

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

Year Ended June 30, 2018

CITY OF CARROLLTON, KENTUCKY

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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, 2018, 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, 2018, 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.

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, the budgetary comparison information on pages 59 and 60, the Schedule of the City's Proportionate Share of the Net Pension Liability – County Employees Retirement System on page 61, the Schedule of the City's Contributions (Pension) – County Employees Retirement System on page 62, the Schedule of the City's Proportionate Share of the Net OPEB Liability – County Employees Retirement System on page 63, and the Schedule of City's Contributions (OPEB) – County

**The Mayor and Members of the City Council
of the City of Carrollton
Carrollton, Kentucky
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Required Supplementary Information (Continued)

Employees Retirement System on page 64 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 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, 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, 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 December 31, 2018, 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

December 31, 2018

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, 2018. 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:
 - \$96,993 was spent on two new police cruisers due to the fact a police cruiser had been totaled and replaced. The City received \$17,362 from insurance company and applied the funds to replace the totaled cruiser.
 - This year's sidewalk improvements resulted in a total expenditure of \$43,230.
 - The City spent \$383,482 on the Riverwalk projects and received \$199,500 in grant funding.
 - The City spent \$10,305 for five dash mount radars for the Police Department and entered a five-year lease for ten tasers totaling \$19,376.
 - The City spent \$10,634 for new Christmas decorations to place on streetlights.
 - The City spent \$10,000, Carroll County Fiscal Court spent \$10,000, and the City received \$131,087 in grant funding to update the 911 equipment totaling \$151,087.
 - The City spent \$53,643 on new equipment for Public Works including a Country Clipper Boss XL Mower with a professional bagging system, 4 Ton Asphalt Hotbox with an Infrared Asphalt Heater, 84" Hydraulic Angle Street Broom Attachment, 2018 John Deere bush hog, 36" Ditching Bucket, and a dump truck bed.
 - The City spent \$17,188 on some major improvements and repairs to the City Hall building including replacing windows; caulk work around City Hall; the floors were striped and waxed; the tile, carpet, and upholstery were cleaned, and new flooring was installed in dispatch.
- City's total net position of its governmental funds decreased by \$398,017. The City's net position was restated to reflect the reporting of its share of the unfunded net OPEB liability associated with its employees' participation in the County Employees Retirement System as required by the implementation of GASB 75.
- In the City's business-type activities, charges for service decreased to \$40,494,383 (or 0.7%) and expenses decreased to \$40,457,624 (or .32%).
- Capital outlay expended through the City's business-type activities includes the following:
 - \$792,370 for completion of the new office on Clay Street. Offices were relocated on October 6, 2017.
 - \$515,629 to begin construction of a new distribution operations center behind the new office on Clay Street. Construction continues in 2018-2019 and should be complete by March of 2019.
 - \$57,348 for (2) new trucks and \$92,415 for a new 1-ton truck with utility bed and new crane.
 - \$167,299 for a bore machine.
 - \$260,154 on construction and implantation of the new Greensand filter system at the water treatment plant. Construction was complete, and system is online in late 2018.
 - \$298,485 for construction and supplies for a new gas meter set and Ultra Sonic gas meter for North American Stainless.
 - \$19,457 to begin construction of a tie-in moving PMC's gas connection from the 10" line to the 6".
 - \$4,624 to begin installation of a new boiler at the Wrights Ridge gas purchase station.
 - \$30,173 for a new comminutor at the wastewater treatment plant.
 - \$21,578 for blacktop at the wastewater treatment plant.
 - \$88,128 for rehabilitation of two lift stations in the Campbellsburg wastewater system.
 - \$16,005 for pump upgrades at the Prestonville wastewater lift station.
- The City implemented GASB 75, [*Accounting and Financial Reporting for Post Employment Benefits Other Than Pensions*]. Implementation required restating financial statements to properly reflect the impact on current year finances. The prior period adjustment reduced the net position of the City by \$1,737,605.

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 \$46.4 million to \$46.2 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, 2017 has been restated to reflect the implementation of GASB Statement 75, Accounting and Financial Reporting per Post Employment Benefits Other Than Pensions.

TABLE 1
NET POSITION

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTAL GOVERNMENT	
	16/17	17/18	16/17	17/18	16/17	17/18
	(As Restated)		(As Restated)		(As Restated)	
CURRENT AND OTHER ASSETS	\$ 3,604,759	\$ 3,473,957	\$ 13,085,326	\$ 12,007,482	\$ 16,690,085	\$ 15,481,439
CAPITAL ASSETS	6,072,753	6,280,899	40,364,826	41,218,945	46,437,579	47,499,844
TOTAL ASSETS	\$ 9,677,512	\$ 9,754,856	\$ 53,450,152	\$ 53,226,427	\$ 63,127,664	\$ 62,981,283
DEFERRED OUTFLOWS OF RESOURCES	\$ 599,084	\$ 1,293,998	\$ 733,770	\$ 1,504,671	\$ 1,332,854	\$ 2,798,669
NON-CURRENT LIABILITIES	3,226,750	3,999,306	10,247,338	10,551,374	13,474,088	14,550,680
CURRENT LIABILITIES	113,004	195,985	4,416,238	4,133,418	4,529,242	4,329,403
TOTAL LIABILITIES	\$ 3,339,754	\$ 4,195,291	\$ 14,663,576	\$ 14,684,792	\$ 18,003,330	\$ 18,880,083
DEFERRED INFLOWS OF RESOURCES	\$ 28,561	\$ 343,299	\$ 6,225	\$ 408,270	\$ 34,786	\$ 751,569
NET POSITION:						
NET INVESTMENT IN CAPITAL ASSETS	\$ 6,072,753	\$ 6,265,923	\$ 34,077,420	\$ 35,276,204	\$ 40,150,173	\$ 41,542,127
RESTRICTED	108,929	64,814	535,739	616,083	644,668	680,897
UNRESTRICTED	726,599	179,527	4,900,962	3,745,749	5,627,561	3,925,276
TOTAL NET POSITION	\$ 6,908,281	\$ 6,510,264	\$ 39,514,121	\$ 39,638,036	\$ 46,422,402	\$ 46,148,300

Net position of the City's governmental activities decreased by 5.8 percent (\$6,510,264 compared to \$6,908,281). 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 \$726,599 (as restated) at June 30, 2017 to \$179,527 at the end of June 30, 2018.

The net position of our business-type activities decreased by 0.31 percent (\$39,638,036 compared to \$39,514,121). Unrestricted net assets changed from \$4,900,962 (as restated) at the end of June 30, 2017 to \$3,745,749 at the end of June 30, 2018. The City generally can only use the unrestricted net assets to finance the continuing operations of the gas, water and sewer operations.

TABLE 2
CHANGES IN NET POSITION

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTAL GOVERNMENT	
	16/17 *	17/18	16/17 (as restated)	17/18	16/17 (as restated)	17/18
REVENUES:						
PROGRAM REVENUES:						
CHARGES FOR SERVICES	\$ 896,945	\$1,079,397	\$40,780,418	\$40,494,383	\$41,677,363	\$41,573,780
STATE GRANTS/ENTITLEMENTS	148,787	135,656	-	-	148,787	135,656
LOCAL GRANTS/CONTRIBUTION	49,474	338,292	-	-	49,474	338,292
GENERAL REVENUES:						
PROPERTY TAXES	447,842	459,915	-	-	447,842	459,915
FRANCHISE TAXES	363,313	360,144	-	-	363,313	360,144
PEAK ANNUAL RETURN	1,020,274	1,083,351	-	-	1,020,274	1,083,351
INSURANCE LICENSES	547,393	571,985	-	-	547,393	571,985
OTHER GENERAL REVENUES	13,394	15,336	134,745	87,156	148,139	102,492
TOTAL REVENUES:	\$ 3,487,422	\$4,044,076	\$40,915,163	\$40,581,539	\$44,402,585	\$44,625,615
PROGRAM EXPENSES:						
GENERAL GOVERNMENT	\$ 570,592	\$ 603,608	\$ -	\$ -	\$ 570,592	\$ 603,608
PUBLIC SAFETY	1,658,863	2,168,206	-	-	1,658,863	2,168,206
PUBLIC WORKS	848,030	1,048,123	-	-	848,030	1,048,123
CODE ENFORCEMENT	67,584	74,887	-	-	67,584	74,887
HEALTH & SANITATION	332,589	346,180	-	-	332,589	346,180
PARKS & RECREATION	142,460	186,491	-	-	142,460	186,491
COMMUNITY SERVICE	15,329	14,598	-	-	15,329	14,598
GAS	-	-	37,014,579	36,598,772	37,014,579	36,598,772
WATER	-	-	1,326,854	1,383,166	1,326,854	1,383,166
SEWER	-	-	2,033,004	2,227,483	2,033,004	2,227,483
MANAGEMENT SERVICES	-	-	213,059	248,203	213,059	248,203
TOTAL EXPENSES:	\$ 3,635,447	\$4,442,093	\$40,587,496	\$40,457,624	\$44,222,943	\$44,899,717
CHANGE IN NET POSITION	\$ (148,025)	\$ (398,017)	\$ 327,667	\$ 123,915	\$ 179,642	\$ (274,102)
BEGINNING NET POSITION	7,848,325	6,908,281	40,132,040	39,514,121	47,980,365	46,422,402
GASB 75 PRIOR PERIOD ADJUSTMENT	(792,019)	-	(945,586)	-	(1,737,605)	-
ENDING NET POSITION	\$ 6,908,281	\$6,510,264	\$39,514,121	\$39,638,036	\$46,422,402	\$46,148,300

*2016-17 program expenses and the change in net position have not been restated to reflect the effect of the implementation of GASB 75 as data was not available for that computation.

The City's total revenues increased by \$223,030. The total cost of all programs and services increased by \$676,774. Our analysis below separately considers the operations of governmental and business-type activities.

Governmental Activities

Revenues for the City's governmental activities increased by 15.96 percent (\$556,654) due mainly to grant revenues received associated with E-911 equipment upgrades and Riverwalk Projects, and an Inter Local Agreement with the Carroll County Board of Education to provide a resource officer. Total expenses increased by 22.2 percent (\$806,646) due mainly to pension and OPEB obligations, increased labor costs and other associated benefits. The decrease in net position for governmental activities was \$398,017 in FY 2017-2018. This compares to a \$148,025 decrease in net position in FY 2016-2017.

The City budgeted the following capital outlay projects:

\$45,130 for two new police cruisers
\$387,700 for Riverfront Development
\$153,500 for new equipment for Dispatch
\$21,500 for improvements and repairs to the City Hall building
\$43,230 for sidewalks
\$77,942 new equipment for Public Works

- The City budgeted a 4% increase in departmental salaries for the Administrative; Public Works; and Dispatch Departments and the Police Department salaries were increased by 5%.
- 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 18.68 percent to 19.18 percent by the Commonwealth of Kentucky.

The cost of all governmental activities this year was \$4,442,093. As shown in the Statement of Activities on pages 12-13, the amount that our taxpayers financed for these activities was \$1,079,397, and some of the cost was paid by other governments and organizations that subsidized certain programs with grants and contributions of \$473,948. Overall, the City's governmental program revenues, including intergovernmental aid and fees for services increased from \$1,095,206 to \$1,553,345.

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	
	16/17	17/18	16/17	17/18
GENERAL GOVERNMENT	\$ 570,592	\$ 603,608	\$ (417,233)	\$ (460,671)
FIRE DEPARTMENT	230,430	256,548	(215,430)	(238,837)
POLICE DEPARTMENT/DISPATCH	1,428,433	1,911,658	(1,114,653)	(1,299,176)
PUBLIC WORK DEPARTMENT	848,030	1,048,123	(765,055)	(970,913)
CODE ENFORCEMENT	67,584	74,887	(67,584)	(74,887)
SANITATION	332,589	346,180	42,969	43,702
ALL OTHERS	157,789	201,089	(3,255)	112,034
TOTALS:	<u>\$ 3,635,447</u>	<u>\$ 4,442,093</u>	<u>\$ (2,540,241)</u>	<u>\$ (2,888,748)</u>

Business-type Activities

Total revenues of the City's business type activities (see Table 2) remained relatively constant in FY 17-18 compared to a 23.7 percent increase in FY 16-17. The expenses in FY 17-18 also remained relatively constant.

**TABLE 4
BUSINESS-TYPE ACTIVITIES**

	PROGRAM REVENUES - CHARGES FOR SERVICES		EXPENSES	
	16/17	17/18	16/17	17/18
GAS	\$ 37,284,016	\$ 36,808,102	\$ 37,014,579	\$ 36,598,772
WATER	1,085,462	1,173,719	1,326,854	1,383,166
SEWER	2,162,762	2,264,384	2,033,004	2,227,483
MANAGEMENT SERVICES	248,178	248,178	213,059	248,203
TOTALS:	<u>\$ 40,780,418</u>	<u>\$ 40,494,383</u>	<u>\$ 40,587,496</u>	<u>\$ 40,457,624</u>

THE CITY'S FUNDS

As the City completed fiscal year 2017-2018, its governmental funds (as presented in the balance sheet on page 14) reported a combined fund balance of \$2,958,391 which represents an decrease of \$271,496 from last year's total of \$3,229,887.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City Council revised the General Fund budget one time for fiscal year ending June 30, 2018. 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, 2018, the City had \$47,499,844 (net of accumulated depreciation) invested in capital assets including buildings, utilities, police, fire, and public works equipment, park facilities, city streets, and water, sewer, and gas lines. (See table below.) This represents a net increase of \$1,062,265 or 2.2%.

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

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTALS	
	16/17	17/18	16/17	17/18	16/17	17/18
LAND	\$ 1,141,271	\$ 1,140,777	\$ 834,439	\$ 834,439	\$ 1,975,710	\$ 1,975,216
BUILDINGS & IMPROVEMENTS	2,375,143	2,264,430	4,703,232	5,841,568	\$ 7,078,375	8,105,998
EQUIPMENT	931,395	967,881	2,195,246	2,422,209	\$ 3,126,641	3,390,090
INFRASTRUCTURE	1,538,774	1,438,159	31,262,145	30,768,908	\$ 32,800,919	32,207,067
CONSTRUCTION-IN-PROGRESS	86,170	469,652	1,369,764	1,351,821	\$ 1,455,934	1,821,473
TOTALS:	<u>\$ 6,072,753</u>	<u>\$ 6,280,899</u>	<u>\$ 40,364,826</u>	<u>\$ 41,218,945</u>	<u>\$ 46,437,579</u>	<u>\$ 47,499,844</u>

This year's major additions included:

- \$96,993 for new Police Cruisers/Equipment
- \$76,784 for updating the 911 Equipment
- \$383,482 Riverfront Development
- \$53,643 new Equipment for Public Works
- \$43,230 for sidewalks
- \$5,590 for basketball goals for Point Park
- \$23,398 for installation of new gas services
- \$167,299 for a bore machine
- \$57,348 for (2) new trucks and \$92,415 for a new 1 ton truck with utility bed and new crane
- \$106,382 for Butler force main replacement
- \$30,173 for new comminutor at WWTP
- \$1,458,472 for the new office building construction, furniture and equipment

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	
	16/17	17/18	16/17	17/18	16/17	17/18
CAPITAL LEASE	\$ -	\$ 14,976	\$ -	\$ -	\$ -	\$ 14,976
NOTES PAYABLE	-	-	6,572,304	6,082,673	6,572,304	6,082,673
TOTALS:	\$ -	\$ 14,976	\$ 6,572,304	\$ 6,082,673	\$ 6,572,304	\$ 6,097,649

Other obligations of the City represent accrued compensated absences for \$79,873 compared to \$54,809 last year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2017-2018 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 4% increase for departmental salaries for the Administrative; Public Works; and Dispatch Departments and the Police Department salaries were increased by 5%.

The City chose to raise the property tax rate by 4% as per KRS 132.027. This meant an increase of revenue of \$14,698 in property tax receipts. Next year's budget, FY18-19 includes several Capital Projects. These include the completion of the Splash Park and new playground equipment being installed at Point Park for \$195,000, new playground equipment at Welty Park for \$18,995, the purchase of real estate at 118 Court Street for \$260,000. The radio structure for the Police Department and Dispatch is being upgraded to a digital system for \$33,000. A new police cruiser for \$36,000 and a new utility truck for \$36,100 was budgeted for next year.

As for the City's business-type activities, the Commission has budgeted an approximate 5.2% increase in gas revenues and expenses, no increase in water rates and a 2% and 3% increase for in-town and out-of-town customers respectively.

The City's business-type activities administration building was completed at a cost of \$1.6 million compared to a budget of \$1.825 million and construction began on the new distribution operations center (DOC) with a budget of \$1.6 million. Construction for the DOC should be substantially complete by the beginning of 2019.

The City applied for an Economic Development Association grant for a \$1.5 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. The project is expected to be funded via 50-80% grant funds and should begin construction in early 2019.

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, 2018

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets			
Cash, Including Time Deposits	\$ 2,658,034	\$ 7,003,303	\$ 9,661,337
Interest Receivable	-	536	536
Accounts Receivable (Net)	219,813	3,263,776	3,483,589
Other Receivables	-	507,729	507,729
Due from Other Governments	115,278	95,093	210,371
Due from Other Funds	470,762	(470,762)	-
Current Portion - Interlocal Receivable	-	17,562	17,562
Prepaid Expense	10,070	43,381	53,451
Total Current Assets	<u>\$ 3,473,957</u>	<u>\$ 10,460,818</u>	<u>\$ 13,934,575</u>
Noncurrent Assets			
Restricted Assets			
Cash, Including Time Deposits	\$ -	\$ 812,976	\$ 812,976
Interlocal Receivable	-	733,888	733,888
Capital Assets (Net)	6,280,899	41,218,945	47,499,844
Total Noncurrent Assets	<u>\$ 6,280,899</u>	<u>\$ 42,765,809</u>	<u>\$ 49,046,708</u>
Total Assets	<u>\$ 9,754,856</u>	<u>\$ 53,226,427</u>	<u>\$ 62,981,283</u>
DEFERRED OUTFLOWS OF RESOURCES			
Attributable to Employer Pension Plan	\$ 1,010,904	\$ 1,163,930	\$ 2,174,834
Attributable to Employer OPEB Plan	283,094	340,741	623,835
Total Deferred Outflows	<u>\$ 1,293,998</u>	<u>\$ 1,504,671</u>	<u>\$ 2,798,669</u>
LIABILITIES			
Current Liabilities			
Accounts Payable	\$ 102,280	\$ 2,978,143	\$ 3,080,423
Accrued Compensated Absences	49,556	3,611	53,167
Accrued Wages	40,405	38,223	78,628
Construction Retainage Payable	-	611,518	611,518
Lease Payable - Current Portion	3,744	-	3,744
Current Liabilities Payable from Restricted Assets:			
Accrued Interest	-	6,358	6,358
Notes Payable	-	495,565	495,565
Total Current Liabilities	<u>\$ 195,985</u>	<u>\$ 4,133,418</u>	<u>\$ 4,329,403</u>
Noncurrent Liabilities			
Accrued Compensated Absences	\$ 6,473	\$ 20,233	\$ 26,706
Notes Payable	-	5,587,108	5,587,108
Lease Payable	11,232	-	11,232
Net Pension Liability	2,963,705	3,538,266	6,501,971
Net OPEB Liability	1,017,896	1,215,232	2,233,128
Noncurrent Liabilities Payable from Restricted Assets:			
Customer Deposits Payable	-	190,535	190,535
Total Noncurrent Liabilities	<u>\$ 3,999,306</u>	<u>\$ 10,551,374</u>	<u>\$ 14,550,680</u>
Total Liabilities	<u>\$ 4,195,291</u>	<u>\$ 14,684,792</u>	<u>\$ 18,880,083</u>
DEFERRED INFLOWS OF RESOURCES			
Attributable to Employer Pension Plan	\$ 290,006	\$ 344,644	\$ 634,650
Attributable to Employer OPEB Plan	53,293	63,626	116,919
Total Deferred Inflows	<u>\$ 343,299</u>	<u>\$ 408,270</u>	<u>\$ 751,569</u>
NET POSITION			
Net Investment in Capital Assets	\$ 6,265,923	\$ 35,276,204	\$ 41,542,127
Restricted for:			
Debt Service	-	616,083	616,083
Other Purposes	64,814	-	64,814
Unrestricted	179,527	3,745,749	3,925,276
Total Net Position	<u>\$ 6,510,264</u>	<u>\$ 39,638,036</u>	<u>\$ 46,148,300</u>

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018

		Program Revenues		
		Charges For	Operating	Capital
	Expenses	Services	Grants and	Grants and
			Contributions	Contributions
Functions / Programs				
Governmental Activities				
General Government	\$ 603,608	\$ 138,387	\$ 4,550	\$ -
Public Safety				
Fire Department	256,548	1,944	4,767	11,000
Dispatch	610,581	332,050	-	141,087
Police Department	1,301,077	97,391	41,954	-
Public Works	1,048,123	-	77,210	-
Sanitation	346,180	389,882	-	-
Code Enforcement	74,887	-	-	-
Parks & Recreation	186,491	119,743	-	186,205
Community Service	14,598	-	7,175	-
Total Governmental Activities	\$ 4,442,093	\$ 1,079,397	\$ 135,656	\$ 338,292
Business-type Activities				
Gas	\$ 36,598,772	\$ 36,808,102	\$ 19,057	\$ -
Water	1,383,166	1,173,719	-	-
Sewer	2,227,483	2,264,384	7,759	-
Management Services	248,203	248,178	-	-
Total Business-type Activities	\$ 40,457,624	\$ 40,494,383	\$ 26,816	\$ -
Total Government	\$ 44,899,717	\$ 41,573,780	\$ 162,472	\$ 338,292

General Revenues

Taxes:

Property Taxes

Franchise Taxes

PEAK Returns

Insurance Licenses

Unrestricted Investment Income

Restricted Investment Income

Miscellaneous

Gain (Loss) on Disposition of Assets

Total General Revenues

Change in Net Position

Net Position - July 1 (As Previously Stated)

Restatement - GASB Statement 75

Net Position - July 1 (As Restated)

Net Position - June 30

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

Governmental Activities	Business-type Activities	Total
\$ (460,671)	\$ -	\$ (460,671)
(238,837)	-	(238,837)
(137,444)	-	(137,444)
(1,161,732)	-	(1,161,732)
(970,913)	-	(970,913)
43,702	-	43,702
(74,887)	-	(74,887)
119,457	-	119,457
(7,423)	-	(7,423)
<u>\$ (2,888,748)</u>	<u>\$ -</u>	<u>\$ (2,888,748)</u>
\$ -	\$ 228,387	\$ 228,387
-	(209,447)	(209,447)
-	44,660	44,660
-	(25)	(25)
<u>\$ -</u>	<u>\$ 63,575</u>	<u>\$ 63,575</u>
<u>\$ (2,888,748)</u>	<u>\$ 63,575</u>	<u>\$ (2,825,173)</u>
\$ 459,915	\$ -	\$ 459,915
360,144	-	360,144
1,083,351	-	1,083,351
571,985	-	571,985
14,593	11,159	25,752
-	11,144	11,144
-	37,227	37,227
743	810	1,553
<u>\$ 2,490,731</u>	<u>\$ 60,340</u>	<u>\$ 2,551,071</u>
<u>\$ (398,017)</u>	<u>\$ 123,915</u>	<u>\$ (274,102)</u>
\$ 7,700,300	\$ 40,459,707	\$ 48,160,007
(792,019)	(945,586)	(1,737,605)
<u>\$ 6,908,281</u>	<u>\$ 39,514,121</u>	<u>\$ 46,422,402</u>
<u>\$ 6,510,264</u>	<u>\$ 39,638,036</u>	<u>\$ 46,148,300</u>

CITY OF CARROLLTON, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2018

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash, Including Time Deposits	\$ 2,534,069	\$ 123,965	\$ 2,658,034
Accounts Receivable: (Net of Allowance for Uncollectibles)			
Insurance Licenses	129,305	-	129,305
Business Licenses	9,028	-	9,028
Ad Valorem Tax	6,144	-	6,144
Franchise Fees	69,644	-	69,644
Miscellaneous	2,547	-	2,547
Due from Other Governments	105,068	10,210	115,278
Due from Other Funds	160,652	-	160,652
Total Assets	<u>\$ 3,016,457</u>	<u>\$ 134,175</u>	<u>\$ 3,150,632</u>
LIABILITIES			
Accounts Payable	\$ 77,127	\$ -	\$ 77,127
Accounts Payable - Construction	25,153	-	25,153
Accrued Compensated Absences	49,556	-	49,556
Accrued Wages	40,405	-	40,405
Total Liabilities	<u>\$ 192,241</u>	<u>\$ -</u>	<u>\$ 192,241</u>
FUND BALANCES			
Restricted	\$ -	\$ 64,814	\$ 64,814
Committed	153,561	55,464	209,025
Assigned	-	13,897	13,897
Unassigned	2,670,655	-	2,670,655
Total Fund Balances	<u>\$ 2,824,216</u>	<u>\$ 134,175</u>	<u>\$ 2,958,391</u>
Total Liabilities and Fund Balances	<u>\$ 3,016,457</u>	<u>\$ 134,175</u>	<u>\$ 3,150,632</u>

**CITY OF CARROLLTON, KENTUCKY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2018**

Total Governmental Fund Balances	\$	2,958,391
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Total capital assets \$11,993,604 net of accumulated depreciation \$5,712,705.		6,280,899
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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.		313,255
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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	\$ 6,473	
Lease Payable	14,976	
Net Pension Liability	2,963,705	
Net OPEB Liability	1,017,896	(4,003,050)

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.		10,070
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Deferred Outflows of Resources:		
Attributable to CERS Employer Pension Plan	\$ 1,010,904	
Attributable to CERS Employer OPEB Plan	283,094	1,293,998

Deferred Inflows Of Resources:		
Attributable to CERS Employer Pension Plan	\$ 290,006	
Attributable to CERS Employer OPEB Plan	53,293	(343,299)

Net Position of Governmental Activities	\$	6,510,264
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CITY OF CARROLLTON, KENTUCKY
STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2018

REVENUES	General Fund	Other Governmental Funds	Total Governmental Funds
Taxes:			
Property Taxes	\$ 459,915	\$ -	\$ 459,915
Franchise Taxes	332,864	-	332,864
Insurance Taxes	571,985	-	571,985
Bank Deposits	27,280	-	27,280
Licenses and Permits	91,634	-	91,634
Intergovernmental Revenues	846,503	81,761	928,264
PEAK Revenue	1,025,362	-	1,025,362
Charges for Sanitation Services	389,882	-	389,882
Recreation Facility Services	119,742	-	119,742
Interest Revenue	5,230	124	5,354
Miscellaneous	25,887	7,175	33,062
Total Revenues	<u>\$ 3,896,284</u>	<u>\$ 89,060</u>	<u>\$ 3,985,344</u>
EXPENDITURES			
Current			
Administrative	\$ 887,431	\$ -	\$ 887,431
Public Safety			
Fire Department	175,845	-	175,845
Emergency Dispatch	532,747	-	532,747
Police Department	1,059,796	-	1,059,796
Public Works	677,069	125,952	803,021
Parks and Recreation	94,999	-	94,999
Community Service	-	14,598	14,598
Code Enforcement	63,681	-	63,681
Capital Outlay	658,933	-	658,933
Debt Service - Principal	4,400	-	4,400
Total Expenditures	<u>\$ 4,154,901</u>	<u>\$ 140,550</u>	<u>\$ 4,295,451</u>
Excess Deficiency of Revenues over Expenditures	<u>\$ (258,617)</u>	<u>\$ (51,490)</u>	<u>\$ (310,107)</u>
OTHER FINANCING SOURCES (USES)			
Lease Proceeds	\$ 19,376	\$ -	\$ 19,376
Proceeds from Asset Sales	19,235	-	19,235
Total Other Financing Sources and Uses	<u>\$ 38,611</u>	<u>\$ -</u>	<u>\$ 38,611</u>
Net Change in Fund Balance	\$ (220,006)	\$ (51,490)	\$ (271,496)
Fund Balances - Beginning of Year	3,044,222	185,665	3,229,887
Fund Balances - End of Year	<u>\$ 2,824,216</u>	<u>\$ 134,175</u>	<u>\$ 2,958,391</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, 2018

Net Change in Fund Balances - Total Governmental Funds \$ (271,496)

Amounts reported for governmental activities in the Statement of Activities are different because:

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

Capitalized Expenditures	658,933
Depreciation Expense	(432,295)

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.	4,400
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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	3,140
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Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	57,989
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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.	3,468
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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.	(329,901)
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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.	(54,387)
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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.	(18,492)
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The proceeds of the capital lease issued to finance the acquisition of police equipment through Axon Enterprises Inc. are reported in the governmental funds as a source of financing. In the Statement of Net Position, such proceeds constitute a long-term liability.	(19,376)
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Change in Net Position of Governmental Activities	<u>\$ (398,017)</u>
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CITY OF CARROLLTON, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUND
June 30, 2018

	Carrollton Utilities Enterprise Fund
ASSETS	
Current Assets	
Cash, Including Time Deposits	\$ 7,003,303
Interest Receivable	536
Accounts Receivable (Net)	3,263,776
Other Receivables	507,729
Due from Other Governments	95,093
Current Portion - Interlocal Receivable	17,562
Prepaid Expense	43,381
Total Current Assets	<u>\$ 10,931,380</u>
Noncurrent Assets	
Restricted Assets	
Cash, Including Time Deposits	\$ 812,976
Interlocal Receivable	733,888
Capital Assets (Net)	41,218,945
Total Noncurrent Assets	<u>\$ 42,765,809</u>
Total Assets	<u>\$ 53,697,189</u>
DEFERRED OUTFLOWS OF RESOURCES	
Attributable to Employer Pension Plan	\$ 1,163,930
Attributable to Employer OPEB	340,741
Total Deferred Outflows	<u>\$ 1,504,671</u>
LIABILITIES	
Current Liabilities	
Accounts Payable	\$ 2,978,143
Due to Other Funds	470,762
Accrued Compensated Absences	3,611
Accrued Salaries, Wages & Benefits	38,223
Construction Retainage Payable	611,518
Current Liabilities Payable from Restricted Assets:	
Accrued Interest Payable	6,358
Notes Payable	495,565
Total Current Liabilities	<u>\$ 4,604,180</u>
Noncurrent Liabilities	
Accrued Compensated Absences	\$ 20,233
Notes Payable	5,587,108
Net Pension Liability	3,538,266
Net OPEB Liability	1,215,232
Noncurrent Liabilities Payable from Restricted Assets:	
Customer Deposits Payable	190,535
Total Noncurrent Liabilities	<u>\$ 10,551,374</u>
Total Liabilities	<u>\$ 15,155,554</u>
DEFERRED INFLOWS OF RESOURCES	
Attributable to Employer Pension Plan	\$ 344,644
Attributable to Employer OPEB	63,626
Total Deferred Inflows	<u>\$ 408,270</u>
NET POSITION	
Net Investment in Capital Assets	\$ 35,276,204
Restricted for:	
Debt Service	616,083
Unrestricted	3,745,749
Total Net Position	<u>\$ 39,638,036</u>

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
For the Year Ended June 30, 2018

	<u>Carrollton Utilities Enterprise Fund</u>
Operating Revenues:	
Charges for Services:	
Gas Utility Charges (Net)	\$ 36,762,445
Water Utility Charges (Net)	1,166,720
Sewer Utility Charges (Net)	2,020,072
Connection Fees & Service Charges	296,968
Contractual Services	248,178
Total Charges for Services	<u>\$ 40,494,383</u>
Miscellaneous Revenues	37,227
Total Operating Revenues	<u>\$ 40,531,610</u>
Operating Expenses:	
Cost of Goods Sold	\$ 34,295,211
Operation & Maintenance	1,862,334
General & Administrative	2,455,061
Depreciation	1,764,088
Total Operating Expenses	<u>\$ 40,376,694</u>
Net Operating Income	<u>\$ 154,916</u>
Nonoperating Revenue (Expenses):	
FEMA Grant Revenue	\$ 26,816
Interest Income	22,303
Interest and Fiscal Charges	(80,930)
Gain (Loss) from Sale of Assets	810
Total Nonoperating Revenue (Expenses)	<u>\$ (31,001)</u>
Change in Net Position	<u>\$ 123,915</u>
Net Position - July 1 (As Previously Stated)	40,459,707
Restatement - GASB Statement 75	<u>(945,586)</u>
Net Position - July 1, As Restated	<u>\$ 39,514,121</u>
Net Position - June 30	<u><u>\$ 39,638,036</u></u>

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2018

	Carrollton Utilities Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	\$ 40,433,212
Payments to Suppliers	(36,763,669)
Payments to Employees	(1,751,082)
Receipts of Customer Meter Deposits	57,788
Refunds of Customer Meter Deposits	(67,202)
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,909,047</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from Sale of Capital Assets	\$ 810
Purchases of Capital Assets	(2,505,295)
Principal Paid on Capital Debt	(489,631)
Interest Paid on Capital Debt	(81,508)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ (3,075,624)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Principal Received on Interlocal Debt	\$ 32,053
Interest and Fees Received on Interlocal Debt	11,371
Purchase of Certificates of Deposits	(8,114)
Interest Received	11,159
Net Cash Provided (Used) by Investing Activities	<u>\$ 46,469</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (1,120,108)
Balances-July 1	<u>7,770,727</u>
Balances-June 30	<u><u>\$ 6,650,619</u></u>

	Balances Per June 30, 2018 Statement of Net Position	Balances Per June 30, 2018 Statement of Cash Flows
Cash	\$ 6,232,314	\$ 6,232,314
Time Deposits	770,989	-
Restricted Cash	418,305	418,305
Restricted Time Deposits	394,671	-
Total	<u><u>\$ 7,816,279</u></u>	<u><u>\$ 6,650,619</u></u>

(Continued)

**CITY OF CARROLLTON, KENTUCKY
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUND
For the Year Ended June 30, 2018**

	Carrollton Utilities Enterprise Fund
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating Income (Loss)	\$ 154,916
Adjustments to Reconcile Operating Income to Net Cash	
Provided (Used) by Operating Activities:	
Depreciation Expense	1,764,088
Pension Expense	434,148
Change in Assets and Liabilities:	
Receivables, Net (Increase) Decrease	33,824
Other Receivables (Increase) Decrease	(132,763)
Prepaid Expenses (Increase) Decrease	6,086
Accounts and Other Payables Increase (Decrease)	(412,666)
Due to Other Funds Increase (Decrease)	53,239
Customer Meter Deposits Payable Increase (Decrease)	(9,414)
Accrued Expenses Increase (Decrease)	17,589
Net Cash Provided by Operating Activities	<u>\$ 1,909,047</u>

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

At June 30, 2017, Carrollton Utilities had \$498,605 outstanding construction retainage payable.

CITY OF CARROLLTON, KENTUCKY
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CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

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, Campellsburg, and Ghent and the Counties of Carroll, Gallatin, Owen, and Henry entered into interlocal agreements for the construction, operation and maintenance of a regional sewer facility. Under these agreements the City of Carrollton, through Carrollton Utilities, owns and operates the system. In recognition of Carrollton's ownership of the completed facility, and its operation of same through its Enterprise Fund (Carrollton Utilities), the transactions of the regional sewer are included in the financial statements as part of that fund.</p>	Enterprise Fund

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.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.A. FINANCIAL REPORTING ENTITY (Continued)

Excluded from the reporting entity: (Continued)

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

Carroll County/City of Carrollton E-911 Dispatch Commission – This potential component unit was established under an interlocal agreement between Carroll County Fiscal Court and the City of Carrollton in November, 1994 to operate the E-911 Dispatch. The Commission had two members – the Carroll County Judge Executive and the Mayor of the City of Carrollton. In March, 2018 that interlocal agreement was terminated and a new interlocal agreement was approved establishing the Carroll County E-911 Advisory Committee. 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.

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, 2018

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, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.B. BASIS OF PRESENTATION (Continued)

Major and Nonmajor Funds

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

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

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, 2018

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, 2018

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, interest earnings 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, 2018

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, 2018

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, 2018

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.

Operating Revenues and Expenses

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

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Expenditures/Expenses

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

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

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

Proprietary Fund-By Operating and Nonoperating

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

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

2.B. DEPOSITS AND INVESTMENTS, LAWS AND REGULATIONS

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

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

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

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

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

2.C. REVENUE RESTRICTIONS

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

<u>Revenue Source</u>	<u>Legal Restrictions of Use</u>
Municipal Road Aid	Street & Alley Purposes
County Dispatch Revenue	E-911 Emergency Services Purposes
Water, Sewer, and Gas Revenue	Debt Service and Utility Operations
EIP/Facade Revenue	Beautification Improvement Projects
Law Enforcement Grants	Police Programs/Salaries
Local Government Economic Assistance Funds	Approved Expenditures
State Fire Aid	Fire Equipment Expenditures
KY Department of Local Government –	
National Recreational Trails Fund Grant	Approved Grant Expenditures – Ohio River Trail
Federal Land and Water Conservation Fund	Approved Grant Expenditures – Kentucky River Trail
Grant	
Federal – Aid Highway Program Grant	Approved Grant Expenditures – Historic Bow Bridge
	Project

For the year ended June 30, 2018, the City complied, in all material respects, with these revenue restrictions.

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, 2018, in accordance with the City's policy \$1,835,199 of the City's deposits were covered by federal depository insurance and \$8,737,603 respectively, were collateralized by securities held by the pledging financial institution's agent in the City's name. Thus the City had no deposits that were exposed to custodial credit risk.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

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

3.A. CASH AND INVESTMENTS (Continued)

Deposits (Continued)

Cash and cash equivalents and investments at June 30, 2018, consisted of the following:

Governmental Activities

<u>Type of Deposits</u>	<u>Total Bank Balance</u>	<u>Total Carrying Value</u>
Demand Deposits	\$ 61,508	\$ 61,443
Time/Savings Deposits	2,651,793	2,595,123
Total Deposits	<u>\$ 2,713,301</u>	<u>\$ 2,656,566</u>

Business-type Activities

<u>Type of Deposits</u>	<u>Total Bank Balance</u>	<u>Total Carrying Value</u>
Demand Deposits	\$ 6,693,841	\$ 6,649,369
Time/Savings Deposit	1,165,660	1,165,660
Total Deposits	<u>\$ 7,859,501</u>	<u>\$ 7,815,029</u>

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Reconciliation to Statement of Net Position			
Cash, including Time Deposits	\$ 2,658,034	\$ 7,003,303	\$ 9,661,337
Restricted Cash, including Time Deposits	-	812,976	812,976
	<u>\$ 2,658,034</u>	<u>\$ 7,816,279</u>	<u>\$10,474,313</u>
 Total Carrying Value	 \$ 2,656,566	 \$ 7,815,029	 \$10,471,595
Plus: Cash on Hand	1,468	1,250	2,718
	<u>\$ 2,658,034</u>	<u>\$ 7,816,279</u>	<u>\$10,474,313</u>

3.B. RESTRICTED ASSETS

Restricted assets consists of the following:

	<u>Cash</u>
KIA Loan Reserve Accounts	\$ 622,441
Customer Deposits	190,535
Total	<u>\$ 812,976</u>

In addition to these restrictions, the Utility Commission has designated certificates of deposit in the amount of \$670,989 and demand deposits of \$27,500 as reserved to mitigate the risk associated with industrial sales.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

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 (33%), insurance licenses (59%), business licenses (4%) and other (4%) receivables. Receivables detail at June 30, 2018, is as follows:

	Governmental Activities	Business-type Activities	Total
Accounts receivable	\$ 226,988	\$ 3,281,905	\$ 3,508,893
Allowance for doubtful accounts	(7,175)	(18,129)	(25,304)
Net accounts receivable	<u>\$ 219,813</u>	<u>\$ 3,263,776</u>	<u>\$ 3,483,589</u>

3.D. 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 Loan</u>	<u>Debt Forgiveness</u>	<u>Net Loan To District</u>	<u>Interlocal Agreement Balance June 30, 2018</u>
Countywide Underserved	West Carroll Water	\$ 881,877	\$ 308,657	\$ 573,220	\$ 514,836
Carroll County Interconnect	West Carroll Water	\$ 44,310	\$ 11,077	\$ 33,233	\$ 30,739
Carroll County Interconnect	Carroll County Water	\$ 301,721	\$ 75,430	\$ 226,291	\$ 205,875

3.E. INTERFUND TRANSACTIONS AND BALANCES

Interfund balances reported in the financial statements at June 30, 2018, 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	\$ 470,762	Sanitation Receipt Reimbursements/ PEAK Returns
Total		<u>\$ 470,762</u>	

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

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

3.F. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018, was as follows:

	Balance at July 1, 2017	Additions	Disposals	Balance at June 30, 2018
<u>Governmental Activities:</u>				
Land	\$ 1,141,271	\$ -	\$ (494)	\$ 1,140,777
Buildings & Improvements	3,465,553	-	-	3,465,553
Machinery & Equipment	2,945,201	236,221	(107,465)	3,073,957
Infrastructure	3,804,435	39,230	-	3,843,665
Construction in Process	86,170	383,482	-	469,652
Totals at Historical Cost	<u>\$ 11,442,630</u>	<u>\$ 658,933</u>	<u>\$ (107,959)</u>	<u>\$ 11,993,604</u>
 Less: Accumulated Depreciation				
Buildings & Improvements	\$ 1,090,410	\$ 110,713	\$ -	\$ 1,201,123
Machinery & Equipment	2,013,806	181,737	(89,467)	2,106,076
Infrastructure	2,265,661	139,845	-	2,405,506
Total Accumulated Depreciation	<u>\$ 5,369,877</u>	<u>\$ 432,295</u>	<u>\$ (89,467)</u>	<u>\$ 5,712,705</u>
 Governmental Activities - Capital Assets, Net	 <u>\$ 6,072,753</u>	 <u>\$ 226,638</u>	 <u>\$ (18,492)</u>	 <u>\$ 6,280,899</u>

Depreciation Expense was charged to governmental activities as follows:

General Government	\$ 22,186
Public Safety	
E911 Dispatch	5,859
Fire Department	66,456
Police Department	75,287
Public Works	33,010
Parks & Recreation	89,652
Infrastructure (included with Public Works)	139,845
Total Depreciation Expense	<u>\$ 432,295</u>

Land and Construction in process are assets which are not depreciated. \$2,247,723 of depreciable assets are fully depreciated. Police department assets of \$19,376 are recorded under capital leases. Accumulated depreciation associated with these assets was \$2,906 at June 30, 2018.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

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

3.F. CAPITAL ASSETS (Continued)

	Balance at July 1, 2017	Additions	Disposals	Balance at June 30, 2018
<u>Business-type Activities:</u>				
Land & Right of Ways	\$ 834,439	\$ -	\$ -	\$ 834,439
Structures & Improvements	8,090,784	1,349,743	-	9,440,527
Distribution System	49,545,553	635,206	-	50,180,759
Wells	815,727	-	-	815,727
Plant, Machinery & Equipment	10,769,861	651,201	-	11,421,062
Construction in Process	1,369,764	1,985,773	(2,003,716)	1,351,821
Totals at Historical Cost	<u>\$ 71,426,128</u>	<u>\$ 4,621,923</u>	<u>\$ (2,003,716)</u>	<u>\$ 74,044,335</u>
Less: Accumulated Depreciation				
Structures & Improvements	\$ 3,387,552	\$ 211,407	\$ -	\$ 3,598,959
Distribution System	18,743,340	1,094,687	-	19,838,027
Wells	355,795	33,756	-	389,551
Plant, Machinery & Equipment	8,574,615	424,238	-	8,998,853
Total Accumulated Depreciation	<u>\$ 31,061,302</u>	<u>\$ 1,764,088</u>	<u>\$ -</u>	<u>\$ 32,825,390</u>
Business-type Activities Capital Assets, Net	<u>\$ 40,364,826</u>	<u>\$ 2,857,835</u>	<u>\$ (2,003,716)</u>	<u>\$ 41,218,945</u>

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

Gas	\$ 638,102
Water	276,730
Sewer	849,256
Total Depreciation Expense	<u>\$ 1,764,088</u>

Land, right of ways, and construction in process are capital assets not being depreciated. \$14,576,398 of depreciable assets are fully depreciated.

3.G. 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	11,232
Total Capital Lease Obligation	<u>\$ 14,976</u>

Accrued Compensated Absences:

Current Portion	\$ 49,556
Noncurrent Portion	6,473
Total Accrued Compensated Absences	<u>\$ 56,029</u>

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

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

3.G. LONG-TERM DEBT (Continued)

Business-type Activities:

As of June 30, 2018, 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.	\$ 59,039
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.	647,738
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.	1,945,171
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.	646,780
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.	1,154,598
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.	1,168,996
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.	460,351
Total Notes Payable	\$ 6,082,673
Current Portion	\$ 495,565
Noncurrent Portion	5,587,108
Total Notes Payable	\$ 6,082,673

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

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

3.G. LONG-TERM DEBT (Continued)

Business Type Activities (Continued)

Accrued Compensated Absences:

Current Portion	\$ 3,611
Noncurrent Portion	20,233
Total	<u>\$ 23,844</u>

Changes in Long-term Debt

The following is a summary of changes in long-term debt for the fiscal year ended June 30, 2018:

<u>Type of Debt</u>	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2018</u>	<u>Current Portion</u>
Governmental Activities					
Capital Lease Obligation	\$ -	\$ 19,376	\$ 4,400	\$ 14,976	\$ 3,744
Accrued Compensated Absences	39,515	68,893	52,379	56,029	49,556
Total General Long-term Debt	<u>\$ 39,515</u>	<u>\$ 88,269</u>	<u>\$ 56,779</u>	<u>\$ 71,005</u>	<u>\$ 53,300</u>
Business-type Activities					
Note Payable	\$ 6,572,304	\$ -	\$ 489,631	\$ 6,082,673	\$ 495,565
Accrued Compensated Absences	15,294	9,622	1,072	23,844	3,611
Total Enterprise Fund Debt	<u>\$ 6,587,598</u>	<u>\$ 9,622</u>	<u>\$ 490,703</u>	<u>\$ 6,106,517</u>	<u>\$ 499,176</u>

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. The first amortized payment commenced on June 1, 2015.

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

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

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

3.G. LONG-TERM DEBT (Continued)

Description of Debt Activity: (Continued)

Business-type Activities (Continued)

Notes Payable to Kentucky Infrastructure Authority (Continued)

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 for Carrollton Utilities was recognized in the amount of \$327,990.

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. The loan contained a principal forgiveness clause in the amount of fifty percent (50%). An interlocal receivable from the West Carroll Water District was recorded in the amount of \$30,735 less the District's share of principal forgiveness of \$15,367. An interlocal receivable from the Carroll County Water District was recorded in the amount of \$123,433 less principal forgiveness of \$61,717. An interlocal receivable from the Henry County Water District was recorded in the amount of \$30,735 less principal forgiveness of \$15,367. All interlocal receivables for the Focus Project have been received in full. Principal forgiveness for Carrollton Utilities was recognized in the amount of \$389,516.

The combined obligations of the outstanding notes at June 30, 2018 are as follows:

Fiscal Year	Principal Payment	Interest Payment	Servicing Fee	Total Payment	Balance at End of Year
2018-19	\$ 495,565	\$ 61,249	\$ 13,299	\$ 570,113	\$ 6,082,673
2019-20	501,578	55,237	12,259	569,074	5,587,108
2020-21	507,670	49,144	11,208	568,022	5,085,530
2021-22	513,845	42,969	10,143	566,957	4,577,860
2022-23	444,853	36,713	9,066	490,632	4,064,015
2023-28	1,545,871	126,799	33,322	1,705,992	3,619,162
2028-33	731,006	75,328	21,395	827,729	2,073,291
2033-38	523,158	47,047	13,859	584,064	1,342,285
2038-43	546,057	24,148	7,192	577,397	819,127
2043-47	273,070	3,480	1,098	277,648	273,070
	<u>\$ 6,082,673</u>	<u>\$ 522,114</u>	<u>\$ 132,841</u>	<u>\$ 6,737,628</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, 2018 are as follows:

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

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

3.G. LONG-TERM DEBT (Continued)

Annual Debt Service Requirements (Continued)

Fiscal Year	Governmental Activities		Business-type Activities	
	Principal	Interest & Fiscal Charges	Principal	Interest & Fiscal Charges
2018-19	\$ 3,744	\$ -	\$ 495,565	\$ 74,548
2019-20	3,744	-	501,578	67,496
2020-21	3,744	-	507,670	60,352
2021-22	3,744	-	513,845	53,112
2022-23	-	-	444,853	45,779
2023-28	-	-	1,545,871	160,121
2028-33	-	-	731,006	96,723
2033-38	-	-	523,158	60,906
2038-43	-	-	546,057	31,340
2043-47	-	-	273,070	4,578
Total	\$ 14,976	\$ -	\$ 6,082,673	\$ 654,955

3.H. INTEREST EXPENSE AND FISCAL CHARGES

Interest expense and fiscal charges for the Enterprise Fund for the year ended June 30, 2018, was \$80,930. No interest was capitalized during the year ended June 30, 2018.

3.I. 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	\$ 27,817
L.G.E.A.F.	State Law	36,997
		<u>\$ 64,814</u>

Business-type Activities

Restricted for Debt Service:

Kentucky Infrastructure Authority (KIA) Notes Payable	
Cash & Investments	\$ 622,441
Less: Accrued Interest Payable	(6,358)
	<u>\$ 616,083</u>

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

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

3.I. 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	\$ 27,817
L.G.E.A.F.	36,997
	<u>\$ 64,814</u>

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

General Fund:

Water Park Project	<u>\$ 153,561</u>
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Other Governmental Funds:

Community Development Projects (EIP)	<u>\$ 55,464</u>
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Assigned for expenditures associated with the Shop with a Cop and Riverwalk Development programs as constrained to that purpose:

Other Governmental Funds:

Shop with a Copy	\$ 9,841
Riverwalk Development	4,056
Total Assigned	<u>\$ 13,897</u>

Unrestricted net position of the governmental funds and proprietary fund was reduced by \$384,288 and \$434,147 respectively, as a result of the transactions recorded by the District 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
Increase in Deferred Outflows of Resources	\$ 694,914	\$ 770,901
Increase in Deferred Inflows of Resources	(314,738)	(402,045)
Increase in Net Pension Liability	(538,587)	(533,357)
Increase in Net OPEB Liability	(225,877)	(269,646)
Net Decrease in Unrestricted Net Position	<u>\$ (384,288)</u>	<u>\$ (434,147)</u>

See Note 4.E. concerning the restatement of the city's Net Position at July 1, 2017, due to the implementation of GASB 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*. The increase in Net OPEB Liability represents the change for the current year only and does not include the prior period adjustment required to the July 1, 2017 under the standard.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 4. OTHER NOTES

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

Entry into the Commonwealth of Kentucky's County Employees' Retirement System (CERS) was authorized by the City Council. Electing employees and all new employees of the City may participate in the System.

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, 2017, may be obtained on-line as follows:

- Kentucky Retirement Systems Audit Report – 2017
<https://kyret.ky.gov/About/Internal-Audit/Documents/2017%20Audited%20Financial%20Statements%20and%20Independent%20Auditor's%20Reports.pdf>
- Kentucky Retirement Systems Schedule of Employer Allocations and Pension Amounts – Audit Report 2017 – GASB 68
<https://kyret.ky.gov/Employers/GASB/Audited%20Reports/2017%20GASB%2068%20Proportionate%20Share%20Audit%20Report%20with%20Schedules.pdf>
- Kentucky Retirement Systems Schedules of Employer Allocations and OPEB Amounts by Employer – Audit Report 2017 – GASB 75
<https://kyret.ky.gov/Employers/GASB/Audited%20Reports/2017%20GASB%2075%20Proportionate%20Share%20Audit%20Report%20with%20Schedules.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.

- 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.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 4. OTHER NOTES

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

- **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.

Asset Allocation Board Policy as of June 30, 2017 was as follows:

	<u>2017</u>
Combined Equity	50.80%
Combined Fixed Income	14.00%
Private Equity	10.00%
Absolute Return	10.00%
Real Return	8.00%
Real Estate	5.00%
Cash	<u>2.20%</u>
	100.00%

Total fund return for the year ended June 30, 2017 was 13.47%.

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 duty positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in CERS. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Prior to July 1, 2009, 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 COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce the COLA if, in its judgment, the welfare of the Commonwealth so demands. No COLA has been granted since July 1, 2011.

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
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

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 4. OTHER NOTES

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

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.

There were no changes in benefit terms during the year ended June 30, 2017.

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, 2017 participating employers contributed 18.68% of each employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal year ended June 30, 2017 was 18.68%. Administrative costs of KRS are financed through employer contributions and investment earnings.

Employer contributions for the year ended June 30, 2017, (18.68%) were allocated 13.95% to CERS's pension fund and 4.73% to CERS' OPEB (health insurance) fund, respectively.

For the fiscal year ended June 30, 2017, plan members who began participating prior to September 1, 2008, were required to contribute 5% 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% 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 by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

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

Per the GASB Statement No. 68 Report for the County Employees Retirement System prepared as of June 30, 2017, the actuarially determined contribution rates effective for fiscal year ending 2017 are calculated as of June 30, 2015. Based on the June 30, 2015 actuarial valuation report (produced by the prior actuary, Cavanaugh Macdonald Consulting, LLC), the actuarial methods and assumptions used to calculate these contribution rates are as follows:

Item	CERS Non-Hazardous
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:	28 Years, Closed
Investment Return:	7.50%
Inflation:	3.25%
Salary Increases:	4.00%, average
Mortality:	RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)

In general, the assumptions and methods used in the valuation (as shown above) are based on the actuarial experience study for the five-year period ending June 30, 2013, submitted April 30, 2014, and adopted by the Board on December 4, 2014.

Changes in the investment return, price inflation, and payroll growth assumption were adopted by the Board in May and July 2017 for use with the June 30, 2017 valuation in order to reflect future economic expectations. These changes in assumptions since the prior valuation are as follows:

The assumed investment return was changed from 7.50% to 6.25%. The price inflation assumption was changed from 3.25% to 2.30%, which also resulted in a 0.95% decrease in the salary increase assumption at all years of service. The payroll growth assumption (applicable for the amortization unfunded actuarial accrued liabilities) was changed from 4.00% to 2.00%.

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

The total pension liability is based on an actuarial valuation date of June 30, 2016. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year ending June 30, 2017, using generally accepted actuarial principles. Gabriel, Roeder, Smith & Co (GRS) did not conduct the June 30, 2016, actuarial valuation; however, GRS did replicate the prior actuary's valuations results on the same assumptions, methods, and data, as of that date. The roll-forward is based on the results of their replication. Information disclosed for years prior to June 30, 2017, was prepared by KRS's prior actuary, Cavanaugh Macdonald Consulting, LLC.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

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 Pension Liability (Continued)

The single discount rate of 6.25% was used to measure the total pension liability for the fiscal year ending June 30, 2017 which is a decrease of 1.25% from the prior year. This single discount rate was based on the expected rate of return on pension plan investments. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the pension plan's fiduciary net position and future contributions were projected to be sufficient to finance all the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of the projected benefit payments to determine the total pension liability. The projection of cash flows used to determine the single discount rate assumes that the participating employers in the System contribute the actuarially determined contribution rate in all future years. The discount rate determination does not use a municipal bond rate.

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, 2017, the City reported a liability of \$6,501,971 for its proportionate share of the net pension liability. The net pension liability for CERS was measured as of June 30, 2017 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 those dates. 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, 2017, the City's proportion was 0.111082 percent, which is an increase of 0.000796 percent for the year ended June 30, 2017.

For the year ended June 30, 2018, the City's General Fund's total payroll for the fiscal year ended June 30, 2018 was \$1,454,052. Contributions were based on \$1,268,495 (eligible gross wages). The total employer pension contributions for the year ended June 30, 2018 were \$181,691.

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

The City's General Fund's total payroll for the fiscal year ended June 30, 2017, was \$1,311,853. Contributions were based on \$1,232,800 (eligible gross wages). The total employer pension contributions for the year ended June 30, 2017 were \$171,976.

The City's Proprietary Fund's total payroll for the fiscal year ended June 30, 2017, was \$1,658,648. Contributions were based on \$1,472,254 (eligible gross wages). The total employer pension contributions for the fiscal year ended June 30, 2017 were \$205,373.

All contributions were made as required during these years.

The City's contribution for the County Employees' Retirement System's year ended June 30, 2017 was 0.111082 percent of the System's total contribution requirements for all employers.

For the year ended June 30, 2018 the City recognized pension expense of \$1,108,583, (\$511,592 attributed to the General Fund, and \$596,991 attributed to the Proprietary Fund). At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to CERS pensions from the following sources:

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

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)

	June 30, 2018			
	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	\$ 3,676	\$ 75,232	\$ 4,389	\$ 89,816
Change in Assumptions	546,884	-	652,906	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	43,931	16,710	1,340	18,366
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	234,722	198,064	280,226	236,462
City Contributions Made Subsequent to the NPL Measurement Date	181,691	-	225,069	-
Total	<u>\$ 1,010,904</u>	<u>\$ 290,006</u>	<u>\$ 1,163,930</u>	<u>\$ 344,644</u>

\$406,760 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, 2019. 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 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 pension expense over the expected remaining service lives of all employees. Total amortization to be recognized in pension expense is presented below as follows:

	Governmental Funds	Proprietary Fund
	Increase (Decrease) to Pension Expense	Increase (Decrease) to Pension Expense
Year Ended June 30, 2018:		
2019	\$ 232,606	\$ 263,313
2020	236,568	260,585
2021	108,089	115,750
2022	(38,056)	(45,431)
	<u>\$ 539,207</u>	<u>\$ 594,217</u>

Payable to the Pension Plan

At June 30, 2018, the City reported a payable of \$34,188 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 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, 2017], calculated using the discount rates of 6.25% for the year ended June 30, 2017, 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:

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 4. OTHER NOTES

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

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

As of June 30, 2017	1% Decrease [5.25%]	Current Discount [6.25%]	1% Increase [7.25%]
Net Pension Liability	\$ 7,382,285,260	\$ 5,853,307,443	\$ 4,574,328,530
City's Proportionate Share	8,200,391	6,501,971	5,081,256

Insurance 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. Once members reach a minimum vesting period of 10 years, non-hazardous employees whose participation began on, or after, July 1, 2003, earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually, which is currently 1.5%, based upon Kentucky Revised Statutes. 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.

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:

Portion Paid by Insurance Fund	
Years of Service	Paid by Insurance Fund (%)
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, the dollar contribution for fiscal year 2017 was \$13.18 for CERS Non-Hazardous members.

For the fiscal year ended June 30, 2017, 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.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

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

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, 2017, the actuarially determined contribution rates effective for fiscal year ending 2017 are calculated as of June 30, 2015. Based on the June 30, 2015, actuarial valuation report (produced by the prior actuary, Cavanaugh Macdonald Consulting, LLC), the actuarial methods and assumptions used to calculate those rates are as follows:

Item	CERS Non-Hazardous
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:	28 Years, Closed
Payroll Growth:	4.00%
Investment Return:	7.50%
Inflation:	3.25%
Salary Increases:	4.00%, average
Mortality:	RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)
<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.

Subsequent to the actuarial valuation date, but prior to the measurement date, the Board adopted updated actuarial assumptions which were used in performing the actuarial valuations as of June 30, 2017. Specifically, the total OPEB liability as of June 30, 2017, was determined using a 2.30% price inflation assumption and an assumed rate of return of 6.25%.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

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

The total OPEB Liability was rolled-forward from the valuation date of June 30, 2016 to the plan's fiscal year ending June 30, 2017, using generally accepted actuarial principles. GRS did not conduct the June 30, 2016, actuarial valuation; however, GRS did replicate the prior actuary's (Cavanaugh Macdonald Consulting, LLC) valuation results on the same assumptions, methods, and data, as of that date. The roll-forward is based on the results of that replication.

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

The discount rates used to measure the total OPEB liability as of June 30, 2017 for the CERS Non-Hazardous group is based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 3.56%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2017. Future contributions are projected in accordance with the Board's current funding policy, which includes the requirement that each participating employer in the system contribute the actuarially determined contribution rate, which is determined using a closed funding period (26 years as of June 30, 2017) and the actuarial assumptions and methods adopted by the Board. Current assets, future contributions, and investment earnings are projected to be sufficient to pay the projected benefit payments from the retirement system. However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the system's actuarial determined contributions, and it is GRS' understanding that any cost associated with the implicit subsidy will not be paid out of the system's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

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, 2017, the City reported a liability of \$2,233,128 for its proportionate share of the Net OPEB liability.

As indicated above, the allocation of the total 18.68% employer contribution required on each employees' creditable compensation was 13.95% pension and 4.73% (OPEB) Health Insurance Fund.

The City's General Fund's total payroll for the fiscal year ended June 30, 2018 was \$1,454,052. Contributions were based on \$1,268,495 (eligible gross wages). The total employer contributions to the Health Insurance Fund for the year ended June 30, 2018 were \$61,606.

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

The City's General Fund's total payroll for the fiscal year ended June 30, 2017, was \$1,311,853. Contributions were based on \$1,232,800 (eligible gross wages). The total employer pension contributions for the year ended June 30, 2017, were \$58,311.

The city's Proprietary Fund's total payroll for the fiscal year ended June 30, 2017, was \$1,658,648. Contributions were based on \$1,472,254 (eligible gross wages). The total employer pension contributions for the fiscal year ended June 30, 2017 were \$69,635.

All contributions were made as required during these years.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

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)

The City's contribution for the County Employee's Retirement System's (Insurance Plan) for the year ended June 30, 2017 was 0.111082 percent 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, 2017 was \$27,292.

For the year ended June 30, 2018, the City recognized OPEB expense of \$254,473 (\$115,993 attributed to the General Fund and \$138,480 attributed to the Proprietary Fund). At June 30, 2018 the City reported deferred outflows of resources and deferred inflows of resources related to CERS OPEB from the following sources:

	June 30, 2018			
	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	\$ -	\$ 2,827	\$ -	\$ 3,375
Change in Assumptions	221,488	-	264,427	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	-	2,361	-	2,820
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	48,105	-	57,431
City Contributions Made Subsequent to the NPL Measurement Date	61,606	-	76,314	-
Total	<u>\$ 283,094</u>	<u>\$ 53,293</u>	<u>\$ 340,741</u>	<u>\$ 63,626</u>

\$137,920 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, 2019. 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 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:

		Governmental Funds Increase (Decrease) to OPEB Expense	Proprietary Fund Increase (Decrease) to OPEB Expense
Year Ended June 30, 2018:			
	2019	\$ 28,940	\$ 34,550
	2020	28,940	34,550
	2021	28,940	34,550
	2022	28,940	34,550
	2023	40,966	48,908
	Thereafter	11,469	13,693
		<u>\$ 168,195</u>	<u>\$ 200,801</u>

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

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)

Payable to the OPEB Health Insurance Plan

At June 30, 2018, the City reported a payable of \$11,592 for the outstanding amount of contributions required for the year then ended. This amount represents the employee withholding end 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 year ended June 30, 2017, calculated using the single discount rates of 5.84% for the year ended June 30, 2017 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:

As of June 30, 2017	1% Decrease [4.84%]	Current Discount [5.84%]	1% Increase [6.84%]
Net OPEB Liability	\$ 2,558,048,813	\$ 2,010,342,054	\$ 1,554,563,974
City's Proportionate Share	2,841,532	2,233,128	1,726,840

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, 2017, calculated using the healthcare cost trend rate for the year ended June 30, 2017 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:

As of June 30, 2017	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Net OPEB Liability	\$ 1,542,035,808	\$ 2,010,342,054	\$ 2,619,112,629
City's Proportionate Share	1,712,924	2,233,128	2,909,362

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, 2018

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, 2017 was \$626,038. 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, 2018, Carrollton Utilities has an unpaid and accrued storage liability estimated to be \$145,129.

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 2017-2018 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 BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

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 10 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 unaudited financial statements for the year ended June 30, 2018, are as follows:

Assets and Deferred Outflows	\$	960,635,935
Liabilities and Deferred Inflows	\$	956,185,142
Total Net Position	\$	4,450,793
Costs Recoverable from Future Billings	\$	6,914,070

- * 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.

Recreational Trails Projects

The City has two projects in process relating to extending the City's Riverwalk and connecting it to the City's Two Rivers Campground facility. American Engineers, Inc. are providing the design and engineering services for the projects.

- Kentucky River Trail Funded fifty percent (50%) by a Federal Land and Water Conservation Grant through the Kentucky Department of Local Government. Total estimated cost \$135,000.
- Ohio River Trail Funded fifty percent (50%) by a National Recreational Trails Fund Grant through the Kentucky Department of Local Government. Total estimated cost \$130,000.

During the year ended June 30, 2018, the City completed its Bow Bridge Project at a total cost of \$159,670.

Carrollton Utilities Distribution Operations Center

The City continues construction on the Carrollton Utilities Distribution Operations Center. The budget for the new distribution operations center (DOC) is \$1.6 million. Construction is expected to be substantially complete by the beginning of 2019.

Future Projects

The City applied for an Economic Development Association grant for a \$1.5 million project to expand the wastewater system in order to increase the transport capacity of the collection system between industrial customers and the wastewater treatment plant. The expansion is needed due to industrial development occurring on US 42 between Carrollton and Markland Dam. The project is expected to be funded via 50-80% grant funds and should begin construction in early 2019.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 4. OTHER NOTES (Continued)

4.D. MISCELLANEOUS

Bad Debt Expense

Utility revenue charges have been netted with an estimated bad debt expense of \$5,760, \$4,591, and \$23,945 for gas, water and sewer services, respectively.

Income Tax Status

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

Economic Dependence

Carrollton Utilities Commission provides natural gas to residential, commercial, and industrial customers. It should be noted that 94.3% of the total gas revenue is received from seven industrial customers. As described in Note 4.C., all natural gas purchases are made through the Public Energy Authority of Kentucky (PEAK). \$31,993,362 of the \$34,295,208 gas cost of goods sold are for natural gas purchases, excluding related transportation costs. Additionally, 26.3% of the City's General Fund revenues are attributable to gas prepurchase agreements with PEAK.

Related Party Transactions

For the year ended June 30, 2017, the City received \$42,986 from the Carrollton Housing Authority as payments in lieu of tax.

In April 2018, Carrollton Utilities entered into a lease agreement with the Public Energy Authority of Kentucky (PEAK), whereby PEAK is leasing a portion of the former administration building of Carrollton Utilities. The lease is set to end March 31, 2028. For the year ended June 30, 2018, Carrollton Utilities received \$1,400 in lease income from PEAK.

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

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

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, 2018, is presented as follows:

CONDENSED STATEMENT OF NET POSITION	Gas	Water	Sewer	Total
Assets:				
Current Assets	\$ 12,501,244	\$ (1,099,482)	\$ (470,382)	\$ 10,931,380
Other Noncurrent Assets	78,569	902,090	566,205	1,546,864
Capital Assets (Net)	11,993,287	6,089,907	23,135,751	41,218,945
Total Assets	<u>\$ 24,573,100</u>	<u>\$ 5,892,515</u>	<u>\$ 23,231,574</u>	<u>\$ 53,697,189</u>
Deferred Outflows:	<u>\$ 631,962</u>	<u>\$ 361,121</u>	<u>\$ 511,588</u>	<u>\$ 1,504,671</u>
Liabilities:				
Due to Other Funds	\$ 440,178	\$ 30,584	\$ -	\$ 470,762
Other Current Liabilities	3,358,183	197,652	577,583	4,133,418
Noncurrent Liabilities	2,074,972	4,272,815	4,203,587	10,551,374
Total Liabilities	<u>\$ 5,873,333</u>	<u>\$ 4,501,051</u>	<u>\$ 4,781,170</u>	<u>\$ 15,155,554</u>
Deferred Inflows:	<u>\$ 169,800</u>	<u>\$ 132,769</u>	<u>\$ 105,701</u>	<u>\$ 408,270</u>
Net Position:				
Net Investment in Capital Assets	\$ 11,530,193	\$ 4,015,370	\$ 19,730,641	\$ 35,276,204
Restricted for Debt Service	-	132,547	483,536	616,083
Unrestricted	7,631,736	(2,528,101)	(1,357,886)	3,745,749
Total Net Position	<u>\$ 19,161,929</u>	<u>\$ 1,619,816</u>	<u>\$ 18,856,291</u>	<u>\$ 39,638,036</u>

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

	Gas	Water	Sewer	Total
Operating Revenues	\$ 36,820,777	\$ 1,439,329	\$ 2,271,503	\$ 40,531,609
Depreciation Expense	(638,103)	(276,730)	(849,255)	(1,764,088)
Other Operating Expenses	(35,960,670)	(1,323,250)	(1,328,685)	(38,612,605)
Net Operating Income (Loss)	\$ 222,004	\$ (160,651)	\$ 93,563	\$ 154,916
Nonoperating Revenues (Expenses):				
FEMA Grant Revenue	19,057	-	7,759	26,816
Interest Income	8,526	11,773	2,004	22,303
Interest & Fiscal Charges	-	(31,388)	(49,542)	(80,930)
Gain (Loss) on Sale of Assets	-	810	-	810
Change in Net Position	<u>\$ 249,587</u>	<u>\$ (179,456)</u>	<u>\$ 53,784</u>	<u>\$ 123,915</u>
Beginning Net Position (As Restated)	18,912,342	1,799,272	18,802,507	39,514,121
Ending Net Position	<u>\$ 19,161,929</u>	<u>\$ 1,619,816</u>	<u>\$ 18,856,291</u>	<u>\$ 39,638,036</u>

CONDENSED STATEMENT OF CASH FLOWS

	Gas	Water	Sewer	Total
Net Cash Provided (Used) by:				
Operating Activities	\$ 583,856	\$ 331,359	\$ 993,832	\$ 1,909,047
Capital and Related Financing Activities	(988,703)	(960,949)	(1,125,972)	(3,075,624)
Investing Activities	3,386	43,946	(863)	46,469
Net Increase (Decrease)	<u>\$ (401,461)</u>	<u>\$ (585,644)</u>	<u>\$ (133,003)</u>	<u>\$ (1,120,108)</u>
Beginning Cash and Cash Equivalents	8,773,684	(553,684)	(449,273)	7,770,727
Ending Cash and Cash Equivalents	<u>\$ 8,372,223</u>	<u>\$ (1,139,328)</u>	<u>\$ (582,276)</u>	<u>\$ 6,650,619</u>

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 4. OTHER NOTES (Continued)

4.E. RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

In June 2015, the GASB issued Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for fiscal years beginning after June 15, 2017. This statement requires the liability of employers to employees for defined benefit OPEB (net OPEB liability) to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position. Under these statements, the city is required to report in its accrual based financial statement(s), the net other postemployment benefit liability associated with its' employees' benefits as a liability. It is also required to report a deferred outflow of resources for its benefit contributions made subsequent to the measurement date of the beginning net OPEB liability. These balances reflect the government's obligation to pay deferred benefits earned by its employees when the benefit [plan's] liability exceeds the value of the benefit plan's assets.

Retroactive application by restating financial statements for all periods presented is required. The effect of the reinstatement is as follows for the year ended June 30, 2017.

Statement of Net Position:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Total Net Position as Originally Presented June 30, 2017	\$ 7,700,300	\$ 40,459,707
Less Net OPEB Liability	<u>(792,019)</u>	<u>(945,586)</u>
Total Net Position as Restated, June 30, 2017	<u><u>\$ 6,908,281</u></u>	<u><u>\$ 39,514,121</u></u>

The components of Net Position at June 30, 2017
After restatement are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Net Investment in Capital Assets	\$ 6,072,753	\$ 34,077,420
Restricted for Other Purposes	108,929	535,739
Unrestricted	<u>726,599</u>	<u>4,900,962</u>
Total Net Position	<u><u>\$ 6,908,281</u></u>	<u><u>\$ 39,514,121</u></u>

4.F. CHANGE IN PRESENTATION – CODE ENFORCEMENT

Revenues and expenses associated with the City's Code Enforcement function have been reported separately in these financial statements. In the prior year such transactions had been included under the Administrative function.

CITY OF CARROLLTON, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>With Final</u> <u>Budget</u> <u>Favorable</u> <u>(Unfavorable)</u>
Budgetary Fund Balance, July 1	\$2,439,543	\$2,700,800	\$2,700,797	\$ (3)
ESTIMATED REVENUES				
Payments in Lieu of Taxes	\$ 37,000	\$ 37,000	\$ 42,986	\$ 5,986
Ad Valorem Taxes	438,720	454,392	459,915	5,523
Franchise Fees	325,000	320,000	332,864	12,864
Garbage Collection	372,000	375,000	389,882	14,882
Bank Franchise Deposit Tax	26,000	27,281	27,280	(1)
Business Licenses	94,000	94,000	89,782	(4,218)
Insurance Licenses	485,000	500,000	571,985	71,985
Building Permits	1,000	1,600	1,852	252
Penalty & Interest	8,000	8,000	9,238	1,238
Interest Revenue	4,264	5,164	5,230	66
PEAK Annual Return	1,250,000	1,024,281	1,025,362	1,081
Two Rivers Campground Receipts	70,010	100,010	119,742	19,732
Other Revenue	9,350	11,373	24,947	13,574
Proceeds from Outside Sources:				
HB413/Citations/Police Misc. Receipts	12,550	10,000	19,426	9,426
CC Fiscal Court - Dispatach	305,308	402,722	342,050	(60,672)
Police & Firefighter's Incentive Pay	48,000	48,000	45,000	(3,000)
State Fire Aid	11,000	11,000	11,000	-
KY Dept of Local Government - Recreational Trail Grants	-	86,062	72,764	(13,298)
Federal Aid Highway Program Grant - Bow Bridge	-	113,441	113,441	-
U.S. Dept of Transportation - Highway Safety Grant	-	3,538	1,721	(1,817)
Transfers from Other Funds	491,880	500	-	(500)
Carroll County Board of Education - Resource Officer	-	77,966	77,965	(1)
CRMS Dispatch Equipment Grant	-	131,087	131,087	-
Police Equipment Lease Proceeds	-	-	19,376	19,376
Total Estimated Revenues	\$3,989,082	\$3,842,417	\$3,934,895	\$ 92,478
Total Resources Available for Appropriation	\$6,428,625	\$6,543,217	\$6,635,692	\$ 92,475
APPROPRIATIONS				
Administrative	\$1,493,721	\$ 938,374	\$ 887,431	\$ 50,943
Public Safety				
Fire Department	172,483	171,708	175,845	(4,137)
Dispatch	421,581	530,194	532,747	(2,553)
Police Department	1,043,558	1,068,184	1,059,796	8,388
Public Works	692,319	674,999	677,069	(2,070)
Parks and Recreation	50,476	104,525	94,999	9,526
Code Enforcement	66,640	64,148	63,681	467
Capital Outlay	404,892	785,807	658,933	126,874
Debt Service - Principal	-	-	4,400	(4,400)
Transfers to other funds	400,000	-	-	-
Total Appropriations	\$4,745,670	\$4,337,939	\$4,154,901	\$ 183,038
Excess of Resources and Revenues Over (Under) Appropriations	\$1,682,955	\$2,205,278	\$2,480,791	\$ 275,513
Estimated Fund Balances at June 30, 2018	\$1,682,955	\$2,205,278	\$2,480,791	\$ 275,513

CITY OF CARROLLTON, KENTUCKY
NOTES TO BUDGETARY COMPARISON SCHEDULE
June 30, 2018

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	\$ 6,635,692
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	(2,700,797)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 3,934,895</u>
Uses/outflows of resources	
Actual amounts (budgetary basis) "total appropriation" from the budgetary comparison schedule	\$ 4,154,901
Differences - budget to GAAP:	
None	-
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 4,154,901</u>

CITY OF CARROLLTON, KENTUCKY

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY -
COUNTY EMPLOYEES RETIREMENT SYSTEM

June 30, 2018

	June 30, 2017*	June 30, 2016*	June 30, 2015*	June 30, 2014*
City's proportion of the net pension liability (asset)	0.11108%	0.11029%	0.11158%	0.1112%
City's proportionate share of the net pension liability (asset)	\$ 6,501,971	\$ 5,430,027	\$ 4,797,556	\$ 3,608,000
City's covered-employee payroll	\$ 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- employee payroll	240.36%	208.06%	179.15%	150.94%
Plan fiduciary net position as a percentage of the total pension liability	53.3%	55.5%	59.97%	62.60%

*Calculations based on County Employees Retirement Systems' Schedules of Employer Allocations and Pension Amounts by Employer and city payroll for the corresponding fiscal year then ended.

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.

Changes in Assumptions:

There were no changes of benefit terms. However, the investment return, price inflation and payroll growth assumptions were adopted by the Board of Trustees in May and July, 2017 for use with the June 30, 2017 valuation.

- The assumed investment rate of return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- Payroll growth assumption was reduced from 4.0% to 2.0%.
- 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 one year for females).

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

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

	<u>2017</u>
City's proportion of the net OPEB liability (asset) %	0.111082%
City proportionate share of the net OPEB liability (asset)	\$ 2,233,128
City's covered - employee payroll	\$ 2,705,054
City proportionate share of the net OPEB liability (asset) as a percentage of its covered - employee payroll	82.55%
Plan fiduciary net position as a percentage of the total OPEB liability.	52.4%

*Calculation are based on reports of the Kentucky Retirement Systems', County Employees Retirement System's Schedule of Employer Allocations and OPEB Amounts by Employer for the fiscal year ended June 30, shown.

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.

There were no changes of benefit terms. However the investment return, price inflation and payroll growth assumptions were adopted by the Board of Trustees in May and July, 2017 for use with the June 30, 2017 valuation.

- The assumed investment rate of return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- Payroll growth assumption was reduced from 4.0% to 2.0%.
- 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 one year for females).

Health Care Trends:

- 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 5.00% over a period of 2 years.

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually (Employer) Required Contributions	\$ 127,946	\$ 121,101	\$ 129,047
Contributions in Relation to the Contractually Required Contributions	(127,946)	(121,101)	(129,047)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered-Employee Payroll	\$ 2,705,054	\$ 2,609,781	\$ 2,678,002
Contributions as a Percentage of Covered-Employee Payroll	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, 2018**

	Special Revenue Funds					Total Nonmajor Governmental Funds
	Municipal Road Aid	L.G.E.A.F. Program	Enterprise Improvement Program	Shop With A Cop	Riverwalk Development Fund	
ASSETS						
Cash	\$ 18,531	\$ 36,073	\$ 55,464	\$ 9,841	\$ 4,056	\$ 123,965
Due from Other Governments	9,286	924	-	-	-	10,210
Total Assets	<u>\$ 27,817</u>	<u>\$ 36,997</u>	<u>\$ 55,464</u>	<u>\$ 9,841</u>	<u>\$ 4,056</u>	<u>\$ 134,175</u>
LIABILITIES						
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
FUND BALANCES						
Restricted	\$ 27,817	\$ 36,997	\$ -	\$ -	\$ -	\$ 64,814
Committed	-	-	55,564	-	-	55,464
Assigned	-	-	-	9,841	4,056	13,897
Total Fund Balances	<u>\$ 27,817</u>	<u>\$ 36,997</u>	<u>\$ 55,564</u>	<u>\$ 9,841</u>	<u>\$ 4,056</u>	<u>\$ 134,175</u>
Total Liabilities and Fund Balances	<u>\$ 27,817</u>	<u>\$ 36,997</u>	<u>\$ 55,564</u>	<u>\$ 9,841</u>	<u>\$ 4,056</u>	<u>\$ 134,175</u>

**CITY OF CARROLLTON, KENTUCKY
COMBINING STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2018**

	Special Revenue Funds					Total Nonmajor Governmental Funds
	Municipal Road Aid	L.G.E.A.F. Program	Enterprise Improvement Program	Shop With A Cop	Riverwalk Development Fund	
REVENUES						
Kentucky Municipal Road Aid	\$ 77,210	\$ -	\$ -	\$ -	\$ -	\$ 77,210
Local Government Economic Assistance	-	4,551	-	-	-	4,551
Donations	-	-	-	7,175	-	7,175
Interest / Investment Revenue	26	50	28	20	-	124
Total Revenues	<u>\$ 77,236</u>	<u>\$ 4,601</u>	<u>\$ 28</u>	<u>\$ 7,195</u>	<u>\$ -</u>	<u>\$ 89,060</u>
EXPENDITURES						
Current:						
Public Works	\$ 125,952	\$ -	\$ -	\$ -	\$ -	\$ 125,952
Community Service	-	-	-	14,598	-	14,598
Total Expenditures	<u>\$ 125,952</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,598</u>	<u>\$ -</u>	<u>\$ 140,550</u>
Net Change in Fund Balances	\$ (48,716)	\$ 4,601	\$ 28	\$ (7,403)	\$ -	\$ (51,490)
Fund Balances - July 1	<u>76,533</u>	<u>32,396</u>	<u>55,436</u>	<u>17,244</u>	<u>4,056</u>	<u>185,665</u>
Fund Balances - June 30	<u>\$ 27,817</u>	<u>\$ 36,997</u>	<u>\$ 55,464</u>	<u>\$ 9,841</u>	<u>\$ 4,056</u>	<u>\$ 134,175</u>

CITY OF CARROLLTON, KENTUCKY
SCHEDULE OF DEPARTMENTAL OPERATING REVENUES AND EXPENSES
ENTERPRISE FUND
(CARROLLTON UTILITIES)
For the Year Ended June 30, 2018

	Departments			Contractual	
	Gas	Water	Sewer	Services	Total
Operating Revenues:					
Charges for Services:					
Utility Charges (Net of Bad Debt Expense)	\$ 36,762,445	\$ 1,166,720	\$ 2,020,072	\$ -	\$ 39,949,237
Connection Fees & Service Charges	45,657	6,999	244,312	-	296,968
Contractual Services	-	-	-	248,178	248,178
Total Charges for Services	<u>\$ 36,808,102</u>	<u>\$ 1,173,719</u>	<u>\$ 2,264,384</u>	<u>\$ 248,178</u>	<u>\$ 40,494,383</u>
Miscellaneous Revenues	12,675	3,532	7,120	13,900	37,227
Total Operating Revenues	<u>\$ 36,820,777</u>	<u>\$ 1,177,251</u>	<u>\$ 2,271,504</u>	<u>\$ 262,078</u>	<u>\$ 40,531,610</u>
Operating Expenses:					
Cost of Goods Sold	\$ 34,295,211	\$ -	\$ -	\$ -	\$ 34,295,211
Operation & Maintenance	563,507	525,092	670,361	103,374	1,862,334
General & Administrative	1,098,415	546,416	654,784	155,446	2,455,061
Depreciation	638,103	276,730	849,255	-	1,764,088
Total Operating Expenses	<u>\$ 36,595,236</u>	<u>\$ 1,348,238</u>	<u>\$ 2,174,400</u>	<u>\$ 258,820</u>	<u>\$ 40,376,694</u>
Net Operating Income (Loss)	<u>\$ 225,541</u>	<u>\$ (170,987)</u>	<u>\$ 97,104</u>	<u>\$ 3,258</u>	<u>\$ 154,916</u>

CITY OF CARROLLTON, KENTUCKY
SCHEDULE OF OPERATION & MAINTENANCE, GENERAL &
ADMINISTRATIVE EXPENSES BY DEPARTMENT
ENTERPRISE FUND
(CARROLLTON UTILITIES)
For the Year Ended June 30, 2018

	Departments				
	Gas	Water	Sewer	Contractual Services	Total
OPERATION & MAINTENANCE					
Customer Service	\$ 65,172	\$ 41,188	\$ 1,200	\$ 19,651	\$ 127,211
Mains	210,582	62,682	86,119	27,780	387,163
Transportation	28,290	19,899	41,775	5,384	95,348
Plant and Equipment	245,487	197,599	433,856	50,559	927,501
Chemicals	-	133,475	50,784	-	184,259
Electric, Light and Power	13,976	70,249	56,627	-	140,852
Total	<u>\$ 563,507</u>	<u>\$ 525,092</u>	<u>\$ 670,361</u>	<u>\$ 103,374</u>	<u>\$ 1,862,334</u>
GENERAL & ADMINISTRATIVE EXPENSES					
Office Salaries	\$ 221,790	\$ 58,044	\$ 125,045	\$ 22,720	\$ 427,599
Employee Benefits	568,610	370,778	330,862	111,981	1,382,231
Payroll Taxes	62,857	28,022	30,952	10,028	131,859
Commissioner Fees	7,200	3,600	3,600	-	14,400
Office Expenses	60,406	60,492	58,104	-	179,002
Professional and Outside Services	40,129	22,239	22,149	-	84,517
Insurance	75,222	13,324	13,324	-	101,870
Other	72,817	29,834	30,833	99	133,583
Total	<u>\$ 1,109,031</u>	<u>\$ 586,333</u>	<u>\$ 614,869</u>	<u>\$ 144,828</u>	<u>\$ 2,455,061</u>

RAISOR, ZAPP & WOODS, PSC

Certified Public Accountants

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Carrollton, Kentucky as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Carrollton, Kentucky's basic financial statements and have issued our report thereon dated December 31, 2018.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2018-001 and 2018-002 that we consider to be significant deficiencies.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the 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*.

**The Mayor and Members of the City Council
of the City of Carrollton
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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**

December 31, 2018

**CITY OF CARROLLTON, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2018**

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. Two deficiencies in internal control disclosed during the audit of the financial statements are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. Items 2018-001 and 2018-002 are reported as significant deficiencies.
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

2018-001 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:

Due to the size of the Administrative Staff, internal control is limited. Procedures for certain transaction reviews have not been implemented. A similar condition was cited in the schedule of findings and questioned costs for the year ended June 30, 2017 as a significant deficiency as Item 2017-001.

CONTEXT:

The City is a small entity with limited staff.

EFFECT:

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

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.

RECOMMENDATION:

Management should implement checking processes and establish expanded control procedures.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION:

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.

**CITY OF CARROLLTON, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
For the Year Ended June 30, 2018**

B. FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)

DEFICIENCIES IN INTERNAL CONTROL (CONTINUED)

GOVERNMENT AUDITING STANDARDS (CONTINUED)

2018-002 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 Questioned Costs for the year ended June 30, 2017 as item 2017-002.

CONTEXT:

The City does not prepare a complete set of financial statements including required note disclosures.

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.

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.

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