

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

Year Ended June 30, 2013

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Carrollton, Kentucky, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Carrollton, Kentucky, as of June 30, 2013, 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 and budgetary comparison information on pages 3 through 10 and 50 through 51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an

The Honorable Gene McMurry, Mayor
and Members of the City Council
of the City of Carrollton
Carrollton, Kentucky
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essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2014, on our consideration of the City of Carrollton, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Carrollton, Kentucky's internal control over financial reporting and compliance.

Raisor, Zapp & Woods, PSC

RAISOR, ZAPP & WOODS, PSC
Certified Public Accountants

January 13, 2014

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, 2013. Please read it in conjunction with the City's financial statements, which begin on page 11.

FINANCIAL HIGHLIGHTS

- This year's sidewalk improvements resulted in a total expenditure of \$1,800
- The City's capital outlay for riverfront development includes the following:
 - \$151,533 for land purchases for the Riverwalk
 - \$ 21,521 to KEVCO for Two Rivers Campground
 - \$ 4,240 to Lose & Associates for Two Rivers Campground
- The City spent \$3,400 for surveys for the Riverwalk and \$425 for a survey for placement of the iron bridge
- The City spent \$26,835 for a new police vehicle
- The City spent \$30,848 for the City's share in replacement of the E911 server
- The City spent \$55,114 for a John Deere backhoe loader and \$5,000 for a used manlift
- The City spent \$6,285 for new Christmas decorations to place on streetlights
- The City spent \$4,700 for a thermal imaging camera for the fire dept. with a grant paying the other \$3,200
- City's total net position increased by \$165,772.
- The City's business-type activities, charges for service increased to \$41,078,335 (or 6.3%) and expenses increased to \$41,124,683 (or 7.8%).
- The City's business-type activities spent \$4,260 for new survey equipment.
- The City's business-type activities spent \$6,695 for hydraulic squeeze off tools, \$2,864 for a portable air compressor, \$5,900 for a new equipment trailer, and \$848 for a gas line tracer tool, all for the natural gas system.
- The City's business-type activities spent \$9,396 to purchase (7) new computers, and (2) new monitors and \$5,191.92 for iPads for commissioners and management.
- The City's business-type activities spent \$16,888 for a new server and network upgrades.
- The City's business-type activities spent \$4,757 in office interior upgrades for the office.
- The City's business-type activities spent \$24,988 to upgrade the SCADA system to all wastewater lift stations.
- The City's business-type activities spent \$19,903 in water treatment plant upgrades and \$23,328 in wastewater treatment plant upgrades.
- The City's business-type activities spent \$17,991 for software and equipment upgrades for the GIS system.
- The City's business-type activities had capital expenditures of \$49,150 for new and upgraded security equipment for all departments purchased with funds received from a grant from the Office of Homeland Security.
- The City's business-type activities had capital expenditures of \$119,134 for a gas line main and services extension into the City of Sparta.
- The City's business-type activities had capital expenditures of \$49,880 for the purchase of the house and property at 308 6th Street near the Water Treatment Plant for future expansion.

USING THIS ANNUAL REPORT

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

Reporting the City as a Whole:

The Statement of Net Position and the Statement of Activities

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

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

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

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

Reporting the City's Most Significant Funds:

Fund Financial Statements

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

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

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

THE CITY AS A WHOLE

The City's combined net position increased from \$47.3 million to \$47.5 million. The net position and expenses of governmental and business-type activities show two different results. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the City's governmental and business-type activities.

**TABLE 1
NET POSITION**

	GOVERNMENTAL		BUSINESS-TYPE		TOTAL	
	ACTIVITIES		ACTIVITIES		GOVERNMENT	
	11/12	12/13	11/12	12/13	11/12	12/13
CURRENT AND OTHER ASSETS	2,582,704	2,539,802	8,147,935	10,944,537	10,730,639	13,484,339
CAPITAL ASSETS	6,345,080	6,304,664	40,210,414	38,577,769	46,555,494	44,882,433
TOTAL ASSETS	8,927,784	8,844,466	48,358,349	49,522,306	57,286,133	58,366,772
NON-CURRENT LIABILITIES	941,487	638,018	5,590,840	5,145,234	6,532,327	5,783,252
CURRENT LIABILITIES	391,733	446,112	2,971,245	4,552,392	3,362,978	4,998,504
TOTAL LIABILITIES	1,333,220	1,084,130	8,562,085	9,697,626	9,895,305	10,781,756
NET POSITION:						
NET INVESTMENT IN CAPITAL ASSETS	5,123,379	5,371,713	32,999,076	32,430,765	38,122,455	37,802,478
RESTRICTED	51,794	133,287	501,291	472,322	553,085	605,609
UNRESTRICTED	2,419,391	2,255,336	6,295,897	6,921,593	8,715,288	9,176,929
TOTAL NET POSITION	7,594,564	7,760,336	39,796,264	39,824,680	47,390,828	47,585,016

Net position of the City's governmental activities increased by 2.18% (\$7,760,336 compared to \$7,594,564). Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - changed from \$2,419,391 at June 30, 2012 to \$2,255,336 at the end of June 30, 2013.

The net position of our business-type activities increased by .071% (\$39,824,680 compared to \$39,796,264). Unrestricted net position changed from \$6,295,897 at the end of June 30, 2012 to \$6,921,593 at the end of June 30, 2013. The City generally can only use the unrestricted net position to finance the continuing operations of the gas, water and sewer operations.

**TABLE 2
CHANGES IN NET POSITION**

	GOVERNMENTAL		BUSINESS-TYPE		TOTAL	
	ACTIVITIES		ACTIVITIES		GOVERNMENT	
	11/12	12/13	11/12	12/13	11/12	12/13
REVENUES:						
PROGRAM REVENUES:						
CHARGES FOR SERVICES	748,266	759,953	38,651,162	41,078,335	39,399,428	41,838,288
FEDERAL GRANTS	36,684	71,872	251,908	48,980	288,592	120,852
STATE GRANTS/ENTITLEMENTS	118,056	135,042			118,056	135,042
LOCAL GRANTS/CONTRIBUTION			304,318		304,318	
GENERAL REVENUES:						
PROPERTY TAXES	431,719	435,780			431,719	435,780
FRANCHISE TAXES	124,574	134,693			124,574	134,693
PEAK ANNUAL RETURN	1,429,135	1,528,177			1,429,135	1,528,177
INSURANCE LICENSES	442,891	476,277			442,891	476,277
OTHER GENERAL REVENUES	4,765	1,198	18,217	25,784	22,982	26,982
TOTAL REVENUES:	3,336,090	3,542,992	39,225,605	41,153,099	42,561,695	44,696,091

PROGRAM EXPENSES:						
GENERAL GOVERNMENT	652,022	676,952	-	-	652,022	676,952
PUBLIC SAFETY	1,385,851	1,478,018	-	-	1,385,851	1,478,018
PUBLIC WORKS	708,765	681,419	-	-	708,765	681,419
HEALTH & SANITATION	303,597	307,674	-	-	303,597	307,674
PARKS & RECREATION	142,656	176,354	-	-	142,656	176,354
COMMUNITY SERVICE	14,348	16,966	-	-	14,348	16,966
INTEREST: LONG TERM DEBT	50,180	39,837	-	-	50,180	39,837
GAS			35,045,731	37,926,157	35,045,731	37,926,157
WATER			959,710	987,147	959,710	987,147
SEWER			1,954,393	2,023,194	1,954,393	2,023,194
MANAGEMENT SERVICES			205,120	188,185	205,120	188,185
TOTAL EXPENSES:	3,257,419	3,377,220	38,164,954	41,124,683	41,422,373	44,501,903
EXCESS (DEFICIENCY) BEFORE TRANSFERS	78,671	165,772	1,060,651	28,416	1,139,322	194,188
TRANSFERS					-	-
INCREASE (DECREASE) IN NET POSITION	78,671	165,772	1,060,651	28,416	1,139,322	194,188
BEGINNING NET POSITION	7,515,893	7,594,564	38,735,613	39,796,264	46,251,506	47,390,828
ENDING NET POSITION	7,594,564	7,760,336	39,796,264	39,824,680	47,390,828	47,585,016

The City's total revenues increased by \$2,134,396. The total cost of all programs and services increased by \$3,079,530. Our analysis below separately considers the operations of governmental and business-type activities.

Governmental Activities

Revenues for the City's governmental activities increased by 6.2 percent (\$206,902) and total expenses increased by 3.67 percent (\$119,801). The increase in net position for governmental activities was \$165,772 in FY 2012-2013. This compares to a \$78,671 increase in net position in FY 2011-2012.

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

- The City budgeted several capital outlay projects:
 - \$80,000 for Capital Riverfront Development
 - \$27,522 for police cruiser
 - \$55,000 for new John Deere backhoe
 - \$10,000 for new Christmas decorations for streetlights
- The City budgeted a 3% increase in departmental salaries.
- The City moved the health insurance to Anthem with a 15% premium increase by keeping the deductibles at \$3,000 / \$9,000. The City's H.R.A. (health reimbursement account) will pay \$2,500 / \$8,000 deductible above the employees \$500 / \$1,000 cost.
- The City's retirement plan (C.E.R.S.) was raised from 18.96 percent to 19.55 percent by the Commonwealth of Kentucky.

The cost of all governmental activities this year was \$3,377,220 compared to \$3,257,419 last year. As shown in the Statement of Activities on pages 12-13, the amount that our taxpayers financed for these activities was \$759,953, and some of the cost was paid by other governments and organizations that subsidized certain programs with grants and contributions of \$206,914. Overall, the City's governmental program revenues, including intergovernmental aid and fees for services increased from \$903,006 to \$966,867.

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

**TABLE 3
GOVERNMENTAL ACTIVITIES**

	TOTAL COST		NET COST	
	OF SERVICES		OF SERVICES	
	11-12	12-13	11-12	12-13
GENERAL GOVERNMENT	652,022	676,952	(509,332)	(531,209)
FIRE DEPARTMENT	292,628	215,607	(277,083)	(162,403)
POLICE DEPARTMENT	1,093,223	1,262,411	(803,501)	(992,553)
PUBLIC WORKS DEPARTMENT	708,765	681,419	(617,822)	(587,390)
SANITATION	303,597	307,674	43,051	44,263
ALL OTHERS	207,184	233,157	(189,726)	(181,061)
TOTALS:	3,257,419	3,377,220	(2,354,413)	(2,410,353)

Business-type Activities

Total revenues of the City's business type activities (see Table 2) increased by 4.9 percent in FY 12-13 compared to a 26.4 percent decrease in FY 11-12. The expenses in FY 12-13 increased by 7.75 percent.

The approximate 7.0 percent increase in revenues and expenses of the City's business-type activities is directly related to the gas services provided by Carrollton Utilities. Whereas, the program revenues and expenses of the water, sewer and management services of Carrollton Utilities stayed relatively constant compared to the prior year, the revenues and expenses of the gas services increased by 6.8% (\$2,426,152) and 8.2% (\$2,880,426), respectively. (See Table 4 below detailing Program Revenues-Charges for Services of the Business-type Activities.

**TABLE 4
BUSINESS-TYPE ACTIVITIES**

	Program Revenues - Charges for Services		Expenses	
	11-12	12-13	11-12	12-13
Gas	35,718,768	38,144,920	35,045,731	37,926,157
Water	1,016,822	1,002,621	959,710	987,147
Sewer	1,721,007	1,730,392	1,954,393	2,023,194
Management Services	194,565	200,402	205,120	188,185
Totals:	38,651,162	41,078,335	38,164,954	41,124,683

THE CITY'S FUNDS

As the City completed fiscal year 2012-2013, its governmental funds (as presented in the balance sheet on page 14) reported a combined fund balance of \$1,439,605 which represents a decrease of \$169,692 from last year's total of \$1,609,297. The primary reasons for the General Fund's decrease mirror the governmental activities analysis highlighted on page 7. In addition, these other changes in fund balances should be noted:

- The City's PEAK revenue was \$1,465,970.
- The City's total expenditures decreased by \$1,310,103 with the majority of the decrease attributable to reduced capital expenditures.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City Council revised the General Fund budget one time for fiscal year ending June 30, 2013. 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, 2013, the City had \$6,304,664 (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 decrease of \$40,416 or .64%.

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

	GOVERNMENTAL		BUSINESS-TYPE		TOTALS	
	ACTIVITIES		ACTIVITIES			
	2012	2013	2012	2013	2012	2013
LAND	890,941	1,046,299	593,622	643,278	1,484,563	1,689,577
BUILDINGS & IMPROVEMENTS	2,671,251	2,571,772	5,347,576	5,178,205	8,018,827	7,749,977
EQUIPMENT	732,104	772,088	3,046,969	2,838,207	3,779,073	3,610,295
INFRASTRUCTURE	2,034,303	1,889,454	29,805,471	29,088,359	31,839,774	30,977,813
CONSTRUCTION-IN-PROGRESS	16,481	25,051	67,195	148,428	83,676	173,479
TOTALS:	6,345,080	6,304,664	38,860,833	37,896,477	45,205,913	44,201,141

This year's major additions included:

- \$151,533 for land acquisitions for the Riverwalk
- \$ 55,000 for a John Deere backhoe
- \$ 6,285 for new Christmas decorations for streetlights
- \$ 30,848 for City's share of replacement of E911 server
- \$ 26,835 for new Police Cruiser
- \$ 4,260 for new survey equipment.
- \$ 16,307 for the various tools and equipment for the natural gas system.
- \$ 14,588 for new pc's, monitors and iPads.
- \$ 16,888 for a new server and network upgrades.
- \$ 4,756 in office interior upgrades for the office.
- \$ 24,988 to upgrade the SCADA system to all wastewater lift stations.
- \$ 19,903 in water treatment plant upgrades
- \$ 23,328 in wastewater treatment plant upgrades.
- \$ 17,991 for software and equipment upgrades for the GIS system.
- \$ 49,150 for new and upgraded security equipment funded by Office of Homeland Security grant
- \$ 119,134 for a gas line main and services extension into the City of Sparta.
- \$ 49,880 for the purchase of the house and property at 308 6th Street near the Water Treatment Plant for future expansion.

Debt

At year-end, the City had \$6,401,984 in capital lease and notes payable compared to \$7,088,993 last year as shown in Table 6.

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

	GOVERNMENTAL		BUSINESS-TYPE		TOTALS	
	ACTIVITIES		ACTIVITIES			
	2012	2013	2012	2013	2012	2013
CAPITAL LEASE	1,221,701	932,951	369,259	220,874	1,590,960	1,153,825
NOTES PAYABLE			5,498,033	5,248,159	5,498,033	5,248,159
TOTALS	1,221,701	932,951	5,867,292	5,469,033	7,088,993	6,401,984

Other obligations of the City represents accrued compensated absences for \$34,912 compared to \$45,823 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 2012-2013 budget. One of those factors is the economy - specifically the Consumer Price Index (CPI). The CPI was reported at 2.96% according to the Commonwealth of Kentucky. Council decided to allocate a 3% increase for departmental salaries.

The City chose not to raise the property tax rate by 4% as per KRS 132.027. This meant a loss of revenue of \$13,476.31 in property tax receipts.

As for the City's business-type activities, the Commission has budgeted an approximate 20.6% increase in gas revenues and expenses, a 2% (in town) and 3% (out of town) increase in water rates, and a 2% (in town) and 3% (out of town) increase in sewer rates.

The City was approved for a Kentucky Infrastructure Authority loan in the amount of \$1,850,270 at 1.25% interest with 35% principal forgiveness. The proceeds from this loan will be used to fund the Carroll County Fiscal Court Countywide Underserved Improvement Project. This is a regional and joint project with Carrollton Utilities and West Carroll Water District that will provide upgrades to the Carrollton Utilities water treatment plant, replacing aging infrastructure, extend water service to unserved and improve water service to underserved customers in the West Carroll Water District. Construction began on this project in the 2013-2014 fiscal year and should be complete by April 30, 2014.

The city will begin construction on a natural gas main extension in the City of Owenton in Owen County. This project has a budget of \$225,000 and will provide natural gas service to approximately 150 additional customers and should be complete by the end of the 2013-2014 fiscal year.

The City was approved for a Kentucky Infrastructure Authority loan in the amount \$1,538,817 at 1.00% interest with 25% principal forgiveness. The proceeds from this loan will be used to fund the Carroll County Interconnect Project. This is a regional and joint project with Carrollton Utilities, West Carroll Water District and Carroll County Water District #1 that will provide interconnection and infrastructure additions to all three districts. Construction will begin on this project in the 2013-2014 fiscal year and should be complete by December 31, 2014.

The City was approved for a Kentucky Infrastructure Authority Loan in the amount of \$963,931 at 1.00% interest with 50% principal forgiveness. The proceeds from this loan will be used to fund the Focusing on Core Mission and Infrastructure Project. This project will focus on preventative measures and the replacement of obsolete equipment for Carrollton Utilities in association with Henry County Water District, Carroll County Water District, and West Carroll Water District. Construction will begin on this project in the 2014-2015 fiscal year and should be complete by April 30, 2015.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

LEATHA S. GRIMES, CMC
City Clerk-Treasurer

BILL R. OSBORNE
Carrollton Utilities General Manager

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2013

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets			
Cash, Including Time Deposits	\$ 488,690	\$ 6,948,408	\$ 7,437,098
Investments	723,183	-	723,183
Interest Receivable	-	746	746
Accounts Receivable (Net)	167,644	3,931,763	4,099,407
Other Receivables	-	1,092,695	1,092,695
Due from Other Governments	65,908	-	65,908
Due from Other Funds	1,072,787	(1,072,787)	-
Prepaid Expense	21,590	43,712	65,302
Total Current Assets	\$ 2,539,802	\$ 10,944,537	\$ 13,484,339
Noncurrent Assets			
Restricted Assets			
Cash, Including Time Deposits	\$ -	\$ 677,548	\$ 677,548
Interest Receivable	-	423	423
Unamortized Lease Fee	-	3,321	3,321
Capital Assets (Net)	6,304,664	37,896,477	44,201,141
Total Noncurrent Assets	\$ 6,304,664	\$ 38,577,769	\$ 44,882,433
Total Assets	\$ 8,844,466	\$ 49,522,306	\$ 58,366,772
LIABILITIES			
Current Liabilities			
Accounts Payable	\$ 59,141	\$ 3,971,699	\$ 4,030,840
Accrued Compensated Absences	16,167	2,694	18,861
Accrued Wages	35,712	36,462	72,174
Accrued Retirement Payable	12,637	-	12,637
Accrued Interest Payable	1,340	799	2,139
Construction Retainage Payable	21,522	-	21,522
Current Portion - Capital Lease Obligations	299,593	154,550	454,143
Current Liabilities Payable from Restricted Assets:			
Accrued Interest	-	6,209	6,209
Notes Payable	-	379,979	379,979
Total Current Liabilities	\$ 446,112	\$ 4,552,392	\$ 4,998,504
Noncurrent Liabilities			
Accrued Compensated Absences	\$ 4,660	\$ 11,391	\$ 16,051
Obligations Under Capital Leases	633,358	66,324	699,682
Notes Payable	-	4,868,180	4,868,180
Noncurrent Liabilities Payable from Restricted Assets:			
Customer Deposits Payable	-	199,339	199,339
Total Noncurrent Liabilities	\$ 638,018	\$ 5,145,234	\$ 5,783,252
Total Liabilities	\$ 1,084,130	\$ 9,697,626	\$ 10,781,756
NET POSITION			
Net Investment in Capital Assets	\$ 5,371,713	\$ 32,430,765	\$ 37,802,478
Restricted for:			
Debt Service	-	472,322	472,322
Other Purposes	133,287	-	133,287
Unrestricted	2,255,336	6,921,593	9,176,929
Total Net Position	\$ 7,760,336	\$ 39,824,680	\$ 47,585,016

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CITY OF CARROLLTON, KENTUCKY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Functions / Programs				
Governmental Activities				
General Government	\$ 676,952	\$ 144,276	\$ 1,467	\$ -
Public Safety				
Fire Department	215,607	-	2,804	50,400
Police Department	1,262,411	242,940	26,918	-
Public Works	681,419	-	94,029	-
Sanitation	307,674	351,937	-	-
Parks & Recreation	176,354	20,800	-	4,887
Community Service	16,966	-	26,409	-
Interest on Long-Term Debt and Associated Lease Issuance Cost Amortization	39,837	-	-	-
Total Governmental Activities	\$ 3,377,220	\$ 759,953	\$ 151,627	\$ 55,287
Business-type Activities				
Gas	\$ 37,926,157	\$ 38,144,920	\$ -	\$ -
Water	987,147	1,002,621	-	48,980
Sewer	2,023,194	1,730,392	-	-
Management Services	188,185	200,402	-	-
Total Business-type Activities	\$ 41,124,683	\$ 41,078,335	\$ -	\$ 48,980
Total Government	\$ 44,501,903	\$ 41,838,288	\$ 151,627	\$ 104,267

General Revenues
Taxes:
Property Taxes
Franchise Taxes
PEAK Returns
Insurance Licenses
Unrestricted Investment Income
Restricted Investment Income
Gain (Loss) on Sale of Assets
Total General Revenues
Change in Net Position
Net Position - July 1
Net Position - June 30

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

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (531,209)	\$ -	\$ (531,209)
(162,403)	-	(162,403)
(992,553)	-	(992,553)
(587,390)	-	(587,390)
44,263	-	44,263
(150,667)	-	(150,667)
9,443	-	9,443
<u>(39,837)</u>	<u>-</u>	<u>(39,837)</u>
<u>\$ (2,410,353)</u>	<u>\$ -</u>	<u>\$ (2,410,353)</u>
\$ -	\$ 218,763	\$ 218,763
-	64,454	64,454
-	(292,802)	(292,802)
-	12,217	12,217
<u>\$ -</u>	<u>\$ 2,632</u>	<u>\$ 2,632</u>
<u>\$ (2,410,353)</u>	<u>\$ 2,632</u>	<u>\$ (2,407,721)</u>
\$ 435,780	\$ -	\$ 435,780
134,693	-	134,693
1,528,177	-	1,528,177
476,277	-	476,277
1,198	10,106	11,304
-	1,769	1,769
-	13,909	13,909
<u>\$ 2,576,125</u>	<u>\$ 25,784</u>	<u>\$ 2,601,909</u>
<u>\$ 165,772</u>	<u>\$ 28,416</u>	<u>\$ 194,188</u>
7,594,564	39,796,264	47,390,828
<u>\$ 7,760,336</u>	<u>\$ 39,824,680</u>	<u>\$ 47,585,016</u>

CITY OF CARROLLTON, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2013

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash, Including Time Deposits	\$ 320,412	\$ 168,278	\$ 488,690
Investments	723,183	-	723,183
Accounts Receivable: (Net of Allowance for Uncollectibles)			
Insurance Licenses	109,951	-	109,951
Business Licenses	19,313	-	19,313
Ad Valorem Tax	4,746	-	4,746
Franchise Fees	14,364	-	14,364
Miscellaneous	12,857	-	12,857
Due from Other Governments	57,127	8,781	65,908
Due from Other Funds	111,241	-	111,241
Total Assets	\$ 1,373,194	\$ 177,059	\$ 1,550,253
LIABILITIES			
Accounts Payable	\$ 59,141	\$ -	\$ 59,141
Accrued Compensated Absences	15,795	-	15,795
Accrued Wages	35,712	-	35,712
Total Liabilities	\$ 110,648	\$ -	\$ 110,648
FUND BALANCES			
Restricted	\$ -	\$ 133,287	\$ 133,287
Committed	31,867	14,735	46,602
Assigned	-	29,037	29,037
Unassigned	1,230,679	-	1,230,679
Total Fund Balances	\$ 1,262,546	\$ 177,059	\$ 1,439,605
Total Liabilities and Fund Balances	\$ 1,373,194	\$ 177,059	\$ 1,550,253

CITY OF CARROLLTON, KENTUCKY
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET POSITION
 June 30, 2013

Total Governmental Fund Balances	\$	1,439,605
<i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Total capital assets \$10,259,148 net of accumulated depreciation \$3,954,484.		6,304,664
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.		967,959
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Accrued Compensated Absences	\$	5,032
Accrued Retirement Payable		12,637
Accrued Interest on Capital Leases		1,340
Construction Retainage Payable		21,522
Capital Leases Payable		932,951
		(973,482)
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.		21,590
Net Position of Governmental Activities	\$	7,760,336

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2013

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Payments in Lieu of Taxes	\$ 32,176	\$ -	\$ 32,176
Ad Valorem Taxes	410,177	15,000	425,177
Franchise Fees	110,818	-	110,818
Garbage Collection	351,937	-	351,937
Bank Franchise Deposit Tax	23,834	-	23,834
Business Licenses	98,029	-	98,029
Insurance Licenses	476,277	-	476,277
Building Permits	1,316	-	1,316
Penalty & Interest	10,603	-	10,603
Interest Revenue	875	324	1,199
PEAK Revenue	1,465,970	-	1,465,970
Campground Receipts	16,465	-	16,465
Other Revenue/Donations	15,719	31,295	47,014
Proceeds from Outside Sources:			
HB413/Citations Revenue	12,643	-	12,643
C.C. Fiscal Court - Public Safety Salaries	227,333	-	227,333
Police & Firefighter's Incentive Pay	29,722	-	29,722
Kentucky Municipal Road Aid	-	94,029	94,029
Local Government Economic Assistance	-	1,467	1,467
State Fire Aid	8,250	-	8,250
Kentucky Fire Commission Equipment Grant	3,200	-	3,200
U.S. Department of Homeland Security (FEMA) Grant	38,950	-	38,950
Total Revenues	\$ 3,334,294	\$ 142,115	\$ 3,476,409
EXPENDITURES			
Current			
Administrative	\$ 924,368	\$ 39,968	\$ 964,336
Public Safety			
Fire Department	154,249	-	154,249
Police Department	1,222,012	-	1,222,012
Public Works	489,649	14,244	503,893
Parks and Recreation	87,936	-	87,936
Community Service	-	16,966	16,966
Capital Outlay	367,708	-	367,708
Debt Repayment			
Principal	288,750	-	288,750
Interest	40,251	-	40,251
Total Expenditures	\$ 3,574,923	\$ 71,178	\$ 3,646,101
Excess of Revenues Over (Under) Expenditures	\$ (240,629)	\$ 70,937	\$ (169,692)
Fund Balances - July 1	1,503,175	106,122	1,609,297
Fund Balances - June 30	<u>\$ 1,262,546</u>	<u>\$ 177,059</u>	<u>\$ 1,439,605</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, 2013

Net Change in Fund Balances - Total Governmental Funds		\$ (169,692)
<i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.</p>		
Capitalized Expenditures		346,187
Depreciation Expense		(386,603)
<p>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.</p>		288,750
<p>Some expenses reported in the Statement of Activities (current year) do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds until paid.</p>		
Compensated Absences	\$ 8,249	
Construction Retainage	21,521	
Accrued Retirement	<u>(12,637)</u>	
		17,133
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.</p>		66,583
<p>Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.</p>		414
<p>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.</p>		<u>3,000</u>
Change in Net Position of Governmental Activities		<u>\$ 165,772</u>

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUND
June 30, 2013

	<u>Carrollton Utilities Enterprise Fund</u>
ASSETS	
Current Assets	
Cash, Including Time Deposits	\$ 6,948,408
Interest Receivable	746
Accounts Receivable (Net)	3,931,763
Other Receivables	1,092,695
Prepaid Expense	43,712
Total Current Assets	<u>\$ 12,017,324</u>
Noncurrent Assets	
Restricted Assets	
Cash, Including Time Deposits	\$ 677,548
Interest Receivable	423
Unamortized Lease Fee	3,321
Capital Assets (Net)	37,896,477
Total Noncurrent Assets	<u>\$ 38,577,769</u>
Total Assets	<u>\$ 50,595,093</u>
LIABILITIES	
Current Liabilities	
Accounts Payable	\$ 3,971,699
Due to Other Funds	1,072,787
Accrued Compensated Absences	2,694
Accrued Salaries, Wages & Benefits	36,462
Accrued Interest Payable	799
Capital Lease Obligations	154,550
Current Liabilities Payable from Restricted Assets:	
Accrued Interest Payable	6,209
Notes Payable	379,979
Total Current Liabilities	<u>\$ 5,625,179</u>
Noncurrent Liabilities	
Accrued Compensated Absences	\$ 11,391
Capital Lease Obligations	66,324
Notes Payable	4,868,180
Noncurrent Liabilities Payable from Restricted Assets:	
Customer Deposits Payable	199,339
Total Noncurrent Liabilities	<u>\$ 5,145,234</u>
Total Liabilities	<u>\$ 10,770,413</u>
NET POSITION	
Net Investment in Capital Assets	\$ 32,430,765
Restricted for:	
Debt Service	472,322
Unrestricted	6,921,593
Total Net Position	<u>\$ 39,824,680</u>

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
For the Year Ended June 30, 2013

	<u>Carrollton Utilities Enterprise Fund</u>
Operating Revenues:	
Charges for Services:	
Gas Utility Charges (Net)	\$ 38,101,087
Water Utility Charges (Net)	991,735
Sewer Utility Charges (Net)	1,565,996
Connection Fees & Service Charges	196,226
Contractual Services	200,402
Total Charges for Services	\$ 41,055,446
Miscellaneous Revenues	22,889
Total Operating Revenues	\$ 41,078,335
Operating Expenses:	
Cost of Goods Sold	\$ 36,199,793
Operation & Maintenance	1,513,908
General & Administrative	1,710,695
Depreciation	1,607,596
Total Operating Expenses	\$ 41,031,992
Net Operating Income	\$ 46,343
Nonoperating Revenue (Expenses):	
Interest Income	\$ 11,875
Interest and Fiscal Charges	(90,477)
Amortization of Lease Fees	(2,214)
Total Nonoperating Revenue (Expenses)	\$ (80,816)
Net Income Before Contributions and Gain from Sale of Assets	\$ (34,473)
Gain (Loss) from Sale of Assets	13,909
Capital Contributions	48,980
Change in Net Position	\$ 28,416
Net Position - July 1	39,796,264
Net Position - June 30	\$ 39,824,680

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2013

	<u>Carrollton Utilities Enterprise Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	\$ 39,903,328
Payments to Suppliers	(36,470,039)
Payments to Employees	(1,406,093)
Receipts of Customer Meter Deposits	72,035
Refunds of Customer Meter Deposits	(70,048)
Net Cash Provided (Used) by Operating Activities	<u>\$ 2,029,183</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Contributions	\$ 48,980
Proceeds from Sale of Capital Assets	13,909
Purchases of Capital Assets	(626,191)
Proceeds from Capital Debt	105,891
Principal Paid on Capital Debt	(504,150)
Interest Paid on Capital Debt	(90,502)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ (1,052,063)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Certificates of Deposits	\$ (311,274)
Interest Received	12,175
Net Cash Provided (Used) by Investing Activities	<u>\$ (299,099)</u>
 Net Increase (Decrease) in Cash and Cash Equivalents	 \$ 678,021
Balances-July 1	<u>5,589,161</u>
Balances-June 30	<u>\$ 6,267,182</u>

	<u>Balances Per June 30, 2013 Statement of Net Position</u>	<u>Balances Per June 30, 2013 Statement of Cash Flows</u>
Cash	\$ 5,980,438	\$ 5,980,438
Time Deposits	967,970	-
Restricted Cash	286,744	286,744
Restricted Time Deposits	390,804	-
Total	<u>\$ 7,625,956</u>	<u>\$ 6,267,182</u>

(Continued)

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUND
For the Year Ended June 30, 2013

	<u>Carrollton Utilities Enterprise Fund</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating Income (Loss)	\$ 46,343
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation Expense	1,607,596
Change in Assets and Liabilities:	
Receivables, Net (Increase) Decrease	(1,123,599)
Other Receivables (Increase) Decrease	(53,623)
Prepaid Expenses (Increase) Decrease	(7,299)
Accounts and Other Payables Increase (Decrease)	1,515,773
Due to Other Funds Increase (Decrease)	42,988
Customer Meter Deposits Payable Increase (Decrease)	1,987
Accrued Expenses Increase (Decrease)	<u>(983)</u>
Net Cash Provided by Operating Activities	<u>\$ 2,029,183</u>

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS

INDEX

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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- B. Basis of Presentation
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CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1.A. FINANCIAL REPORTING ENTITY

The City's financial reporting entity comprises the following:

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

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

Blended Component Units

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

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

Component Unit	Brief Description/Inclusion Criteria	Reporting
Utilities Commission of Carrollton (CU)	<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

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.A. FINANCIAL REPORTING ENTITY (Continued)

Excluded from the reporting entity:

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

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

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

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

1.B. BASIS OF PRESENTATION

Government-wide Financial Statements:

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

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

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

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.B. BASIS OF PRESENTATION (Continued)

Government-wide Financial Statements: (Continued)

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

Fund Financial Statements:

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

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

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

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

Special Revenue Funds

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

Capital Project Funds

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

Proprietary Fund

Enterprise Fund

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

Fiduciary Funds (Not included in government-wide statements)

None

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.B. BASIS OF PRESENTATION (Continued)

Major and Nonmajor Funds

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

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

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

Measurement Focus

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

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

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

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Basis of Accounting

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

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

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

1.D. ASSETS, LIABILITIES, AND EQUITY

Cash and Investments

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

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

Interfund Receivables and Payables

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

Receivables

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

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Receivables (Continued)

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

Inventories

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

Fixed Assets

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

Government-wide Statements

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

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

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net 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, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Fund Financial Statements

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

Restricted Assets

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

Capital Lease Expenses

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

Long-term Debt

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

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

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

Compensated Absences

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

Equity Classifications

Government-wide Statements

Equity is classified as net 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.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Equity Classifications (Continued)

Government-wide Statements (Continued)

- b. Restricted net position – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position – All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

Fund Statements

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

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

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

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

1.E. REVENUES, EXPENDITURES, AND EXPENSES

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

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

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Property Tax

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

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

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

Insurance License Tax

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

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

PEAK Project Returns

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

Operating Revenues and Expenses

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

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Expenditures/Expenses

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

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

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

Proprietary Fund-By Operating and Nonoperating

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

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

Interfund Transfers

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

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

2.A. FUND ACCOUNTING REQUIREMENTS

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

<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, 2013

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
Federal Emergency Management Agency (FEMA)/Department of Homeland Security (DHS)	Fire Equipment Expenditures/Water Security Systems
Kentucky Fire Commission Grant	Thermal Imaging Camera

For the year ended June 30, 2013, the City complied, in all material respects, with these revenue restrictions.

2.D. DEBT RESTRICTIONS AND COVENANTS

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

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

Kentucky League of Cities Lease Debt Service Reserve Funds

If the City, through Carrollton Utilities, fails to make any part of a lease rental payment when due, Debt Service Reserve Funds will be created and funded as prescribed by the lease agreements and used to satisfy lease rental payments. At June 30, 2013, the City was in compliance with the lease agreements and therefore, no Debt Service Reserve Funds have been created.

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2013

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

3.A. CASH AND INVESTMENTS

Deposits

The City of Carrollton, Kentucky's policies regarding deposits of cash are in accordance with the state statutes described in Note 2.B. The table presented below is designed to disclose the level of custody credit risk assumed by the City based upon how its deposits were insured or secured with collateral at June 30, 2013. The categories of credit risk are defined as follows:

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

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

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

Governmental Activities

Type of Deposits	Total Bank Balance	Custody Credit Risk Category			Total Carrying Value
		1	2	3	
Non-Interest Deposits	\$ 1,634	\$ -	\$ -	\$ 1,634	\$ 1,634
Time/Savings Deposits	599,434	389,622	199,634	10,178	485,547
Total Deposits	\$ 601,068	\$ 389,622	\$ 199,634	\$ 11,812	\$ 487,181

Business-type Activities

Type of Deposits	Total Bank Balance	Custody Credit Risk Category			Total Carrying Value
		1	2	3	
Non-Interest Deposits	\$ 6,256,422	\$ 294,282	\$ 5,962,140	\$ -	\$ 6,178,527
Time/Savings Deposit	1,446,080	955,718	490,362	-	1,446,179
Total Deposits	\$ 7,702,502	\$ 1,250,000	\$ 6,452,502	\$ -	\$ 7,624,706

	Governmental Activities	Business-type Activities	Total
Reconciliation to Statement of Net Position			
Cash, including Time Deposits	\$ 488,690	\$ 1,325,209	\$ 1,813,899
Restricted Cash, including Time Deposits	-	6,300,747	6,300,747
	\$ 488,690	\$ 7,625,956	\$ 8,114,646
Total Carrying Value	\$ 487,181	\$ 7,624,706	\$ 8,111,887
Plus: Cash on Hand	1,509	1,250	2,759
	\$ 488,690	\$ 7,625,956	\$ 8,114,646

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2013

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

3.A. CASH AND INVESTMENTS (Continued)

Investments

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

At June 30, 2013, investments consisted of the following:

Deposits in the Kentucky League of Cities Investment Pool Plus in the amount of \$723,183. This investment is made up of the pooled assets of several cities. The City of Carrollton holds a percentage of the pool's assets equal to its balance divided by the pool balance. The investments held in the pool include Freddie Mac, Fannie Mae, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal Farm Credit Bank, Fannie Discount Notes, and U.S. Treasury Notes.

The Kentucky League of Cities Investment Pool Plus was invested in the following at June 30, 2013:

	Cost	Market Value	% of Assets	Maturity
Bonds (see description above)	\$ 1,231,020	\$ 1,225,600	100.00%	7/17/13-9/12/14
Money Market/Short Term Investments	(5,534)	(5,534)	0.00%	N.A.
Total	\$ 1,225,486	\$ 1,220,066	100.00%	

3.B. RESTRICTED ASSETS

Restricted cash consists of the following:

KIA Loan Reserve Accounts	\$ 478,209
Customer Deposits	199,339
	<u>\$ 677,548</u>

In addition to these restrictions, the Utility Commission has established certificates of deposit in the amount of \$646,411 as reserved to mitigate the risk associated with industrial sales.

3.C. ACCOUNTS RECEIVABLE

Accounts receivable of the business-type activities consists of utilities receivable. Accounts receivable of the governmental activities consists of franchise tax (8%), insurance licenses (66%), property tax (3%), business licenses (12%) and other (11%) receivables. Receivables detail at June 30, 2013, is as follows:

	Governmental Activities	Business-type Activities	Total
Accounts receivable	\$ 171,942	\$ 3,964,401	\$ 4,136,343
Allowance for doubtful accounts	(4,298)	(32,638)	(36,936)
Net accounts receivable	\$ 167,644	\$ 3,931,763	\$ 4,099,407

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2013

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

3.D. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013, was as follows:

	Balance at July 1, 2012	Additions	Disposals	Balance at June 30, 2013
Governmental Activities:				
Land	\$ 890,941	\$ 155,358	\$ -	\$ 1,046,299
Buildings & Improvements	3,230,723	-	-	3,230,723
Machinery & Equipment	2,254,252	180,459	(88,812)	2,345,899
Infrastructure	3,609,376	1,800	-	3,611,176
Construction in Process	16,481	8,570	-	25,051
Totals at Historical Cost	<u>\$ 10,001,773</u>	<u>\$ 346,187</u>	<u>\$ (88,812)</u>	<u>\$ 10,259,148</u>
Less: Accumulated Depreciation				
Buildings & Improvements	\$ 559,472	\$ 99,479	\$ -	\$ 658,951
Machinery & Equipment	1,522,148	140,475	(88,812)	1,573,811
Infrastructure	1,575,073	146,649	-	1,721,722
Total Accumulated Depreciation	<u>\$ 3,656,693</u>	<u>\$ 386,603</u>	<u>\$ (88,812)</u>	<u>\$ 3,954,484</u>
Governmental Activities - Capital Assets, Net	<u><u>\$ 6,345,080</u></u>	<u><u>\$ (40,416)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 6,304,664</u></u>

Depreciation Expense was charged to governmental activities as follows:

General Government	\$ 18,286
Public Safety	
Fire Department	60,980
Police Department	39,211
Public Works	30,059
Parks & Recreation	91,418
Infrastructure (included with Public Works)	146,649
Total Depreciation Expense	<u><u>\$ 386,603</u></u>

\$1,748,541 of assets have been recorded under capital leases associated with the RV Recreational Park. Accumulated depreciation of \$125,119 is associated with these assets.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2013

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

3.D. CAPITAL ASSETS (Continued)

	Balance at July 1, 2012	Additions	Disposals	Balance at June 30, 2013
<u>Business-type Activities:</u>				
Land & Right of Ways	\$ 593,622	\$ 49,656	\$ -	\$ 643,278
Structures & Improvements	7,617,644	54,927	-	7,672,571
Distribution System	43,160,140	323,922	(24,210)	43,459,852
Wells	398,667	1,666	-	400,333
Plant, Machinery & Equipment	9,786,174	131,836	(15,535)	9,902,475
Construction in Process	67,195	270,800	(189,567)	148,428
Totals at Historical Cost	<u>\$ 61,623,442</u>	<u>\$ 832,807</u>	<u>\$ (229,312)</u>	<u>\$ 62,226,937</u>
Less: Accumulated Depreciation				
Structures & Improvements	\$ 2,270,068	\$ 224,298	\$ -	\$ 2,494,366
Distribution System	13,514,459	1,019,643	(24,210)	14,509,892
Wells	238,877	23,057	-	261,934
Plant, Machinery & Equipment	6,739,205	340,598	(15,535)	7,064,268
Total Accumulated Depreciaton	<u>\$ 22,762,609</u>	<u>\$ 1,607,596</u>	<u>\$ (39,745)</u>	<u>\$ 24,330,460</u>
Business-type Activities Capital Assets, Net	<u>\$ 38,860,833</u>	<u>\$ (774,789)</u>	<u>\$ (189,567)</u>	<u>\$ 37,896,477</u>

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

Gas	\$ 509,889
Water	170,225
Sewer	927,482
Total Depreciation Expense	<u>\$ 1,607,596</u>

\$3,823,481 of assets have been recorded under capital leases associated with the Gas Distribution System. Accumulated depreciation of \$1,551,063 is associated with these assets.

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

3.E. LONG-TERM DEBT

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

Governmental Activities:

Capital Lease Obligations:

RV Recreation Park - \$1,500,000 fixed rate lease agreement assigned to PNC Equipment Finance, LLC by the Kentucky League of Cities Funding Trust dated June, 2011. Terms are: 5 years; interest charged at 3.692%, secured by revenue of the City. Monthly payments are \$27,416.78, with final maturity June 16, 2016.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

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

3.E. LONG-TERM DEBT (Continued)

Governmental Activities: (Continued)

Current Portion	\$	299,593
Noncurrent Portion		633,358
Total Capital Lease Obligations	\$	932,951

Accrued Compensated Absences:

Current Portion	\$	16,167
Noncurrent Portion		4,660
Total Accrued Compensated Absences	\$	20,827

Business-type Activities:

As of June 30, 2013, 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. \$ 77,130

Kentucky Infrastructure Authority represents a 20 year loan secured by sewer revenues. Interest is charged at the rate of 1.8%. The original principal balance was \$2,518,301. Semi-annual payments with final maturity December 1, 2022. 1,308,763

Kentucky Infrastructure Authority represents a 20 year loan secured by sewer revenues. Interest is charged at the rate of 1.0%. The original principal balance was \$4,288,600. Semi-annual payments with final maturity December 1, 2026. 3,014,673

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. 847,593

Total Notes Payable \$ 5,248,159

Current Portion	\$	379,979
Noncurrent Portion		4,868,180
Total Notes Payable	\$	5,248,159

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2013

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

3.E. LONG-TERM DEBT (Continued)

Business-type Activities: (Continued)

Capital Lease Obligations:

U.S. Highway 42 natural gas pipeline expansion - \$1,300,000 fixed rate lease agreement with Kentucky League of Cities Funding Trust Program dated October, 2004. 10 years, 3.440% effective interest rate, secured by gas revenues. Monthly payments with final maturity of October 4, 2014.	\$ 220,874
Total Capital Lease Obligations	\$ 220,874
Current Portion	\$ 154,550
Noncurrent Portion	66,324
Total Capital Lease Obligations	\$ 220,874

Accrued Compensated Absences:

Current Portion	\$ 2,694
Noncurrent Portion	11,391
Total	\$ 14,085

Changes in Long-term Debt

The following is a summary of changes in long-term debt for the fiscal year ended June 30, 2013:

<u>Type of Debt</u>	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2013</u>	<u>Current Portion</u>
Governmental Activities					
Capital Lease Obligations	\$ 1,221,701	\$ -	\$ 288,750	\$ 932,951	\$ 299,593
Accrued Compensated Absences	28,324	607	8,104	20,827	16,167
Total General Long-term Debt	\$ 1,250,025	\$ 607	\$ 296,854	\$ 953,778	\$ 315,760
Business-type Activities					
Notes Payable	\$ 5,498,033	\$ 105,891	\$ 355,765	\$ 5,248,159	\$ 379,979
Capital Lease Obligations	369,259	-	148,385	220,874	154,550
Accrued Compensated Absences	17,499	6,995	10,409	14,085	2,694
Total Enterprise Fund Debt	\$ 5,884,791	\$ 112,886	\$ 514,559	\$ 5,483,118	\$ 537,223

Description of Debt Activity:

Governmental Activities

Capital Lease Obligation – Kentucky League of Cities

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

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2013

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

3.E. LONG-TERM DEBT (Continued)

Description of Debt Activity: (Continued)

Governmental Activities (Continued)

Capital Lease Obligation – Kentucky League of Cities (Continued)

Assuming the lease is not liquidated prior to maturity, the annual minimum obligation of the lease at June 30, 2013, is as follows:

<u>Fiscal Year</u>	<u>Principal Payment</u>	<u>Interest Payment</u>	<u>Total Payment</u>	<u>Balance at End of Year</u>
				\$ 932,951
2013-14	\$ 299,593	\$ 29,408	\$ 329,001	633,358
2014-15	310,842	18,159	329,001	322,516
2015-16	322,516	6,485	329,001	-
	<u>\$ 932,951</u>	<u>\$ 54,052</u>	<u>\$ 987,003</u>	<u>\$ -</u>

Business-type Activities

Capital Lease Obligations-Kentucky League of Cities

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

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

In the Statement of Net Position, the net costs associated with the early debt retirement of the 1992 issue are deferred and amortized over the remaining life of the defeased debt. The amount deferred is reported as a decrease (contra liability) to the book value of the new debt issued to finance the refunding. Total deferred costs were \$38,225.

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

The amount shown in the accompanying financial statements as lease obligations represents Carrollton Utilities' future obligations to make lease payments under its fixed lease agreements with the Kentucky League of Cities Funding Trust Program, aggregating \$589,351 (original principal balances of the leases were \$2,020,000). The leases were made with proceeds from the \$50,000,000 Kentucky League of Cities Funding Trust Lease Program Revenue Bonds, variable rate 2004 Series A, issued by the City of Morehead, Kentucky.

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2013

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

3.E. LONG-TERM DEBT (Continued)

Description of Debt Activity: (Continued)

Business-type Activities (Continued)

Capital Lease Obligations-Kentucky League of Cities (Continued)

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

Assuming the leases are not liquidated prior to maturity, the annual minimum obligation of the leases at June 30, 2013, are as follows:

Fiscal Year	Principal Payment	Interest Payment	Fiscal Charges	Total Payment	Balance at End of Year
					\$ 220,874
2013-14	\$ 154,550	\$ 5,184	\$ 1,633	\$ 161,367	66,324
2014-15	66,324	539	355	67,218	-
	<u>\$ 220,874</u>	<u>\$ 5,723</u>	<u>\$ 1,988</u>	<u>\$ 228,585</u>	<u>\$ -</u>

Notes Payable to Kentucky Infrastructure Authority

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

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

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

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

The combined obligations of the outstanding notes at June 30, 2013 are as follows:

Fiscal Year	Principal Payment	Interest Payment	Servicing Fee	Total Payment	Balance at End of Year
					\$ 5,248,159
2013-14	\$ 379,979	\$ 62,796	\$ 10,308	\$ 453,083	4,868,180
2014-15	384,863	57,909	9,543	452,315	4,483,317
2015-16	389,817	52,957	8,773	451,547	4,093,500
2016-17	394,839	47,934	7,990	450,763	3,698,661
2017-18	402,410	40,363	6,923	449,696	3,296,251
2019-23	2,000,867	137,749	24,018	2,162,634	1,295,384
2024-28	1,065,617	36,848	6,954	1,109,419	229,767
2029-32	229,767	6,361	1,148	237,276	-
	<u>\$ 5,248,159</u>	<u>\$ 442,917</u>	<u>\$ 75,657</u>	<u>\$ 5,766,733</u>	<u>\$ -</u>

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2013

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

3.E. LONG-TERM DEBT (Continued)

Annual Debt Service Requirements

The annual debt service requirements to maturity, including principal, interest, fiscal charges and servicing fees for long-term debt as of June 30, 2013 are as follows:

Fiscal Year	Governmental Activities		Business-type Activities	
	Principal	Interest & Fiscal Charges	Principal	Interest & Fiscal Charges
2013-14	\$ 299,593	\$ 29,408	\$ 534,529	\$ 79,921
2014-15	310,842	18,159	451,187	68,346
2015-16	322,516	6,485	389,817	61,730
2016-17	-	-	394,839	55,924
2017-18	-	-	402,410	47,286
2019-23	-	-	2,000,867	161,767
2024-28	-	-	1,065,617	43,802
2029-33	-	-	229,767	7,509
Total	\$ 932,951	\$ 54,052	\$ 5,469,033	\$ 526,285

3.F. INTEREST EXPENSE AND FISCAL CHARGES

Interest expense and fiscal charges for the Governmental Funds was \$39,837. Interest expense and fiscal charges for the Enterprise Fund for the year ended June 30, 2013, was \$90,477. No interest was capitalized during the year ended June 30, 2013.

3.G. INTERFUND TRANSACTIONS AND BALANCES

Interfund balances as reported in the fund financial statements at June 30, 2013, consisted of the following individual fund receivables and payables:

Receivable Fund	Payable Fund	Amount	Purpose
General Fund	Enterprise Fund	\$ 1,072,787	Sanitation Receipt Reimbursements/ PEAK Returns
Total		\$ 1,072,787	

3.H. FUND EQUITY

Restricted Net Position

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

Governmental Activities

Activity	Restricted by	
Other Purposes:		
Municipal Road Aid	State Law	\$ 125,825
L.G.E.A.F.	State Law	7,462
		\$ 133,287

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2013

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

3.H. FUND EQUITY (Continued)

Business-type Activities

Restricted for Debt Service:

Kentucky Infrastructure Authority (KIA) Notes Payable	\$ 478,108
Cash & Investments	423
Add: Accrued Interest Receivable	(6,209)
Less: Accrued Interest Payable	(6,209)
Total KIA Notes Payable	\$ 472,322

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	\$ 125,825
L.G.E.A. F.	7,462
	\$ 133,287

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

General Fund:

Contracts Outstanding	\$ 31,867
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Other Governmental Funds:

Community Development Projects (EIP)	\$ 14,735
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Assigned for expenditures associated with the Shop with a Cop and Riverwalk Development program as constrained to that purpose:

Other Governmental Funds:

Shop with a Cop	\$ 24,150
Riverwalk Development	4,887
	\$ 29,037

NOTE 4. OTHER NOTES

4.A. PENSION PLAN

Entry into the Commonwealth of Kentucky's County Employees' Retirement System (CERS) was authorized by the City Council and Carrollton Utilities Commission as of July 15, 1988 and September 1, 1992, respectively. The most recent financial report on CERS is included in the Kentucky Retirement System's annual report, June 30, 2012. Copies of this report will be distributed to each participating employer in the Kentucky Employees Retirement System, County Employees Retirement System, and State Police Retirement System. Copies will also be available to Legislative personnel and state libraries.

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in non-hazardous duty position of each participating county, city, and school board, and any additional eligible local agencies electing to participate in CERS. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

NOTE 4. OTHER NOTES

4.A. PENSION PLAN (Continued)

of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least twelve months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than twelve months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the twelve months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce cost-of-living adjustments if, in its judgment, the welfare of the Commonwealth so demands. On July 1, 2012, the COLA was not granted.

Contributions – For the fiscal year ended June 30, 2012, plan members who began participating prior to September 1, 2008, were required to contribute 5% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the fiscal years ended June 30, 2012, participating employers contributed 18.96%, of each employer's creditable compensation. The actuarially determined rates set by the Board for the fiscal years ended June 30, 2012, was 18.96%. Administrative costs of KRS are financed through employer contributions and investment earnings.

In accordance with House Bill 1, signed by the Governor on June 27, 2008, plan members who began participating on, or after, September 7, 2008, were required to contribute a total of 6% of their annual creditable compensation. Five percent of the contribution was deposited to the member's account while the 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). Interest is paid each June 30 on members' accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest, however, the 1% contribution to the 401(h) account is non-refundable and is forfeited. For plan members who began participating prior to September 1, 2008, their contributions remain at 5% of their annual creditable compensation.

The City's General Fund total payroll for the fiscal year ended June 30, 2013, was \$1,281,859. Contributions were based on \$1,236,570 (eligible gross wages). The total pension expense for the year ended June 30, 2013, was \$223,222 and \$66,514 for the employer and employees, respectively. All contributions were made as required during this fiscal year. There have been no changes in the plan since inception.

The City's Proprietary Fund total payroll for the fiscal year ended June 30, 2013, was \$1,405,110. Contributions were based on \$1,259,879 (eligible gross wages). The total pension expense for the fiscal year ended June 30, 2013, was \$246,306 and \$65,683 for the employer and employees, respectively. All contributions were made as required during this fiscal year. There have been no changes in the plan since inception.

The City's contribution for the year ended June 30, 2012, (general fund and proprietary fund combined) was .13 percent of the System's total contribution requirements for all employers.

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2013

NOTE 4. OTHER NOTES

4.A. PENSION PLAN (Continued)

For non-hazardous duty, the required contributions to the plan for all participating employees were as follows:

	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Retiree Drug Subsidy Contributions</u>	<u>Percentage Contribution</u>
June 30, 2012	476,185,027	447,661,027	-	94.0%
June 30, 2011	432,414,052	435,404,150	-	100.7%
June 30, 2010	453,055,709	373,682,939	9,156,991	84.5%

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

4.B. RISK MANAGEMENT

Insurance and Related Activities

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

Under the health insurance plan adopted by the City, employee deductibles are \$3,000 (single plan)/\$9,000 (family plan). The City will pay for eligible medical expenditures incurred by employees above the maximum employee costs determined by the City of \$500 single/\$1,000 family up to the deductible of the plan (\$2,500 single/\$8,000 family). Any unused deductible remains with the City and does not accrue to the benefit of the employee. The estimated potential liability to the City under this policy is \$235,294. No accrual has been recorded in the financial statements due to the contingent nature of this liability.

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

4.C. COMMITMENTS, CONTINGENCIES & SUBSEQUENT EVENTS

Each employee is granted sick leave at the rate of eight hours per month up to a maximum of 1,040 hours. Employees shall not be paid for unused sick leave credit upon termination of employment, except that employees who retire and receive CERS retirement benefits may personally receive payment for unused sick leave for the same amount that CERS would charge for applying the accrued sick leave to extend retirement benefits. The total liability for accumulated sick leave at June 30, 2013 was \$538,289. 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.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

NOTE 4. OTHER NOTES (Continued)

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

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

Carrollton Utilities has access to storage as part of its transportation services with Texas Gas Transmission. Gas is withdrawn from its storage account during the winter period (November – February) to be replenished the following summer period (March – October). At June 30, 2013, Carrollton Utilities has an unpaid and accrued storage liability estimated to be \$336,436.

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

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

The Carrollton Utilities Commission has an operational agreement with West Carroll Water District. Under the agreement, Carrollton Utilities provides operation and maintenance of the West Carroll Water Distribution System, as well as, customer billing services, accounting functions, and other agreed related services. The annual compensation to Carrollton Utilities for providing these services has been set at \$200,402 for the 2012-2013 fiscal year.

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

Long Term Gas Supply Arrangements

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

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

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

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

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

NOTE 4. OTHER NOTES (Continued)

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

PEAK issues separate financial statements available through its administrative offices. Summarized totals for PEAK, from its audited financial statements for the year ended June 30, 2013, are as follows:

Assets	\$749,133,785
Liabilities	745,303,802
Total Net Assets	3,829,983
Costs Recoverable from Future Billings	(12,216,590) *

* 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.

Subsequent Event

Carroll Countywide Underserved Improvement Project

The City was approved for a Kentucky Infrastructure Authority loan in the amount of \$1,850,270 at 1.25% interest with 35% principal forgiveness. The proceeds from this loan will be used to fund the Carroll Countywide Underserved Improvement Project. This is a regional and joint project with Carrollton Utilities and West Carroll Water District that will make upgrades to the Carrollton Utilities water treatment plant, replace aging infrastructure, extend water service to unserved and improve water service to underserved customers in the West Carroll Water District. West Carroll Water District's pro rata share is estimated to be \$868,097. Construction on this project began in September, 2013 and should be complete by April, 2014.

The City was approved for a Kentucky Infrastructure Authority loan in the amount \$1,538,817 at 1.00% interest with 25% principal forgiveness. The proceeds from this loan will be used to fund the Carroll County Interconnect Project. This is a regional and joint project with Carrollton Utilities, West Carroll Water District and Carroll County Water District #1 that will provide interconnection and infrastructure additions to all three districts. Construction will begin on this project in the 2013-2014 fiscal year and should be complete by December 31, 2014.

The City was approved for a Kentucky Infrastructure Authority Loan in the amount of \$963,931 at 1.00% interest with 50% principal forgiveness. The proceeds from this loan will be used to fund the Focusing on Core Mission and Infrastructure Project. This project will focus on preventative measures and the replacement of obsolete equipment for Carrollton Utilities in association with Henry County Water District, Carroll County Water District, and West Carroll Water District. Construction will begin on this project in the 2014-2015 fiscal year and should be complete by April 30, 2015.

4.D. MISCELLANEOUS

Bad Debt Expense

Utility revenue charges have been netted with an estimated bad debt expense of \$4,700, \$3,437, and \$10,404 for gas, water and sewer services, respectively.

Income Tax Status

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

Segment Information – Enterprise Fund

The City maintains an enterprise fund which provides gas, water, and sewer services. Selected financial information for business segments of the enterprise fund for the year ended June 30, 2013, is presented as follows:

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

NOTE 4. OTHER NOTES (Continued)

4.D. MISCELLANEOUS (Continued)

Segment Information – Enterprise Fund (Continued)

CONDENSED STATEMENT OF NET POSITION

	Gas	Water	Sewer	Total
Assets:				
Current Assets	\$ 13,059,167	\$ (450,059)	\$ (591,784)	\$ 12,017,324
Other Noncurrent Assets	124,496	21,284	535,512	681,292
Capital Assets (Net)	10,469,690	2,313,071	25,113,716	37,896,477
Total Assets	\$ 23,653,353	\$ 1,884,296	\$ 25,057,444	\$ 50,595,093
Liabilities:				
Due to Other Funds	\$ 1,045,103	\$ 27,684	-	\$ 1,072,787
Other Current Liabilities	3,994,360	74,578	483,454	4,552,392
Noncurrent Liabilities	198,027	21,504	4,925,703	5,145,234
Total Liabilities	\$ 5,237,490	\$ 123,766	\$ 5,409,157	\$ 10,770,413
Net Position:				
Net Investment in Capital Assets	\$ 10,252,137	\$ 2,313,071	\$ 19,865,556	\$ 32,430,764
Restricted	-	-	472,322	472,322
Unrestricted	8,163,726	(552,541)	(689,591)	6,921,594
Total Net Position	\$ 18,415,863	\$ 1,760,530	\$ 19,648,287	\$ 39,824,680

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

	Gas	Water	Sewer	Total
Operating Revenues	\$ 38,144,920	\$ 1,203,023	\$ 1,730,392	\$ 41,078,335
Depreciation Expense	(509,889)	(170,225)	(927,482)	(1,607,596)
Other Operating Expenses	(37,401,515)	(1,005,107)	(1,017,774)	(39,424,396)
Net Operating Income (Loss)	\$ 233,516	\$ 27,691	\$ (214,864)	\$ 46,343
Nonoperating Revenues (Expenses):				
Interest Income	7,909	1,279	2,687	11,875
Interest & Fiscal Charges	(12,539)	-	(77,938)	(90,477)
Amortization of Lease Fees	(2,214)	-	-	(2,214)
Gain (Loss) on Sale of Assets	792	292	12,825	13,909
Capital Contributions	-	48,980	-	48,980
Change in Net Position	\$ 227,464	\$ 78,242	\$ (277,290)	\$ 28,416
Beginning Net Position	18,188,399	1,682,288	19,925,577	39,796,264
Ending Net Position	\$ 18,415,863	\$ 1,760,530	\$ 19,648,287	\$ 39,824,680

CONDENSED STATEMENT OF CASH FLOWS

	Gas	Water	Sewer	Total
Net Cash Provided (Used) by:				
Operating Activities	\$ 1,068,259	\$ 214,317	\$ 746,607	\$ 2,029,183
Capital and Related Financing Activities	(416,933)	(181,430)	(453,700)	(1,052,063)
Investing Activities	(2,626)	1,060	(297,533)	(299,099)
Net Increase (Decrease)	\$ 648,700	\$ 33,947	\$ (4,626)	\$ 678,021
Beginning Cash and Cash Equivalents	6,921,067	(642,115)	(689,791)	5,589,161
Ending Cash and Cash Equivalents	\$ 7,569,767	\$ (608,168)	\$ (694,417)	\$ 6,267,182

Economic Dependence

Carrollton Utilities Commission provides natural gas to residential, commercial, and industrial customers. It should be noted that 94% 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). \$34,408,151 of the \$36,199,792 gas cost of goods sold are for natural gas purchases, excluding related transportation costs. Additionally, 41% of the City's General Fund revenues are attributable to gas prepurchase agreements with PEAK.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

NOTE 4. OTHER NOTES (Continued)

4.D. MISCELLANEOUS (Continued)

Related Party Transactions

For the year ended June 30, 2013, the City received \$32,176 from the Carrollton Housing Authority as payments in lieu of tax.

Carrollton Utilities Natural Gas Hedge Policy

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

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

4.E. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In March 2012, the GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. This statement is effective for periods beginning after December 15, 2012. Management is currently evaluating the impact of the adoption of this statement on the City's financial statements.

In March, 2012 the GASB issued Statement 66, *Technical Corrections – 2012 – an Amendment of GASB Statements No. 10 and No. 62*. GASB 66 was issued to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fun Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement is effective for periods beginning after December 15, 2012. Management is currently evaluating the impact of the adoption of this statement on the City's financial statements.

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

CITY OF CARROLLTON, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 For the Year Ended June 30, 2013

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 877,775	\$ 1,202,957	\$ 1,211,261	\$ 8,304
ESTIMATED REVENUES				
Payments in Lieu of Taxes	\$ 22,000	\$ 32,000	\$ 32,176	\$ 176
Ad Valorem Taxes	408,415	406,873	410,177	3,304
Franchise Fees	100,000	113,000	110,818	(2,182)
Garbage Collection	348,850	348,850	351,937	3,087
Bank Franchise Deposit Tax	22,000	23,835	23,834	(1)
Business Licenses	100,000	100,000	98,029	(1,971)
Insurance Licenses	430,000	450,000	476,277	26,277
Building Permits	1,000	1,500	1,316	(184)
Penalty & Interest	4,500	8,300	10,603	2,303
Interest Revenue	5,825	4,886	875	(4,011)
PEAK Annual Return	1,474,500	1,506,192	1,465,970	(40,222)
Two Rivers Campground Receipts	-	6,000	16,465	10,465
Other Revenue	10,610	15,978	15,719	(259)
Proceeds from Outside Sources:				
Carroll County Tourism	15,000	15,000	-	(15,000)
HB413/Citations	15,000	15,000	12,643	(2,357)
CC Fiscal Court - Public Safety Salaries	231,819	232,000	227,333	(4,667)
Police & Firefighter's Incentive Pay	37,200	31,500	29,722	(1,778)
State Fire Aid	8,250	8,250	8,250	-
Police Grants	6,000	50	-	(50)
U.S. Department of Homeland Security (FEMA) Grant	-	55,016	42,150	(12,866)
Transfers from other funds	905,500	909,439	-	(909,439)
Total Estimated Revenues	\$ 4,146,469	\$ 4,283,669	\$ 3,334,294	\$ (949,375)
Total Resources Available for Appropriation	\$ 5,024,244	\$ 5,486,626	\$ 4,545,555	\$ (941,071)
APPROPRIATIONS				
Administrative	\$ 998,276	\$ 934,198	\$ 924,368	\$ 9,830
Public Safety				
Fire Department	182,833	164,376	154,249	10,127
Police Department	1,185,080	1,188,203	1,222,012	(33,809)
Public Works	548,767	490,793	489,649	1,144
Parks and Recreation	65,575	84,084	87,936	(3,852)
Capital Outlay	226,500	402,291	367,708	34,583
Transfers to other funds	905,000	904,339	-	904,339
Debt Retirement	350,000	329,002	329,001	1
Total Appropriations	\$ 4,462,031	\$ 4,497,286	\$ 3,574,923	\$ 922,363
Excess of Resources and Revenues Over (Under) Appropriations	\$ 562,213	\$ 989,340	\$ 970,632	\$ (18,708)
Estimated Fund Balances at June 30, 2013	\$ 562,213	\$ 989,340	\$ 970,632	\$ (18,708)

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BUDGETARY COMPARISON SCHEDULE
 June 30, 2013

Budgetary Accounting

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

- (1) The Mayor and City Clerk-Treasurer submit to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year. Detailed line item budgets are included for administrative control. The level of control for the detailed budgets is at the department head/function level.
- (2) Public hearings are conducted to obtain taxpayer comment.
- (3) Prior to June 30, the budget is legally enacted through passage of an ordinance.
- (4) The City Clerk-Treasurer presents monthly financial statements to the City Council comparing actual year to date expenditures to budgeted expenditures.
- (5) Formal budgetary integration is employed as a management control device during the year.
- (6) The City Council may authorize supplemental appropriations during the year. The budget was amended by ordinance at year end.

Budget to Actual Reconciliation

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

	General Fund
Sources/inflows of resources:	
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 4,545,555
Differences - budget to GAAP:	
The fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes and consists of available cash	(1,211,261)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	\$ 3,334,294
Uses/outflows of resources:	
Actual amounts (budgetary basis) "total appropriations" from the budgetary comparison schedule	\$ 3,574,923
Differences - budget to GAAP:	
None	-
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	\$ 3,574,923

CITY OF CARROLLTON, KENTUCKY
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2013

	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	\$ 117,080	\$ 7,426	\$ 14,735	\$ 24,150	\$ 4,887	\$ 168,278
Due from Other Governments	8,745	36	-	-	-	8,781
Total Assets	<u>\$ 125,825</u>	<u>\$ 7,462</u>	<u>\$ 14,735</u>	<u>\$ 24,150</u>	<u>\$ 4,887</u>	<u>\$ 177,059</u>
LIABILITIES						
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
FUND BALANCES						
Restricted	\$ 125,825	\$ 7,462	\$ -	\$ -	\$ -	\$ 133,287
Committed	-	-	14,735	-	-	14,735
Assigned	-	-	-	24,150	4,887	29,037
Total Fund Balances	<u>\$ 125,825</u>	<u>\$ 7,462</u>	<u>\$ 14,735</u>	<u>\$ 24,150</u>	<u>\$ 4,887</u>	<u>\$ 177,059</u>
Total Liabilities and Fund Balances	<u>\$ 125,825</u>	<u>\$ 7,462</u>	<u>\$ 14,735</u>	<u>\$ 24,150</u>	<u>\$ 4,887</u>	<u>\$ 177,059</u>

CITY OF CARROLLTON, KENTUCKY
 COMBINING STATEMENT OF REVENUES,
 EXPENDITURES, AND CHANGES IN FUND BALANCES -
 NONMAJOR GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2013

	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						
Ad Valorem Taxes	\$ -	\$ -	\$ 15,000	\$ -	\$ -	\$ 15,000
Kentucky Municipal Road Aid	94,029	-	-	-	-	94,029
Local Government Economic Assistance	-	1,467	-	-	-	1,467
Donations	-	-	-	26,408	4,887	31,295
Interest / Investment Revenue	225	16	32	51	-	324
Total Revenues	\$ 94,254	\$ 1,483	\$ 15,032	\$26,459	\$ 4,887	\$ 142,115
EXPENDITURES						
Current:						
Administrative	\$ -	\$ -	\$ 39,968	\$ -	\$ -	\$ 39,968
Public Works	14,244	-	-	-	-	14,244
Community Service	-	-	-	16,966	-	16,966
Total Expenditures	\$ 14,244	\$ -	\$ 39,968	\$16,966	\$ -	\$ 71,178
Excess of Revenues Over (Under) Expenditures	\$ 80,010	\$ 1,483	\$ (24,936)	\$ 9,493	\$ 4,887	\$ 70,937
Fund Balances - July 1	45,815	5,979	39,671	14,657	-	106,122
Fund Balances - June 30	\$ 125,825	\$ 7,462	\$ 14,735	\$24,150	\$ 4,887	\$ 177,059

CITY OF CARROLLTON, KENTUCKY
SCHEDULE OF DEPARTMENTAL OPERATING REVENUES AND EXPENSES
ENTERPRISE FUND
(CARROLLTON UTILITIES)
For the Year Ended June 30, 2013

	Departments			Contractual Services	Total
	Gas	Water	Sewer		
Operating Revenues:					
Charges for Services:					
Utility Charges (Net of Bad Debt Expense)	\$ 38,101,087	\$ 991,735	\$ 1,565,996	\$ -	\$ 40,658,818
Connection Fees & Service Charges	28,227	9,162	158,837	-	196,226
Contractual Services	-	-	-	200,402	200,402
Total Charges for Services	\$ 38,129,314	\$ 1,000,897	\$ 1,724,833	\$ 200,402	\$ 41,055,446
Miscellaneous Revenues	15,606	1,724	5,559	-	22,889
Total Operating Revenues	\$ 38,144,920	\$ 1,002,621	\$ 1,730,392	\$ 200,402	\$ 41,078,335
Operating Expenses:					
Cost of Goods Sold	\$ 36,199,793	\$ -	\$ -	\$ -	\$ 36,199,793
Operation & Maintenance	352,581	455,624	608,248	97,455	1,513,908
General & Administrative	849,141	361,298	409,526	90,730	1,710,695
Depreciation	509,889	170,225	927,482	-	1,607,596
Total Operating Expenses	\$ 37,911,404	\$ 987,147	\$ 1,945,256	\$ 188,185	\$ 41,031,992
Net Operating Income (Loss)	\$ 233,516	\$ 15,474	\$ (214,864)	\$ 12,217	\$ 46,343

CITY OF CARROLLTON, KENTUCKY
 SCHEDULE OF OPERATION & MAINTENANCE, GENERAL &
 ADMINISTRATIVE EXPENSES BY DEPARTMENT
 ENTERPRISE FUND
 (CARROLLTON UTILITIES)
 For the Year Ended June 30, 2013

	Departments			Contractual Services	Total
	Gas	Water	Sewer		
OPERATION & MAINTENANCE					
Customer Service	\$ 71,120	\$ 42,336	\$ 900	\$ 63,237	\$ 177,593
Mains	124,912	45,060	86,419	12,519	268,910
Transportation	42,114	23,572	54,222	10,870	130,778
Plant and Equipment	107,050	221,245	355,625	10,829	694,749
Chemicals	-	60,419	52,631	-	113,050
Electric, Light and Power	7,385	62,992	58,451	-	128,828
Total	\$ 352,581	\$ 455,624	\$ 608,248	\$ 97,455	\$ 1,513,908
GENERAL & ADMINISTRATIVE EXPENSES					
Office Salaries	\$ 233,679	\$ 71,434	\$ 83,076	\$ 14,531	\$ 402,720
Employee Benefits	345,275	154,930	191,895	66,639	758,739
Payroll Taxes	41,335	25,298	25,815	8,202	100,650
Commissioner Fees	3,269	3,245	3,245	-	9,759
Office Expenses	47,887	42,397	41,610	-	131,894
Professional and Outside Services	40,130	27,338	28,940	-	96,408
Insurance	82,428	10,349	10,309	-	103,086
Other	55,138	26,307	24,636	1,358	107,439
Total	\$ 849,141	\$ 361,298	\$ 409,526	\$ 90,730	\$ 1,710,695

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

**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**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Carrollton, Kentucky as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise City of Carrollton, Kentucky's basic financial statements and have issued our report thereon dated January 13, 2014.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness (Item 2013-1).

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompany schedule of findings and responses to be a significant deficiency (Item 2013-2).

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

COMPLIANCE AND OTHER MATTERS

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

CITY OF CARROLLTON, KENTUCKY'S RESPONSE TO FINDINGS

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result 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
Certified Public Accountants
Carrollton, Kentucky

January 13, 2014

CITY OF CARROLLTON, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended June 30, 2013

A. SUMMARY OF AUDITOR'S RESULTS:

1. The auditor's report expresses an unqualified opinion on the financial statements of the City of Carrollton, Kentucky.
2. Two deficiencies in internal control disclosed during the audit of the financial statements are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. Item 2013-1 was reported as a material weakness. Item 2013-2 was reported as a significant deficiency.
3. No instances of noncompliance material to the financial statements of City of Carrollton, Kentucky, that would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

DEFICIENCIES IN INTERNAL CONTROL

GOVERNMENT AUDITING STANDARDS

2013-1 SIZE OF ENTITY, CROSS-TRAINING AND CHECKING PROCEDURES

CONDITION:

Due to the size of the entity, cross-training and checking procedures are not in place for certain administrative positions and reconciliation procedures. During the year, operations began at the Two Rivers Recreational Vehicle Campground facility. Financial operational controls were not established timely to reconcile rentals with revenue received. Additionally, instances were observed where subsidiary ledgers had not been reconciled to summary reports. Also, due to computerized ledger closing procedures, the general ledger of the governmental funds did not balance. These conditions limit internal control. This condition was cited in the schedule of findings and responses for the year ended June 30, 2012 as a significant deficiency as Item 12-1.

CRITERIA:

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

CAUSE:

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

EFFECT:

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

CITY OF CARROLLTON, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
For the Fiscal Year Ended June 30, 2013

B. FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)

DEFICIENCIES IN INTERNAL CONTROL (CONTINUED)

GOVERNMENT AUDITING STANDARDS (CONTINUED)

2013-1 SIZE OF ENTITY, CROSS-TRAINING AND CHECKING PROCEDURES (CONTINUED)

RECOMMENDATION:

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

RESPONSE:

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

2013-2 FAILURE TO PREPARE A COMPLETE SET OF FINANCIAL STATEMENTS INCLUDING REQUIRED NOTE DISCLOSURES

CONDITION:

City financial statements, including the required disclosures are prepared as part of the annual audit. This condition was also cited as a significant deficiency in the schedule of findings and responses for the year ended June 30, 2012 as Item 12-2.

CRITERIA:

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

CAUSE:

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

EFFECT:

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

RECOMMENDATION:

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

**CITY OF CARROLLTON, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
For the Fiscal Year Ended June 30, 2013**

B. FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)

DEFICIENCIES IN INTERNAL CONTROL (CONTINUED)

GOVERNMENT AUDITING STANDARDS (CONTINUED)

**2013-2 FAILURE TO PREPARE A COMPLETE SET OF FINANCIAL STATEMENTS INCLUDING REQUIRED
NOTE DISCLOSURES (CONTINUED)**

RESPONSE:

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

COMPLIANCE

None

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

In planning and performing our audit of the basic financial statements of the City of Carrollton, Kentucky as of and for the year ended June 30, 2013, we considered the City's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

We found the City's accounting system to be capable of providing essential information for effective operating and financial control of the City's operations. At the same time, we observed certain areas where procedural modifications or revisions might provide better internal control. This letter summarizes our comments and suggestions regarding those matters.

A separate letter dated January 13, 2014 contains our findings on the City's internal control. This letter does not affect our report dated January 13, 2014 on the basic financial statements of the City of Carrollton, Kentucky.

We recommended in our previous audits that cross training, rotation of duties, and checking procedures related to the City treasurer, Utilities' treasurer, and Utilities' gas, sewer and water billing positions, be expanded to provide improved internal control. While effort has been made to expand review procedures, lapses remain. In our review of depreciation errors were observed that would have likely been caught by a secondary check. Additionally, due to the retirement of employees, additional training and review of City financial procedures has occurred. We recommend that these efforts be continued. Knowledge gained in this process will allow for, in the absence of an individual, the ability to record, process, summarize and report financial data in a timely manner, and provide checks over daily transactions.

In the review of the City's depository accounts, it was noted that approximately \$12,000 of bank deposits were uninsured and uncollateralized. All deposits beyond FDIC insurance should be secured with acceptable collateral.

During the year, the operation of the RV facility began. Checking and reconciling procedures were not implemented at the onset, resulting in credit card payments that were not received timely. When new services or revenue sources are initiated, controls should be reviewed to insure all transactions are properly documented.

During our review of expenditures some instances were observed where the checks written were not dually signed. Additionally it was noted that the checks paid after the meeting date were not always listed on the orders of the treasurer signed by the Council. Although approval is given in the minutes as to "accounts paid/payable through the meeting date," we would recommend that all payments be listed on the orders of the treasurer for approval.

In regards to the FEMA Equipment Grant it was noted that the required report was filed late. When the City is notified that Grants have been approved, the Clerk should be given all information necessary (award notification, matching requirements, etc.) to insure that the City complies with all requirements.

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

We will review the status of these comments during our next audit engagement. We will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. This report is intended solely for the information of management, City Council, the Utilities Commission, and the Kentucky Department of Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Raisor, Zapp & Woods, PSC

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

January 13, 2014

City of Carrollton, Kentucky
750 Clay Street
Carrollton, KY 41008

January 13, 2014

I have discussed the transactions and possible adjustments to our financial records with our auditors during their audit fieldwork. I have reviewed and accepted the adjustments below. I understand and take responsibility for them.

The general ledger/working trial balance of the city did not balance back to the equity balances reported in the June 30, 2012 audit when presented to the auditors. This condition was discussed with City personnel and with KVS personnel. To bring the fund balances forward from the previous year adjustments were made. The revenue and expense codes and cash balances all balanced after the adjustments and came forward properly. Adjustments were made for these differences in all funds. At the date of this correspondence, KVS is still working on correcting the ledger.

General Fund - adjustments A - Z and a - b (Excluding "F" applicable to Urban Forestry)

LGEA - adjustments 1 - 2

Municipal Road Aid - adjustments 1 and 2

Health Reimbursement Account - HRA adjustment aa

Government Wide Statements - adjustments A - M

Urban Forestry Fund - adjustment F

In addition to the above adjustments, I have reviewed and accepted the depreciation schedule of the City's governmental fund assets and depreciation expense for the year ended June 30, 2013.

I understand and take responsibility for the financial statements and related notes prepared after the posting of the above adjustments. I have reviewed and accepted the June 30, 2013 financial statements.

Signature

Date

Leatha Grimes

January 13, 2014

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Carrollton, Kentucky, for the year ended June 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 31, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by City of Carrollton, Kentucky, are described in Note 1 to the financial statements. In the current fiscal year, the City adopted Statement of Governmental Standards (GASB Statement) No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position*; which requires the City to report net position and changes the title of the Statement of Net Assets to the Statement of Net Position (effective for periods beginning after December 15, 2011).

In March 2012, the GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. This statement is effective for periods beginning after December 15, 2012. Management is currently evaluating the impact of the adoption of this statement on the City's financial statements.

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

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the City of Carrollton's financial statements were:

To the Honorable Gene McMurry, Mayor
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- Management's estimate of the allowance for doubtful accounts is based on historical gas, water and sewer revenues, historical loss levels, and an analysis of the collectability of individual accounts. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the fixed asset depreciable lives is based on each asset's projected useful life expectancy. We evaluated the key factors and assumptions used to develop fixed asset depreciable lives and computed depreciation expense in determining that such is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the gas storage liability as of June 30, 2013 to be replenished the following summer period (March – October). We evaluated the key factors and assumptions used to estimate the gas storage liability in determining that such is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

After discussion with the Mayor and City Treasurer/Clerk, adjustments were made to the preliminary annual financial report prepared by the City at year end:

- Reclassification of transfers made.
- Accrual adjustments for accounts receivable, accrued payroll liabilities and interfund amounts due at year end.
- Adjustments were also made to prepare the City's government-wide financial statements. These statements are not included in the reports generated through the City's financial reporting system. These adjustments included the recording of depreciation expense, capitalization of fixed assets, reclassification of debt service and the recording of revenues received after sixty days of year end.
- Adjustments were made to the City's trial balance to reflect the fund equity at June 30, 2012.

After discussion with the Utilities' General Manager and Finance Officer, adjustments were made to the Utilities' trial balance prepared at year end:

- Reclassification of prior year profit to fund balance.
- Accrual adjustments were made for CD interest receivable, TEAC and BP annual return receivable, accrued compensation, accrued wages, accrued interest payable, gas storage liability, allowance for doubtful accounts, and interfund amounts due at year end.
- Adjustments were made to adjust depreciation expense and accumulated depreciation.

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Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 13, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

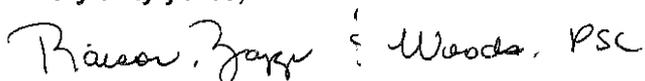
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the City Council, The Utility Commission, and management of City of Carrollton, Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



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