements | \$ 3,598,959 | \$ 251,993 | \$ (887,331) | \$ 2,963,621 |
| Distribution System | 19,838,027 | 1,162,364 | (926,257) | 20,074,134 |
| Wells | 389,551 | 33,419 | - | 422,970 |
| Plant, Machinery & Equipment | 8,998,853 | 444,971 | (3,874,696) | 5,569,128 |
| Total Accumulated Depreciation | <u>\$ 32,825,390</u> | <u>\$ 1,892,747</u> | <u>\$ (5,688,284)</u> | <u>\$ 29,029,853</u> |
| Business-type Activities Capital Assets, Net | <u>\$ 41,218,945</u> | <u>\$ 4,550,707</u> | <u>\$ (4,027,282)</u> | <u>\$ 41,742,370</u> |

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

| | |
|----------------------------|---------------------|
| Gas | \$ 653,584 |
| Water | 307,260 |
| Sewer | 931,903 |
| Total Depreciation Expense | <u>\$ 1,892,747</u> |

Land, right of ways, and construction in process are capital assets not being depreciated. \$10,050,135 of depreciable assets are fully depreciated.

During fiscal year 2019, the City's proprietary fund reviewed fixed asset subsidiary ledgers and removed \$5,555,168 of fully depreciated assets that were no longer in service as of June 30, 2019.

3.H. 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 Obligation:

Police equipment lease - \$19,376 through Axon Enterprises, Inc. Terms are: 5 years; non-interest bearing, secured by the underlying equipment. Initial payment of \$4,400; subsequent annual payments of \$3,744. Maturity, September, 2021.

| | |
|--------------------------------|------------------|
| Current Portion | \$ 3,744 |
| Noncurrent Portion | 7,488 |
| Total Capital Lease Obligation | <u>\$ 11,232</u> |

Accrued Compensated Absences:

| | |
|------------------------------------|------------------|
| Current Portion | \$ 49,262 |
| Noncurrent Portion | 15,269 |
| Total Accrued Compensated Absences | <u>\$ 64,531</u> |

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

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

3.H. LONG-TERM DEBT (Continued)

Business-type Activities:

As of June 30, 2019, 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. \$ 55,245

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. 508,276

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. 1,724,794

Kentucky Infrastructure Authority represents a 20 year loan secured by sewer revenues. Interest is charged at the rate of 1.07%. The original principal balance was \$867,091. Semi-annual payments with final maturity December 1, 2032. 605,316

Kentucky Infrastructure Authority represents a 30 year loan secured by water revenues. Interest is charged at 1.00% per annum. In addition, a loan servicing fee of .25 percent of the annual outstanding loan balance is payable to the authority as a part of each interest payment. The original principal balance was \$1,977,731, reduced 35% by principal forgiveness of \$692,206. Semi-annual payments with final maturity December 1, 2044. 1,116,343

Kentucky Infrastructure Authority represents a 30 year loan secured by water revenues. Interest is charged at .75% per annum. In addition a loan servicing fee of .25 percent of the annual outstanding loan balance is payable to the authority as a part of each interest payment. The original principal balance was \$1,657,988, reduced by 25% principal forgiveness of \$414,497. Semi-annual payments with final maturity June 1, 2046. 1,131,328

Kentucky Infrastructure Authority represents a 30 year loan secured by water revenues. Interest is charged at .75% per annum. In addition a loan servicing fee of .25 percent of the annual outstanding loan balance will be payable to the authority as a part of each interest payment. The original principal balance was \$963,931, reduced by 50% principal forgiveness of \$481,965. Semi-annual payments with final maturity December 1, 2046. 445,806

Total Notes Payable \$ 5,587,108

Current Portion \$ 489,631

Noncurrent Portion 5,097,477

Total Notes Payable \$ 5,587,108

CITY OF CARROLLTON, KENTUCKY
NOTES TO BUDGETARY COMPARISON SCHEDULE
June 30, 2019

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

3.H. LONG-TERM DEBT (Continued)

Business Type Activities (Continued)

Accrued Compensated Absences:

| | |
|--------------------|-----------|
| Current Portion | \$ 7,499 |
| Noncurrent Portion | 31,906 |
| Total | \$ 39,405 |

Changes in Long-term Debt

The following is a summary of changes in long-term debt for the fiscal year ended June 30, 2019:

| <u>Type of Debt</u> | <u>Balance</u> <u>July 1, 2018</u> | <u>Additions</u> | <u>Retirements</u> | <u>Balance</u> <u>June 30, 2019</u> | <u>Current</u> <u>Portion</u> |
|---------------------------------|---------------------------------------|------------------|--------------------|--|----------------------------------|
| Governmental Activities | | | | | |
| Capital Lease Obligation | \$ 14,976 | \$ - | \$ 3,744 | \$ 11,232 | \$ 3,744 |
| Accrued Compensated Absences | 56,029 | 70,993 | 62,491 | 64,531 | 49,262 |
| Total General Long-term Debt | \$ 71,005 | \$ 70,993 | \$ 66,235 | \$ 75,763 | \$ 53,006 |
| Business-type Activities | | | | | |
| Note Payable | \$ 6,082,673 | \$ - | \$ 495,565 | \$ 5,587,108 | \$ 489,631 |
| Accrued Compensated Absences | 23,844 | 15,561 | - | 39,405 | 7,499 |
| Total Enterprise Fund Debt | \$ 6,106,517 | \$ 15,561 | \$ 495,565 | \$ 5,626,513 | \$ 497,130 |

Description of Debt Activity:

Business-type Activities

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.

On March 19, 2003, Carrollton Utilities closed a \$2,518,301 Kentucky Infrastructure Authority loan that provided financing for the Regional Sewer Project. The first amortized payment commenced on June 1, 2003.

In March, 2010, Carrollton Utilities closed a \$4,288,600 Kentucky Infrastructure Authority loan that provided financing for the Wastewater Treatment Plant Project. The first amortized payment commenced on June 1, 2007.

In April, 2013, Carrollton Utilities closed a \$867,091 Kentucky Infrastructure Authority Loan that provided financing for the Eagle Creek Sewer Extension Project. The first amortized payment commenced on June 1, 2013.

In 2015, Carrollton Utilities closed a \$1,977,731 Kentucky Infrastructure Authority loan that provided financing for the Countywide Underserved Project under which improvements were made to the distribution systems of both Carrollton Utilities and West Carroll Water District. The loan contained a principal forgiveness clause in the amount of thirty-five percent (35%). An interlocal receivable from the West Carroll Water District was recorded in the amount of \$881,877 less the District's share of the principal forgiveness recognized, \$308,657, to account for the West Carroll Water District's portion of the loan. Principal forgiveness for Carrollton Utilities was recognized in the amount of \$383,549, in prior years. The first amortized payment commenced on June 1, 2015.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BUDGETARY COMPARISON SCHEDULE
June 30, 2019

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

3.H. LONG-TERM DEBT (Continued)

Description of Debt Activity: (Continued)

Business-type Activities (Continued)

Notes Payable to Kentucky Infrastructure Authority (Continued)

On September 30, 2016, Carrollton Utilities closed a loan with Kentucky Infrastructure Authority for \$1,657,988. The loan provided financing for the Carroll County Interconnect Project to provide interconnections between Carrollton Utilities, Carroll County Water District, and West Carroll Water District. The loan contained a principal forgiveness clause in the amount of twenty-five percent (25%). An interlocal receivable from the West Carroll Water District was recorded in the amount of \$44,310 less the District's share of principal forgiveness of \$11,077. An interlocal receivable from the Carroll County Water District was recorded in the amount of \$301,721 less loan forgiveness of \$75,430. Principal forgiveness of \$327,990 for Carrollton Utilities was recognized in prior years.

A loan with Kentucky Infrastructure Authority for \$963,931 closed on August 9, 2018. The loan provided financing for the Focusing on Core Missions Project, to provide distribution system improvements for Carrollton Utilities and system improvements to Carroll County Water District #1, West Carroll Water District, and Henry County Water District #2. All interlocal receivables for the Focus Project have been received in full. Principal forgiveness of \$389,516 for Carrollton Utilities was recognized in prior years.

Upon the occurrence of an event of default, the Kentucky Infrastructure Authority shall be entitled to the appointment of a receiver of the System and all receipts therefrom. The Kentucky Infrastructure Authority may pursue any available remedy to enforce payment obligations or to remedy any event of default. In the event that the City defaults, the defaulting party also agrees to pay the fees of such attorneys and other expenses incurred by the Kentucky Infrastructure Authority.

The combined obligations of the outstanding notes at June 30, 2019 are as follows:

| <u>Fiscal Year</u> | <u>Principal Payment</u> | <u>Interest Payment</u> | <u>Servicing Fee</u> | <u>Total Payment</u> | <u>Balance at End of Year</u> |
|--------------------|--------------------------|-------------------------|----------------------|----------------------|-------------------------------|
| | | | | | \$ 5,587,108 |
| 2019-20 | \$ 501,578 | \$ 55,237 | \$ 12,260 | \$ 569,075 | 5,085,530 |
| 2020-21 | 507,670 | 49,144 | 11,208 | 568,022 | 4,577,860 |
| 2021-22 | 513,845 | 42,969 | 10,143 | 566,957 | 4,064,015 |
| 2022-23 | 444,853 | 36,713 | 9,066 | 490,632 | 3,619,162 |
| 2023-24 | 373,908 | 32,410 | 8,202 | 414,520 | 3,245,254 |
| 2024-29 | 1,321,086 | 112,306 | 30,101 | 1,463,493 | 1,924,168 |
| 2029-34 | 684,730 | 68,606 | 19,705 | 773,041 | 1,239,438 |
| 2034-39 | 527,658 | 42,547 | 12,548 | 582,753 | 711,780 |
| 2039-44 | 550,759 | 19,446 | 5,823 | 576,028 | 161,021 |
| 2044-47 | 161,021 | 1,488 | 485 | 162,994 | - |
| | <u>\$ 5,587,108</u> | <u>\$ 460,866</u> | <u>\$ 119,541</u> | <u>\$ 6,167,515</u> | <u>\$ -</u> |

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, 2019 are as follows:

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

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

3.H. LONG-TERM DEBT (Continued)

Annual Debt Service Requirements (Continued)

| <u>Fiscal Year</u> | <u>Governmental Activities</u> | | <u>Business-type Activities</u> | |
|--------------------|--------------------------------|--------------------------------------|---------------------------------|--------------------------------------|
| | <u>Principal</u> | <u>Interest & Fiscal Charges</u> | <u>Principal</u> | <u>Interest & Fiscal Charges</u> |
| 2019-20 | \$ 3,744 | \$ - | \$ 501,578 | \$ 67,497 |
| 2020-21 | 3,744 | - | 507,670 | 60,352 |
| 2021-22 | 3,744 | - | 513,845 | 53,112 |
| 2022-23 | - | - | 444,853 | 45,779 |
| 2023-24 | - | - | 373,908 | 40,612 |
| 2024-29 | - | - | 1,321,086 | 142,407 |
| 2029-34 | - | - | 684,730 | 88,311 |
| 2034-39 | - | - | 527,658 | 55,095 |
| 2039-44 | - | - | 550,759 | 25,269 |
| 2044-47 | - | - | 161,021 | 1,973 |
| Total | <u>\$ 11,232</u> | <u>\$ -</u> | <u>\$ 5,587,108</u> | <u>\$ 580,407</u> |

3.I. INTEREST EXPENSE AND FISCAL CHARGES

Interest expense and fiscal charges for the Enterprise Fund for the year ended June 30, 2019, was \$74,534.

3.J. FUND EQUITY

Restricted Net Position

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

Governmental Activities

| Activity | Restricted by | |
|------------------------|----------------------|------------------|
| Other Purposes: | | |
| Municipal Road Aid | State Law | \$ 27,906 |
| L.G.E.A.F. | State Law | 6,243 |
| | | <u>\$ 34,149</u> |

Business-type Activities

Restricted for Debt Service:

| | |
|---|-------------------|
| Kentucky Infrastructure Authority (KIA) Notes Payable | \$ 631,572 |
| Cash & Investments | (6,344) |
| Less: Accrued Interest Payable | <u>\$ 625,228</u> |

CITY OF CARROLLTON, KENTUCKY
NOTES TO BUDGETARY COMPARISON SCHEDULE
June 30, 2019

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

3.J. FUND EQUITY (Continued)

Fund Balance Classifications

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

Restricted for the following purposes under Kentucky Statutes:

Other Governmental Funds:

| | |
|--------------------|------------------|
| Municipal Road Aid | \$ 27,906 |
| L.G.E.A.F. | 6,243 |
| | <u>\$ 34,149</u> |

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

General Fund:

| | |
|---|-------------------|
| Public Works-Street Sweeper | \$ 170,000 |
| Matching Funds - Kentucky Homeland Security Grant | 9,705 |
| Sidewalk Contract | 28,549 |
| E-911 Grant Match | 7,000 |
| | <u>\$ 215,254</u> |

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

Other Governmental Funds:

| | |
|-----------------|-----------------|
| Shop with a Cop | \$ 8,230 |
| Total Assigned | <u>\$ 8,230</u> |

Unrestricted net position of the governmental funds and proprietary fund was reduced by \$323,610 and \$427,738 respectively, as a result of the transactions recorded by the City to reflect its proportionate share of the County Employees Retirement System's Net Pension and Net OPEB Liabilities. The accounts affected were as follows:

| | Governmental Funds | Proprietary Fund |
|--|---------------------------|-------------------------|
| Decrease in Deferred Outflows of Resources | \$ (217,539) | \$ (116,851) |
| Increase in Deferred Inflows of Resources | (61,999) | (95,779) |
| Increase in Net Pension Liability | (153,313) | (308,858) |
| Decrease in Net OPEB Liability | 109,241 | 93,750 |
| Net Decrease in Unrestricted Net Position | <u>\$ (323,610)</u> | <u>\$ (427,738)</u> |

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

NOTE 4. OTHER NOTES

4.A. COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN)

The City of Carrollton, Kentucky participates in the Commonwealth of Kentucky's County Employees' Retirement System (CERS) for non-hazardous employees.

Under the provision of Kentucky Revised Statute ("KRS") Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. Under the provisions of Kentucky Revised Statute ("KRS") Section 61.701, the KRS Board administers the Kentucky Retirement Systems Insurance Fund. The statutes provide for an insurance fund to provide group hospital and medical benefits to retirees drawing a benefit from the pension funds administered by KRS, which includes CERS.

The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS's pension and insurance funds. Additionally, the Kentucky Retirement System issues publicly available financial reports that include the Schedules of Employer Allocations and Pension amounts, and the Schedules of Employer Allocations of Post Employment Benefits Other Than Pension amounts, by employer. The most recent financial reports, dated June 30, 2018, may be obtained on-line as follows:

- Kentucky Retirement Systems Audit Report – 2018
https://apps.auditor.ky.gov/Public/Audit_Reports/Archive/2018KRSfinancialaudit.pdf
- Kentucky Retirement Systems Schedule of Employer Allocations and Pension Amounts – Audit Report 2018 – GASB 68
<https://kyret.ky.gov/Employers/GASB/2018%20Audited%20Reports/2018KRSEmployerAllocationPensionAudit.pdf>
- Kentucky CERS GASB 68 Actuarial Report
https://kyret.ky.gov/Employers/GASB/2018%20GASB%2068%20and%2075%20Actuary%20Reports/GASB68_Actuarial_Information_CERS_FY2018.pdf
- Kentucky Retirement Systems Schedules of Employer Allocations and OPEB Amounts by Employer – Audit Report 2018 – GASB 75
<https://kyret.ky.gov/Employers/GASB/2018%20Audited%20Reports/2018KRS-OPEBAudit.pdf>
- Kentucky CERS GASB 75 Actuarial Report
https://kyret.ky.gov/Employers/GASB/2018%20GASB%2068%20and%2075%20Actuary%20Reports/GASB75_Actuarial_Information_CERS_FY2018.pdf

Basis of Accounting – CERS's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with terms of the plan. Premium payments are recognized when due and payable in accordance with the terms of the plan. Administrative and investment expenses are recognized when incurred.

Method Used to Value Investments/Investment Objectives – Investments of the plan are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Short-term investments are reported at cost, which approximates fair value. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the dividend date. Gain (loss) on investments includes KRS' gains and losses on investments bought and sold as well as held during the fiscal year. Investment returns are recorded net of investment fees.

The investment objectives of the portfolios are to produce results that exceed the stated goals over both short-term and long-term periods.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

NOTE 4. OTHER NOTES

4.A. COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

- Shorter-Term (5 years and less): The returns of the particular asset classes of the managed funds of the Systems, measured on an annual basis, should exceed the return achieved by a policy benchmark portfolio composed of comparable unmanaged market indices.
- Medium-Term (5 to 30 years): The returns of the particular asset classes of the managed funds of the Systems, measured on a rolling year basis should exceed the returns achieved by a policy benchmark portfolio composed of comparable unmanaged market indices and perform above the median of an appropriate peer universe, if there is one.
- Longer-Term: The total assets of the Systems should achieve a return of 6.25% for CERS pension and insurance plans. This is measured over 30 to 40 years which exceeds the actuarially required rate of return while also exceeding the return achieved by its total fund benchmark.

Target asset Allocation Board Policy as of June 30, 2018 was as follows:

| | 2018 |
|-----------------------|---------|
| Combined Equity | 35.00% |
| Combined Fixed Income | 24.00% |
| Private Equity | 10.00% |
| Absolute Return | 10.00% |
| Real Return | 10.00% |
| Real Estate | 5.00% |
| Global Bonds | 4.00% |
| Cash | 2.00% |
| | 100.00% |

Total fund return for the years ended June 30, 2018 was 8.57%.

Pension Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers all regular full-time members employed in non-hazardous and hazardous positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in CERS along with hazardous duty position of each participating county, city, or school board, any additional eligible local agencies electing to participate in CERS. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Prior to July 1, 2009, COLAs were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. After July 1, 2009, the COLAs were limited to 1.5%. No COLA has been granted since July 1, 2011. The City of Carrollton, Kentucky participates in the non-hazardous plan.

Benefits provided – CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers, based on hire date:

| | | |
|--------|----------------------|--|
| Tier 1 | Participation date | Before September 1, 2008 |
| | Unreduced retirement | 27 years service or 65 years old |
| | Reduced retirement | At least 5 years service and 55 years old |
| Tier 2 | Participation date | September 1, 2008 – December 31, 2013 |
| | Unreduced retirement | At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal 87 |
| | Reduced retirement | At least 10 years service and 60 years old |

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

NOTE 4. OTHER NOTES

4.A. COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

| | | |
|--------|----------------------|--|
| Tier 3 | Participation date | After December 31, 2013 |
| | Unreduced retirement | At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal 87 |
| | Reduced retirement | Not available |

Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children.

Contributions - Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the fiscal year ended June 30, 2018 participating non-hazardous employers contributed 19.18% of each employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal year ended June 30, 2018 was 19.18%. Administrative costs of KRS are financed through employer contributions and investment earnings.

Non-hazardous employer contributions of 19.18% for the year ended June 30, 2018, were allocated 14.48% to CERS's pension fund and 4.70% to CERS's OPEB (health insurance).

For the fiscal year ended June 30, 2018 plan members who began participating prior to September 1, 2008, were required to contribute 5% non-hazardous, of their annual creditable compensation. These members were classified in the Tier 1 structure of benefits. Plan members who began participating on, or after, September 1, 2008 and before January 1, 2014, were required to contribute a total of 6% non-hazardous, of their annual creditable compensation. These members were classified in the Tier 2 structure of benefits. Five percent of the contribution was deposited to the member's account while the 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). Interest is paid each June 30 on members' accounts at a rate of 2.5%.

If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, for plan members who began participating on, or after, September 1, 2008, the 1% contribution to the 401(h) account is non-refundable and is forfeited.

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. These members were classified in the Tier 3 structure of benefits. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Non-hazardous members contribute 5%, of their annual creditable compensation and an additional 1% to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

NOTE 4. OTHER NOTES

4.A. COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a 4% (non-hazardous) and employer pay credit. The employer pay credit represents a portion of the employer contribution.

Interest is paid into the Tier 3 member's account. The account currently earns 4% interest credit on the member's account balance as of June 30th of the previous year. The member's account may be credited with additional interest if the system's five-year Geometric Average Net Investment Return (GANIR) exceeded 4%. If the member was actively employed and participating in the fiscal year, and if the systems' GANIR for the previous five years exceeds 4%, then the member's account will be credited with 75% of the amount of the returns over 4% on the account balance as of June 30th of the previous year (Upside Sharing Interest). It is possible that one system in KRS may get an Upside Sharing Interest, while one may not.

Methods and Assumptions Used in Calculation of Actuarially Determined Contributions (Pension Plan)

Per the Kentucky Retirement System's 2018 Comprehensive Annual Financial Report, the actuarially determined contribution rates effective for fiscal year ending 2018 are calculated as of June 30, 2017. Based on the June 30, 2017 actuarial valuation report, the actuarial methods and assumptions used to calculate these contribution rates are as follows:

| Item | CERS June 30, 2018 Non-Hazardous/Hazardous |
|--|--|
| Determined by the Actuarial Valuation as of: | June 30, 2016 |
| Actuarial Cost Method: | Entry Age Normal |
| Asset Valuation Method: | 20% of the difference between the market value of assets and the expected actuarial value of assets is recognized. |
| Amortization Method: | Level Percent of Pay |
| Amortization Period: | 27 Years, Closed |
| Investment Return: | 7.50% |
| Inflation: | 3.25% |
| Payroll Growth: | 4.00%, average |
| Mortality: | RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females) |

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

NOTE 4. OTHER NOTES

4.A. COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

Actuarial Methods and Assumptions Used in Calculation of the Actuarially Determined Total Pension Liability and Net Pension Liability

The total pension liability is based on the actuarial valuation as of June 30, 2018 performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2018 were based on an actuarial valuation date of June 30, 2017. The total pension liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018, using generally accepted actuarial principles.

There have been no changes in actuarial assumptions since June 30, 2017. The actuarial assumptions are:

| | |
|---------------------------|-------|
| Inflation | 2.30% |
| Salary Increases | 3.05% |
| Investment Rate of Return | 6.25% |

However, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children. The Total Pension Liability as of June 30, 2018 is determined using these updated benefit provisions.

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set-back four years for males) is used for the period after disability retirement.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the County Employee Retirement System Pension

At June 30, 2019 the City reported a (Government-wide) liability of \$6,964,142 [\$3,117,018 governmental funds and \$3,847,124 proprietary fund] for its proportionate share of the net pension liability. The net pension liability for CERS was measured as of June 30, 2018 and was based on the actual liability of the employees and former employees relative to the total liability of the system as determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2018 the City's Governmental Funds proportion was 0.051180 percent, which is an increase of 0.000547% for the year. At June 30, 2018 the City's Proprietary Fund's proportionate share was 0.063168%, which is an increase of 0.002719% for the year.

The total payroll of the City's Governmental Funds for the year ended June 30, 2019 was \$1,541,374. Contributions to the CERS were based on \$1,443,595 (covered payroll). The total employer pension contributions for the year ended June 30, 2019 were \$222,327.

The total payroll of the City's Governmental Funds for the year ended June 30, 2018 was \$1,454,052. Contributions to the CERS were based on \$1,268,495 (covered payroll). The Total employer pension contributions for the year ended June 30, 2018 were \$181,691.

The total payroll of the City's Proprietary Fund for the year ended June 30, 2019 was \$1,852,327. Contributions to the CERS were based on \$1,655,378 (covered payroll). The total employer pension contributions for the year ended June 30, 2019 were \$268,502.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BUDGETARY COMPARISON SCHEDULE
June 30, 2019

NOTE 4. OTHER NOTES

4.A. COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the County Employee Retirement System Pension (Continued)

The total payroll of the City's Proprietary Fund for the year ended June 30, 2018 was \$1,768,130. Contributions to the CERS were based on \$1,571,343 (covered payroll). The total employer pension contributions for the year ended June 30, 2018 were \$225,069.

All contributions were made as required.

The City's Governmental and Proprietary Funds' contributions to the County Employees' Retirement System for the year ended June 30, 2018 were 0.051180% and 0.063168%, respectively, of the system's total contribution requirements for all employers.

For the year ended June 30, 2019 the City recognized total pension expense of \$1,155,655 (\$510,629 Governmental Funds and \$645,026 Proprietary Fund, respectively). At June 30, 2019 the City reported deferred outflows of resources and deferred inflows of resources related to the CERS pension from the following sources:

| | June 30, 2019 | | | |
|---|--------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|
| | Governmental Funds | | Proprietary Fund | |
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Difference Between Expected and Actual Experience | \$ 101,668 | \$ 45,627 | \$ 125,482 | \$ 56,314 |
| Change in Assumptions | 304,623 | - | 375,976 | - |
| Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions | 45,151 | 4,859 | 93,996 | 9,893 |
| Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments | 144,944 | 182,318 | 178,894 | 225,023 |
| District Contributions Made Subsequent to the NPL Measurement Date | 222,327 | - | 268,502 | - |
| Total | \$ 818,713 | \$ 232,804 | \$ 1,042,850 | \$ 291,230 |

\$490,829 (\$222,327 Governmental Funds and \$268,502 Proprietary Fund, respectively) reported as deferred outflows of resources related to pensions arising from City contributions made subsequent to the measurement date will be recognized as a reduction in the net pension liability in the year ended June 30, 2020. Amounts reported as deferred inflows and outflows of resources due to the net difference between projected and actual investment earnings on pension plan investments will be netted and amortized over five years and recognized in pension expense. Amounts reported as deferred inflows and outflows of resources due to the difference between expected and actual experience, change of assumptions, and changes in proportion and differences between employer contributions and proportionate share of contributions will be amortized and recognized in pension expense over the expected remaining service lives of all employees. Total amortization to be recognized in pension expense is presented below as follows:

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

NOTE 4. OTHER NOTES

4.A. COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the County Employee Retirement System Pension (Continued)

| Year Ended June 30, 2019: | <u>Governmental Funds</u> | | <u>Proprietary Fund</u> | |
|---------------------------|---------------------------|--|-------------------------|--|
| | | Increase (Decrease) to Pension Expense | | Increase (Decrease) to Pension Expense |
| 2020 | \$ | 271,371 | \$ | 341,190 |
| 2021 | | 141,545 | | 189,660 |
| 2022 | | (32,605) | | (27,085) |
| 2023 | | (16,729) | | (20,647) |
| | \$ | <u>363,582</u> | \$ | <u>483,118</u> |

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the net pension liability of CERS [as reported in its publicly available financial statements for the year ended June 30, 2018] calculated using the discount rate of 6.25% for the year ended June 30, 2018, as well as what CERS' net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the approved rate:

| <u>As of June 30, 2019</u> | <u>1% Decrease</u> <u>[5.25%]</u> | <u>Current Discount</u> <u>[6.25%]</u> | <u>1% Increase</u> <u>[7.25%]</u> |
|----------------------------|--------------------------------------|---|--------------------------------------|
| Net Pension Liability | \$ 7,667,062,949 | \$ 6,090,304,793 | \$ 4,769,257,576 |
| City's Proportionate Share | 8,767,133 | 6,964,142 | 5,453,551 |

Payable to the Pension Plan

At June 30, 2019, the City reported a payable of \$25,401 for the outstanding amount of contributions required for the year then ended. The amount represents the employee withholding and employer match for the last month of the years then ended.

Insurance (OPEB) Plan Description – The Kentucky Retirement Systems' Insurance Fund (Insurance Fund) was established to provide hospital and medical insurance for eligible members receiving benefits from KERS, CERS, and SPRS. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. KRS submits the premium payments to DEI. The Board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. A portion of the insurance premiums are withheld from benefit payments for members including those of the CERS Non-Hazardous system.

Contributions

As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on, or after, July 1, 2003. For members participating prior to July 1, 2003, KRS pays a percentage of the monthly premium for single coverage based upon the service credit accrued at retirement. Members participating on or after July 1, 2003, and before September 1, 2008 are required to earn at least 10 years of service credit in order to be eligible for insurance benefits at retirement. Members participating on or after September 1, 2008, are required to earn at least 15 years of service credit in order to be eligible for insurance benefits at retirement. The monthly health insurance contribution will be \$10 for CERS Non-Hazardous members for each year of earned service increased by the CPI prior to July 1, 2009, and by 1.5% annually from July 1, 2009. This benefit is not protected under the inviolable contract provisions of Kentucky Revised Statute 78.852. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

NOTE 4. OTHER NOTES

4.A. COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

Contributions (Continued)

The amount of contribution paid by the Insurance Fund is based on years of service. For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

| <u>Years of Service</u> | <u>Portion Paid by Insurance Fund Paid by Insurance Fund (%)</u> |
|-------------------------|--|
| 20+ years | 100.00% |
| 15-19 years | 75.00% |
| 10-14 years | 50.00% |
| 4-9 years | 25.00% |
| Less than 4 years | 0.00% |

For members participating on or after July 1, 2003, for CERS Non-Hazardous members, the dollar contribution for fiscal year 2018 was \$13.38.

For the fiscal year ended June 30, 2018 plan members who began on, or after, September 1, 2008 (classified in the Tier 2 or Tier 3 structure of benefits) were required to contribute 1% of their annual creditable compensation to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E).

If a member terminates employment the 1% contribution to the 401(h) account is non-refundable and is forfeited.

Participating employers are required to contribute at an actuarially determined rate as described previously.

Methods and Assumptions Used in Calculation of Actuarially Determined Contributions (OPEB)

Per the GASB Statement No. 75, *Report for Postemployment Benefits Other than Pensions* for the Kentucky County Employees Retirement System prepared as of June 30, 2018, the actuarially determined contribution rates effective for fiscal year ending 2018 are calculated as of June 30, 2017. Based on the June 30, 2017 actuarial valuation report, the actuarial methods and assumptions used to calculate the actuarially determined contributions are as follows:

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

NOTE 4. OTHER NOTES

4.A. COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

Methods and Assumptions Used in Calculation of Actuarially Determined Contributions (OPEB) (Continued)

| Item | CERS June 30, 2018 Non-Hazardous/Hazardous |
|--|---|
| Determined by the Actuarial Valuation as of: | June 30, 2016 |
| Experience Study | July 1, 2008 - June 30, 2013 |
| Actuarial Cost Method: | Entry Age Normal |
| Asset Valuation Method: | 20% of the difference between the market value of assets and the expected actuarial value of assets is recognized. |
| Amortization Method: | Level Percent of Pay |
| Remaining Amortization Period: | 27 Years, Closed |
| Payroll Growth: | 4.00%, average |
| Investment Return: | 7.50% |
| Inflation: | 3.25% |
| Salary Increases: | 4.00%, average |
| Mortality: | The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set-back four years for males) is used for the period after disability retirement. |
| <i>Healthcare Trend Rates:</i> | |
| Pre-65 | Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years. |
| Post-65 | Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.0% over a period of 2 years. |

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

NOTE 4. OTHER NOTES

4.A. COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

Methods and Assumptions Used in Calculation of the Actuarially Determined Net OPEB Liability

For financial reporting the actuarial valuation as of June 30, 2018, was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2018, were based on an actuarial valuation date of June 30, 2017. The total OPEB liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018, using generally accepted actuarial principles. The total OPEB liability at June 30, 2017 was rolled from the June 30, 2016 valuation date using generally accepted accounting principles. There have been no changes in actuarial assumptions since June 30, 2017 (other than the blended discount rate used to calculate the total OPEB liability). However, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. The system shall now pay 100% of the insurance premium for spouses and children for all active members who die in the line of duty. The total OPEB liability as of June 30, 2018, is determined using these updated benefit provisions.

The actuarial assumptions are:

| | |
|---------------------------|--|
| Inflation | 2.30% |
| Payroll Growth Rate | 2.0% for CERS Non-hazardous and hazardous |
| Salary Increases | 3.05%, average |
| Investment Rate of Return | 6.25% |
| Healthcare Trend Rates | |
| Pre – 65 | Initial trend starting at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years. |
| Post – 65 | Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years. |

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set-back four years for males) is used for the period after disability retirement.

Long-Term Expected Rate of Return

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

The long-term expected real rate of return was 6.09% at June 30, 2018.

Discount Rate

The projection of cash flows used to determine the June 30, 2018 discount rate of 5.85% for CERS Non-hazardous, assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.62%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2018.

The fully-insured premiums KRS pays for the CERS Plan are blended rates based on the combined experience of active and retired members. Because the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer

CITY OF CARROLLTON, KENTUCKY
NOTES TO BUDGETARY COMPARISON SCHEDULE
June 30, 2019

NOTE 4. OTHER NOTES

4.A. COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

Discount Rate (Continued)

subsidy for the non-Medicare eligible retirees. The liability associated with this implicit subsidy is included in the calculation of the total OPEB liability.

However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the Kentucky Retirement System's CAFR.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources related to the County Employee Retirement System Insurance Plan

At June 30, 2019 the City (Government-wide) reported a Net OPEB liability of \$2,030,137 [\$908,655 governmental funds and \$1,121,482 proprietary fund].

The total payroll of the City's Governmental Funds for the year ended June 30, 2019 was \$1,541,374. Contributions to the CERS were based on \$1,443,595 (covered payroll). The total employer contributions to the Health Insurance Fund for the year ended June 30, 2019 were \$72,098.

The total payroll of the City's Governmental Funds for the year ended June 30, 2018 was \$1,454,052. Contributions to the CERS were based on \$1,268,495 (covered payroll). The total employer contributions to the Health Insurance Fund for the year ended June 30, 2018 were \$61,606.

The total payroll of the City's Governmental Funds for the year ended June 30, 2019 was \$1,852,327. Contributions to the CERS were based on \$1,655,378 (covered payroll). The total employer contributions to the Health Insurance Fund for the year ended June 30, 2019 were \$87,073.

The total payroll of the City's Proprietary Fund for the year ended June 30, 2018 was \$1,768,130. Contributions to the CERS were based on \$1,571,343 (covered payroll). The total employer contributions to the Health Insurance Fund for the year ended June 30, 2018 were \$76,314.

All contributions were made as required.

The City's Governmental and Proprietary Funds' contributions to the County Employees; Retirement System for the year ended June 30, 2018 were 0.051180% and 0.063168%, respectively, of the System's total contribution requirements for all employers.

The implicit employer subsidy for the non-Medicare eligible retirees for the year ended June 30, 2018 was \$10,845 and \$13,385 for the governmental funds and proprietary fund, respectively.

For the year ended June 30, 2019 the City recognized total other post employments benefit (OPEB) expense of \$245,693 (\$107,406 governmental funds and \$138,287 proprietary fund, respectively). At June 30, 2019 the City reported deferred outflows of resources and deferred inflows of resources related to the CERS OPEB from the following sources:

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

NOTE 4. OTHER NOTES

4.A. COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources related to the County Employee Retirement System Insurance Plan (Continued)

| | June 30, 2019 | | | |
|---|--------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|
| | Governmental Funds | | Proprietary Fund | |
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Difference Between Expected and Actual Experience | \$ - | \$ 105,892 | \$ - | \$ 130,694 |
| Change in Assumptions | 181,472 | 2,099 | 223,977 | 2,591 |
| Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions | 4,176 | 1,914 | 33,920 | 2,286 |
| Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments | - | 62,589 | - | 77,248 |
| District Contributions Made Subsequent to the Net OPEB Measurement Date | 72,098 | - | 87,073 | - |
| Total | \$ 257,746 | \$ 172,494 | \$ 344,970 | \$ 212,819 |

\$159,171 (\$72,098, Governmental Funds and \$87,073, Proprietary Fund, respectively) reported as deferred outflows of resources related to OPEB arising from City contributions made subsequent to the measurement date will be recognized as a reduction in the net OPEB liability in the year ended June 30, 2020. Amounts reported as deferred inflows and outflows of resources due to the net difference between projected and actual investment earnings on OPEB plan investments will be netted and amortized over five years and recognized in OPEB expense. Amounts reported as deferred outflows of resources and deferred inflows of resources due to the difference between expected and actual experience, change of assumptions, and changes in proportion and differences between employer contributions and proportionate share of contributions will be amortized and recognized in OPEB expense over the expected remaining service lives of all employees. Total amortization to be recognized in OPEB expense is presented below as follows:

| Year Ended June 30, 2019: | Governmental Funds | | Proprietary Fund | |
|---------------------------|------------------------|---------|------------------------|---------|
| | Increase (Decrease) | | Increase (Decrease) | |
| | to OPEB Expense | | to OPEB Expense | |
| 2020 | \$ | 3,575 | \$ | 9,858 |
| 2021 | | 3,575 | | 9,858 |
| 2022 | | 3,575 | | 9,858 |
| 2023 | | 15,731 | | 24,860 |
| 2024 | | (7,555) | | (3,892) |
| Thereafter | | (5,747) | | (5,464) |
| | \$ | 13,154 | \$ | 45,078 |

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

NOTE 4. OTHER NOTES

4.A. COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

Payable to the OPEB Health Insurance Plan

At June 30, 2019, the City reported a payable of \$8,234 for the outstanding amount of contributions required for the year then ended. This amount represents the employee withholding and employer match for the last month of the year then ended.

Sensitivity of the City's Proportionate Share of the Net Other Post Employment Benefit (OPEB) Liability to Changes in the Discount Rate and Healthcare Trend Rate

The following table presents the net other post-employment benefit liability of CERS [as reported in its publicly available financial statements for the years ended June 30, 2018, calculated using the single discount rates of 5.85% and 5.84%, respectively as well as what CERS' net OPEB liability would be if it were calculated using a single discount rate that is one percentage point lower or one percentage point higher than the approved rate:

| <u>As of June 30, 2019</u> | <u>1% Decrease [4.85%]</u> | <u>Current Discount [5.85%]</u> | <u>1% Increase [6.85%]</u> |
|----------------------------|--------------------------------|-------------------------------------|--------------------------------|
| Net OPEB Liability | \$ 2,306,064,041 | \$ 1,775,480,122 | \$ 1,323,519,582 |
| City's Proportionate Share | 2,636,822 | 2,030,137 | 1,513,352 |

The following table presents the net other post-employment benefit liability of CERS [as reported in its publicly available financial statements for the year ended June 30, 2018, calculated using the healthcare cost trend rate for the year ended June 30, 2018 as well as what CERS' net OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the approved rate:

| <u>As of June 30, 2019</u> | <u>1% Decrease</u> | <u>Current Healthcare Cost Trend Rate</u> | <u>1% Increase</u> |
|----------------------------|------------------------|---|------------------------|
| Net OPEB Liability | \$ 1,321,862,520 | \$ 1,775,480,122 | \$ 2,310,164,647 |
| City's Proportionate Share | 1,511,457 | 2,030,137 | 2,641,511 |

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 through the Kentucky League of Cities. The City is also subject to the risks associated with employee injury. These risks are covered through premiums paid to Kentucky Employers' Mutual Insurance. Such coverage is retrospectively rated and premiums may be adjusted based on experience.

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.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

NOTE 4. OTHER NOTES

4.C. COMMITMENTS & CONTINGENCIES

Each employee is granted sick leave at the rate of eight hours per month up to a maximum of 1,040 hours. Employees shall not be paid for unused sick leave credit upon termination of employment, except that employees who retire and receive CERS retirement benefits may personally receive payment for unused sick leave for the same amount that CERS would charge for applying the accrued sick leave to extend retirement benefits. The total liability for accumulated sick leave at June 30, 2019 was \$687,510 [\$269,054 for the governmental fund and \$418,456 for the proprietary fund]. 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, 2019, Carrollton Utilities has an unpaid and accrued storage liability estimated to be \$118,155.

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 \$248,178 for the 2018-2019 fiscal year.

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

Long Term Gas Supply Arrangements

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

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

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

CITY OF CARROLLTON, KENTUCKY
NOTES TO BUDGETARY COMPARISON SCHEDULE
June 30, 2019

NOTE 4. OTHER NOTES

4.C. COMMITMENTS & CONTINGENCIES

Long Term Gas Supply Arrangements (Continued)

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

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 5 to 30 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, 2019, are as follows:

| | | |
|---|----|---------------|
| Assets and Deferred Outflows | \$ | 3,880,326,673 |
| Liabilities and Deferred Inflows | \$ | 3,875,717,133 |
| Total Net Position | \$ | 4,609,540 |
| Costs Recoverable from Future Billings (Included in Assets Above) | \$ | 58,380,975 |

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

Federal Emergency Management Agency Funding

Carrollton Utilities has applied for funding from the Federal Emergency Management Agency (FEMA) for sewer line damage that occurred during the fiscal year. As of the date of this report, a project worksheet has not been approved by FEMA and therefore no receivable has been recorded.

EDA Project

The City was granted an Economic Development Administration (EDA) grant of \$820,000 to provide infrastructure improvements needed to support manufacturing and other business growth. This investment will provide critical sewer line improvements needed to assist with the expansion of local manufacturers. Work on the project began during the spring of 2019 and is expected to be complete during fiscal year 2020. \$1,171,000 is the estimated total cost of the project.

Future Projects

Carrollton Utilities is in the preliminary stages of the Natural Gas 20/20 Expansion project (20/20 project) has a vision and a goal of expanding Carrollton Utilities (CU) system capacity to handle recent industrial customer expansions and a new expansion by the Nucor Corporation. While the future is never clear, the 20/20 project will cast a vision of what the future may provide in the way of natural gas use and will allow CU the opportunity to be ready for current and future needs. The project scope includes 30,000 linear feet of 12", 8,000 linear feet of 10", a newly constructed system tie-in, and ancillary gas piping and valving. The projected cost estimate is \$9.16 million. Carrollton Utilities is seeking project funding to assist with the cost of the project.

Bad Debt Expense

Utility revenue charges have been netted with an estimated bad debt expense of \$6,451, \$2,995, and \$18,035 for gas, water and sewer services, respectively.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BUDGETARY COMPARISON SCHEDULE
June 30, 2019

NOTE 4. OTHER NOTES (Continued)

4.C. COMMITMENTS & CONTINGENCIES (Continued)

Income Tax Status

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

4.D. MISCELLANEOUS

Economic Dependence

Carrollton Utilities Commission provides natural gas to residential, commercial, and industrial customers. It should be noted that 94.2% 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). \$32,097,755 of the \$34,747,358 gas cost of goods sold are for natural gas purchases, excluding related transportation costs. Additionally, 29.7% of the City's General Fund revenues are attributable to gas prepurchase agreements with PEAK.

Related Party Transactions

For the year ended June 30, 2019, the City received \$39,153 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 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 approved 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.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2019

NOTE 4. OTHER NOTES (Continued)

4.D. MISCELLANEOUS

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, 2019, is presented as follows:

| CONDENSED STATEMENT OF NET POSITION | Gas | Water | Sewer | Total |
|--|----------------------|---------------------|----------------------|----------------------|
| Assets: | | | | |
| Current Assets | \$ 14,357,931 | \$ (1,706,949) | \$ (798,276) | \$ 11,852,706 |
| Other Noncurrent Assets | 2,352,767 | 869,655 | 574,337 | 3,796,759 |
| Capital Assets (Net) | 12,139,025 | 6,423,202 | 23,180,143 | 41,742,370 |
| Total Assets | <u>\$ 28,849,723</u> | <u>\$ 5,585,908</u> | <u>\$ 22,956,204</u> | <u>\$ 57,391,835</u> |
| Deferred Outflows: | <u>\$ 582,884</u> | <u>\$ 333,077</u> | <u>\$ 471,859</u> | <u>\$ 1,387,820</u> |
| Liabilities: | | | | |
| Due to Other Funds | \$ 1,071,941 | \$ 31,419 | \$ - | \$ 1,103,360 |
| Other Current Liabilities | 3,483,661 | 148,408 | 520,828 | 4,152,897 |
| Due to Other Funds (Noncurrent) | 1,549,360 | - | - | 1,549,360 |
| Other Noncurrent Liabilities | 3,740,485 | 4,254,682 | 3,856,866 | 11,852,033 |
| Total Liabilities | <u>\$ 9,845,447</u> | <u>\$ 4,434,509</u> | <u>\$ 4,377,694</u> | <u>\$ 18,657,650</u> |
| Deferred Inflows: | <u>\$ 209,634</u> | <u>\$ 163,917</u> | <u>\$ 130,498</u> | <u>\$ 504,049</u> |
| Net Position: | | | | |
| Net Investment in Capital Assets | \$ 11,797,511 | \$ 4,452,859 | \$ 20,223,371 | \$ 36,473,741 |
| Restricted for Debt Service | - | 132,547 | 492,681 | 625,228 |
| Unrestricted | 7,580,015 | (3,264,847) | (1,796,181) | 2,518,987 |
| Total Net Position | <u>\$ 19,377,526</u> | <u>\$ 1,320,559</u> | <u>\$ 18,919,871</u> | <u>\$ 39,617,956</u> |

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

| | Gas | Water | Sewer | Total |
|--|----------------------|---------------------|----------------------|----------------------|
| Operating Revenues | \$ 37,426,001 | \$ 1,438,760 | \$ 2,511,929 | \$ 41,376,690 |
| Depreciation Expense | (653,584) | (307,260) | (931,903) | (1,892,747) |
| Other Operating Expenses | (36,468,997) | (1,426,306) | (1,533,759) | (39,429,062) |
| Net Operating Income (Loss) | <u>\$ 303,420</u> | <u>\$ (294,806)</u> | <u>\$ 46,267</u> | <u>\$ 54,881</u> |
| Nonoperating Revenues (Expenses): | | | | |
| FEMA Grant Revenue | 2,630 | - | 1,062 | 3,692 |
| Interest Income | 75,243 | 23,730 | 23,314 | 122,287 |
| Interest & Fiscal Charges | - | (30,462) | (44,072) | (74,534) |
| Gain (Loss) on Sale of Assets | 532 | 2,281 | (109,525) | (106,712) |
| Capital Contributions | - | - | 146,534 | 146,534 |
| Transfer of Assets | (166,228) | - | - | (166,228) |
| Change in Net Position | <u>\$ 215,597</u> | <u>\$ (299,257)</u> | <u>\$ 63,580</u> | <u>\$ (20,080)</u> |
| Beginning Net Position (As Restated) | 19,161,929 | 1,619,816 | 18,856,291 | 39,638,036 |
| Ending Net Position | <u>\$ 19,377,526</u> | <u>\$ 1,320,559</u> | <u>\$ 18,919,871</u> | <u>\$ 39,617,956</u> |

CITY OF CARROLLTON, KENTUCKY
NOTES TO BUDGETARY COMPARISON SCHEDULE
June 30, 2019

NOTE 4. OTHER NOTES (Continued)

4.D. MISCELLANEOUS

Segment Information – Enterprise Fund (Continued)

| CONDENSED STATEMENT OF CASH FLOWS | Gas | Water | Sewer | Total |
|--|---------------------|-----------------------|-----------------------|---------------------|
| Net Cash Provided (Used) by: | | | | |
| Operating Activities | \$ 2,451,738 | \$ 121,368 | \$ 934,766 | \$ 3,507,872 |
| Capital and Related Financing Activities | (1,086,596) | (780,752) | (1,445,167) | (3,312,515) |
| Investing Activities | (3,258,413) | (20,751) | (46,138) | (3,325,302) |
| Net Increase (Decrease) | \$ (1,893,271) | \$ (680,135) | \$ (556,539) | \$ (3,129,945) |
| Beginning Cash and Cash Equivalents | 8,372,223 | (1,139,328) | (582,276) | 6,650,619 |
| Ending Cash and Cash Equivalents | <u>\$ 6,478,952</u> | <u>\$ (1,819,463)</u> | <u>\$ (1,138,815)</u> | <u>\$ 3,520,674</u> |

4.E. PRIOR PERIOD ADJUSTMENT

As described in note 4.C., the City, through its proprietary fund, Carrollton Utilities, has entered into gas supply contracts with the Public Energy Authority of Kentucky (PEAK). In turn, PEAK has entered gas purchase contracts with various suppliers to ensure the availability of gas to meet its supply requirements. These gas purchase contracts guarantee PEAK to receive agreed upon quantities of gas and certain discounts over an initial period of five (5) to thirty (30) years.

In prior years (before fiscal year ended June 30, 2018) contracts held by PEAK either terminated normally at the end of a term, ended early as a result of some factor out of the control of PEAK, or partially terminated impacting current and future contract values and revenues under various contracts. These terminations resulted in payments to PEAK attributable to Carrollton Utilities for quantities of gas already taken or expected to be taken. The terminations also impacted the future quantities of gas already taken or expected to be taken. These payments to PEAK attributable to Carrollton Utilities contract quantities were retained at PEAK to provide future project benefits to Carrollton, including but not limited to, discounts on gas purchases and futures returns to the City of Carrollton and long-term gas supply contract customers of Carrollton Utilities.

During the current fiscal year, it was determined that the City of Carrollton's proportionate share was not recorded in the City's general fund or its proprietary fund, Carrollton Utilities, when the terminations and payments to PEAK occurred.

The effect of this error has been reported as a restatement of the City's financial statement (Net Position) as of June 30, 2018 as follows:

| Statement of Net Position: | Governmental Activities | Business-type Activities |
|--|------------------------------------|-------------------------------------|
| Total Net Position as Originally Presented June 30, 2018 | \$ 6,510,264 | \$ 39,638,036 |
| Plus: Accounts Receivable - PEAK | - | 4,604,189 |
| Due From Other Funds | 2,242,277 | - |
| Less: Due to Other Funds | - | (2,242,277) |
| Project Gas Supply Credits Payable | - | (2,361,912) |
| Total Net Position as Restated, June 30, 2018 | <u>\$ 8,752,541</u> | <u>\$ 39,638,036</u> |

CITY OF CARROLLTON, KENTUCKY
NOTES TO BUDGETARY COMPARISON SCHEDULE
June 30, 2019

NOTE 4. OTHER NOTES (Continued)

4.E. PRIOR PERIOD ADJUSTMENT (Continued)

**The Components of Net Position at June 30, 2018
after restatement are as follows:**

| | <u>Governmental Activities</u> | <u>Business-type Activities</u> |
|---|------------------------------------|-------------------------------------|
| Net Investment in Capital Assets | \$ 6,265,923 | \$ 35,276,204 |
| Restricted for Debt Services | | |
| Debt Service | - | 616,083 |
| Other Purposes | 64,814 | - |
| Unrestricted | <u>2,421,804</u> | <u>3,745,749</u> |
| Total Net Position As Restated, June 30, 2018 | <u>\$ 8,752,541</u> | <u>\$ 39,638,036</u> |

Statement of Activities:

| | <u>Governmental Activities</u> | <u>Business-type Activities</u> |
|--|------------------------------------|-------------------------------------|
| Change in Net Position as Originally Presented for the Year Ended June 30, 2018 | \$ (398,017) | \$ 123,915 |
| Restatement for Correction of Error | <u>(85,425)</u> | <u>-</u> |
| Change in Net Position as Restated, June 30, 2018 | <u>\$ (483,442)</u> | <u>\$ 123,915</u> |

4.F. SUBSEQUENT EVENTS

As described in Note 4.C. Carrollton Utilities has an operational agreement with West Carroll Water District. West Carroll Water District is under the oversight of the Kentucky Public Service Commission (PSC). On November 22, 2019, the PSC issued an order under Case No. 2019-00041 requiring West Carroll Water District to undertake discussions with Carrollton Utilities regarding a possible merger or consolidation of the two systems and file a written report on the status of the discussions within six month of the date of the order. No action has been taken.

CITY OF CARROLLTON, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2019

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance With Final Budget Favorable (Unfavorable)</u> |
|---|-------------------------|---------------------|---------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Budgetary Fund Balance, July 1 | \$ 2,208,835 | \$ 2,593,597 | \$ 2,534,069 | \$ (59,528) |
| ESTIMATED REVENUES | | | | |
| Payments in Lieu of Taxes | \$ 37,000 | \$ 37,000 | \$ 39,153 | \$ 2,153 |
| Ad Valorem Taxes | 441,320 | 480,850 | 469,823 | (11,027) |
| Franchise Fees | 325,000 | 325,000 | 333,920 | 8,920 |
| Garbage Collection | 360,000 | 380,000 | 390,017 | 10,017 |
| Bank Franchise Deposit Tax | 26,500 | 28,667 | 28,666 | (1) |
| Business Licenses | 94,000 | 92,000 | 95,235 | 3,235 |
| Insurance Licenses | 490,000 | 530,000 | 596,895 | 66,895 |
| Building Permits | 1,000 | 2,100 | 2,101 | 1 |
| Penalty & Interest | 8,000 | 8,600 | 9,975 | 1,375 |
| Interest Revenue | 4,050 | 7,575 | 10,473 | 2,898 |
| PEAK Annual Return | 1,250,000 | 1,185,520 | 1,195,861 | 10,341 |
| Two Rivers Campground Receipts | 100,010 | 150,030 | 176,400 | 26,370 |
| Other Revenue | 12,254 | 11,575 | 24,684 | 13,109 |
| Proceeds from Outside Sources: | | | | |
| HB413/Citations/Police Misc. Receipts | 11,000 | 16,607 | 18,635 | 2,028 |
| CC Fiscal Court - Dispatach | 235,257 | 252,632 | 243,028 | (9,604) |
| CC Fiscal Court - CMRS Landlines | - | 100,000 | 93,321 | (6,679) |
| Police & Firefighter's Incentive Pay | 52,000 | 52,000 | 49,344 | (2,656) |
| State Fire Aid | 11,000 | 11,000 | 11,000 | - |
| KY Dept of Local Government - Recreational Trail Grants | 100,000 | 41,932 | 10,000 | (31,932) |
| Fire Commission Grant | - | 3,196 | 3,200 | 4 |
| U.S. Dept of Transportation - Highway Safety Grant | - | 1,413 | 2,175 | 762 |
| Transfers from Other Funds | - | - | 59,520 | 59,520 |
| Carroll County Board of Education - Resource Officer | 58,371 | 143,221 | 130,924 | (12,297) |
| CRMS Dispatch Equipment Grant | - | 78,000 | 43,328 | (34,672) |
| FEMA Grant | - | 31,800 | 42,055 | 10,255 |
| Sale of Capital Assets | - | 260,000 | 259,850 | (150) |
| Total Estimated Revenues | \$ 3,616,762 | \$ 4,230,718 | \$ 4,339,583 | \$ 108,865 |
| Total Resources Available for Appropriation | \$ 5,825,597 | \$ 6,824,315 | \$ 6,873,652 | \$ 49,337 |
| APPROPRIATIONS | | | | |
| Administrative | \$ 875,656 | \$ 865,766 | \$ 864,945 | \$ 821 |
| Public Safety | | | | |
| Fire Department | 173,100 | 169,127 | 179,120 | (9,993) |
| Dispatch | 457,314 | 458,264 | 490,964 | (32,700) |
| Police Department | 1,148,526 | 1,201,857 | 1,223,823 | (21,966) |
| Public Works | 636,354 | 636,276 | 626,981 | 9,295 |
| Parks and Recreation | 90,479 | 96,502 | 97,155 | (653) |
| Code Enforcement | 66,784 | 65,836 | 69,358 | (3,522) |
| Capital Outlay | 407,550 | 824,501 | 587,402 | 237,099 |
| Debt Service - Principal | - | - | 3,744 | (3,744) |
| Total Appropriations | \$ 3,855,763 | \$ 4,318,129 | \$ 4,143,492 | \$ 174,637 |
| Excess of Resources and Revenues Over (Under) Appropriations | \$ 1,969,834 | \$ 2,506,186 | \$ 2,730,160 | \$ 223,974 |
| Estimated Fund Balance at June 30, 2019 | \$ 1,969,834 | \$ 2,506,186 | \$ 2,730,160 | \$ 223,974 |

CITY OF CARROLLTON, KENTUCKY
NOTES TO BUDGETARY COMPARISON SCHEDULE
June 30, 2019

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 | \$ 6,873,652 |
| 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 | (2,534,069) |
| | 4,339,583 |
| Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds | \$ 4,339,583 |
| Uses/outflows of resources | |
| Actual amounts (budgetary basis) "total appropriation" from the budgetary comparison schedule | \$ 4,143,492 |
| Differences - budget to GAAP: | |
| None | - |
| | 4,143,492 |
| Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds | \$ 4,143,492 |

CITY OF CARROLLTON, KENTUCKY
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY -
COUNTY EMPLOYEES RETIREMENT SYSTEM
June 30, 2019

| | <u>June 30, 2018*</u> | <u>June 30, 2017*</u> | <u>June 30, 2016*</u> | <u>June 30, 2015*</u> | <u>June 30, 2014*</u> |
|---|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| City's proportion of the net pension liability (asset) | 0.11435% | 0.11108% | 0.11029% | 0.11158% | 0.1112% |
| City's proportionate share of the net pension liability (asset) | \$ 6,964,142 | \$ 6,501,971 | \$ 5,430,027 | \$ 4,797,556 | \$ 3,608,000 |
| City's covered payroll | \$ 2,839,838 | \$ 2,705,054 | \$ 2,609,781 | \$ 2,678,002 | \$ 2,390,302 |
| City's proportionate share of the net pension liability (asset) as a percentage of its of its covered payroll | 245.23% | 240.36% | 208.06% | 179.15% | 150.94% |
| Plan fiduciary net position as a percentage of the total pension liability | 53.5% | 53.3% | 55.5% | 59.97% | 62.60% |

Calculations of the City's proportion of the net pension liability (%) and proportionate share of the net pension liability (\$) are based on reports of the Kentucky Retirement Systems', County Employees Retirement Systems' Schedule of Employer Allocations and Pension Amounts by Employer for the fiscal years ended June 30, shown.

City payroll is reported for its' fiscal years ending June 30, 2014 through 2018.

GASB 68 requires the City to present the above information for 10 years. The information will be expanded annually until a full 10-year trend is compiled.

During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children.

There have been no changes in the actuarial assumptions since July 30, 2017. Actuarial Methods and Assumptions for Determining Net Pension Liability.

| | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---------------------------|-------------|-------------|-------------|-------------|-------------|
| Inflation | 2.30% | 2.30% | 3.25% | 3.25% | 3.50% |
| Salary Increases | 3.05% | 3.05% | 4.00% | 4.00% | 4.50% |
| Investment Rate of Return | 6.25% | 6.25% | 7.50% | 7.50% | 7.75% |

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set-back four years for males) is used for the period after disability retirement.

The assumed rates of retirement, withdrawal, and disability were based on an actuarial valuation performed as of June 30, 2017.

CITY OF CARROLLTON, KENTUCKY
SCHEDULE OF THE CITY'S CONTRIBUTIONS (PENSION)
COUNTY EMPLOYEES RETIREMENT SYSTEM
For the Fiscal Year Ending June 30

| | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|---------------------|---------------------|---------------------|---------------------|
| Contractually (Employer) Required Contribution | \$ 406,760 | \$ 377,349 | \$ 324,154 | \$ 334,421 |
| Contributions in Relation to the Contractually Required Contributions | <u>\$ (406,760)</u> | <u>\$ (377,349)</u> | <u>\$ (324,154)</u> | <u>\$ (334,421)</u> |
| Contribution Deficiency (Excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| City's Covered Payroll | \$ 2,839,838 | \$ 2,705,054 | \$ 2,609,781 | \$ 2,678,002 |
| Contributions as a Percentage of Covered Payroll | 14.48% | 13.95% | 12.42% | 12.49% |

The City's contributions above include only the contributions to the County Employees Retirement System's Pension Fund. GASB 68 requires the City to present the above information for the CERS Pension Fund for 10 years. The information will be expanded annually until a full 10-year trend is compiled.

CITY OF CARROLLTON, KENTUCKY
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
COUNTY EMPLOYEES RETIREMENT SYSTEM
June 30, 2019

| | 2018 | 2017 |
|---|--------------|--------------|
| City's proportion of the net OPEB liability (asset) % | 0.11435% | 0.111082% |
| City proportionate share of the net OPEB liability (asset) | \$ 2,030,137 | \$ 2,233,128 |
| City's covered payroll | \$ 2,839,838 | \$ 2,705,054 |
| City proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll | 71.49% | 82.55% |
| Plan fiduciary net position as a percentage of the total OPEB liability. | 57.6% | 52.4% |

Calculations of the City's proportion of the net OPEB liability (%) and proportionate share of the net OPEB liability (\$) are based on report of the Kentucky Retirement Systems', County Employees Retirement Systems' Schedule of Employer Allocations and OPEB Amounts by Employer for the fiscal years ended June 30, shown.

City covered payroll is reported for the fiscal years ended June 30, 2018 and 2017.

GASB 75 requires the City to present the above information for 10 years. The information will be expanded annually until a full 10-year trend is compiled.

During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. The system shall now pay 100% of the insurance premium for spouses and children of all active members who die in the line of duty.

There were no changes in actuarial assumptions since June 30, 2017.

Actuarial Methods and Assumptions for Determining Net OPEB Liability:

| | 2018 |
|--|---|
| Payroll Growth Rate | 2.0% |
| Salary Increases | 3.05% average |
| Investment Rate of Return | 6.25% |
| Inflation | 2.3% |
| Health Care Trend Rates: Pre-65 | Initial trend at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years. |
| Health Care Trend Rates: Post-65 | Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years. |
| Health Care Trend Rates: Mortality: | The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set-back four years for males) is used for the period after disability retirement. |

CITY OF CARROLLTON, KENTUCKY
SCHEDULE OF THE CITY'S CONTRIBUTIONS (OPEB)
COUNTY EMPLOYEES RETIREMENT SYSTEM
Last Years Ending June 30

| | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--|--------------|--------------|--------------|--------------|
| Contractually (Employer) Required Contributions | \$ 137,920 | \$ 127,946 | \$ 121,101 | \$ 129,047 |
| Contributions in Relation to the Contractually Required Contributions | (137,920) | (127,946) | (121,101) | (129,047) |
| Contribution Deficiency (Excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| City's Covered Payroll | \$ 2,839,838 | \$ 2,705,054 | \$ 2,609,781 | \$ 2,678,002 |
| Contributions as a Percentage of Covered Payroll | 4.70% | 4.73% | 4.64% | 4.82% |

The City's contributions above include only the contributions to the County Employees Retirement System's Insurance Fund. GASB 75 requires the City to present the above information for the CERS Insurance Fund for 10 years. The information will be expanded annually until a full 10-year trend is compiled.

**CITY OF CARROLLTON, KENTUCKY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2019**

| | <u>Special Revenue Funds</u> | | | | | <u>Total Nonmajor Governmental Funds</u> |
|-------------------------------------|-------------------------------|-------------------------------|---|--------------------------------|---|--|
| | <u>Municipal Road Aid</u> | <u>L.G.E.A.F. Program</u> | <u>Enterprise Improvement Program</u> | <u>Shop With A Cop</u> | <u>Riverwalk Development Fund</u> | |
| ASSETS | | | | | | |
| Cash | \$ 18,677 | \$ 5,165 | \$ - | \$ 8,230 | \$ - | \$ 32,072 |
| Due from Other Governments | 9,229 | 1,078 | - | - | - | 10,307 |
| Total Assets | <u>\$ 27,906</u> | <u>\$ 6,243</u> | <u>\$ -</u> | <u>\$ 8,230</u> | <u>\$ -</u> | <u>\$ 42,379</u> |
| LIABILITIES | | | | | | |
| Accounts Payable | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Total Liabilities | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| FUND BALANCES | | | | | | |
| Restricted | \$ 27,906 | \$ 6,243 | \$ - | \$ - | \$ - | \$ 34,149 |
| Assigned | - | - | - | 8,230 | - | 8,230 |
| Total Fund Balances | <u>\$ 27,906</u> | <u>\$ 6,243</u> | <u>\$ -</u> | <u>\$ 8,230</u> | <u>\$ -</u> | <u>\$ 42,379</u> |
| Total Liabilities and Fund Balances | <u>\$ 27,906</u> | <u>\$ 6,243</u> | <u>\$ -</u> | <u>\$ 8,230</u> | <u>\$ -</u> | <u>\$ 42,379</u> |

**CITY OF CARROLLTON, KENTUCKY
 COMBINING STATEMENT OF REVENUES,
 EXPENDITURES, AND CHANGES IN FUND BALANCES -
 NONMAJOR GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2019**

Special Revenue Funds

| | Municipal Road Aid | L.G.E.A.F. Program | Enterprise Improvement Program | Shop With A Cop | Riverwalk Development Fund | Total Nonmajor Governmental Funds |
|---|-------------------------------|-------------------------------|---|--------------------------------|---|--|
| REVENUES | | | | | | |
| Kentucky Municipal Road Aid | \$ 77,965 | \$ - | \$ - | \$ - | \$ - | \$ 77,965 |
| Local Government Economic Assistance | - | 4,641 | - | - | - | 4,641 |
| Donations | - | - | - | 9,421 | - | 9,421 |
| Interest / Investment Revenue | 353 | 311 | - | 15 | - | 679 |
| Total Revenues | \$ 78,318 | \$ 4,952 | \$ - | \$ 9,436 | \$ - | \$ 92,706 |
| EXPENDITURES | | | | | | |
| Current: | | | | | | |
| Public Works | \$ 78,229 | \$ - | \$ - | \$ - | \$ - | \$ 78,229 |
| Community Service | - | - | - | 11,047 | - | 11,047 |
| Parks & Recreation | - | 3,000 | - | - | - | 3,000 |
| Capital Outlay | - | 32,706 | - | - | - | 32,706 |
| Total Expenditures | \$ 78,229 | \$ 35,706 | \$ - | \$ 11,047 | \$ - | \$ 124,982 |
| Excess (Deficiency) of Revenues over Expenditures | \$ 89 | \$ (30,754) | \$ - | \$ (1,611) | \$ - | \$ (32,276) |
| Other Financing Sources (Uses) | | | | | | |
| Transfers Out | \$ - | \$ - | \$ (55,464) | \$ - | \$ (4,056) | \$ (59,520) |
| Net Change in Fund Balances | \$ 89 | \$ (30,754) | \$ (55,464) | \$ (1,611) | \$ (4,056) | \$ (91,796) |
| Fund Balances - July 1 | 27,817 | 36,997 | 55,464 | 9,841 | 4,056 | 134,175 |
| Fund Balances - June 30 | \$ 27,906 | \$ 6,243 | \$ - | \$ 8,230 | \$ - | \$ 42,379 |

CITY OF CARROLLTON, KENTUCKY
SCHEDULE OF DEPARTMENTAL OPERATING REVENUES AND EXPENSES
ENTERPRISE FUND
(CARROLLTON UTILITIES)
For the Year Ended June 30, 2019

| | Departments | | | Contractual Services | Total |
|---|----------------------|---------------------|---------------------|-------------------------|----------------------|
| | Gas | Water | Sewer | | |
| Operating Revenues: | | | | | |
| Charges for Services: | | | | | |
| Utility Charges (Net of Bad Debt Expense) | \$ 36,995,436 | \$ 1,178,302 | \$ 2,194,277 | \$ - | \$ 40,368,015 |
| Connection Fees & Service Charges | 22,221 | 7,013 | 231,141 | - | 260,375 |
| Contractual Services | - | - | - | 248,178 | 248,178 |
| Miscellaneous Service Revenues | 370,592 | - | 82,140 | - | 452,732 |
| Total Charges for Services | <u>\$ 37,388,249</u> | <u>\$ 1,185,315</u> | <u>\$ 2,507,558</u> | <u>\$ 248,178</u> | <u>\$ 41,329,300</u> |
| Miscellaneous Revenues | 37,752 | 5,267 | 4,371 | - | 47,390 |
| Total Operating Revenues | <u>\$ 37,426,001</u> | <u>\$ 1,190,582</u> | <u>\$ 2,511,929</u> | <u>\$ 248,178</u> | <u>\$ 41,376,690</u> |
| Operating Expenses: | | | | | |
| Cost of Goods Sold | \$ 34,747,358 | \$ - | \$ 68,872 | \$ - | \$ 34,816,230 |
| Operation & Maintenance | 559,818 | 547,061 | 680,109 | 105,643 | 1,892,631 |
| General & Administrative | 1,161,821 | 600,597 | 784,778 | 173,005 | 2,720,201 |
| Depreciation | 653,584 | 307,260 | 931,903 | - | 1,892,747 |
| Total Operating Expenses | <u>\$ 37,122,581</u> | <u>\$ 1,454,918</u> | <u>\$ 2,465,662</u> | <u>\$ 278,648</u> | <u>\$ 41,321,809</u> |
| Net Operating Income (Loss) | <u>\$ 303,420</u> | <u>\$ (264,336)</u> | <u>\$ 46,267</u> | <u>\$ (30,470)</u> | <u>\$ 54,881</u> |

CITY OF CARROLLTON, KENTUCKY
SCHEDULE OF OPERATION & MAINTENANCE, GENERAL &
ADMINISTRATIVE EXPENSES BY DEPARTMENT
ENTERPRISE FUND
(CARROLLTON UTILITIES)
For the Year Ended June 30, 2019

| | <u>Departments</u> | | | <u>Contractual Services</u> | <u>Total</u> |
|--|---------------------|-------------------|-------------------|---------------------------------|---------------------|
| | <u>Gas</u> | <u>Water</u> | <u>Sewer</u> | | |
| OPERATION & MAINTENANCE | | | | | |
| Customer Service | \$ 72,345 | \$ 33,318 | \$ 1,200 | \$ 16,280 | \$ 123,143 |
| Mains | 177,768 | 34,647 | 96,919 | 29,696 | 339,030 |
| Transportation | 32,798 | 16,667 | 37,207 | 5,834 | 92,506 |
| Plant and Equipment | 261,989 | 249,482 | 425,176 | 53,833 | 990,480 |
| Chemicals | - | 125,626 | 56,567 | - | 182,193 |
| Electric, Light and Power | 14,918 | 87,321 | 63,040 | - | 165,279 |
| Total | \$ 559,818 | \$ 547,061 | \$ 680,109 | \$ 105,643 | \$ 1,892,631 |
| GENERAL & ADMINISTRATIVE EXPENSES | | | | | |
| Office Salaries | \$ 216,786 | \$ 89,040 | \$ 131,523 | \$ 26,969 | \$ 464,318 |
| Employee Benefits | 577,177 | 336,938 | 433,113 | 122,602 | 1,469,830 |
| Payroll Taxes | 62,472 | 28,527 | 37,127 | 10,573 | 138,699 |
| Commissioner Fees | 7,200 | 3,600 | 3,600 | - | 14,400 |
| Office Expenses | 63,254 | 64,193 | 59,180 | - | 186,627 |
| Professional and Outside Services | 62,755 | 21,673 | 53,929 | - | 138,357 |
| Insurance | 97,800 | 15,630 | 15,630 | - | 129,060 |
| Other | 74,377 | 40,996 | 50,676 | 12,861 | 178,910 |
| Total | \$ 1,161,821 | \$ 600,597 | \$ 784,778 | \$ 173,005 | \$ 2,720,201 |

RAISOR, ZAPP & WOODS, PSC

Certified Public Accountants

P.O. Box 354 • 513 Highland Ave • Carrollton, KY 41008
502-732-6655 • taxes@rzwcpas.com

Dennis S. Raisor, CPA
Jerilyn P. Zapp, CPA
Jeffery C. Woods, CPA
Susan A. Dukes, CPA

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Carrollton, Kentucky as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise City of Carrollton, Kentucky's basic financial statements and have issued our report thereon dated January 7, 2020.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2019-001 and 2019-002 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as item 2019-003 to be a significant deficiency.

COMPLIANCE AND OTHER MATTERS

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

CITY OF CARROLLTON, KENTUCKY'S RESPONSE TO FINDINGS

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

PURPOSE OF THIS REPORT

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

Raisor, Zapp & Woods, PSC

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

January 7, 2020

CITY OF CARROLLTON, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2019

A. SUMMARY OF AUDITOR'S RESULTS:

1. The auditor's report expresses an unmodified opinion on whether the financial statements of the City of Carrollton, Kentucky were prepared in accordance with GAAP.
2. Three deficiencies in internal control disclosed during the audit of the financial statements are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. Items 2019-001 and 2019-002 are reported as material weaknesses. Item 2019-003 is reported as a significant deficiency.
3. No instances of noncompliance material to the financial statements of City of Carrollton, Kentucky, which 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

2019-001 REVENUE RECOGNITION

CRITERIA:

Under generally accepted accounting principles (GAAP) and the accrual basis of accounting revenues are to be recognized as income in the period in which they are earned, not in the period when the cash is collected.

CONDITION:

Revenue arising from amendments/early termination of gas supply contracts was not recognized when the amendments were approved resulting in a prior period adjustment of net position.

CAUSE:

The City's proprietary fund has policies and agreements established in connection with long term gas contracts. Amendments to the contracts were made in prior years. These amendments/early terminations resulted in amounts receivable due to the amended contract value/early termination payment. Such amounts were not transferred to the City's proprietary fund at the time the transaction occurred.

EFFECT OR POTENTIAL EFFECT:

Revenues in the City's financial statements were understated in the year in which the contract amendments/early termination occurred. Revenues could be reported in an incorrect financial period.

RECOMMENDATION:

All revenues should be recognized timely in the financial transactions of the City.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION:

The material weakness for revenue recognition was created by a unique situation outside of the normal operating activities of the City and Carrollton Utilities. In the future, the City and Carrollton Utilities will work diligently to recognize all revenue in a timely manner in the financial statements. In the future, funds received by the Public Energy Authority of Kentucky due to a project payout or through any other action for the benefit of and payable to the City of Carrollton/Carrollton Utilities, will be recognized as revenue when appropriate.

**CITY OF CARROLLTON, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
For the Year Ended June 30, 2019**

B. FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)

DEFICIENCIES IN INTERNAL CONTROL (CONTINUED)

GOVERNMENT AUDITING STANDARDS (CONTINUED)

2019-002 SIZE OF ENTITY AND CHECKING PROCEDURES

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.

CONDITION:

The size of the administrative staff limits internal control. Due to changes in administrative responsibilities, some year-end reporting and balancing procedures were not completed. The proprietary fund depreciation subsidiary ledgers were not reconciled to the general ledger. A similar condition was cited in the Schedule of Findings and Responses for the year ended June 30, 2018 as a significant deficiency as Item 2018-001.

CAUSE:

The staff size of the City limits the ability to rotate duties and implement checking procedures. Procedures have not been implemented over certain functions allowing the possibility for errors to be undetected.

EFFECT OR POTENTIAL EFFECT:

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

RECOMMENDATION:

Management should implement checking processes and expand controls. Procedures should be documented to assist employees. Fixed assets represents a large portion of the proprietary fund's total assets and should be reviewed more frequently and in greater detail. A formal capitalization policy should be implemented.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:

Efforts have continued to implement additional reconciliation and checking procedures. We will continue our efforts to improve our review processes. We will review our current policies and procedures and respond to risks identified.

2019-003 FAILURE TO PREPARE A COMPLETE SET OF FINANCIAL STATEMENTS INCLUDING REQUIRED NOTE DISCLOSURES

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.

CONDITION:

City financial statements, including the required disclosures, are prepared as part of the annual audit. The condition was also cited as a significant deficiency in the Schedule of Findings and Responses for the year ended June 30, 2018 as item 2018-002.

CAUSE:

Management of the City are not sufficiently familiar with all accounting, financial reporting and disclosure requirements to prepare internal financial statements. 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 and financial reports.

**CITY OF CARROLLTON, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
For the Year Ended June 30, 2019**

B. FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)

DEFICIENCIES IN INTERNAL CONTROL (CONTINUED)

GOVERNMENT AUDITING STANDARDS (CONTINUED)

2019-003 FAILURE TO PREPARE A COMPLETE SET OF FINANCIAL STATEMENTS INCLUDING REQUIRED NOTE DISCLOSURES (Continued)

EFFECT OR POTENTIAL EFFECT:

Management has engaged the auditor to assist with preparation of the draft financial statements, including the related notes to the financial statements. Management reviewed, approved, and accepted responsibility for the financial statements prior to their issuance.

RECOMMENDATION:

Management should continue to be aware of its responsibilities in the preparation of its financial statements and continue to increase its involvement in understanding of that process.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:

We concur with the recommendation and will continue to improve our overall accounting knowledge.

COMPLIANCE ISSUES

COMPLIANCE AND OTHER MATTERS

NONE