

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

Year Ended June 30, 2016

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS

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CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS

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Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Carrollton, Kentucky, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Carrollton, Kentucky's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Carrollton, Kentucky, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on Pages 3 through 10, the budgetary comparison information on pages 55 and 56, the Schedule of the City's Proportionate Share of the Net Pension Liability – County Employees Retirement System on page 57, and Schedule of the City's Contributions – County Employees Retirement System on page 58 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Carrollton, Kentucky's basic financial statements. The combining non-major fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining non-major fund financial statements, the schedules listed in the table of contents, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining non-major fund financial statements, the schedules listed in the table of contents, and the schedule of expenditures of federal awards 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 18, 2017, on our consideration of the City of Carrollton, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Carrollton, Kentucky's internal control over financial reporting and compliance.

Raisor, Zapp & Woods, PSC

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

January 18, 2017

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, 2016. Please read it in conjunction with the City's financial statements, which begin on page 11.

FINANCIAL HIGHLIGHTS

- \$165,603 was spent for five new police cruisers for each of the police officers to have a take home vehicle.
- The City's capital outlay includes the following:

\$35,000 to purchase property adjacent to the campground on Second Street;

\$11,502 was spent to relocate utilities downtown for the Down on Main Street project;

\$12,663 was paid to Heritage Engineering for supervising the Down on Main Street project;

\$4,630 was paid to Heritage Engineering for supervising the Firehouse Stabilization project on Court Street;

\$6,590 was spent for blocks needed for the Firehouse Stabilization project on Court Street.

New snow guards were installed on the roof at City Hall at a cost of \$9,480 to replace the original ones which had mostly fallen off and become a danger.

\$18,833 was spent to install a new telephone system in the Administrative Offices of City Hall to replace an aging system.

Public Works spent \$6,490 for a manure spreader and \$5,340 for a blower attachment for the tractor.

Code Enforcement purchased a used 2011 Ford Escape for a Code Enforcement vehicle at a cost of \$12,399. An additional \$2,582 was spent for software and computer equipment for the vehicle.

Also \$20,000 was budgeted for the part-time position that was created by City Council to assist the Code Enforcement Officer.

- The City spent \$8,250 for new bunker gear and boots for the Fire Department with State Aid funds paying for this. Also, spent for the Fire Department was \$15,346 for 12 new SCBA cylinders.
- City's total net position increased by \$1,381,586.
- In the City's business-type activities, charges for service decreased to \$32,281,408 (or 28.9%) and expenses decreased to \$32,192,851 (or 28.5%).
- The City's business-type activities spent \$170,018 to relocate a 6" gas main from the Ohio River bank to the edge of Highway 42 East for safety reasons.
- The City's business-type activities spent \$28,064 to replace an exposed gas main on Spring Street in Milton. The City applied to be reimbursed from FEMA funds, but has been initially denied funding.
- The City's business-type activities spent \$99,575 to extend gas mains in Owenton and \$13,318 to replace a regulator station in Owenton.
- The City's business-type activities spent \$40,415 to install a new gas meter set for Owen Electric in Owenton.
- The City's business-type activities spent \$48,159 to purchase land on Clay Street for a new office building site.

-
- The City's business-type activities spent \$16,340 to purchase new water meters.
 - The City's business-type activities spent \$14,844 to purchase a new bore missile.
 - The City's business-type activities spent \$74,250 to purchase a new backhoe.
 - The City's business-type activities spent \$36,505 and \$31,645 for two new trucks with utility beds.
 - The City's business-type activities spent \$949,712 for the completion of the Interconnect Project.
 - The City's business-type activities spent \$765,925 for the completion of the Focus Project.
 - The City's business-type activities spent \$19,697 for manhole lining and repairs.
 - The City's business-type activities spent \$10,555 for a new lawn mower for the sewer department.
 - The City's business-type activities spent \$30,365 for new Omni-Sites for the sewer department.

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

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

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

Reporting the City's Most Significant Funds:

Fund Financial Statements

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

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

THE CITY AS A WHOLE

The City's combined net position increased from \$45.7 million to \$48.0 million. The net position and net expenses of governmental and business-type activities show two different results. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the City's governmental and business-type activities.

**TABLE 1
NET POSITION**

	GOVERNMENTAL		BUSINESS-TYPE		TOTAL	
	ACTIVITIES		ACTIVITIES		GOVERNMENT	
	14/15	15/16	14/15	15/16	14/15	15/16
CURRENT AND OTHER ASSETS	2,547,542	3,798,041	11,826,386	12,725,471	14,373,928	16,523,512
CAPITAL ASSETS	5,980,098	5,957,980	39,126,256	39,537,211	45,106,354	45,495,191
TOTAL ASSETS	8,527,640	9,756,021	50,952,642	52,262,682	59,480,282	62,018,703
DEFERRED OUTFLOWS OF RESOURCES	207,454	458,911	256,014	562,510	463,468	1,021,421
CURRENT LIABILITIES	448,729	190,163	3,923,581	3,303,597	4,372,310	3,493,760
NON-CURRENT LIABILITIES	1,637,626	2,176,444	7,804,295	9,389,555	9,441,921	11,565,999
TOTAL LIABILITIES	2,086,355	2,366,607	11,727,876	12,693,152	13,814,231	15,059,759
DEFERRED INFLOWS OF RESOURCES	182,000	-	221,000	-	403,000	-
NET POSITION:						
NET INVESTMENT IN CAPITAL ASSETS	5,657,583	5,957,980	33,509,658	33,411,070	39,167,241	39,369,050
RESTRICTED	32,058	113,467	522,892	528,621	554,950	642,088
UNRESTRICTED	777,098	1,776,878	5,227,230	6,192,349	6,004,328	7,969,227
TOTAL NET POSITION	6,466,739	7,848,325	39,259,780	40,132,040	45,726,519	47,980,365

Net position of the City's governmental activities increased by 21.3 percent (\$7,848,325) compared to \$6,466,739). 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 \$777,098 at June 30, 2015 to \$1,776,878 at the end of June 30, 2016.

The net position of our business-type activities increased by 2.2% (\$40,132,040 compared to \$39,259,780). Unrestricted net assets changed from \$5,227,230 at the end of June 30, 2015 to \$6,192,349 at the end of June 30, 2016. The City generally can only use the unrestricted net assets to finance the continuing operations of the gas, water and sewer operations.

**TABLE 2
CHANGES IN NET POSITION**

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTAL GOVERNMENT	
	14/15	15/16	14/15	15/16	14/15	15/16
REVENUES:						
PROGRAM REVENUES:						
CHARGES FOR SERVICES	797,146	836,991	45,415,192	32,281,408	46,212,338	33,118,399
FEDERAL GRANTS	-	1,500	-	-	-	1,500
STATE GRANTS/ENTITLEMENTS	147,025	143,787	-	22,918	147,025	166,705
LOCAL GRANTS/CONTRIBUTION	-	-	-	116,661	-	116,661
PRINCIPLE FORGIVENESS - KIA			208,371	508,901	208,371	508,901
GENERAL REVENUES:						
PROPERTY TAXES	466,840	442,007			466,840	442,007
FRANCHISE TAXES	249,408	360,377			249,408	360,377
PEAK RETURN	1,273,923	2,472,011			1,273,923	2,472,011
INSURANCE LICENSES	498,850	490,829			498,850	490,829
OTHER GENERAL REVENUES	26,156	13,325	72,004	135,223	98,160	148,548
TOTAL REVENUES:	3,459,348	4,760,827	45,695,567	33,065,111	49,154,915	37,825,938

PROGRAM EXPENSES:						
GENERAL GOVERNMENT	622,979	631,813	-	-	622,979	631,813
PUBLIC SAFETY	1,306,498	1,508,873	-	-	1,306,498	1,508,873
PUBLIC WORKS	942,336	742,437	-	-	942,336	742,437
HEALTH & SANITATION	321,797	326,485	-	-	321,797	326,485
PARKS & RECREATION	141,344	149,351	-	-	141,344	149,351
COMMUNITY SERVICE	16,236	14,258	-	-	16,236	14,258
INTEREST: LONG TERM DEBT	17,713	6,024	-	-	17,713	6,024
GAS			41,562,192	28,589,028	41,562,192	28,589,028
WATER			1,143,307	1,207,665	1,143,307	1,207,665
SEWER			2,101,965	2,189,015	2,101,965	2,189,015
MANAGEMENT SERVICES			190,233	207,143	190,233	207,143
TOTAL EXPENSES:	3,368,903	3,379,241	44,997,697	32,192,851	48,366,600	35,572,092
CHANGE IN NET POSITION	90,445	1,381,586	697,870	872,260	788,315	2,253,846
BEGINNING NET POSITION	6,376,294	6,466,739	38,561,910	39,259,780	44,938,204	45,726,519
ENDING NET POSITION	6,466,739	7,848,325	39,259,780	40,132,040	45,726,519	47,980,365

The City's total revenues decreased by \$11,328,977. The total cost of all programs and services decreased by \$12,794,508. Our analysis below separately considers the operations of governmental and business-type activities.

Governmental Activities

Revenues for the City's governmental activities increased by 37.6 percent (\$1,301,479) and total expenses increased by .306 percent (\$10,338). The increase in net position for governmental activities was \$1,381,586 in FY 2015-2016. This compares to a \$90,444 increase in net position in FY 2014-2015. At June 30, 2016, the PEAK prepay transaction with BP Energy Company ended. The end of project payout to the City of Carrollton was \$1,186,435.

- The City budgeted the following capital outlay project:
 - \$165,603 for five police cruisers.
 - \$14,981 for a used Code Enforcement Vehicle and software equipment.
 - \$35,000 to purchase property adjacent to the Campground.
 - The City budgeted a 3% increase in departmental salaries.
 - The City continued with the self-insured health insurance plan along with several other Northern Kentucky government entities with a budgeted 10% premium increase and offered several different options to the employees with different deductibles. Also, the employees would be charged more or less if they were signed up for a Healthy Plan. The City eliminated the H.R.A. (health reimbursement account) in FY15-16.
- The City's retirement plan (C.E.R.S.) contribution rate was decreased from 17.67 percent to 17.06 percent by the Commonwealth of Kentucky.

The cost of all governmental activities this year was \$3,379,241 compared to \$3,368,903 last year. As shown in the Statement of Activities on pages 12-13, the amount that our taxpayers financed for these activities was \$836,991, and some of the cost was paid by other governments and organizations that subsidized certain programs with grants and contributions of \$145,287. Overall, the City's governmental program revenues, including intergovernmental aid and fees for services increased from \$944,171 to \$982,278 due mainly to grant funds received for the Riverwalk project.

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	
	14/15	15/16	14/15	15/16
GENERAL GOVERNMENT	622,979	631,813	(468,274)	(492,895)
FIRE DEPARTMENT	209,653	209,934	(196,683)	(198,584)
POLICE DEPARTMENT	1,096,845	1,298,939	(833,721)	(1,015,002)
PUBLIC WORKS DEPARTMENT	942,336	742,437	(851,811)	(655,598)
SANITATION	321,797	326,485	38,430	43,007
ALL OTHERS	175,293	169,633	(112,673)	(77,891)
TOTALS:	3,368,903	3,379,241	(2,424,732)	(2,396,963)

Business-type Activities

Total revenues of the City's business type activities (see Table 2) decreased by 28.9 percent in FY 15-16 compared to a 13.3 percent decrease in FY 14-15. The expenses in FY 15-16 decreased by 28.5 percent.

The approximate 28% decrease in revenues and expenses of the City's business-type activities is directly related to the gas services provided by Carrollton Utilities. Whereas, the program revenues and expenses of the water, sewer and management services of Carrollton Utilities stayed relatively constant compared to the prior year, the revenues and expenses of the gas services decreased by 31.4% (\$13,217,669) and 31.2% (\$12,973,164), 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	
	14-15	15-16	14-15	15-16
Gas	42,063,807	28,846,138	41,562,192	28,589,028
Water	1,074,984	1,087,132	1,143,307	1,207,665
Sewer	2,025,898	2,092,625	2,101,965	2,189,015
Management Services	250,503	255,513	190,233	207,143
Totals:	45,415,192	32,281,408	44,997,697	32,192,851

THE CITY'S FUNDS

As the City completed fiscal year 2015-2016, its governmental funds (as presented in the balance sheet on page 14) reported a combined fund balance of \$1,672,760 which represents an increase of \$15,872 from last year's total of \$1,656,888.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City Council revised the General Fund budget one time for fiscal year ending June 30, 2016. 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, 2016, the City had \$45,495,191 (net of accumulated depreciation) invested in capital assets including buildings, utilities, police, fire, and public works equipment, park facilities, city streets, and water, sewer, and gas lines. (See table below.) This represents a net increase of \$388,837 or .80%.

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

	GOVERNMENTAL		BUSINESS-TYPE		TOTALS	
	ACTIVITIES		ACTIVITIES			
	14/15	15/16	14/15	15/16	14/15	15/16
LAND	1,105,050	1,140,777	713,278	761,437	1,818,328	1,902,214
BUILDINGS & IMPROVEMENTS	2,596,570	2,485,856	5,082,264	4,880,846	7,678,834	7,366,702
EQUIPMENT	657,585	746,539	2,630,017	2,431,710	3,287,602	3,178,249
INFRASTRUCTURE	1,619,521	1,488,054	29,609,344	30,980,877	31,228,865	32,468,931
CONSTRUCTION-IN-PROGRESS	1,372	96,754	1,091,353	482,341	1,092,725	579,095
TOTALS:	5,980,098	5,957,980	39,126,256	39,537,211	45,106,354	45,495,191

This year's major additions included:

- \$ 165,603 for 5 new Police Cruisers/Equipment
- \$8,250 for Fire Department equipment with State Aid paying for \$8,250
- \$35,000 for property on 2nd Street
- \$11,830 for equipment at Public Works
- \$18,833 for a new telephone system in the Mayor/City Clerk's office
- \$15,346 for 12 new SCBA fire apparatus for the Fire Department.
- \$170,018 to relocate a 6" gas main off the Ohio River bank
- \$28,064 to replace an exposed gas main
- \$99,575 to extend gas mains in Owenton/Owen County
- \$40,415 to install a new gas meter set for Owen Electric in Owenton
- \$48,159 to purchase property on Clay Street for a new office building site
- \$16,340 to purchase water meters
- \$14,844 to purchase a new bore missile
- \$74,240 to purchase a new backhoe
- \$68,150 to purchase to new trucks with utility beds
- \$30,365 for Omni-Sites for the wastewater department

Debt

At year-end, the City had zero in capital lease, notes payable and bonds payable compared to \$322,515 last year as shown in Table 6 as the note was paid in full as of 6/30/2016. At year end, Carrollton Utilities had \$7,048,930 in notes payable compared to \$6,085,549 last year.

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

	GOVERNMENTAL		BUSINESS-TYPE		TOTALS	
	ACTIVITIES		ACTIVITIES			
	14/15	15/16	14/15	15/16	14/15	15/16
CAPITAL LEASE	322,515	-	-	-	322,515	-
NOTES PAYABLE	-	-	6,085,549	7,048,930	6,085,549	7,048,930
TOTALS	322,515	0	6,085,549	7,048,930	6,408,064	7,048,930

Other obligations of the City represent accrued compensated absences for \$46,468 compared to \$41,122 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 2015-2016 budget. One of those factors is the economy - specifically the Consumer Price Index (CPI). The CPI was reported at .7% according to the Commonwealth of Kentucky. Council decided to allocate a 3% increase for departmental salaries.

The City chose not to raise the property tax rate by 4% as per KRS 132.027 in FY15-16 which kept the property tax rate at \$.30 per \$100 of assessment. This meant a loss of revenue of \$14,683 in property tax receipts. Next year's budget, FY16-17 includes \$325,000 towards the purchase of a Ladder Firetruck and several Capital Projects with the extension of the Riverwalk from the JCTC parking lot to the Kentucky River, the restoration of the Bow Bridge connecting the Campground with Point Park, and paving a walkway along the Kentucky River leading up to the Bow Bridge. Three separate grants will be used to help fund these projects at a total budgeted cost of \$301,550. \$30,000 was budgeted to repair and replace city sidewalks. \$16,000 was budgeted for the addition of a K9 to the Police Department to assist in detecting illegal drugs.

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

The City 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 were 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 provided interconnection and infrastructure additions to all three districts. Construction began on this project in the 2014-2015 fiscal year and was complete by June 30, 2016.

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 were used to fund the Focusing on Core Mission and Infrastructure Project. This project focused 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 began on this project in the 2015-2016 fiscal year and was complete by June 30, 2016.

The City purchased property on Clay Street in 2015-2016 and will begin construction of a new administration building in 2016-2017. The building is estimated to cost \$2.0 million and the project consists of the construction of a 6,500-sq. ft. office building, parking lot, drive thru lane, storm detention basin and all site work. Construction is expected to be complete by August 31, 2017.

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

CHASTITY ROBBINS
Carrollton Utilities Director of Finance

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2016

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets			
Cash, Including Time Deposits	\$ 1,439,622	\$ 7,334,749	\$ 8,774,371
Interest Receivable	-	4,183	4,183
Accounts Receivable (Net)	236,954	2,428,697	2,665,651
Other Receivables	-	2,284,049	2,284,049
Due from Other Governments	56,105	321,663	377,768
Due from Other Funds	2,058,444	(2,058,444)	-
Current Portion - Interlocal Receivable	-	32,764	32,764
Prepaid Expense	6,916	40,294	47,210
Total Current Assets	\$ 3,798,041	\$ 10,387,955	\$ 14,185,996
Noncurrent Assets			
Restricted Assets			
Cash, Including Time Deposits	\$ -	\$ 1,476,607	\$ 1,476,607
Interest Receivable	-	322	322
Interlocal Receivable	-	860,587	860,587
Capital Assets (Net)	5,957,980	39,537,211	45,495,191
Total Noncurrent Assets	\$ 5,957,980	\$ 41,874,727	\$ 47,832,707
Total Assets	\$ 9,756,021	\$ 52,262,682	\$ 62,018,703
DEFERRED OUTFLOWS OF RESOURCES			
Attributable to Employer Pension Plan	\$ 458,911	\$ 562,510	\$ 1,021,421
LIABILITIES			
Current Liabilities			
Accounts Payable	\$ 136,675	\$ 2,461,805	\$ 2,598,480
Accrued Compensated Absences	16,665	3,948	20,613
Accrued Wages	27,948	61,917	89,865
Construction Retainage Payable	-	292,225	292,225
Unearned Revenues	8,875	-	8,875
Current Liabilities Payable from Restricted Assets:			
Accrued Interest	-	7,077	7,077
Notes Payable	-	476,625	476,625
Total Current Liabilities	\$ 190,163	\$ 3,303,597	\$ 3,493,760
Noncurrent Liabilities			
Accrued Compensated Absences	\$ 12,898	\$ 12,957	\$ 25,855
Notes Payable	-	6,572,305	6,572,305
Net Pension Liability	2,163,546	2,634,010	4,797,556
Noncurrent Liabilities Payable from Restricted Assets:			
Customer Deposits Payable	-	170,283	170,283
Total Noncurrent Liabilities	\$ 2,176,444	\$ 9,389,555	\$ 11,565,999
Total Liabilities	\$ 2,366,607	\$ 12,693,152	\$ 15,059,759
NET POSITION			
Net Investment in Capital Assets	\$ 5,957,980	\$ 33,411,070	\$ 39,369,050
Restricted for:			
Debt Service	-	528,621	528,621
Other Purposes	113,467	-	113,467
Unrestricted	1,776,878	6,192,349	7,969,227
Total Net Position	\$ 7,848,325	\$ 40,132,040	\$ 47,980,365

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

Functions / Programs	Expenses	Program Revenues		
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
General Government	\$ 631,813	\$ 133,496	\$ 5,422	\$ -
Public Safety				
Fire Department	209,934	-	11,350	-
Police Department	1,298,939	256,345	27,592	-
Public Works	742,437	-	86,839	-
Sanitation	326,485	369,492	-	-
Parks & Recreation	149,351	77,658	-	-
Community Service	14,258	-	14,084	-
Interest on Long-Term Debt	6,024	-	-	-
Total Governmental Activities	\$ 3,379,241	\$ 836,991	\$ 145,287	\$ -
Business-type Activities				
Gas	\$ 28,589,028	\$ 28,846,138	\$ -	\$ -
Water	1,207,665	1,087,132	-	531,819
Sewer	2,189,015	2,092,625	-	116,661
Management Services	207,143	255,513	-	-
Total Business-type Activities	\$ 32,192,851	\$ 32,281,408	\$ -	\$ 648,480
Total Government	\$ 35,572,092	\$ 33,118,399	\$ 145,287	\$ 648,480

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

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

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (492,895)	\$ -	\$ (492,895)
(198,584)	-	(198,584)
(1,015,002)	-	(1,015,002)
(655,598)	-	(655,598)
43,007	-	43,007
(71,693)	-	(71,693)
(174)	-	(174)
(6,024)	-	(6,024)
<u>\$ (2,396,963)</u>	<u>\$ -</u>	<u>\$ (2,396,963)</u>
\$ -	\$ 257,110	\$ 257,110
-	411,286	411,286
-	20,271	20,271
-	48,370	48,370
<u>\$ -</u>	<u>\$ 737,037</u>	<u>\$ 737,037</u>
<u>\$ (2,396,963)</u>	<u>\$ 737,037</u>	<u>\$ (1,659,926)</u>
\$ 442,007	\$ -	\$ 442,007
360,377	-	360,377
2,472,011	-	2,472,011
490,829	-	490,829
13,325	17,273	30,598
-	3,232	3,232
-	98,630	98,630
-	16,088	16,088
<u>\$ 3,778,549</u>	<u>\$ 135,223</u>	<u>\$ 3,913,772</u>
<u>\$ 1,381,586</u>	<u>\$ 872,260</u>	<u>\$ 2,253,846</u>
6,466,739	39,259,780	45,726,519
<u>\$ 7,848,325</u>	<u>\$ 40,132,040</u>	<u>\$ 47,980,365</u>

CITY OF CARROLLTON, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2016

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash, Including Time Deposits	\$ 1,262,259	\$ 177,363	\$ 1,439,622
Accounts Receivable: (Net of Allowance for Uncollectibles)			
Insurance Licenses	107,462	-	107,462
Business Licenses	8,735	-	8,735
Ad Valorem Tax	5,746	-	5,746
Franchise Fees	69,391	-	69,391
Miscellaneous	6,286	4,745	11,031
Due from Other Governments	47,130	8,975	56,105
Due from Other Funds	140,849	-	140,849
Total Assets	\$ 1,647,858	\$ 191,083	\$ 1,838,941
LIABILITIES			
Accounts Payable	\$ 112,693	\$ -	\$ 112,693
Accrued Compensated Absences	16,665	-	16,665
Accrued Wages	27,948	-	27,948
Unearned Revenues	8,875	-	8,875
Total Liabilities	\$ 166,181	\$ -	\$ 166,181
FUND BALANCES			
Restricted	\$ -	\$ 113,467	\$ 113,467
Committed	217,425	55,322	272,747
Assigned	325,000	22,294	347,294
Unassigned	939,252	-	939,252
Total Fund Balances	\$ 1,481,677	\$ 191,083	\$ 1,672,760
Total Liabilities and Fund Balances	\$ 1,647,858	\$ 191,083	\$ 1,838,941

CITY OF CARROLLTON, KENTUCKY
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET POSITION
 June 30, 2016

Total Governmental Fund Balances	\$	1,672,760
<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 \$10,975,957 net of accumulated depreciation \$5,017,977.		5,957,980
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.		1,952,184
Costs that have been incurred prior to year end but will not be paid within 60 days have been reported as payable in the Statement of Net Position.		(23,982)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Accrued Compensated Absences	\$	12,898
Net Pension Liability		<u>2,163,546</u>
		(2,176,444)
Expenditures that have used current financial resources but have been made for goods and services to be received subsequent to year end have been reported as a prepaid expense in the Statement of Net Position.		6,916
Deferred Outflows of Resources:		
Attributable to CERS Employer Pension Plan:		
Employer Pension Contributions Made Subsequent to the Measurement Date		200,451
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments		19,394
Change of Assumptions		218,170
Difference Between Expected and Actual Experience		17,980
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions		<u>2,916</u>
		<u>458,911</u>
Net Position of Governmental Activities	\$	<u><u>7,848,325</u></u>

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2016

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Payments in Lieu of Taxes	\$ 37,054	\$ -	\$ 37,054
Ad Valorem Taxes	418,877	23,130	442,007
Franchise Fees	334,103	-	334,103
Garbage Collection	369,492	-	369,492
Bank Franchise Deposit Tax	26,274	-	26,274
Business Licenses	93,905	-	93,905
Insurance Licenses	490,829	-	490,829
Building Permits	860	-	860
Penalty & Interest	8,140	-	8,140
Interest Revenue	4,670	514	5,184
PEAK Revenue	1,303,221	-	1,303,221
Campground Receipts	46,215	-	46,215
EIP Reimbursements	-	7,667	7,667
Other Revenue/Donations	12,757	14,084	26,841
Proceeds from Outside Sources:			
HB413/Citations Revenue	9,279	-	9,279
C.C. Fiscal Court - Public Safety Salaries	241,683	-	241,683
Police & Firefighter's Incentive Pay	29,192	-	29,192
Kentucky Municipal Road Aid	-	75,866	75,866
Local Government Economic Assistance	-	5,423	5,423
State Fire Aid	8,250	-	8,250
Kentucky Department of Local Government - Renaissance Grant	3,305	-	3,305
U.S. Department of Transportation - Highway Safety Grant	1,500	-	1,500
Total Revenues	\$ 3,439,606	\$ 126,684	\$ 3,566,290
EXPENDITURES			
Current			
Administrative	\$ 915,173	\$ 5,577	\$ 920,750
Public Safety			
Fire Department	148,775	-	148,775
Police Department	1,143,616	-	1,143,616
Public Works	555,788	-	555,788
Parks and Recreation	50,397	831	51,228
Community Service	-	14,258	14,258
Capital Outlay	387,001	-	387,001
Debt Repayment			
Principal	322,515	-	322,515
Interest	6,487	-	6,487
Total Expenditures	\$ 3,529,752	\$ 20,666	\$ 3,550,418
Excess (Deficit) of Revenues Over (Under) Expenditures	\$ (90,146)	\$ 106,018	\$ 15,872
Fund Balances - July 1, 2015	1,571,823	85,065	1,656,888
Fund Balances - June 30, 2016	<u>\$ 1,481,677</u>	<u>\$ 191,083</u>	<u>\$ 1,672,760</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, 2016

Net Change in Fund Balances - Total Governmental Funds	\$ 15,872
<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 are allocated over their estimated useful lives as depreciation expense.</p>	
Capitalized Expenditures	387,001
Depreciation Expense	(409,119)
<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>	322,515
<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	(4,272)
Pension Expense	(23,982)
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.</p>	1,194,537
<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>	463
<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>	(340)
<p>Governmental funds report City pension contributions through the governmental funds to the County Employees' Retirement System as expenditures. However in the Statement of Activities, the cost of pension benefits earned, net of employee contributions, is reported as pension expense.</p>	
City pension contributions	200,451
Cost of benefits earned net of employee contributions	(301,540)
Change in Net Position of Governmental Activities	\$ 1,381,586

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUND
June 30, 2016

	<u>Carrollton Utilities Enterprise Fund</u>
ASSETS	
Current Assets	
Cash, Including Time Deposits	\$ 7,334,749
Interest Receivable	4,183
Accounts Receivable (Net)	2,428,697
Other Receivables	2,284,049
Due from Other Governments	321,663
Current Portion - Interlocal Receivable	32,764
Prepaid Expense	40,294
Total Current Assets	<u>\$ 12,446,399</u>
Noncurrent Assets	
Restricted Assets	
Cash, Including Time Deposits	\$ 1,476,607
Interest Receivable	322
Interlocal Receivable	860,587
Capital Assets (Net)	39,537,211
Total Noncurrent Assets	<u>\$ 41,874,727</u>
Total Assets	<u>\$ 54,321,126</u>
DEFERRED OUTFLOWS OF RESOURCES	
Attributable to Employer Pension Plan	\$ 562,510
LIABILITIES	
Current Liabilities	
Accounts Payable	\$ 2,461,805
Due to Other Funds	2,058,444
Accrued Compensated Absences	3,948
Accrued Salaries, Wages & Benefits	61,917
Construction Retainage Payable	292,225
Current Liabilities Payable from Restricted Assets:	
Accrued Interest Payable	7,077
Notes Payable	476,625
Total Current Liabilities	<u>\$ 5,362,041</u>
Noncurrent Liabilities	
Accrued Compensated Absences	\$ 12,957
Notes Payable	6,572,305
Net Pension Liability	2,634,010
Noncurrent Liabilities Payable from Restricted Assets:	
Customer Deposits Payable	170,283
Total Noncurrent Liabilities	<u>\$ 9,389,555</u>
Total Liabilities	<u>\$ 14,751,596</u>
NET POSITION	
Net Investment in Capital Assets	\$ 33,411,070
Restricted for:	
Debt Service	528,621
Unrestricted	6,192,349
Total Net Position	<u>\$ 40,132,040</u>

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
For the Year Ended June 30, 2016

	<u>Carrollton Utilities Enterprise Fund</u>
Operating Revenues:	
Charges for Services:	
Gas Utility Charges (Net)	\$ 28,823,369
Water Utility Charges (Net)	1,077,207
Sewer Utility Charges (Net)	1,914,921
Connection Fees & Service Charges	210,398
Contractual Services	255,513
Total Charges for Services	<u>\$ 32,281,408</u>
Miscellaneous Revenues	98,630
Total Operating Revenues	<u>\$ 32,380,038</u>
Operating Expenses:	
Cost of Goods Sold	\$ 26,508,004
Operation & Maintenance	1,769,026
General & Administrative	2,034,650
Depreciation	1,797,746
Total Operating Expenses	<u>\$ 32,109,426</u>
Net Operating Income	<u>\$ 270,612</u>
Nonoperating Revenue (Expenses):	
Interest Income	\$ 20,505
Interest and Fiscal Charges	(83,425)
Gain (Loss) from Sale of Assets	16,088
Total Nonoperating Revenue (Expenses)	<u>\$ (46,832)</u>
Net Income Before Capital Contributions	\$ 223,780
Capital Contributions	<u>648,480</u>
Change in Net Position	\$ 872,260
Net Position - July 1	<u>39,259,780</u>
Net Position - June 30	<u>\$ 40,132,040</u>

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2016

	<u>Carrollton Utilities Enterprise Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	\$ 31,847,181
Payments to Suppliers	(28,082,565)
Payments to Employees	(1,573,330)
Receipts of Customer Meter Deposits	66,225
Refunds of Customer Meter Deposits	(49,328)
Net Cash Provided (Used) by Operating Activities	<u>\$ 2,208,183</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Proceeds from Noncapital Debt	\$ 467,244
Interest Paid on Noncapital Debt	(11,430)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>\$ 455,814</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Contributions	\$ 516,451
Proceeds from Sale of Capital Assets	16,088
Purchases of Capital Assets	(2,172,877)
Proceeds from Capital Debt	714,001
Principal Paid on Capital Debt	(426,944)
Interest Paid on Capital Debt	(83,035)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ (1,436,316)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interlocal Receivable Funds Received	\$ (288,840)
Principal Paid on Interlocal Debt	8,257
Interest and Fees Paid on Interlocal Debt	8,176
Purchase of Certificates of Deposits	(220,575)
Redeemed Certificates of Deposits	441,324
Interest Received	20,296
Net Cash Provided (Used) by Investing Activities	<u>\$ (31,362)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 1,196,319
Balances-July 1	<u>6,462,471</u>
Balances-June 30	<u>\$ 7,658,790</u>

	<u>Balances Per June 30, 2016 Statement of Net Position</u>	<u>Balances Per June 30, 2016 Statement of Cash Flows</u>
Cash	\$ 6,575,008	\$ 6,575,008
Time Deposits	759,741	-
Restricted Cash	1,083,782	1,083,782
Restricted Time Deposits	392,825	-
Total	<u>\$ 8,811,356</u>	<u>\$ 7,658,790</u>

(Continued)

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUND
For the Year Ended June 30, 2016

	<u>Carrollton Utilities Enterprise Fund</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating Income (Loss)	\$ 270,612
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation Expense	1,797,746
Pension Expense	127,514
Change in Assets and Liabilities:	
Receivables, Net (Increase) Decrease	749,386
Other Receivables (Increase) Decrease	(1,250,775)
Prepaid Expenses (Increase) Decrease	3,235
Accounts and Other Payables Increase (Decrease)	(680,873)
Due to Other Funds Increase (Decrease)	1,199,794
Customer Meter Deposits Payable Increase (Decrease)	16,897
Accrued Expenses Increase (Decrease)	<u>(25,353)</u>
Net Cash Provided by Operating Activities	<u>\$ 2,208,183</u>

Carrollton Utilities has entered into a financing agreement through Kentucky Infrastructure Authority to finance improvements to its water distribution system and through interlocal agreements with West Carroll Water District, Carroll County Water District #1 and Henry County Water District. Under the debt agreement, a percentage of the principal was eligible for debt forgiveness of 25% - 50% according to the project. The entities, use of proceeds, and loan proceeds attributable to each entity's portion of the debt is as follows:

Entity	Use of Proceeds	Debt Forgiveness Attributable to District
Carroll County Water District #1	Finance line improvements	\$121,843
West Carroll Water District	Finance a master meter vault and line improvements	\$ 25,826
Henry County Water District #2	Finance a master meter vault	\$ 15,367

At June 30, 2016, Carrollton Utilities had \$292,225 outstanding construction retainage payable.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS

INDEX

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

- A. Fund Accounting Requirements**
- B. Deposits and Investments, Laws and Regulations**
- C. Revenue Restrictions**
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NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

- A. Cash and Cash Equivalents and Investments**
- B. Restricted Assets**
- C. Accounts Receivable**
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- F. Interest Expense and Fiscal Charges**
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NOTE 4. OTHER NOTES

- A. Pension Plan**
- B. Risk Management**
- C. Commitments and Contingencies**
- D. Miscellaneous**
- E. Financial Statement Restatement**

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1.A. FINANCIAL REPORTING ENTITY

The City's financial reporting entity comprises the following:

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

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

Blended Component Units

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

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

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

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2016

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, 2016

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, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.B. BASIS OF PRESENTATION (Continued)

Major and Nonmajor Funds

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

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

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

Measurement Focus

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

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

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

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Basis of Accounting

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

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

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

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

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

Cash and Investments

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

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

Interfund Receivables and Payables

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

Receivables

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

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Receivables (Continued)

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

Interlocal Receivable

The City of Carrollton f/b/o Carrollton Utilities has entered into an interlocal agreement with the West Carroll Water District under which the West Carroll Water District is the subrecipient of loan proceeds from the Kentucky Infrastructure Authority funding the Countywide Underserved Project. The City of Carrollton f/b/o Carrollton Utilities is the recipient of the loan proceeds. Carrollton Utilities is also the entity overseeing the engineering and construction contracts, and other general costs associated with the project. West Carroll Water District, under the interlocal agreement, has agreed to pay Carrollton Utilities for the portion of the debt associated with improvements made to its distribution system. \$881,877 was expended toward line extensions and improvements on West Carroll Water District's distribution system. The original amount due from West Carroll Water District to Carrollton Utilities after principal forgiveness of \$308,657 from Kentucky Infrastructure Authority was \$573,220. At June 30, 2016 the amount due from West Carroll Water District was \$556,743. An Interlocal Receivable is presented in the Statement of Net Position to represent this amount due from the West Carroll Water District to the City of Carrollton f/b/o Carrollton Utilities.

The City of Carrollton f/b/o Carrollton Utilities has entered into a second interlocal agreement with the West Carroll Water District under which the West Carroll Water District is the subrecipient of loan proceeds from the Kentucky Infrastructure Authority funding the Carroll County Interconnect Project. The City of Carrollton f/b/o Carrollton Utilities is the recipient of the loan proceeds. Carrollton Utilities is also the entity overseeing the engineering and construction contracts, and other general costs associated with the project. West Carroll Water District, under the interlocal agreement, has agreed to pay Carrollton Utilities for the portion of the debt associated with improvements made to its distribution system. \$44,310 was expended toward line extensions and improvements on West Carroll Water District's distribution system. The amount due from West Carroll Water District to Carrollton Utilities after principal forgiveness of \$11,077 from Kentucky Infrastructure Authority is \$33,233. An Interlocal Receivable is presented in the Statement of Net position to represent this amount due from West Carroll Water District to the City of Carrollton f/b/o Carrollton Utilities.

The City of Carrollton f/b/o Carrollton Utilities has entered into an interlocal agreement with Carroll County Water District #1 under which Carroll County Water District #1 is the subrecipient of loan proceeds from the Kentucky Infrastructure Authority funding the Carroll County Interconnect Project. The City of Carrollton f/b/o Carrollton Utilities is the recipient of the loan proceeds. Carrollton Utilities is also the entity overseeing the engineering and construction contracts, and other general costs associated with the project. Carroll County Water District #1, under the interlocal agreement, has agreed to pay Carrollton Utilities for the portion of the debt associated with improvements made to its distribution system. \$301,721 was expended toward line extensions and improvements on Carroll County Water District #1's distribution system. The amount due from Carroll County Water District #1 to Carrollton Utilities after principal forgiveness of \$75,430 from Kentucky Infrastructure Authority is \$226,291. An Interlocal Receivable is presented in the Statement of Net Position to represent this amount due from Carroll County Water District #1 to the City of Carrollton f/b/o Carrollton Utilities.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Interlocal Receivables (Continued)

The City of Carrollton f/b/o Carrollton Utilities has entered into an interlocal agreement with West Carroll Water District under which West Carroll Water District is the subrecipient of loan proceeds from the Kentucky Infrastructure Authority funding the Focus on Core Mission and Infrastructure Project. The City of Carrollton f/b/o Carrollton Utilities is the recipient of the loan proceeds. Carrollton Utilities is also the entity overseeing the engineering and construction contracts, and other general costs associated with the project. West Carroll Water District, under the interlocal agreement, has agreed to pay Carrollton Utilities for the portion of the debt associated with improvements made to its distribution system. \$30,735 was expended toward a master meter vault on West Carroll Water District's distribution system. The amount due from West Carroll Water District to Carrollton Utilities after principal forgiveness of \$15,367 from Kentucky Infrastructure Authority is \$15,367. An Interlocal Receivable is presented in the Statement of Net Position to represent this amount due from West Carroll Water District to the City of Carrollton f/b/o Carrollton Utilities.

The City of Carrollton f/b/o Carrollton Utilities has entered into an interlocal agreement with Carroll County Water District #1 under which the Carroll County Water District #1 is the subrecipient of loan proceeds from the Kentucky Infrastructure Authority funding the Focus on Core Mission and Infrastructure Project. The City of Carrollton f/b/o Carrollton Utilities is the recipient of the loan proceeds. Carrollton Utilities is also the entity overseeing the engineering and construction contracts, and other general costs associated with the project. Carroll County Water District #1, under the interlocal agreement, has agreed to pay Carrollton Utilities for the portion of the debt associated with improvements made to its distribution system. \$123,433 was expended toward the SCADA System of Carroll County Water District #1. The amount due from Carroll County Water District #1 to Carrollton Utilities after principal forgiveness of \$61,717 from Kentucky Infrastructure Authority is \$61,717. An Interlocal Receivable is presented in the Statement of Net Position to represent this amount due from Carroll County Water District #1 to the City of Carrollton f/b/o Carrollton Utilities.

The City of Carrollton f/b/o Carrollton Utilities has entered into an interlocal agreement with Henry County Water District #2 under which Henry County Water District #2 is the subrecipient of loan proceeds from the Kentucky Infrastructure Authority funding the Carroll County Interconnect Project. The City of Carrollton f/b/o Carrollton Utilities is the recipient of the loan proceeds. Carrollton Utilities is also the entity overseeing the engineering and construction contracts, and other general costs associated with the project. Henry County Water District #2, under the interlocal agreement, has agreed to pay Carrollton Utilities for the portion of the debt associated with improvements made to its distribution system. \$30,735 has been expended toward a master meter vault on Henry County Water District #2's distribution system. The amount due from Henry County Water District #2 to Carrollton Utilities after principal forgiveness of \$15,367 from Kentucky Infrastructure Authority is \$15,367. \$15,367 has been included in miscellaneous accounts receivable as Henry County Water District #2 paid this amount in full in July, 2016.

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.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Fund Financial Statements

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

Restricted Assets

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

Capital Lease Expenses

Proprietary Fund capital lease fees are expensed as incurred.

Long-term Debt

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

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

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

Debt issuance Costs are expensed as incurred.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Pensions

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

Deferred Outflows of Resources and Deferred Inflows of Resources

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

Compensated Absences

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

Equity Classifications

Government-wide Statements

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

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

Fund Statements

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

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

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Equity Classifications (Continued)

Fund Statements (Continued)

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

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

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

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

1.E. REVENUES, EXPENDITURES, AND EXPENSES

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

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, insurance license taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Insurance license taxes are recognized to the extent known in the period for which the insurance company reports the fee collected. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Property Tax

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

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

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

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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. At June 30, 2016, the PEAK prepay transaction with BP Energy Company expired. The end of project payout to the City of Carrollton was \$1,186,435.

Operating Revenues and Expenses

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

Expenditures/Expenses

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

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

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

Proprietary Fund-By Operating and Nonoperating

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

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

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.

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2016

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

2.A. FUND ACCOUNTING REQUIREMENTS

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

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

2.B. DEPOSITS AND INVESTMENTS, LAWS AND REGULATIONS

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

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

2.C. REVENUE RESTRICTIONS

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

<u>Revenue Source</u>	<u>Legal Restrictions of Use</u>
Municipal Road Aid	Street & Alley Purposes
County Dispatch Revenue	E-911 Emergency Services Purposes
Water, Sewer, and Gas Revenue	Debt Service and Utility Operations
EIP/Facade Revenue	Beautification Improvement Projects
Law Enforcement Grants	Police Programs/Salaries
Local Government Economic Assistance Funds	Approved Expenditures
State Fire Aid	Fire Equipment Expenditures
KY Department of Local Government – Renaissance Grant	Approved Grant Expenditures
Environmental Protection Agency – Clean Water State Revolving Funds	Underserved Project
Environmental Protection Agency – Drinking Water State Revolving Funds	Interconnect Project and Focus on Core Mission Project

For the year ended June 30, 2016, the City complied, in all material respects, with these revenue restrictions.

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2016

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

2.D. DEBT RESTRICTIONS AND COVENANTS

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

Funded Maintenance, Replacement Reserve Accounts are required by the City's Assistance Agreements AO1-03, B99-03, AO5-01, B08-06, and F11-15 with the Kentucky Infrastructure Authority. Under the agreements, the City must deposit into these accounts \$8,000 annually, \$236 semi-annually, \$30,000 annually, \$2,250 annually, and \$5,100 annually, until the amounts accumulated on deposit are equal to \$80,000, \$5,610, \$300,000, \$22,500 and \$51,000, respectively. The reserve accounts for agreements AO1-03, B99-03, AO5-01, B08-06, and F11-15 are fully funded. The reserve for B08-06 and F11-15 were fully funded upon inception. The Reserve Accounts for F13-007 and F14-013 have not been set up at June 30, 2016 as the loans were not closed yet.

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

3.A. CASH AND INVESTMENTS

Deposits

City of Carrollton, Kentucky's policies regarding deposits of cash are in accordance with the state statutes. Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of June 30, 2016, in accordance with the City's policy \$1,967,816 of the City's deposits were covered by federal depository insurance and \$8,220,947 respectively, were collateralized by securities held by the pledging financial institution's agent in the City's name. Thus the City had \$163,140 of deposits that were exposed to custodial credit risk.

Cash and cash equivalents and investments at June 30, 2016, consisted of the following:

Governmental Activities

<u>Type of Deposits</u>	<u>Total Bank Balance</u>	<u>Total Carrying Value</u>
Demand Deposits	\$ 5,363	\$ 5,363
Time/Savings Deposits	1,473,481	1,432,707
Total Deposits	<u>\$ 1,478,844</u>	<u>\$ 1,438,070</u>

Business-type Activities

<u>Type of Deposits</u>	<u>Total Bank Balance</u>	<u>Total Carrying Value</u>
Demand Deposits	\$ 7,654,789	\$ 7,591,836
Time/Savings Deposit	1,218,270	1,218,270
Total Deposits	<u>\$ 8,873,059</u>	<u>\$ 8,810,106</u>

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2016

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

3.A. CASH AND INVESTMENTS (Continued)

Deposits (Continued)

Business-type Activities (Continued)

	Governmental Activities	Business-type Activities	Total
Reconciliation to Statement of Net Position			
Cash, including Time Deposits	\$ 1,439,622	\$ 7,334,749	\$ 8,774,371
Restricted Cash, including Time Deposits	-	1,476,607	1,476,607
	<u>\$ 1,439,622</u>	<u>\$ 8,811,356</u>	<u>\$ 10,250,978</u>
Total Carrying Value	\$ 1,438,070	\$ 8,810,106	\$ 10,248,176
Plus: Cash on Hand	1,552	1,250	2,802
	<u>\$ 1,439,622</u>	<u>\$ 8,811,356</u>	<u>\$ 10,250,978</u>

3.B. RESTRICTED ASSETS

Restricted assets consists of the following:

	Cash	Interest Receivable	Total
KIA Loan Reserve Accounts	\$ 535,376	\$ 322	\$ 535,698
Customer Deposits	170,283	-	170,283
KIA Construction Accounts	770,948	-	770,948
Total	<u>\$ 1,476,607</u>	<u>\$ 322</u>	<u>\$ 1,476,929</u>

In addition to these restrictions, the Utility Commission has established certificates of deposit in the amount of \$659,741 and demand deposits of \$27,500 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 (31%), insurance licenses (45%), business licenses (4%) and other (20%) receivables. Receivables detail at June 30, 2016, is as follows:

	Governmental Activities	Business-type Activities	Total
Accounts receivable	\$ 242,975	\$ 2,446,826	\$ 2,689,801
Allowance for doubtful accounts	(6,021)	(18,129)	(24,150)
Net accounts receivable	<u>\$ 236,954</u>	<u>\$ 2,428,697</u>	<u>\$ 2,665,651</u>

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2016

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

3.D. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016, was as follows:

	Balance at July 1, 2015	Additions	Disposals	Balance at June 30, 2016
Governmental Activities:				
Land	\$ 1,105,050	\$ 35,727	\$ -	\$ 1,140,777
Buildings & Improvements	3,465,553	-	-	3,465,553
Machinery & Equipment	2,448,355	255,892	50,900	2,653,347
Infrastructure	3,619,526	-	-	3,619,526
Construction in Process	1,372	95,382	-	96,754
Totals at Historical Cost	<u>\$ 10,639,856</u>	<u>\$ 387,001</u>	<u>\$ 50,900</u>	<u>\$ 10,975,957</u>
Less: Accumulated Depreciation				
Buildings & Improvements	\$ 868,983	\$ 110,714	\$ -	\$ 979,697
Machinery & Equipment	1,790,770	166,938	50,900	1,906,808
Infrastructure	2,000,005	131,467	-	2,131,472
Total Accumulated Depreciation	<u>\$ 4,659,758</u>	<u>\$ 409,119</u>	<u>\$ 50,900</u>	<u>\$ 5,017,977</u>
Governmental Activities - Capital Assets, Net	<u>\$ 5,980,098</u>	<u>\$ (22,118)</u>	<u>\$ -</u>	<u>\$ 5,957,980</u>

Depreciation Expense was charged to governmental activities as follows:

General Government	\$ 17,352
Public Safety	
Fire Department	56,897
Police Department	74,836
Public Works	29,548
Parks & Recreation	99,018
Infrastructure (included with Public Works)	131,468
Total Depreciation Expense	<u>\$ 409,119</u>

\$1,727,019 of assets have been recorded under capital leases associated with the RV Recreational Park. Accumulated depreciation of \$310,106 is associated with these assets. The lease was repaid at year end.

Land and Construction in process are assets which are not depreciated. \$1,764,954 of depreciable assets are fully depreciated.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2016

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

3.D. CAPITAL ASSETS (Continued)

	Balance at July 1, 2015	Additions	Disposals	Balance at June 30, 2016
<u>Business-type Activities:</u>				
Land & Right of Ways	\$ 713,278	\$ 48,159	\$ -	\$ 761,437
Structures & Improvements	8,035,440	35,236	-	8,070,676
Distribution System	46,071,339	2,119,447	-	48,190,786
Wells	400,333	365,543	-	765,876
Plant, Machinery & Equipment	10,514,986	249,328	61,158	10,703,156
Construction in Process	1,091,353	2,400,355	3,009,367	482,341
Totals at Historical Cost	<u>\$ 66,826,729</u>	<u>\$ 5,218,068</u>	<u>\$ 3,070,525</u>	<u>\$ 68,974,272</u>
Less: Accumulated Depreciation				
Structures & Improvements	\$ 2,953,176	\$ 236,654	\$ -	\$ 3,189,830
Distribution System	16,561,280	1,091,588	-	17,652,868
Wells	301,048	21,869	-	322,917
Plant, Machinery & Equipment	7,884,969	447,635	61,158	8,271,446
Total Accumulated Depreciation	<u>\$ 27,700,473</u>	<u>\$ 1,797,746</u>	<u>\$ 61,158</u>	<u>\$ 29,437,061</u>
Business-type Activities Capital Assets, Net	<u>\$ 39,126,256</u>	<u>\$ 3,420,322</u>	<u>\$ 3,009,367</u>	<u>\$ 39,537,211</u>

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

Gas	\$ 598,344
Water	211,975
Sewer	987,427
Total Depreciation Expense	<u>\$ 1,797,746</u>

\$3,823,481 of assets have been recorded under capital leases associated with the Gas Distribution System. Accumulated depreciation of \$1,878,790 is associated with these assets. The final payment on the lease was made during the 2015 fiscal year.

Land, right of ways, and construction in process are capital assets not being depreciated. \$11,081,243 of depreciable assets are fully depreciated.

3.E. LONG-TERM DEBT

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

Governmental Activities:

Accrued Compensated Absences:

Current Portion	\$ 16,665
Noncurrent Portion	12,898
Total Accrued Compensated Absences	<u>\$ 29,563</u>

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2016

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

3.E. LONG-TERM DEBT (Continued)

Business-type Activities:

As of June 30, 2016, the long-term debt payable from proprietary fund resources consisted of the following:

Notes Payable:

<p>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.</p>	<p>\$ 66,449</p>
<p>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.</p>	<p>919,275</p>
<p>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.</p>	<p>2,379,383</p>
<p>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.</p>	<p>728,393</p>
<p>Kentucky Infrastructure Authority represents a 30 year loan secured by water revenues. Interest is charged at 1.00% per annum. In addition, a loan servicing fee of .25 percent of the annual outstanding loan balance will be payable to the authority as a part of each interest payment. The original principal balance was \$1,977,731. The note was reduced by principal forgiveness of \$692,206. Semi-annual payments with final maturity December 1, 2044.</p>	<p>1,229,973</p>
<p>Kentucky Infrastructure Authority represents a 30 year loan secured by water revenues. Interest is charged at .75% per annum. In addition a loan servicing fee of .25 percent of the annual outstanding loan balance will be payable to the authority as a part of each interest payment. Total draws on the loan through June 30, 2016 were \$1,657,988. The note has been reduced by 25% principal forgiveness of \$414,497. This loan has not been closed as of June 30, 2016.</p>	<p>1,243,491</p>
<p>Kentucky Infrastructure Authority represents a 30 year loan secured by water revenues. Interest is charged at .75% per annum. In addition a loan servicing fee of .25 percent of the annual outstanding loan balance will be payable to the authority as a part of each interest payment. Total draws on the loan through June 30, 2016 were \$963,931. The note has been reduced by 50% principal forgiveness of \$481,965. This loan has not been closed as of June 30, 2016.</p>	<p>481,966</p>
<p>Total Notes Payable</p>	<p>\$ 7,048,930</p>

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2016

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

3.E. LONG-TERM DEBT (Continued)

Business-type Activities: (Continued)

Current Portion	\$ 476,625
Noncurrent Portion	6,572,305
Total Notes Payable	\$ 7,048,930

Accrued Compensated Absences:

Current Portion	\$ 3,948
Noncurrent Portion	12,957
Total	\$ 16,905

Changes in Long-term Debt

The following is a summary of changes in long-term debt for the fiscal year ended June 30, 2016:

<u>Type of Debt</u>	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2016</u>	<u>Current Portion</u>
Governmental Activities					
Capital Lease Obligations	\$ 322,515	\$ -	\$ 322,515	\$ -	\$ -
Accrued Compensated Absences	23,323	6,240	-	29,563	16,665
Total General Long-term Debt	\$ 345,838	\$ 6,240	\$ 322,515	\$ 29,563	\$ 16,665
Business-type Activities					
Notes Payable	\$ 6,085,549	\$ 2,175,077	\$ 1,211,696	\$ 7,048,930	\$ 476,625
Accrued Compensated Absences	17,799	12,590	13,484	16,905	3,948
Total Enterprise Fund Debt	\$ 6,103,348	\$ 2,187,667	\$ 1,225,180	\$ 7,065,835	\$ 480,573

Description of Debt Activity:

Business-type Activities

Notes Payable to Kentucky Infrastructure Authority

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

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

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

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

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2016

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

3.E. LONG-TERM DEBT (Continued)

Description of Debt Activity: (Continued)

Business-type Activities (Continued)

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

A sixth loan with Kentucky Infrastructure Authority had not been closed as of June 30, 2015. The loan provided financing for the Carroll County Interconnect Project to provide interconnections between Carrollton Utilities, Carroll County Water District, and West Carroll Water District. Total loans draws through June 30, 2016 were \$1,657,988. The loan contained a principal forgiveness clause in the amount of twenty-five percent (25%). An interlocal receivable from the West Carroll Water District was recorded in the amount of \$44,310 less the District's share of principal forgiveness of \$11,077. An interlocal receivable from the Carroll County Water District was recorded in the amount of \$301,721 less loan forgiveness of \$75,430. Principal forgiveness for Carrollton Utilities has been recognized in the amount of \$327,990, including additional principal forgiveness of \$112,583 recorded based on costs incurred for which loan draws had not been received.

As of June 30, 2016, a new loan with Kentucky Infrastructure Authority had not been closed. The loan provided financing for the Focusing on Core Missions Project, to provide distribution system improvements for Carrollton Utilities and system improvements to Carroll County Water District #1, West Carroll Water District, and Henry County Water District #2. Total loan draws through June 30, 2016 were \$963,931. The loan contained a principal forgiveness clause in the amount of fifty percent (50%). An interlocal receivable from the West Carroll Water District was recorded in the amount of \$30,735 less the District's share of principal forgiveness of \$15,367. An interlocal receivable from the Carroll County Water District was recorded in the amount of \$123,433 less principal forgiveness of \$61,717. An interlocal receivable from the Henry County Water District was recorded in miscellaneous accounts receivable in the amount of \$30,735 less principal forgiveness of \$15,367. Principal forgiveness for Carrollton Utilities has been recognized in the amount of \$389,516, including additional principal forgiveness of \$96,545 recorded based on costs incurred for which loan draws had not been received.

The combined obligations of the outstanding notes at June 30, 2016 are as follows:

Fiscal Year	Principal Payment	Interest Payment	Servicing Fee	Total Payment	Balance at End of Year
					\$ 7,048,930
2016-17	\$ 476,625	\$ 71,068	\$ 14,730	\$ 562,423	6,572,305
2017-18	489,632	67,182	14,326	571,140	6,082,673
2018-19	495,565	61,249	13,299	570,113	5,587,108
2019-20	501,578	55,237	12,259	569,074	5,085,530
2020-21	507,670	49,144	11,208	568,022	4,577,860
2021-25	2,091,462	165,870	41,416	2,298,748	2,486,398
2025-30	864,729	90,106	25,011	979,846	1,621,669
2030-35	590,586	56,755	16,597	663,938	1,031,083
2035-40	536,777	33,428	9,893	580,098	494,306
2040-45	485,354	10,293	3,145	498,792	8,952
2045-47	8,952	34	11	8,997	-
	<u>\$ 7,048,930</u>	<u>\$ 660,366</u>	<u>\$ 161,895</u>	<u>\$ 7,871,191</u>	<u>\$ -</u>

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2016

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

3.E. LONG-TERM DEBT (Continued)

Description of Debt Activity: (Continued)

Business-type Activities (Continued)

Notes Payable to Kentucky Infrastructure Authority (Continued)

Annual Debt Service Requirements

The annual debt service requirements to maturity, including principal, interest, fiscal charges and servicing fees for long-term debt as of June 30, 2016 are as follows:

Fiscal Year	Governmental Activities		Business-type Activities	
	Principal	Interest & Fiscal Charges	Principal	Interest & Fiscal Charges
2016-17	\$ -	\$ -	\$ 476,625	\$ 85,798
2017-18	-	-	489,632	81,508
2018-19	-	-	495,565	74,548
2019-20	-	-	501,578	67,496
2020-21	-	-	507,670	60,351
2021-25	-	-	2,091,462	207,286
2025-30	-	-	864,729	115,117
2030-35	-	-	590,586	73,352
2035-40	-	-	536,777	43,321
2040-45	-	-	485,354	13,439
2045-47	-	-	8,952	45
Total	\$ -	\$ -	\$ 7,048,930	\$ 822,261

3.F. INTEREST EXPENSE AND FISCAL CHARGES

Interest expense and fiscal charges for the Governmental Funds was \$6,024. Interest expense and fiscal charges for the Enterprise Fund for the year ended June 30, 2016, was \$83,425. No interest was capitalized during the year ended June 30, 2016.

3.G. INTERFUND TRANSACTIONS AND BALANCES

Interfund balances reported in the financial statements at June 30, 2016, consisted of the following individual fund receivables and payables:

Receivable Fund	Payable Fund	Amount	Purpose
General Fund	Enterprise Fund	\$ 2,058,444	Sanitation Receipt Reimbursements/ PEAK Returns
Total		\$ 2,058,444	

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2016

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

3.H. FUND EQUITY

Restricted Net Position

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

Governmental Activities

Activity	Restricted by	
Other Purposes:		
Municipal Road Aid	State Law	\$ 90,866
L.G.E.A.F.	State Law	22,601
		<u>\$ 113,467</u>

Business-type Activities

Restricted for Debt Service:		
Kentucky Infrastructure Authority (KIA) Notes Payable		
Cash & Investments		\$ 535,376
Add: Accrued Interest Receivable		322
Less: Accrued Interest Payable		(7,077)
Total KIA Notes Payable		<u>\$ 528,621</u>

Fund Balance Classifications

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

Restricted for the following purposes under Kentucky Statutes:

Other Governmental Funds:		
Municipal Road Aid		\$ 90,866
L.G.E.A. F.		22,601
		<u>\$ 113,467</u>

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

General Fund:		
Bowbridge Project		\$ 20,000
Streetscape Project		94,150
Fireworks Display		15,000
Walking Trails Project		52,000
Land & Water Conservation		36,275
Total Committed		<u>\$ 217,425</u>
Other Governmental Funds:		
Community Development Projects (EIP)		\$ 55,322
Total Committed		<u>\$ 55,322</u>

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2016

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

3.H. FUND EQUITY (Continued)

Fund Balance Classifications (Continued)

General Fund:

Fire Truck Acquisition	\$	325,000
Total Assigned	\$	325,000

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

Other Governmental Funds:

Shop with a Cop	\$	18,238
Riverwalk Development		4,056
Total Assigned	\$	22,294

Unrestricted net position of the governmental funds and proprietary fund was reduced by \$101,089 and \$127,514, respectively, as a result of the transactions recorded by the District to reflect its proportionate share of the County Employees Retirement System's Net Pension Liability. The accounts affected were as follows:

	Governmental Funds	Proprietary Fund
Increase in Deferred Outflows of Resources	\$ 251,457	\$ 306,496
Decrease in Deferred Inflows of Resources	182,000	221,000
Increase in Net Pension Liability	(534,546)	(655,010)
Net Decrease in Unrestricted Net Position	\$ (101,089)	\$ (127,514)

NOTE 4. OTHER NOTES

4.A. PENSION PLAN

The City of Carrollton participates in the Commonwealth of Kentucky's County Employees' Retirement System (CERS).

County Employees Retirement System Non-Hazardous ("CERS")

Under the provision of Kentucky Revised Statute ("KRS") Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. The most recent financial report, dated June 30, 2015, may be obtained from <https://kyret.ky.gov/Financial%20Statements/2015/Financial.pdf>. Additionally, the Kentucky Retirement System issues a publically available financial report that includes the Schedules of Employer Allocations and Pension amounts by Employer. The most recent report, dated June 30, 2015, may be obtained from <https://kyret.ky.gov/employers/GASB/pages/GASB-library.aspx>.

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2016

NOTE 4. OTHER NOTES

4.A. PENSION PLAN (Continued)

County Employees Retirement System Non-Hazardous ("CERS") (Continued)

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers all regular full-time members employed in non-hazardous duty positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in CERS. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Prior to July 1, 2009, COLAs were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. 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 a least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce the COLA, if, in its judgment, the welfare of the Commonwealth so demands. No COLA has been granted since July 1, 2011.

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

Method Used to Value Investments – Investments of the plan are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Short-term investments are reported at cost, which approximates fair value.

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

Tier 1	Participation date Unreduced retirement Reduced retirement	Before September 1, 2008 27 years service or 65 years old At least 5 years service and 55 years old
Tier 2	Participation date Unreduced retirement Reduced retirement	September 1, 2008 – December 31, 2013 At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87 At least 10 years service and 60 years old
Tier 3	Participation date Unreduced retirement Reduced retirement	After December 31, 2013 At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87 Not available

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

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2016

NOTE 4. OTHER NOTES

4.A. PENSION PLAN (Continued)

County Employees Retirement System Non-Hazardous ("CERS") (Continued)

Contributions - For the fiscal year ended June 30, 2015, plan members who began participating prior to September 1, 2008, were required to contribute 5% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the fiscal year ended June 30, 2015, participating employers contributed 17.67%, of each employer's creditable compensation. The actuarially determined rates set by the Board for the fiscal years ended June 30, 2015, was 17.67%. Administrative costs of KRS are financed through employer contributions and investment earnings.

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

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

Actuarial Methods and Assumptions

The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal years ended 2016 and 2017, determined as of June 30, 2015. The amortization period of the unfunded liability has been reset as of July 1, 2013, to a closed 30 year period. The following actuarial methods and assumptions were used to determine contribution rates reported for all KRS Systems:

Actual Cost Method	Entry Age
Amortization Method	Level of Percentage of Payroll, closed
Remaining Amortization Period	28 years
Asset Valuation Method	5 year Smoothed Market
Inflation	3.25%
Salary Increase	4%, average, including inflation
Investment Rate of Return	7.5%, Net of Pension Plan Investment Expense, including inflation

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2016

NOTE 4. OTHER NOTES

4.A. PENSION PLAN (Continued)

County Employees Retirement System Non-Hazardous ("CERS") (Continued)

Actuarial Methods and Assumptions (Continued)

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the Systems. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

There were no changes of benefit terms. However, the following changes in assumptions were adopted by the Board of Trustees and reflected in the valuation performed as of June 30, 2015:

- The assumed investment rate of return was decreased from 7.75% to 7.5%.
- The assumed rate of inflation was reduced from 3.5% to 3.25%.
- The assumed rate of wage inflation was reduced from 1% to .75%.
- Payroll growth assumption was reduced from 4.5% to 4%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB 2013 (set back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

Discount Rate

The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 28 year amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate. Projected future benefit payments for all current plan members were projected through 2117. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the Kentucky Retirement Systems' Comprehensive Annual Financial Report.

The following table presents the net pension liability of CERS [as reported in its publicly available financial statements for the year ended June 30, 2015], calculated using the discount rate of 7.5%, as well as what CERS' net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.5%) or one percentage point higher (8.5%):

	1% Decrease [6.5%]	Current Discount [7.5%]	1% Increase [8.5%]
Net Pension Liability	\$ 5,488,878,000	\$ 4,299,525,565	\$ 3,280,950,000
City's Proportionate Share	6,124,676	4,797,556	3,660,995

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2016

NOTE 4. OTHER NOTES

4.A. PENSION PLAN (Continued)

County Employees Retirement System Non-Hazardous ("CERS") (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the City reported a liability of \$4,797,556 (Governmental Activities \$2,163,546 and Business-type Activities \$2,634,010) for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and was based on the actual liability of the employees and former employees relative to the total pension liability of the system as determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2015, the City's proportionate share was .11158 percent. At June 30, 2014, the City's proportionate share was .1122 percent.

For the year ended June 30, 2016, the City's General Fund's total payroll for the fiscal year ended June 30, 2016 was \$1,267,410. Contributions were based on \$1,174,962 (eligible gross wages). The total employer pension contributions for the year ended June 30, 2016 were \$200,451.

The City's Proprietary Fund's total payroll for the year ended June 30, 2016 was \$1,579,445. Contributions were based on \$1,434,819 (eligible gross wages). The total employer pension contributions for the year ended June 30, 2016 were \$244,804.

The City's General Fund's total payroll for the fiscal year ended June 30, 2015, was \$1,257,726. Contributions were based on \$1,229,141 (eligible gross wages). The total employer pension contributions for the year ended June 30, 2015, were \$207,454.

The City's Proprietary Fund's total payroll for the fiscal year ended June 30, 2015, was \$1,583,123. Contributions were based on \$1,448,861 (eligible gross wages). The total employer pension contributions for the fiscal year ended June 30, 2015 were \$256,014.

All contributions were made as required during these years.

The City's contribution for the County Employees' Retirement System's year ended June 30, 2015, (general and proprietary fund combined) was .11158 percent of the System's total contribution requirements for all employers (non-hazardous).

For the year ended June 30, 2016, the City recognized pension expense of \$673,858, (\$301,540 attributed to the General Fund, and \$372,318 attributed to the Proprietary Fund). At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to CERS pensions from the following sources:

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2016

NOTE 4. OTHER NOTES

4.A. PENSION PLAN (Continued)

County Employees Retirement System Non-Hazardous ("CERS") (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

	June 30, 2016			
	Governmental Funds		Proprietary Fund	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	\$ 17,980	\$ -	\$ 21,890	\$ -
Change in Assumptions	218,170	-	265,611	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	2,916	-	6,593	-
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	19,394	-	23,612	-
City Contributions Made Subsequent to the NPL Measurement Date	200,451	-	244,804	-
Total	<u>\$ 458,911</u>	<u>\$ -</u>	<u>\$ 562,510</u>	<u>\$ -</u>

\$445,255 reported as deferred outflows of resources related to pensions arising from the City's contributions made subsequent to the measurement date will be recognized as a reduction in the net pension liability in the year ended June 30, 2017. Deferred inflows of resources attributable to the net difference between projected and actual investment earnings on pension plan investments arising in the year ended June 30, 2014, and reported as such, in the City's audit report, have been offset against deferred outflows of resources attributable to the net difference between projected and actual investment earnings on pension plan investments arising in the year ended June 30, 2015, as reported in the Kentucky Retirement System's audit report and proportionately herein. Amounts reported as deferred inflows and outflows of resources due to the net difference between projected and actual investment earnings on pension plan investments will be amortized over five years and recognized in pension expense as follows:

		Governmental Funds		Proprietary Fund	
		Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Year Ended June 30:					
	2017	\$ (6,527)	\$ -	\$ (7,910)	\$ -
	2018	(6,527)	-	(7,910)	-
	2019	(6,527)	-	(7,910)	-
	2020	38,975	-	47,342	-
Total		<u>\$ 19,394</u>	<u>\$ -</u>	<u>\$ 23,612</u>	<u>\$ -</u>

Amounts reported as deferred outflows of resources due to the difference between expected and actual experience, change of assumptions, and changes in proportion and differences between employer contributions and proportionate share of contributions will be amortized over the expected remaining service lives of all employees that are provided with pensions through the pension plan (3.51 years) and recognized in pension expense as follows:

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2016

NOTE 4. OTHER NOTES

4.A. PENSION PLAN (Continued)

County Employees Retirement System Non-Hazardous ("CERS") (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Year Ended June 30:	Governmental Funds		Proprietary Fund	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
2017	\$ 95,245	\$ -	\$ 117,169	\$ -
2018	95,245	-	117,169	-
2019	48,576	-	59,756	-
Total	\$ 239,066	\$ -	\$ 294,094	\$ -

4.B. RISK MANAGEMENT

Insurance and Related Activities

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

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

4.C. COMMITMENTS & CONTINGENCIES

Each employee is granted sick leave at the rate of eight hours per month up to a maximum of 1,040 hours. Employees shall not be paid for unused sick leave credit upon termination of employment, except that employees who retire and receive CERS retirement benefits may personally receive payment for unused sick leave for the same amount that CERS would charge for applying the accrued sick leave to extend retirement benefits. The total liability for accumulated sick leave at June 30, 2016 was \$559,256. No accrual has been recorded in the financial statements due to the contingent nature of this liability.

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

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

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2016

NOTE 4. OTHER NOTES (Continued)

4.C. COMMITMENTS & CONTINGENCIES (Continued)

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, 2016, Carrollton Utilities has an unpaid and accrued storage liability estimated to be \$262,334.

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 \$255,513 for the 2015-2016 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. in 2008.

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

Carrollton Utilities is a Project Participant in the Long-Term Natural Gas Supply Program of PEAK to include the 2006 Project between PEAK and BP Energy Company. Pursuant to the Gas Supply Contract under the 2006 Project, Carrollton Utilities receives fixed quantities of gas supply at a specified price over a term of ten years. The 2006 Project includes an Annual Return allocation to Project Participants for the twelve-month period ending each June 30, based on the proportional share of gas supply purchase quantities during the period. The 2006 Project expired on June 30, 2016 and included an End of Project Return to Project Participants based on the proportional share of gas supply purchase quantities over the 10-year term, as described in Note 1.E to the financial statements.

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, 2016, are as follows:

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2016

NOTE 4. OTHER NOTES (Continued)

4.C. COMMITMENTS & CONTINGENCIES (Continued)

Long Term Gas Supply Arrangements (Continued)

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

Assets and Deferred Outflows	\$	106,524,470
Liabilities and Deferred Inflows		101,906,584
Total Net Position		4,617,886
Costs Recoverable from Future Billings		(27,901,373)

- * 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.

Carrollton Utilities Administration Building Project

Carrollton Utilities is in the design phases of a new administration building. The current estimate of construction for the project is \$1,756,000. The new administration building estimated construction costs includes a 6,500 square foot office building with parking lot, drive thru lane, storm detention basin and all site work. Also included in the budget is new information technology capabilities, security, multi-media, some furnishings and moving costs. Construction began December 5, 2016 and the project is estimated to be completed by August 16, 2017. \$94,385 has been included in construction work in process at June 30, 2016 for architectural fees through June 30, 2016.

Carrollton Utilities has several smaller projects that the Utilities plans to complete during 2016 – 2017 fiscal year.

4.D. MISCELLANEOUS

Bad Debt Expense

Utility revenue charges have been netted with an estimated bad debt expense of \$8,481, \$4,291, and \$24,538 for gas, water and sewer services, respectively.

Income Tax Status

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

Economic Dependence

Carrollton Utilities Commission provides natural gas to residential, commercial, and industrial customers. It should be noted that 99.3% of the total gas revenue is received from seven industrial customers. As described in Note 4.C., all natural gas purchases are made through the Public Energy Authority of Kentucky (PEAK). \$26,009,542 of the \$26,508,004 gas cost of goods sold are for natural gas purchases, excluding related transportation costs. Additionally, 53.5% of the City's General Fund revenues are attributable to gas prepurchase agreements with PEAK. At June 30, 2016, the PEAK prepay transaction with BP Energy Company ended and the City of Carrollton received an end of project payout of \$1,186,435.

Related Party Transactions

For the year ended June 30, 2016, the City received \$33,054 from the Carrollton Housing Authority as payments in lieu of tax.

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2016

NOTE 4. OTHER NOTES (Continued)

4.D. MISCELLANEOUS (Continued)

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.

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, 2016, is presented as follows:

CONDENSED STATEMENT OF NET POSITION

	Gas	Water	Sewer	Total
Assets:				
Current Assets	\$ 13,048,113	\$ (780,050)	\$ 178,335	\$ 12,446,398
Other Noncurrent Assets	75,111	1,720,721	541,684	2,337,516
Capital Assets (Net)	11,317,312	5,335,633	22,884,266	39,537,211
Total Assets	<u>\$ 24,440,536</u>	<u>\$ 6,276,304</u>	<u>\$ 23,604,285</u>	<u>\$ 54,321,125</u>
Deferred Outflows:	<u>\$ 236,255</u>	<u>\$ 135,002</u>	<u>\$ 191,253</u>	<u>\$ 562,510</u>
Liabilities:				
Due to Other Funds	\$ 2,028,914	\$ 29,530	\$ -	\$ 2,058,444
Other Current Liabilities	2,430,878	393,858	478,860	3,303,596
Noncurrent Liabilities	1,182,725	3,758,511	4,448,319	9,389,555
Total Liabilities	<u>\$ 5,642,517</u>	<u>\$ 4,181,899</u>	<u>\$ 4,927,179</u>	<u>\$ 14,751,595</u>
Net Position:				
Net Investment in Capital Assets	\$ 11,299,753	\$ 3,334,824	\$ 18,776,493	\$ 33,411,070
Restricted for Debt Service	-	58,858	469,763	528,621
Unrestricted	7,734,521	(1,164,275)	(377,897)	6,192,349
Total Net Position	<u>\$ 19,034,274</u>	<u>\$ 2,229,407</u>	<u>\$ 18,868,359</u>	<u>\$ 40,132,040</u>

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2016

NOTE 4. OTHER NOTES (Continued)

4.D. MISCELLANEOUS (Continued)

Segment Information – Enterprise Fund (Continued)

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

	Gas	Water	Sewer	Total
Operating Revenues	\$ 28,873,956	\$ 1,368,683	\$ 2,137,399	\$ 32,380,038
Depreciation Expense	(598,344)	(211,975)	(987,427)	(1,797,746)
Other Operating Expenses	(27,987,213)	(1,182,390)	(1,142,077)	(30,311,680)
Net Operating Income (Loss)	\$ 288,399	\$ (25,682)	\$ 7,895	\$ 270,612
Nonoperating Revenues (Expenses):				
Interest Income	7,422	11,884	1,199	20,505
Interest & Fiscal Charges	-	(22,179)	(61,246)	(83,425)
Gain (Loss) on Sale of Assets	12,293	-	3,795	16,088
Capital Contributions	-	531,819	116,661	648,480
Change in Net Position	\$ 308,114	\$ 495,842	\$ 68,304	\$ 872,260
Beginning Net Position	18,726,159	1,733,566	18,800,055	39,259,780
Ending Net Position	\$ 19,034,273	\$ 2,229,408	\$ 18,868,359	\$ 40,132,040

CONDENSED STATEMENT OF CASH FLOWS

	Gas	Water	Sewer	Total
Net Cash Provided (Used) by:				
Operating Activities	\$ 972,544	\$ 220,861	\$ 1,014,778	\$ 2,208,183
Noncapital Financing Activities	-	455,814	-	455,814
Capital and Related Financing Activities	(554,357)	(180,755)	(701,204)	(1,436,316)
Investing Activities	227,727	(260,170)	1,081	(31,362)
Net Increase (Decrease)	\$ 645,914	\$ 235,750	\$ 314,655	\$ 1,196,319
Beginning Cash and Cash Equivalents	7,569,943	(753,848)	(353,624)	6,462,471
Ending Cash and Cash Equivalents	\$ 8,215,857	\$ (518,098)	\$ (38,969)	\$ 7,658,790

4.E. FINANCIAL STATEMENTS RESTATEMENT

In June 2015, the GASB issued Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for fiscal years beginning after June 15, 2017. This statement requires the liability of employers to employees for defined benefit OPEB (net OPEB liability) to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position. The City is evaluating the requirements of this statement.

CITY OF CARROLLTON, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 For the Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 1,106,041	\$ 1,204,343	\$ 1,325,751	\$ 121,408
ESTIMATED REVENUES				
Payments in Lieu of Taxes	\$ 32,000	\$ 37,055	\$ 37,054	\$ (1)
Ad Valorem Taxes	429,415	433,915	418,877	(15,038)
Franchise Fees	118,000	371,593	334,103	(37,490)
Garbage Collection	360,000	360,000	369,492	9,492
Bank Franchise Deposit Tax	25,000	26,275	26,274	(1)
Business Licenses	98,000	93,000	93,905	905
Insurance Licenses	460,000	480,000	490,829	10,829
Building Permits	1,000	1,000	860	(140)
Penalty & Interest	8,000	8,000	8,140	140
Interest Revenue	2,218	860	4,670	3,810
PEAK Annual Return	1,300,000	1,274,563	1,303,221	28,658
Two Rivers Campground Receipts	60,000	50,092	46,215	(3,877)
Other Revenue	13,570	17,834	12,757	(5,077)
Proceeds from Outside Sources:				
Carroll County Tourism	-	-	-	-
HB413/Citations	10,000	8,600	9,279	679
CC Fiscal Court - Public Safety Salaries	213,263	213,263	241,683	28,420
School Officer Reimbursements	45,000	-	-	-
Police & Firefighter's Incentive Pay	34,100	27,416	29,192	1,776
State Fire Aid	8,250	8,250	8,250	-
KY Department of Local Government - Renaissance Grant	-	3,305	3,305	-
U.S. Department of Transportation - Highway Safety Grant	-	-	1,500	1,500
Transfers from Other Funds	880,500	661,555	-	(661,555)
Total Estimated Revenues	\$ 4,098,316	\$ 4,076,576	\$ 3,439,606	\$ (636,970)
Total Resources Available for Appropriation	\$ 5,204,357	\$ 5,280,919	\$ 4,765,357	\$ (515,562)
APPROPRIATIONS				
Administrative	\$ 946,584	\$ 909,955	\$ 915,173	\$ (5,218)
Public Safety				
Fire Department	151,731	143,775	148,775	(5,000)
Police Department	1,246,894	1,179,279	1,143,616	35,663
Public Works	543,468	549,394	555,788	(6,394)
Parks and Recreation	93,550	94,313	50,397	43,916
Capital Outlay	411,580	448,592	387,001	61,591
Transfers to other funds	855,000	661,555	-	661,555
Debt Retirement	329,002	329,002	329,002	-
Total Appropriations	\$ 4,577,809	\$ 4,315,865	\$ 3,529,752	\$ 786,113
Excess of Resources and Revenues Over (Under) Appropriations	\$ 626,548	\$ 965,054	\$ 1,235,605	\$ 270,551
Estimated Fund Balances at June 30, 2016	\$ 626,548	\$ 965,054	\$ 1,235,605	\$ 270,551

CITY OF CARROLLTON, KENTUCKY
NOTES TO BUDGETARY COMPARISON SCHEDULE
June 30, 2016

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	\$ 4,765,357
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	(1,325,751)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	\$ 3,439,606
Uses/outflows of resources:	
Actual amounts (budgetary basis) "total appropriations" from the budgetary comparison schedule	\$ 3,529,752
Differences - budget to GAAP:	
None	-
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	\$ 3,529,752

CITY OF CARROLLTON, KENTUCKY

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
County Employees Retirement System

June 30, 2016

	<u>June 30, 2015*</u>	<u>June 30, 2014*</u>
City's proportion of the net pension liability (asset)	0.11158%	0.1112%
City's proportionate share of the net pension liability (asset)	\$ 4,797,556	\$ 3,608,000
City's covered-employee payroll	\$ 2,678,002	\$ 2,390,302
City's proportionate share of the net pension liability (asset) as a percentage of its of its covered-employee payroll	179.15%	150.94%
Plan fiduciary net position as a percentage of the total pension liability	59.97%	62.60%

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

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

Changes in Assumptions:

There were no changes of benefit terms. However, the following changes in assumptions were adopted by the Board of Trustees and reflected in the valuation performed as of June 30, 2015:

- The assumed investment rate of return was decreased from 7.75% to 7.5%.
- The assumed rate of inflation was reduced from 3.5% to 3.25%.
- The assumed rate of wage inflation was reduced from 1% to .75%.
- Payroll growth assumption was reduced from 4.5% to 4%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retire members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

CITY OF CARROLLTON, KENTUCKY

SCHEDULE OF THE CITY'S CONTRIBUTIONS

County Employees Retirement System

Last Ten (10) Fiscal Years Ended June 30

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually required contributions	\$ 445,255	\$ 463,468	\$ 475,408	\$ 469,528	\$ 452,627	\$ 382,538	\$ 358,372	\$ 291,986	\$ 334,209	\$ 255,140
Contributions in relation to the contractually required contributions	445,255	463,468	475,408	469,528	452,627	382,538	358,372	291,986	334,209	255,140
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
City's covered-employee payroll	\$ 2,609,781	\$ 2,678,002	\$ 2,390,302	\$ 2,496,449	\$ 2,384,753	\$ 2,260,477	\$ 2,217,653	\$ 2,162,858	\$ 2,066,862	\$ 1,934,350
Contributions as a percentage of covered-employee payroll	17.06%	17.31%	19.89%	18.81%	18.98%	16.92%	16.16%	13.50%	16.17%	13.19%

CITY OF CARROLLTON, KENTUCKY
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2016

	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	\$ 81,891	\$ 22,601	\$ 50,577	\$ 18,238	\$ 4,056	\$ 177,363
Accounts Receivable	-	-	4,745	-	-	4,745
Due from Other Governments	8,975	-	-	-	-	8,975
Total Assets	\$ 90,866	\$ 22,601	\$ 55,322	\$ 18,238	\$ 4,056	\$ 191,083
LIABILITIES						
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
FUND BALANCES						
Restricted	\$ 90,866	\$ 22,601	\$ -	\$ -	\$ -	\$ 113,467
Committed	-	-	55,322	-	-	55,322
Assigned	-	-	-	18,238	4,056	22,294
Total Fund Balances	\$ 90,866	\$ 22,601	\$ 55,322	\$ 18,238	\$ 4,056	\$ 191,083
Total Liabilities and Fund Balances	\$ 90,866	\$ 22,601	\$ 55,322	\$ 18,238	\$ 4,056	\$ 191,083

CITY OF CARROLLTON, KENTUCKY
 COMBINING STATEMENT OF REVENUES,
 EXPENDITURES, AND CHANGES IN FUND BALANCES -
 NONMAJOR GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2016

Special Revenue Funds

	Municipal Road Aid	L.G.E.A.F. Program	Enterprise Improvement Program	Shop With A Cop	Riverwalk Development Fund	Total Nonmajor Governmental Funds
REVENUES						
Ad Valorem Taxes	\$ -	\$ -	\$ 23,130	\$ -	\$ -	\$ 23,130
Kentucky Municipal Road Aid	75,866	-	-	-	-	75,866
Local Government Economic Assistance	-	5,423	-	-	-	5,423
Donations	-	-	-	14,084	-	14,084
EIP Repayments	-	-	7,667	-	-	7,667
Interest / Investment Revenue	91	29	365	29	-	514
Total Revenues	\$ 75,957	\$ 5,452	\$ 31,162	\$ 14,113	\$ -	\$ 126,684
EXPENDITURES						
Current:						
Administrative	\$ -	\$ -	\$ 5,577	\$ -	\$ -	\$ 5,577
Community Service	-	-	-	14,258	-	14,258
Parks and Recreation	-	-	-	-	831	831
Total Expenditures	\$ -	\$ -	\$ 5,577	\$ 14,258	\$ 831	\$ 20,666
Excess of Revenues Over (Under) Expenditures	\$ 75,957	\$ 5,452	\$ 25,585	\$ (145)	\$ (831)	\$ 106,018
Fund Balances - July 1	14,909	17,149	29,737	18,383	4,887	85,065
Fund Balances - June 30	\$ 90,866	\$ 22,601	\$ 55,322	\$ 18,238	\$ 4,056	\$ 191,083

CITY OF CARROLLTON, KENTUCKY
SCHEDULE OF DEPARTMENTAL OPERATING REVENUES AND EXPENSES
ENTERPRISE FUND
(CARROLLTON UTILITIES)
For the Year Ended June 30, 2016

	Departments			Contractual Services	Total
	Gas	Water	Sewer		
Operating Revenues:					
Charges for Services:					
Utility Charges (Net of Bad Debt Expense)	\$ 28,823,369	\$ 1,077,207	\$ 1,914,921	\$ -	\$ 31,815,497
Connection Fees & Service Charges	22,770	9,924	177,704	-	210,398
Contractual Services	-	-	-	255,513	255,513
Total Charges for Services	\$ 28,846,139	\$ 1,087,131	\$ 2,092,625	\$ 255,513	\$ 32,281,408
Miscellaneous Revenues	2,818	1,038	19,774	75,000	98,630
Total Operating Revenues	\$ 28,848,957	\$ 1,088,169	\$ 2,112,399	\$ 330,513	\$ 32,380,038
Operating Expenses:					
Cost of Goods Sold	\$ 26,508,004	\$ -	\$ -	\$ -	\$ 26,508,004
Operation & Maintenance	499,720	542,676	623,451	103,179	1,769,026
General & Administrative	977,754	430,835	516,891	109,170	2,034,650
Depreciation	598,344	211,975	987,427	-	1,797,746
Total Operating Expenses	\$ 28,583,822	\$ 1,185,486	\$ 2,127,769	\$ 212,349	\$ 32,109,426
Net Operating Income (Loss)	\$ 265,135	\$ (97,317)	\$ (15,370)	\$ 118,164	\$ 270,612

CITY OF CARROLLTON, KENTUCKY
SCHEDULE OF OPERATION & MAINTENANCE, GENERAL &
ADMINISTRATIVE EXPENSES BY DEPARTMENT
ENTERPRISE FUND
(CARROLLTON UTILITIES)
For the Year Ended June 30, 2016

	Departments			Contractual Services	Total
	Gas	Water	Sewer		
OPERATION & MAINTENANCE					
Customer Service	\$ 77,412	\$ 45,048	\$ 1,200	\$ 72,572	\$ 196,232
Mains	152,358	49,994	95,446	15,177	312,975
Transportation	26,603	17,971	33,129	3,929	81,632
Plant and Equipment	231,710	240,236	381,129	11,500	864,575
Chemicals	-	120,282	41,839	-	162,121
Electric, Light and Power	11,638	69,145	70,708	-	151,491
Total	\$ 499,721	\$ 542,676	\$ 623,451	\$ 103,178	\$ 1,769,026
GENERAL & ADMINISTRATIVE EXPENSES					
Office Salaries	\$ 206,353	\$ 42,681	\$ 105,853	\$ 20,841	\$ 375,728
Employee Benefits	406,398	228,089	258,755	73,010	966,252
Payroll Taxes	51,962	24,270	26,852	9,152	112,236
Commissioner Fees	4,824	4,788	4,788	-	14,400
Office Expenses	57,177	55,321	53,012	-	165,510
Professional and Outside Services	68,487	32,668	21,652	-	122,807
Insurance	124,359	13,058	15,557	-	152,974
Other	58,194	29,960	30,422	6,167	124,743
Total	\$ 977,754	\$ 430,835	\$ 516,891	\$ 109,170	\$ 2,034,650

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Carrollton, Kentucky as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Carrollton, Kentucky's basic financial statements and have issued our report thereon dated January 18, 2017.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies (Items 2016-001 and 2016-002).

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

CITY OF CARROLLTON, KENTUCKY'S RESPONSE TO FINDINGS

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

PURPOSE OF THIS REPORT

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

Raisor, Zapp & Woods, PSC

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

January 18, 2017

RAISOR, ZAPP & WOODS, PSC

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited City of Carrollton, Kentucky's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of City of Carrollton, Kentucky's major federal programs for the year ended June 30, 2016. City of Carrollton, Kentucky's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of Carrollton, Kentucky's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Carrollton, Kentucky's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of City of Carrollton, Kentucky's compliance.

Opinion on Each Major Federal Program

In our opinion, City of Carrollton, Kentucky, complied in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of City of Carrollton, Kentucky, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Carrollton, Kentucky's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Carrollton, Kentucky's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Raisor, Zapp & Woods, PSC

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

January 18, 2017

**CITY OF CARROLLTON, KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2016**

Federal Grant/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Identifying Number	Passed Through to Subrecipients	Federal Expenditures
<u>Environmental Protection Agency</u>				
Pass-through Program from Kentucky Infrastructure Authority				
Capitalization Grants for Clean Water State Revolving Funds	66.458	F14-013	\$ 147,864	\$ 770,842
Total Environmental Protection Agency			\$ 147,864	\$ 770,842
<u>United States Department of Transportation</u>				
Highway Safety Cluster				
Pass-through Program from Kentucky Transportation Cabinet Office of Highway Safety				
National Priority Safety Programs	20.616	M2HVE-2016-MG-00-05	\$ -	\$ 1,500
Total Highway Safety Cluster			\$ -	\$ 1,500
Total United States Department of Transportation			\$ -	\$ 1,500
Total Expenditures of Federal Awards			\$ 147,864	\$ 772,342

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note A: Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the City of Carrollton, Kentucky f/b/o Carrollton Utilities under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the the City of Carrollton, Kentucky f/b/o Carrollton Utilities, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Carrollton, Kentucky f/b/o Carrollton Utilities.

Note B: Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note C: Non Cash Awards

The City of Carrollton, Kentucky f/b/o Carrollton Utilities did not receive any other federal awards in the form of non-cash assistance, insurance contracts, or loan guarantees for the year ended June 30, 2016.

**CITY OF CARROLLTON, KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
For the Year Ended June 30, 2016**

Note D: Notes Payable

At June 30, 2016, including the above total expenditures, the City of Carrollton, Kentucky f/b/o Carrollton Utilities had loans outstanding and payable to the Kentucky Infrastructure Authority in the amount of \$7,048,930. These loans impose no continuing compliance requirements other than to repay the loans.

Note E: Subrecipients

Of the federal expenditures presented in the schedule, Carrollton Utilities through the City of Carrollton provided federal awards to subrecipients as follows:

CFDA NO.	Program Name	Subrecipient	Amount Provided
66.458	Capitalization Grants for Clean Water State Revolving Funds	Carroll County Water District #1	\$ 98,708
66.458	Capitalization Grants for Clean Water State Revolving Funds	West Carroll Water District	\$ 24,578
66.458	Capitalization Grants for Clean Water State Revolving Funds	Henry County Water District #2	\$ 24,578

Note F: Loan Forgiveness

Loan F14-013 through Kentucky Infrastructure Authority contained a principal forgiveness clause in the amount of fifty percent (50%). Total loan forgiveness recognized by Carrollton Utilities for Loan F14-013 was \$389,514. Loan forgiveness provided to subrecipients is as follows:

Subrecipient	Loan Forgiveness
Carroll County Water District #1	\$ 61,717
West Carroll Water District	\$ 15,367
Henry County Water District #2	\$ 15,367

CITY OF CARROLLTON, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2016

A. SUMMARY OF AUDITOR'S RESULTS:

1. The auditor's report expresses an unmodified opinion on whether the financial statements of the City of Carrollton, Kentucky were prepared in accordance with GAAP.
2. Two deficiencies in internal control disclosed during the audit of the financial statements are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. Items 2016-001 and 2016-002 are reported as significant deficiencies.
3. No instances of noncompliance material to the financial statements of City of Carrollton, Kentucky, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. No significant deficiencies in internal control over major federal award programs were disclosed during the audit. No material weaknesses are reported.
5. The auditor's report on compliance for the major federal award program for the City of Carrollton, Kentucky expresses an unmodified opinion.
6. Audit findings that are required to be reported in accordance with 2 CFR Section 200.516(a) are reported in this Schedule.
7. The program tested as a major program was:

Environmental Protection Agency Capitalization Grants for Clean Water State Revolving Funds	<u>CFDA No.</u> 66.458
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8. The threshold used for distinguishing between Type A and Type B programs was \$750,000.
9. City of Carrollton, Kentucky did not qualify as a low risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

DEFICIENCIES IN INTERNAL CONTROL

GOVERNMENT AUDITING STANDARDS

2016-001 SIZE OF ENTITY AND CHECKING PROCEDURES

CONDITION:

Due to the size of the entity, checking procedures are not in place for certain administrative functions and reconciliation procedures. Review and reconciliation procedures were not implemented for all balances included in the Governmental Funds. Separately stated funds were not closed properly for the prior fiscal year. These conditions limit internal control. A similar condition was cited in the schedule of findings and responses for the year ended June 30, 2015 as a significant deficiency as Item 2015-001.

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.

CITY OF CARROLLTON, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
For the Year Ended June 30, 2016

B. FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)

DEFICIENCIES IN INTERNAL CONTROL (CONTINUED)

GOVERNMENT AUDITING STANDARDS (CONTINUED)

2016-001 SIZE OF ENTITY, CROSS-TRAINING AND CHECKING PROCEDURES (CONTINUED)

CAUSE:

Daily operations and balances are reviewed in detail; however, closing entries and reports have not been reconciled properly. Depreciation ledgers are not maintained in detail.

EFFECT:

This limitation may affect the ability to timely record, process, summarize and report financial data. Depreciation subsidiary ledgers for prior years' asset purchases are not detailed for personnel to determine that all assets listed are still in service or to remove sold items properly. The general ledger of the governmental funds was not properly closed affecting beginning balances of the current year.

RECOMMENDATION:

Management should implement checking processes and establish expanded control procedures in reviewing fund balances and depreciation schedules.

RESPONSE:

Efforts have continued to implement additional reconciliation and checking procedures. Personnel are working with the software provider to ensure closing entries are posted properly. We will continue our efforts to improve our review processes.

2016-002 FAILURE TO PREPARE A COMPLETE SET OF FINANCIAL STATEMENTS INCLUDING REQUIRED NOTE DISCLOSURES

CONDITION:

City financial statements, including the required disclosures are prepared as part of the annual audit. This condition was also cited as a significant deficiency in the schedule of findings and responses for the year ended June 30, 2015 as Item 2015-002.

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.

CITY OF CARROLLTON, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
For the Year Ended June 30, 2016

B. FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)

DEFICIENCIES IN INTERNAL CONTROL (CONTINUED)

GOVERNMENT AUDITING STANDARDS (CONTINUED)

2016-002 FAILURE TO PREPARE A COMPLETE SET OF FINANCIAL STATEMENTS INCLUDING REQUIRED NOTE DISCLOSURES (Continued)

RECOMMENDATION:

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

RESPONSE:

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

COMPLIANCE ISSUES

COMPLIANCE AND OTHER MATTERS

NONE

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

DEFICIENCIES IN INTERNAL CONTROL

NONE

COMPLIANCE AND OTHER MATTERS

NONE

CITY OF CARROLLTON, KENTUCKY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2016

FINDINGS - FINANCIAL STATEMENT AUDIT

DEFICIENCIES IN INTERNAL CONTROL

GOVERNMENT AUDITING STANDARDS

2015-001 SIZE OF ENTITY, CROSS-TRAINING AND CHECKING PROCEDURES

CONDITION:

Due to the size of the entity, cross-training and checking procedures are not in place for certain administrative positions and reconciliation procedures. Review and reconciliation procedures were not implemented for all revenue sources included in the Governmental Funds. Reports were not produced and reconciled to the general ledger in a timely manner. These conditions limit internal control.

RECOMMENDATION:

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

CURRENT STATUS:

Management continues to implement checking and review procedures. As indicated in Finding 2016-001 there is a continued need for further checking and review and balancing procedures.

2015-002 FAILURE TO PREPARE A COMPLETE SET OF FINANCIAL STATEMENTS INCLUDING REQUIRED NOTE DISCLOSURES

CONDITION:

City financial statements, including the required disclosures are prepared as part of the annual audit.

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.

CURRENT STATUS:

As indicated in Finding 2016-002, the City continues to outsource this service as a result of management's cost benefit decision.