

CITY OF CARROLLTON, KENTUCKY

**BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITORS' REPORTS**

Year Ended June 30, 2010

CITY OF CARROLLTON, KENTUCKY
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The Honorable Gene McMurry, Mayor
and Members of the City Council
of the City of Carrollton
Carrollton, Kentucky

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Carrollton, Kentucky, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Carrollton, Kentucky's, management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Carrollton, Kentucky, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated January 20, 2011, on our consideration of the City of Carrollton, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 10 and 50 through 51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The Honorable Gene McMurry, Mayor
and Members of the City Council
of the City of Carrollton
Carrollton, Kentucky
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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Carrollton, Kentucky's, financial statements as a whole. The combining nonmajor fund financial statements, and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the financial statements. The combining nonmajor fund financial statements, other supplemental schedules, 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Raisor, Zapp & Woods, PSC

RAISOR, ZAPP & WOODS, PSC
Certified Public Accountants

January 20, 2011

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, 2010. Please read it in conjunction with the City's financial statements, which begin on page 11.

FINANCIAL HIGHLIGHTS

- This year's sidewalk improvements resulted in a total expenditure of \$5,900.
- The City's land capital outlay of \$190,349 includes \$100,000 for Liter's Quarry property and \$90,349 for downtown property at 209 Main Street.
- The City spent \$10,000 on easements for Polk Street Extension.
- The City spent \$39,743 for survey work on Polk Street Extension and the Liter's Quarry property.
- City's total net assets increased by \$567,984, primarily due to the T.E.A.C and B.P. gas prepurchase proceeds.
- In the City's business-type activities, charges for service decreased to \$47,736,817 (or 22.5%) and expenses decreased 22%.
- The City's business-type activities spent \$25,020 to purchase property at 312 Paradise Alley to expand the property already owned at 305 Third Street.
- The City's business-type activities spent \$17,100 to purchase a Ford Ranger for use in the Wastewater Department and traded in a 1997 Ford F-150 against that purchase.
- The City's business-type activities spent \$10,287 to purchase a new copier for the office and \$7,755 for an upgrade to the office telephone system.
- For the City's water treatment plant, a lime slaker was purchased and installed for \$63,364. Other capital purchases and upgrades were made to the plant for a total of \$16,544.
- For the City's wastewater department, \$12,928 was spent to purchase a new crane for the crane truck that is used to pull pumps out of wastewater lift stations.
- Construction of two wastewater projects began during this fiscal year. They are:

Eagle Creek Resort and Campground Project	\$2,799,731
Carrollton Area Regional Economic Development Project	\$3,727,291

The Eagle Creek Resort and Campground Project will extend wastewater service into Owen County to provide service to approximately 260 residents. The budget for this project is \$2,799,731 and is funded by grants from Community Development Block Grant, Bluegrass Pride, and Kentucky Infrastructure Authority in the amounts of \$1,000,000, \$200,000, \$750,000, a Kentucky Infrastructure Authority Loan in the amount of \$750,000 and City Contribution of \$99,731. Construction of this project is expected to be complete in October 2010.

The Carrollton Area Regional Economic Development (CARED) Project will extend wastewater service to two industries in Gallatin County, Gallatin Steel and Steel Technologies, as well as additional residents in the City of Glencoe and businesses in the area of Exit 62 on I-71. This project will also connect the existing wastewater system in the City of Ghent to the Carrollton wastewater system adding approximately 140 additional residential customers and one industrial customer, North American Stainless. The project also provides sewer service to Burley Estates adding approximately seven residential customers. The budget for this project is \$3,727,291 and is funded by grants from the Economic Development Administration, Kentucky Infrastructure Authority, and Community Development Block Grant in the amounts of \$2,783,000, \$300,000, \$200,000, \$94,560 and \$349,731.

USING THIS ANNUAL REPORT

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

Reporting the City as a Whole:

The Statement of Net Assets and the Statement of Activities

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

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

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

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

Reporting the City's Most Significant Funds:

Fund Financial Statements

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

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

THE CITY AS A WHOLE

The City's combined net assets increased from \$33.5 million to \$38.6 million. The net assets and net expenses of governmental and business-type activities show two different results. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's governmental and business-type activities.

**TABLE 1
NET ASSETS**

	GOVERNMENTAL		BUSINESS-TYPE		TOTAL	
	ACTIVITIES		ACTIVITIES		GOVERNMENT	
	08/09	09/10	08/09	09/10	08/09	09/10
CURRENT AND OTHER ASSETS	2,416,112	2,858,679	10,254,152	11,408,360	12,670,264	14,267,039
CAPITAL ASSETS	4,062,486	4,181,012	28,963,105	32,066,939	33,025,591	36,247,951
TOTAL ASSETS	6,478,598	7,039,691	39,217,257	43,475,299	45,695,855	50,514,990
NON-CURRENT LIABILITIES	9,598	11,863	7,141,507	5,940,928	7,151,105	5,952,791
CURRENT LIABILITIES	134,840	125,684	4,869,954	5,831,151	5,004,794	5,956,835
TOTAL LIABILITIES	144,438	137,547	12,011,461	11,772,079	12,155,899	11,909,626
NET ASSETS:						
INVESTED IN CAPITAL ASSETS						
[NET OF DEBT]	4,062,486	4,181,012	21,389,501	24,822,249	25,451,987	29,003,261
RESTRICTED	105,036	128,907	991,647	2,217,985	1,096,683	2,346,892
UNRESTRICTED	2,166,638	2,592,225	4,824,648	4,662,986	6,991,286	7,255,211
TOTAL NET ASSETS	6,334,160	6,902,144	27,205,796	31,703,220	33,539,956	38,605,364

Net assets of the City's governmental activities increased by 8.97 percent (\$6,902,144 compared to \$6,334,160). Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - changed from \$2,166,638 at June 30, 2009 to \$2,592,225 at the end of June 30, 2010.

The net assets of our business-type activities increased by 16.5% (\$31,703,220 compared to \$27,205,796). Unrestricted net assets changed from \$4,824,648 at the end of June 30, 2009 to \$4,662,986 at the end of June 30, 2010. The City generally can only use the unrestricted net assets to finance the continuing operations of the gas, water and sewer operations.

**TABLE 2
CHANGES IN NET ASSETS**

	GOVERNMENTAL		BUSINESS-TYPE		TOTAL	
	ACTIVITIES		ACTIVITIES		GOVERNMENT	
	08/09	09/10	08/09	09/10	08/09	09/10
REVENUES:						
PROGRAM REVENUES:						
CHARGES FOR SERVICES	770,490	784,395	61,601,503	47,736,817	62,371,993	48,521,212
FEDERAL GRANTS	102,992	147,451	191,112	2,239,647	294,104	2,387,098
STATE GRANTS/ENTITLEMENTS	201,394	-	32,243	1,180,647	233,637	1,180,647
LOCAL GRANTS/CONTRIBUTION	-	-	-	656,906	-	656,906
GENERAL REVENUES:						
PROPERTY TAXES	428,767	425,027	-	-	428,767	425,027
FRANCHISE TAXES	117,416	142,134	-	-	117,416	142,134
PEAK ANNUAL RETURN	1,776,143	1,465,252	-	-	1,776,143	1,465,252
INSURANCE LICENSES	466,347	535,105	-	-	466,347	535,105
OTHER GENERAL REVENUES	21,733	8,846	64,440	38,773	86,173	47,619
TOTAL REVENUES:	3,885,282	3,508,210	61,889,298	51,852,790	65,774,580	55,361,000

PROGRAM EXPENSES:						
GENERAL GOVERNMENT	515,839	546,182	-	-	515,839	546,182
PUBLIC SAFETY	1,228,407	1,304,273	-	-	1,228,407	1,304,273
PUBLIC WORKS	650,510	652,448	-	-	650,510	652,448
HEALTH & SANITATION	377,241	386,747	-	-	377,241	386,747
PARKS & RECREATION	36,959	33,091	-	-	36,959	33,091
COMMUNITY SERVICE	14,219	17,485	-	-	14,219	17,485
INTEREST: LONG TERM DEBT	8,030	-	-	-	8,030	-
GAS	-	-	57,989,209	44,513,117	57,989,209	44,513,117
WATER	-	-	822,561	913,790	822,561	913,790
SEWER	-	-	1,753,430	1,767,409	1,753,430	1,767,409
MANAGEMENT SERVICES	-	-	150,329	161,050	150,329	161,050
TOTAL EXPENSES:	2,831,205	2,940,226	60,715,529	47,355,366	63,546,734	50,295,592
EXCESS (DEFICIENCY) BEFORE TRANSFERS	1,054,077	567,984	1,173,769	4,497,424	2,227,846	5,065,408
TRANSFERS	198,845	-	(198,845)	-	-	-
INCREASE (DECREASE) IN NET ASSETS	1,252,922	567,984	974,924	4,497,424	2,227,846	5,065,408
BEGINNING NET ASSETS	5,081,238	6,334,160	26,230,872	27,205,796	31,312,110	33,539,956
ENDING NET ASSETS	6,334,160	6,902,144	27,205,796	31,703,220	33,539,956	38,605,364

The City's total revenues decreased by \$10,413,580. The total cost of all programs and services decreased by \$13,251,142. Our analysis below separately considers the operations of governmental and business-type activities.

Governmental Activities

Revenues for the City's governmental activities decreased by 9.7 percent (\$377,072) and total expenses increased by 3.85 percent (\$109,021). The increase in net assets for governmental activities was \$567,984 in FY 2009-2010. This compares to a \$1,252,922 increase in net assets in FY 2008-2009.

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

- The City budgeted two capital outlay projects: Purchase Liter's Quarry property to extend Point Park and purchase of Main Street properties to build a riverwalk on the Ohio River.
- The City budgeted a 3 % increase in departmental salaries.
- The City moved the health insurance to Bluegrass Family Health with a 14.48% premium increase by keeping the deductibles at \$3,000 / \$9,000 versus Anthem's renewal cost of 19.50 %. The City's H.R.A. (health reimbursement account) will pay \$2,500 / \$8,000 deductible above the employees \$500 / \$1,000 cost.
- The City's retirement plan (C.E.R.S.) was raised from 13.19 percent to 16.16 percent by the Commonwealth of Kentucky.

The cost of all governmental activities this year was \$2,940,226 compared to \$2,831,205 last year. As shown in the Statement of Activities on pages 12-13, the amount that our taxpayers financed for these activities was \$784,395, and some of the cost was paid by other governments and organizations that subsidized certain programs with grants and contributions (\$147,451). Overall, the City's governmental program revenues, including intergovernmental aid and fees for services, decreased in 2009/2010 from \$1,074,876 to \$931,846, due mainly to disaster relief money received for storm damage in 2009.

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	
	08/09	09/10	08/09	09/10
GENERAL GOVERNMENT	515,839	546,182	(314,343)	(404,489)
FIRE DEPARTMENT	442,866	456,383	(128,433)	(240,218)
POLICE DEPARTMENT	785,541	847,890	(717,169)	(775,774)
PUBLIC WORKS DEPARTMENT	650,510	652,448	(580,875)	(578,764)
SANITATION	377,241	386,747	43,699	41,441
ALL OTHERS	59,208	50,576	(59,208)	(50,576)
TOTALS:	2,831,205	2,940,226	(1,756,329)	(2,008,380)

Business-type Activities

Total revenues of the City's business type activities (see Table 2) decreased by 16.2 percent in FY 09-10 compared to a 31 percent decrease in FY 08-09. The expenses in FY 09-10 decreased by 22 percent.

The approximate 19% 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 24% (\$13,971,223) and 23.2% (\$13,476,092), 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	
	08-09	09-10	08-09	09-10
Gas	59,150,854	45,179,631	57,989,209	44,513,117
Water	775,720	899,739	822,561	913,790
Sewer	1,508,442	1,482,636	1,753,430	1,767,409
Management Services	166,487	174,811	150,329	161,050
Totals:	61,601,503	47,736,817	60,715,529	47,355,366

THE CITY'S FUNDS

As the City completed fiscal year 2009-2010, its governmental funds (as presented in the balance sheet on page 14) reported a combined fund balance of \$1,779,517 which represents an decrease of \$231,214 from last year's total of \$2,010,731. The primary reasons for the General Fund's decrease mirror the governmental activities analysis highlighted on page 7. In addition, these other changes in fund balances should be noted:

- The City's return from Peak was down by \$725,869.
- The City's total expenditures increased by \$91,723 with the majority of the increase attributable to capital expenditures.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City Council revised the General Fund budget one time for fiscal year ending June 30, 2010. This amendment accounted for increases in revenues from property taxes, municipal road aid bond revenues, and the P.E.A.K. annual return. 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, 2010, the City had \$36,247,951 (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 \$3,222,360 or 9.76%.

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

	GOVERNMENTAL		BUSINESS-TYPE		TOTALS	
	ACTIVITIES		ACTIVITIES		TOTALS	
	2009	2010	2009	2010	2009	2010
LAND	419,722	624,145	562,961	590,622	982,683	1,214,767
BUILDINGS & IMPROVEMENTS	1,058,009	1,021,673	5,005,025	5,726,420	6,063,034	6,748,093
EQUIPMENT	675,057	679,809	3,821,230	3,514,274	4,496,287	4,194,083
INFRASTRUCTURE	1,909,698	1,819,495	19,418,152	18,845,714	21,327,850	20,665,209
CONSTRUCTION-IN-PROGRESS	-	35,890	155,737	3,389,909	155,737	3,425,799
TOTALS:	4,062,486	4,181,012	28,963,105	32,066,939	33,025,591	36,247,951

This year's major additions included:

- \$32,242 of computer upgrades
- \$5,900 of sidewalk improvements
- \$49,743 for surveying and easements for Polk Street Extension Project.
- \$44,894 for police and fire equipment.
- \$37,790 for dozer purchase
- \$31,785 for truck purchase
- \$100,000 for Liter's Quarry property
- \$90,349 for property at 209 Main Street
- \$25,020 for property at 312 Paradise Alley
- \$17,100 for truck purchase
- \$10,287 for a new copier
- \$7,755 for phone system upgrades
- \$79,908 for lime slaker and upgrades at water treatment plant
- \$12,928 for crane for wastewater treatment plant crane truck

Debt

At year-end, the City had \$6,407,467 in capital lease, notes payable and bonds payable compared to \$7,599,890 last year as shown in Table 6.

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

	GOVERNMENTAL		BUSINESS-TYPE		TOTALS	
	ACTIVITIES		ACTIVITIES		TOTALS	
	2009	2010	2009	2010	2009	2010
CAPITAL LEASE	-	-	1,078,211	838,755	1,078,211	838,755
NOTES PAYABLE	-	-	5,458,679	5,396,412	5,458,679	5,396,412
BONDS PAYABLE	-	-	1,063,000	172,300	1,063,000	172,300
TOTALS	0	0	7,599,890	6,407,467	7,599,890	6,407,467

The decrease in debt for bonds payable from the City's business-type activities resulted from the early pay off of a bond issue from USDA/Rural Development in the amount of \$1,050,000.

Other obligations of the City represents accrued compensated absences for \$62,193 compared to \$60,674 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 2009-2010 budget. One of those factors is the economy - specifically the Consumer Price Index (CPI). The CPI was reported at 0.01 % according to the Commonwealth of Kentucky. Council decided to allocate a 3 % increase for departmental salaries.

The City received the 6th year of citations revenue which was to replace the base court revenue. However it still is not the same amount as was promised by the Commonwealth of Kentucky. The City had been collecting \$38,589 from base court revenue but the City only received \$ 17,551 this year. Kentucky League of Cities' lawsuit to have the cities receive the "hold harmless" amount still has not been paid by the state.

The City chose to raise the property tax rate by 4% as per KRS 132.027. This meant an increase of \$12,001 in property tax receipts.

As for the City's business-type activities, the Commission has budgeted an approximate 21% increase in gas revenues and expenses, a 5% increase in water rates resulting in an approximate 4% increase in water revenues and expenses, and sewer revenues and expenses to be relatively constant to 2009-2010.

The City was awarded an Economic Development Grant in the amount of \$2,783,000 as part of a larger sewer project, the Carrollton Area Regional Economic Development Project that totals \$3,727,291. This project was started in fiscal year 2010 and is expected to be completed before the end of fiscal year 2011 and will include sewer expansion in the City of Ghent, Gallatin Steel, Burley Estates, and upgrades to the Mason Street Lift Station.

The City also began construction on the Eagle Creek Wastewater Extension Project and will receive \$100,000 from the Bluegrass Pride, \$400,000 Kentucky Infrastructure Grant, and \$750,000 Kentucky Infrastructure Authority Loan. These funds combined with \$100,000 already received by the City from Bluegrass Pride and a \$1,000,000 Community Block Grant to Owen County will make up the funding for this \$2,799,731 wastewater project to extend wastewater to the Eagle Creek Resort and an upgrade to the main wastewater line from Worthville to the wastewater treatment plant. The project is expected to be completed in October, 2010.

The City's business activities acquired the City of Worthville's wastewater collection system and associated debt. The debt on the system includes a \$175,200 Rural Development loan with a term of 40 years. Annual debt service on the loan is \$12,000.

The City's business activities are in the process of acquiring the City of Ghent's wastewater collection system and associated debt. The debt on the system includes a \$281,000 Rural Development loan maturing January 1, 2033. Annual debt service on the loan is approximately \$21,000. Closing on the transfer is expected in early 2011.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

BECKY H. PYLES, MMC
City Clerk-Treasurer

BILL R. OSBORNE
Carrollton Utilities General Manager

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF NET ASSETS
June 30, 2010

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets			
Cash, Including Time Deposits	\$ 483,386	\$ 4,538,959	\$ 5,022,345
Investments	994,493	-	994,493
Interest Receivable	-	2,834	2,834
Accounts Receivable (Net)	215,521	3,577,441	3,792,962
Other Receivables	-	1,983,896	1,983,896
Due from Other Governments	23,834	-	23,834
Due from Other Funds	1,078,391	(1,078,391)	-
Prepaid Expense	63,054	36,713	99,767
Total Current Assets	\$ 2,858,679	\$ 9,061,452	\$ 11,920,131
Noncurrent Assets			
Restricted Assets			
Cash, Including Time Deposits	\$ -	\$ 727,703	\$ 727,703
Contribution Grants Receivable	-	1,609,241	1,609,241
Unamortized Lease Fee	-	9,964	9,964
Capital Assets (Net)	4,181,012	32,066,939	36,247,951
Total Noncurrent Assets	\$ 4,181,012	\$ 34,413,847	\$ 38,594,859
Total Assets	\$ 7,039,691	\$ 43,475,299	\$ 50,514,990
LIABILITIES			
Current Liabilities			
Accounts Payable	\$ 51,606	\$ 4,328,847	\$ 4,380,453
Accrued Compensated Absences	31,395	5,198	36,593
Accrued Wages	42,683	47,771	90,454
Accrued Interest Payable	-	2,913	2,913
Current Portion - Capital Lease Obligations	-	249,404	249,404
Current Liabilities Payable from Restricted Assets:			
Accrued Interest	-	10,435	10,435
Construction Accounts Payable	-	583,865	583,865
Construction Retainage Payable	-	271,968	271,968
Revenue Bonds Payable	-	3,100	3,100
Notes Payable	-	327,650	327,650
Total Current Liabilities	\$ 125,684	\$ 5,831,151	\$ 5,956,835
Noncurrent Liabilities			
Accrued Compensated Absences	\$ 11,863	\$ 13,737	\$ 25,600
Revenue Bonds Payable	-	169,200	169,200
Obligations Under Capital Leases	-	589,351	589,351
Notes Payable	-	5,068,762	5,068,762
Deferred Loss - Early Debt Retirement	-	(8,646)	(8,646)
Noncurrent Liabilities Payable from Restricted Assets:			
Customer Deposits Payable	-	108,524	108,524
Total Noncurrent Liabilities	\$ 11,863	\$ 5,940,928	\$ 5,952,791
Total Liabilities	\$ 137,547	\$ 11,772,079	\$ 11,909,626
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	\$ 4,181,012	\$ 24,822,249	\$ 29,003,261
Restricted for:			
Capital Projects	-	1,680,304	1,680,304
Debt Service	-	537,681	537,681
Community Development Projects	45,904	-	45,904
Other Purposes	83,003	-	83,003
Unrestricted	2,592,225	4,662,986	7,255,211
Total Net Assets	\$ 6,902,144	\$ 31,703,220	\$ 38,605,364

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2010

Functions / Programs	Expenses	Charges For Services	Program Revenues	
			Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
General Government	\$ 546,182	\$ 138,660	\$ 3,033	\$ -
Public Safety				
Fire Department	456,383	202,385	13,780	-
Police Department	847,890	15,162	56,954	-
Public Works	652,448	-	73,684	-
Sanitation	386,747	428,188	-	-
Parks & Recreation	33,091	-	-	-
Community Service	17,485	-	-	-
Total Governmental Activities	\$ 2,940,226	\$ 784,395	\$ 147,451	\$ -
Business-type Activities				
Gas	\$ 44,513,117	\$ 45,170,000	\$ -	\$ -
Water	913,790	-	-	-
Sewer	1,761	-	-	4,077,200
Management Services	161	-	-	-
Total Business-type Activities	\$ 47,355,829			\$ 4,077,200
Total Government	\$ 50,295,555		147,451	\$ 4,077,200

*Double Wide
12-13*

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

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

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (404,489)	\$ -	\$ (404,489)
(240,218)	-	(240,218)
(775,774)	-	(775,774)
(578,764)	-	(578,764)
41,441	-	41,441
(33,091)	-	(33,091)
(17,485)	-	(17,485)
<u>\$ (2,008,380)</u>	<u>\$ -</u>	<u>\$ (2,008,380)</u>
\$ -	\$ 666,514	\$ 666,514
-	(14,051)	(14,051)
-	3,792,427	3,792,427
-	13,761	13,761
<u>\$ -</u>	<u>\$ 4,458,651</u>	<u>\$ 4,458,651</u>
<u>\$ (2,008,380)</u>	<u>\$ 4,458,651</u>	<u>\$ 2,450,271</u>
\$ 425,027	\$ -	\$ 425,027
142,134	-	142,134
1,465,252	-	1,465,252
535,105	-	535,105
8,846	3,474	12,320
-	29,139	29,139
-	6,160	6,160
<u>\$ 2,576,364</u>	<u>\$ 38,773</u>	<u>\$ 2,615,137</u>
<u>\$ 567,984</u>	<u>\$ 4,497,424</u>	<u>\$ 5,065,408</u>
<u>6,334,160</u>	<u>27,205,796</u>	<u>33,539,956</u>
<u>\$ 6,902,144</u>	<u>\$ 31,703,220</u>	<u>\$ 38,605,364</u>

CITY OF CARROLLTON, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2010

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash, Including Time Deposits	\$ 357,866	\$ 125,520	\$ 483,386
Investments	994,493	-	994,493
Accounts Receivable: (Net of Allowance for Uncollectibles)			
Insurance Licenses	168,183	-	168,183
Business Licenses	8,263	-	8,263
Ad Valorem Tax	6,591	-	6,591
Franchise Fees	14,874	-	14,874
Miscellaneous	8,110	-	8,110
Due from Other Governments	18,975	4,859	23,834
Due from Other Funds	134,413	-	134,413
Prepaid Expense	63,054	-	63,054
Total Assets	\$ 1,774,822	\$ 130,379	\$ 1,905,201
LIABILITIES			
Accounts Payable	\$ 51,606	\$ -	\$ 51,606
Accrued Compensated Absences	31,395	-	31,395
Accrued Wages	42,683	-	42,683
Total Liabilities	\$ 125,684	\$ -	\$ 125,684
FUND BALANCES			
Reserved, for:			
Prepaid Expense	\$ 63,054	\$ -	\$ 63,054
Capital Projects	298,150	-	298,150
Unreserved, Reported in:			
General Fund	1,287,934	-	1,287,934
Special Revenue Funds	-	126,142	126,142
Capital Project Funds	-	4,237	4,237
Total Fund Balances	\$ 1,649,138	\$ 130,379	\$ 1,779,517
Total Liabilities and Fund Balances	\$ 1,774,822	\$ 130,379	\$ 1,905,201

CITY OF CARROLLTON, KENTUCKY
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS
 June 30, 2010

Total Governmental Fund Balances	\$	1,779,517
 <i>Amounts reported for governmental activities in the statement of net assets 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 \$7,203,511 net of accumulated depreciation \$3,022,499.		4,181,012
Revenues that do not provide current financial resources are not reported as revenues in the funds. Amounts due on such revenues but not received subsequent to year end within 60 days have been reported as receivable in the Statement of Net Assets.		953,478
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:		
Compensated absences	\$ 11,863	(11,863)
 Net Assets of Governmental Activities	 \$	 <u><u>6,902,144</u></u>

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2010

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Payments in Lieu of Taxes	\$ 21,579	\$ -	\$ 21,579
Ad Valorem Taxes	329,044	33,000	362,044
Delinquent Taxes	55,800	-	55,800
Franchise Fees	123,830	-	123,830
Garbage Collection	428,188	-	428,188
Bank Franchise Deposit Tax	17,649	-	17,649
Business Licenses	104,191	-	104,191
Insurance Licenses	531,636	-	531,636
Building Permits	2,713	-	2,713
Penalty & Interest	7,183	-	7,183
Interest Revenue	8,054	791	8,845
PEAK Revenue	785,774	-	785,774
Other Revenue/Donations	11,397	14,235	25,632
Proceeds from Outside Sources:			
HB413/Citations Revenue	13,944	-	13,944
C.C. Fiscal Court - Public Safety Salaries	202,385	-	202,385
Police & Firefighter's Incentive Pay	35,839	-	35,839
Kentucky Municipal Road Aid	-	71,613	71,613
Local Government Economic Assistance	-	2,268	2,268
State Fire Aid	8,250	-	8,250
Police Grants	17,195	-	17,195
Litter Abatement	2,071	-	2,071
Disaster Relief - FEMA/State	765	-	765
Total Revenues	\$ 2,707,487	\$ 121,907	\$ 2,829,394
EXPENDITURES			
Current			
Administrative	\$ 901,483	\$ 29	\$ 901,512
Public Safety			
Fire Department	390,708	-	390,708
Police Department	811,354	-	811,354
Public Works	430,751	77,434	508,185
Parks and Recreation	14,365	3,116	17,481
Community Service	-	17,485	17,485
Capital Outlay	413,883	-	413,883
Total Expenditures	\$ 2,962,544	\$ 98,064	\$ 3,060,608
Excess of Revenues Over (Under) Expenditures	\$ (255,057)	\$ 23,843	\$ (231,214)
Other Financing Sources (Uses):			
Transfers In	\$ -	\$ 1,500	\$ 1,500
Transfers Out	(1,500)	-	(1,500)
Total Other Financing Sources (Uses)	\$ (1,500)	\$ 1,500	\$ -
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	\$ (256,557)	\$ 25,343	\$ (231,214)
Fund Balances - July 1	1,905,695	105,036	2,010,731
Fund Balances - June 30	\$ 1,649,138	\$ 130,379	\$ 1,779,517

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, 2010

Net Change in Fund Balances - Total Governmental Funds \$ (231,214)

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

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

Capitalized Expenditures 413,883

Depreciation Expense (295,357)

Some expenses reported in the Statement of Activities (current year)
 do not require the use of current financial resources and therefore
 are not reported as expenditures in the governmental funds until paid.

Compensated Absences (2,265)

Revenues in the Statement of Activities that do not provide current
 financial resources are not reported as revenues in the funds. 682,937

Change in Net Assets of Governmental Activities \$ 567,984

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2010

		Carrollton Utilities Enterprise Fund
ASSETS		
Current Assets		
Cash, Including Time Deposits	\$	4,538,959
Interest Receivable		2,834
Accounts Receivable (Net)		3,577,441
Other Receivables		1,983,896
Prepaid Expense		36,713
Total Current Assets	\$	10,139,843
Noncurrent Assets		
Restricted Assets		
Cash, Including Time Deposits	\$	727,703
Construction Grants Receivable		1,609,241
Unamortized Lease Fee		9,964
Capital Assets (Net)		32,066,939
Total Noncurrent Assets	\$	34,413,847
Total Assets	\$	44,553,690
LIABILITIES		
Current Liabilities		
Accounts Payable	\$	4,328,847
Due to Other Funds		1,078,391
Accrued Compensated Absences		5,198
Accrued Salaries, Wages & Benefits		47,771
Accrued Interest Payable		2,913
Capital Lease Obligations		249,404
Current Liabilities Payable from Restricted Assets:		
Accrued Interest Payable		10,435
Construction Accounts Payable		583,865
Construction Retainage Payable		271,968
Revenue Bonds Payable		3,100
Notes Payable		327,650
Total Current Liabilities	\$	6,909,542
Noncurrent Liabilities		
Accrued Compensated Absences	\$	13,737
Revenue Bonds Payable		169,200
Capital Lease Obligations		589,351
Notes Payable		5,068,762
Deferred Loss - Early Debt Retirement		(8,646)
Noncurrent Liabilities Payable from Restricted Assets:		
Customer Deposits Payable		108,524
Total Noncurrent Liabilities	\$	5,940,928
Total Liabilities	\$	12,850,470
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	\$	24,822,249
Restricted for:		
Capital Projects		1,680,304
Debt Service		537,681
Unrestricted		4,662,986
Total Net Assets	\$	31,703,220

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
For the Year Ended June 30, 2010

	<u>Carrollton Utilities Enterprise Fund</u>
Operating Revenues:	
Charges for Services:	
Gas Utility Charges (Net)	\$ 45,059,182
Water Utility Charges (Net)	891,023
Sewer Utility Charges (Net)	1,430,829
Connection Fees & Service Charges	79,898
Contractual Services	174,811
Total Charges for Services	<u>\$ 47,635,743</u>
Miscellaneous Revenues	101,074
Total Operating Revenues	<u>\$ 47,736,817</u>
 Operating Expenses:	
Cost of Goods Sold	\$ 42,921,468
Operation & Maintenance	1,367,187
General & Administrative	1,564,814
Depreciation	1,331,339
Total Operating Expenses	<u>\$ 47,184,808</u>
 Net Operating Income	<u>\$ 552,009</u>
 Nonoperating Revenue (Expenses):	
Interest Income	\$ 32,613
Interest and Fiscal Charges	(168,343)
Amortization of Lease Fees	(2,215)
Total Nonoperating Revenue (Expenses)	<u>\$ (137,945)</u>
 Net Income Before Contributions and Gain from Sale of Equipment	<u>\$ 414,064</u>
Capital Contributions	4,077,200
Gain from Sale of Equipment	6,160
 Change in Net Assets	<u>\$ 4,497,424</u>
 Net Assets - July 1	<u>27,205,796</u>
 Net Assets - June 30	<u><u>\$ 31,703,220</u></u>

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2010

	<u>Carrollton Utilities Enterprise Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	\$ 46,402,209
Payments to Suppliers	(43,390,197)
Payments to Employees	(1,233,401)
Receipts of Customer Meter Deposits	74,455
Refunds of Customer Meter Deposits	(73,619)
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,779,447</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Contributions	\$ 1,744,350
Proceeds from Sale of Capital Assets	6,160
Purchases of Capital Assets	(2,867,520)
Proceeds from Capital Debt	261,165
Principal Paid on Capital Debt	(1,453,588)
Interest Paid on Capital Debt	(181,880)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ (2,491,313)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Maturities of Certificates of Deposits	\$ 1,150,825
Purchase of Certificates of Deposits	(1,011,879)
Interest Received	32,264
Net Cash Provided (Used) by Investing Activities	<u>\$ 171,210</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (540,656)
Balances-July 1	<u>4,798,686</u>
Balances-June 30	<u>\$ 4,258,030</u>

	<u>Balances Per June 30, 2010 Statement of Net Assets</u>	<u>Balances Per June 30, 2010 Statement of Cash Flows</u>
Cash	\$ 3,616,390	\$ 3,616,390
Time Deposits	922,569	-
Restricted Cash	641,640	641,640
Restricted Time Deposits	86,063	-
Total	<u>\$ 5,266,662</u>	<u>\$ 4,258,030</u>

(Continued)

CITY OF CARROLLTON, KENTUCKY
 STATEMENT OF CASH FLOWS (CONTINUED)
 PROPRIETARY FUND
 For the Year Ended June 30, 2010

	<u>Carrollton Utilities Enterprise Fund</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating Income (Loss)	\$ 552,009
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation Expense	1,331,339
Change in Assets and Liabilities:	
Receivables, Net	(558,561)
Other Receivables	(776,047)
Prepaid Expenses	62,741
Accounts and Other Payables	121,418
Due to Other Funds	1,045,432
Customer Meter Deposits Payable	836
Accrued Expenses	280
	1,779,447
Net Cash Provided by Operating Activities	\$ 1,779,447

SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

At June 30, 2010, the Proprietary Fund had outstanding obligations for the acquisition/construction of plant assets in the amount of \$16,286, included in accounts payable. Included in accounts payable/retainage - construction are \$855,833 of capitalized expenditures for the construction of plant assets. Also at June 30, 2010 there is \$1,609,241 of construction grants receivable presented on the statement of net assets for contributed capital related to the Eagle Creek and CARED sewer projects.

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, and Equity**
- E. Revenues, Expenditures, and Expenses**

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

- A. Fund Accounting Requirements**
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- B. Risk Management**
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CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The accounting and reporting framework and the more significant accounting principles are discussed in subsequent subsections of this Note.

1.A. FINANCIAL REPORTING ENTITY

The City's financial reporting entity comprises the following:

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

In determining the financial reporting entity, the City complies with the provisions of GASB Statement No. 14, "The Financial Reporting Entity," and includes all component units of which the City appointed a voting majority of the units' board; the City is either able to impose its will on the unit or a financial benefit or burden relationship exists.

Blended Component Units

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

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

Component Unit	Brief Description/Inclusion Criteria	Reporting
Utilities Commission of Carrollton (CU)	<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, and Sparta and the Counties of Carroll, Gallatin, and Owen 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, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.A. FINANCIAL REPORTING ENTITY (Continued)

Excluded from the reporting entity:

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

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

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

1.B. BASIS OF PRESENTATION

Government-wide Financial Statements:

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

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function or program of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.B. BASIS OF PRESENTATION (Continued)

Fund Financial Statements:

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

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

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

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

Special Revenue Funds

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

Capital Project Funds

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

Proprietary Fund

Enterprise Fund

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

Fiduciary Funds (Not included in government-wide statements)

None

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.B. BASIS OF PRESENTATION (Continued)

Major and Nonmajor Funds

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

Fund	Brief Description
<i>Major:</i> General Fund	See above for description.
Proprietary Fund: Carrollton Utilities	Accounts for activities in providing water, wastewater, and gas services to the public.
<i>Nonmajor:</i> Special Revenue Funds: L.G.E.A. Fund	Accounts for revenues and expenditures from the state mineral severance tax.
Municipal Road Aid	Accounts for revenues and expenditures from the state gasoline tax.
Enterprise Facade Improvement Fund	Accounts for tax revenues designated for beautification improvement projects.
Shop With A Cop Fund	Accounts for contributions and expenditures associated with the Police Department's community service program for underprivileged children.
Capital Projects Fund: Skate Park	Accounts for contributions and expenditures associated with the construction of a Skate Park facility.
Polk Street Extension Project	Accounts for grant proceeds, city contributions, and expenditures associated with the construction of a new street (extension of Polk Street).

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

Measurement Focus

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

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

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

- a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

Basis of Accounting

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

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

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

1.D. ASSETS, LIABILITIES, AND EQUITY

Cash and Investments

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

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

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Interfund Receivables and Payables

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

Receivables

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

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

Inventories

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

Fixed Assets

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

Government-wide Statements

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

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

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

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

Fund Financial Statements

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

Restricted Assets

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

Capital Lease Expenses

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

Long-term Debt

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

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

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

Compensated Absences

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

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Equity Classifications

Government-wide Statements

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

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

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. 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, revenues 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.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Insurance License Tax

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

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

PEAK Project Returns

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

Operating Revenues and Expenses

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

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.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Interfund Transfers

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

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

2.A. FUND ACCOUNTING REQUIREMENTS

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

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

2.B. DEPOSITS AND INVESTMENTS, LAWS AND REGULATIONS

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

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:

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2010

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

2.C. REVENUE RESTRICTIONS (Continued)

<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
Assistance to Fire Fighters Grant	Fire Equipment Expenditures
State Fire Aid	Fire Equipment Expenditures
Economic Development Administration (EDA) Grant, Community Development Block Grant (CDBG) & KIA Grants	Carrollton Area Regional Economic Development Project (CARED)
Community Development Block Grant & KIA Grants	Eagle Creek Resort & Campground Sewer Project

For the year ended June 30, 2010, the City complied, in all material respects, with these revenue restrictions.

2.D. DEBT RESTRICTIONS AND COVENANTS

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

Funded Maintenance, Replacement Reserve Accounts are required by the City's Assistance Agreements (AO1-03), (B99-03) and (AO5-01) with the Kentucky Infrastructure Authority. Under the agreements, the City must deposit into these accounts \$8,000 annually, \$236 semi-annually, and \$30,000 annually, until the amounts accumulated on deposit are equal to \$80,000, \$5,610, and \$300,000, respectively. Assuming all payments are made as required, the accounts will be fully funded in December, 2012, June, 2014 and December, 2016, respectively. The required transfers have been made properly for agreements AO1-03 and B99-03. The reserve account for agreement AO5-01 is fully funded.

Kentucky League of Cities Lease Debt Service Reserve Funds

If the City, through Carrollton Utilities, fails to make any part of a lease rental payment when due, Debt Service Reserve Funds will be created and funded as prescribed by the lease agreements and used to satisfy lease rental payments. At June 30, 2010, the City was in compliance with the lease agreements and therefore, no Debt Service Reserve Funds have been created.

Sewer System Revenue Bond Sinking Account of 2005

The Sewer System Revenue Bond Sinking Account of 2005 was established with the issuance of the 2005 City of Carrollton, Kentucky, Sewer System Revenue Bonds. The Bond ordinance provides for monthly transfers to be made.

Monthly payments to be made into the account are as follows:

	one sixth (1/6) next interest payment
+	one twelfth (1/12) annual principal payment
=	<u>monthly payment</u>

The required payments were made timely. This Bond issue was paid off during the fiscal year.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2010

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

2.D. DEBT RESTRICTIONS AND COVENANTS (Continued)

Sewer System Depreciation Reserve Account of 2005

Under the 2005 Bond Ordinance, a Depreciation Reserve Account was established to provide funds for extraordinary repairs or extensions to the utility system and/or make up any deficiency in the Bond Sinking Account. The provisions of the ordinance requires the sum of \$500 to be transferred monthly to the Depreciation Account until there is accumulated at least \$60,000. The required transfers have been made properly. The 2005 Bond issue was paid off during the fiscal year.

City of Worthville 1998 Series A & B Sewer Revenue Bonds - Bond and Interest Sinking Account

During the fiscal year, the Worthville wastewater collection system was transferred to the City of Carrollton. Worthville's related debt was part of this transfer. The Bond ordinance provides for monthly transfers to be made into a Bond and Interest Sinking Account.

Monthly payments to be made into the account are as follows:

$$\begin{array}{r} \text{one sixth (1/6) next interest payment} \\ + \text{one twelfth (1/12) annual principal payment} \\ \hline = \text{monthly payment} \end{array}$$

The required payments were made timely.

City of Worthville 1998 Series A & B Sewer Revenue Bonds - Depreciation Account

Under the 1998 Bond Ordinance, a Depreciation Account is to be established to provide funds for extraordinary repairs or extensions to the sewer system and/or make up any deficiency in the Bond and Interest Sinking Account. The provisions of the ordinance requires the sum of \$95 to be transferred monthly to the Depreciation Account until there is accumulated in such Depreciation Fund the sum of at least \$11,400, which amount shall be maintained, and when necessary, restored to said sum of \$11,400, so long as any Bonds are outstanding and unpaid. At June 30, 2010, the account was fully funded.

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

3.A. CASH AND INVESTMENTS

Deposits

The City of Carrollton, Kentucky's policies regarding deposits of cash are in accordance with the state statutes described in Note 2.B. The table presented below is designed to disclose the level of custody credit risk assumed by the City based upon how its deposits were insured or secured with collateral at June 30, 2010. The categories of credit risk are defined as follows:

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

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

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

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2010

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

3.A. CASH AND INVESTMENTS (Continued)

Governmental Activities

Type of Deposits	Total Bank Balance	Custody Credit Risk Category			Total Carrying Value
		1	2	3	
Demand Deposits	\$ 2,535	\$ 2,535	\$ -	\$ -	\$ 2,535
Time/Savings Deposits	512,817	250,000	262,817	-	476,515
Total Deposits	\$ 515,352	\$ 252,535	\$ 262,817	\$ -	\$ 479,050

Business-type Activities

Type of Deposits	Total Bank Balance	Custody Credit Risk Category			Total Carrying Value
		1	2	3	
Demand Deposits	\$ 4,171,356	\$ 332,463	\$ 3,838,893	\$ -	\$ 4,066,853
Time/Savings Deposit	1,198,559	689,928	455,574	53,057	1,198,559
Total Deposits	\$ 5,369,915	\$ 1,022,391	\$ 4,294,467	\$ 53,057	\$ 5,265,412

	Governmental Activities	Business-type Activities	Total
Reconciliation to Statement of Net Assets			
Cash, including Time Deposits	\$ 483,386	\$ 4,538,959	\$ 5,022,345
Restricted Cash, including Time Deposits	-	727,703	727,703
	\$ 483,386	\$ 5,266,662	\$ 5,750,048
Total Carrying Value	\$ 479,050	\$ 5,265,412	\$ 5,744,462
Plus: Cash on Hand	4,336	1,250	5,586
	\$ 483,386	\$ 5,266,662	\$ 5,750,048

Investments

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

At June 30, 2010, investments consisted of the following:

Deposits in the Kentucky League of Cities Investment Pool Plus in the amount of \$994,493. This investment is made up of the pooled assets of several cities. The City of Carrollton holds a percentage of the pool's assets equal to its balance divided by the pool balance. The investments held in the pool include Freddie Mac, Fannie Mae, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal Farm Credit Bank, Fannie Discount Notes, and U.S. Treasury Notes.

The Kentucky League of Cities Investment Pool Plus was invested in the following at June 30, 2010:

	Cost	Market Value	% of Assets	Maturity
Bonds (see description above)	\$ 1,363,007	\$ 1,345,711	9.86%	7/12/10-1/25/12
Money Market/Short Term Investments	147,357	147,357	90.14%	N.A.
Total	\$ 1,510,364	\$ 1,493,068	100.00%	

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2010

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

3.B. RESTRICTED ASSETS

Restricted cash consists of the following:

KIA Loan Reserve Accounts	\$	484,131
Rural Development Bond & Interest		24,056
Rural Development Depreciation Fund		39,929
Customer Deposits		108,524
Construction Accounts		71,063
	<u>\$</u>	<u>727,703</u>

Restricted construction grants receivable consists of grants receivable due to Carrollton Utilities at June 30, 2010 related to the Eagle Creek and CARED Sewer Projects.

3.C. ACCOUNTS RECEIVABLE

Accounts receivable of the business-type activities consists of utilities receivable. Accounts receivable of the governmental activities consists of franchise tax (8%), insurance licenses (80%), property tax (3%), business licenses and other (9%) receivables. Receivables detail at June 30, 2010, is as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Accounts receivable	\$ 217,494	\$ 3,608,468	\$ 3,825,962
Allowance for doubtful accounts	(1,973)	(31,027)	(33,000)
Net accounts receivable	<u>\$ 215,521</u>	<u>\$ 3,577,441</u>	<u>\$ 3,792,962</u>

3.D. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010, was as follows:

	<u>Balance at July 1, 2009</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at June 30, 2010</u>
<u>Governmental Activities:</u>				
Land	\$ 419,722	\$ 204,423	\$ -	\$ 624,145
Buildings & Improvements	1,442,647	-	-	1,442,647
Machinery & Equipment	1,947,179	138,098	(86,046)	1,999,231
Infrastructure	3,066,126	35,472	-	3,101,598
Construction in Process	-	35,890	-	35,890
Totals at Historical Cost	<u>\$ 6,875,674</u>	<u>\$ 413,883</u>	<u>\$ (86,046)</u>	<u>\$ 7,203,511</u>
Less: Accumulated Depreciation				
Buildings & Improvements	\$ 384,638	\$ 36,336	\$ -	\$ 420,974
Machinery & Equipment	1,272,122	133,346	(86,046)	1,319,422
Infrastructure	1,156,428	125,675	-	1,282,103
Total Accumulated Depreciation	<u>\$ 2,813,188</u>	<u>\$ 295,357</u>	<u>\$ (86,046)</u>	<u>\$ 3,022,499</u>
Governmental Activities - Capital Assets, Net	<u>\$ 4,062,486</u>	<u>\$ 118,526</u>	<u>\$ -</u>	<u>\$ 4,181,012</u>

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2010

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

3.D. CAPITAL ASSETS (Continued)

Depreciation Expense was charged to governmental activities as follows:

General Government	\$ 31,009
Public Safety	
Fire Department	65,073
Police Department	35,446
Public Works	22,544
Parks & Recreation	15,610
Infrastructure (included with Public Works)	125,675
Total Depreciation Expense	\$ 295,357

	Balance at July 1, 2009	Additions	Disposals	Balance at June 30, 2010
Business-type Activities:				
Land & Right of Ways	\$ 562,961	\$ 27,661	\$ -	\$ 590,622
Structures & Improvements	6,416,190	1,136,496	-	7,552,686
Distribution System	29,440,227	174,874	-	29,615,101
Wells	345,318	975	-	346,293
Plant, Machinery & Equipment	9,505,990	78,811	(45,114)	9,539,687
Construction in Process	155,737	3,285,896	(51,724)	3,389,909
Totals at Historical Cost	\$ 46,426,423	\$ 4,704,713	\$ (96,838)	\$ 51,034,298
Less: Accumulated Depreciation				
Structures & Improvements	\$ 1,411,165	\$ 415,101	\$ -	\$ 1,826,266
Distribution System	10,182,652	734,156	-	10,916,808
Wells	184,741	14,131	-	198,872
Plant, Machinery & Equipment	5,684,760	385,767	(45,114)	6,025,413
Total Accumulated Depreciation	\$ 17,463,318	\$ 1,549,155	\$ (45,114)	\$ 18,967,359
Business-type Activities Capital Assets, Net	\$ 28,963,105	\$ 3,155,558	\$ (51,724)	\$ 32,066,939

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

Gas	\$ 378,197
Water	168,887
Sewer	784,255
Total Depreciation Expense	\$ 1,331,339

Reconciliation to Accumulated Depreciation Additions:

Depreciation Expense charged to	
Business-type Activities	\$ 1,331,339
Accumulated Depreciation from	
Worthville Sewer Asset Transfer	217,816
Total Additions	\$ 1,549,155

\$3,823,481 of assets have been recorded under capital leases associated with the Gas Distribution System. Accumulated depreciation of \$1,223,336 is associated with these assets.

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

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2010

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

3.E. LONG-TERM DEBT

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

Governmental Activities:

Accrued Compensated Absences:

Current Portion	\$	31,395
Noncurrent Portion		11,863
Total Accrued Compensated Absences	\$	43,258

Business-type Activities:

As of June 30, 2010, the long-term debt payable from proprietary fund resources consisted of the following:

Notes Payable:

Kentucky Infrastructure Authority represents a 30 year loan secured by sewer revenues. Interest is charged at 1.6% per annum. The original principal balance was \$112,200. Semi-annual payments with final maturity June 1, 2032.

\$ 87,312

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

1,677,866

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 \$3,846,406, but with additional draws the principal balance is \$4,288,600. During the year, there was a final loan draw of \$261,165. Semi-annual payments with final maturity December 1, 2026.

3,631,234

Total Notes Payable \$ 5,396,412

Current Portion	\$	327,650
Noncurrent Portion		5,068,762
Total Notes Payable	\$	5,396,412

Capital Lease Obligations:

U.S. Highway 42 natural gas pipeline expansion - \$1,300,000 fixed rate lease agreement with Kentucky League of Cities Funding Trust Program dated October, 2004. 10 years, 3.440% effective interest rate, secured by gas revenues. Monthly payments with final maturity of October 4, 2014.

\$ 648,398

Utilities Revenue Bonds of 1992 refinance - \$720,000 fixed rate lease agreement with Kentucky League of Cities Funding Trust Program dated February, 2005. 7 years, 3.320% effective interest rate, secured by water revenues. Monthly payments with final maturity of February 1, 2012.

190,357

Total Capital Lease Obligations \$ 838,755

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2010

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

3.E. LONG-TERM DEBT (Continued)

Current Portion	\$ 249,404
Noncurrent Portion	589,351
Total Capital Lease Obligations	\$ 838,755

Bonds Payable (Assumed by City of Carrollton):

City of Worthville, Kentucky, Sewer Revenue Bonds, Series 1998A - original issue amount of \$124,000, secured by sewer revenues. Interest is charged at the rate of 4.50% per annum. Final maturity is January 1, 2038.

\$ 109,500

City of Worthville, Kentucky, Sewer Revenue Bonds, Series 1998B - original issue amount of \$72,000, secured by sewer revenues. Interest is charged at the rate of 4.50% per annum. Final maturity is January 1, 2038.

62,800

Total Bonds Payable

\$ 172,300

Current Portion	\$ 3,100
Noncurrent Portion	169,200
Total Bonds Payable	\$ 172,300

Accrued Compensated Absences:

Current Portion	\$ 5,198
Noncurrent Portion	13,737
Total	\$ 18,935

Changes in Long-term Debt

The following is a summary of changes in long-term debt for the fiscal year ended June 30, 2010:

Type of Debt	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010	Current Portion
Governmental Activities					
Accrued Compensated Absences	\$ 43,789	\$ -	\$ 531	\$ 43,258	\$ 31,395
Total General Long-term Debt	\$ 43,789	\$ -	\$ 531	\$ 43,258	\$ 31,395
Business-type Activities					
Notes Payable	\$ 5,458,679	\$ 261,165	\$ 323,432	\$ 5,396,412	\$ 327,650
Capital Lease Obligations	1,078,211	-	239,456	838,755	249,404
Bonds Payable	1,063,000	172,300	1,063,000	172,300	3,100
Accrued Compensated Absences	16,885	13,712	11,662	18,935	5,198
Total Enterprise Fund Debt	\$ 7,616,775	\$ 447,177	\$ 1,637,550	\$ 6,426,402	\$ 585,352

Description of Debt Activity:

Governmental Activities

None to disclose.

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2010

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

3.E. LONG-TERM DEBT (Continued)

Business-type Activities

Capital Lease Obligations-Kentucky League of Cities

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

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

In the Statement of Net Assets, the net costs associated with the early debt retirement of the 1992 issue are deferred and amortized over the remaining life of the defeased debt. The amount deferred is reported as a decrease (contra liability) to the book value of the new debt issued to finance the refunding. Total deferred costs were \$38,225. Amortization for the year was \$5,461 and is included as a component of interest expense. (Total amortization equals \$29,579 with \$8,646 remaining.)

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

The amount shown in the accompanying financial statements as lease obligations represents Carrollton Utilities' future obligations to make lease payments under its fixed lease agreements with the Kentucky League of Cities Funding Trust Program, aggregating \$838,755 (original principal balances of the leases were \$2,020,000). The leases were made with proceeds from the \$50,000,000 Kentucky League of Cities Funding Trust Lease Program Revenue Bonds, variable rate 2004 Series A, issued by the City of Morehead, Kentucky.

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

Assuming the bonds are not liquidated prior to maturity, the annual minimum obligation of the leases at June 30, 2010, are as follows:

Fiscal Year	Principal Payment	Interest Payment	Fiscal Charges	Total Payment	Balance at End of Year
					\$ 838,755
2010-11	\$ 249,404	\$ 24,790	\$ 5,994	\$ 280,188	589,351
2011-12	220,091	16,379	4,115	240,585	369,260
2012-13	148,386	10,364	2,675	161,425	220,874
2013-14	154,550	5,184	1,633	161,367	66,324
2014-15	66,324	539	355	67,218	-
	<u>\$ 838,755</u>	<u>\$ 57,256</u>	<u>\$ 14,772</u>	<u>\$ 910,783</u>	<u>\$ -</u>

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2010

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

3.E. LONG-TERM DEBT (Continued)

Notes Payable to Kentucky Infrastructure Authority

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

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

As of June 30, 2009, a third loan was open and subject to future draws. The Kentucky Infrastructure Authority loan provided financing for the Wastewater Treatment Plant Project. During the 2007-08, 2008-09 and 2009-10 fiscal years, an additional \$159,085; \$21,944 and \$261,165, respectively, was drawn on this loan with total principal of \$4,288,600. The first amortized payment commenced on June 1, 2007. As of June 30, 2010, this note is no longer subject to future draws.

The combined obligations of the above notes at June 30, 2010, are as follows:

Fiscal Year	Principal Payment	Interest Payment	Servicing Fee	Total Payment	Balance at End of Year
					\$ 5,396,412
2010-11	\$ 327,650	\$ 66,849	\$ 10,630	\$ 405,129	5,068,762
2011-12	331,928	62,570	9,972	404,470	4,736,834
2012-13	336,267	58,232	9,306	403,805	4,400,567
2013-14	340,669	53,831	8,632	403,132	4,059,898
2014-15	345,131	49,367	7,947	402,445	3,714,767
2016-20	1,794,875	177,619	29,168	2,001,662	1,919,892
2021-25	1,533,369	62,885	11,436	1,607,690	386,523
2026-30	377,261	5,073	927	383,261	9,262
2031-32	9,262	387	24	9,673	-
	<u>\$ 5,396,412</u>	<u>\$ 536,813</u>	<u>\$ 88,042</u>	<u>\$ 6,021,267</u>	<u>\$ -</u>

Bonds Payable

City of Carrollton, Kentucky, Sewer System Revenue Bonds of 2005

\$1,100,000 of 40 year, 4.125% per annum USDA Rural Utilities Service Bonds were obtained to assist in the financing of the Wastewater Treatment Plant project. The 2005 Bonds were paid off in May, 2010.

City of Worthville 1998 Series A & B Sewer Revenue Bonds

With the Worthville Sewer asset transfer, the sewer debt of the City of Worthville was assumed by the City of Carrollton. The 1998 Series A & B Bonds, original principal balances of \$124,000 and \$72,000, respectively, have a 4.50% per annum interest rate and mature January 1, 2038 (40 year terms).

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2010

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

3.E. LONG-TERM DEBT (Continued)

The minimum obligations of the bonds at June 30, 2010, are as follows:

Fiscal Year	Principal Payment	Interest Payment	Total Payment	Balance at End of Year
				\$ 172,300
2010-11	\$ 3,100	\$ 7,754	\$ 10,854	169,200
2011-12	3,200	7,614	10,814	166,000
2012-13	3,400	7,470	10,870	162,600
2013-14	3,500	7,318	10,818	159,100
2014-15	3,700	7,160	10,860	155,400
2016-20	21,200	33,157	54,357	134,200
2021-25	26,900	27,891	54,791	107,300
2026-30	33,900	21,105	55,005	73,400
2031-35	42,900	12,664	55,564	30,500
2036-38	30,500	2,654	33,154	-
	<u>\$ 172,300</u>	<u>\$ 134,787</u>	<u>\$ 307,087</u>	<u>\$ -</u>

Annual Debt Service Requirements

The annual debt service requirements to maturity, including principal, interest, fiscal charges and servicing fees for long-term debt as of June 30, 2010, are as follows:

Fiscal Year	Governmental Activities		Business-type Activities	
	Principal	Interest & Fiscal Charges	Principal	Interest & Fiscal Charges
2010-11	\$ -	\$ -	\$ 580,154	\$ 116,017
2011-12	-	-	555,219	100,650
2012-13	-	-	488,053	88,047
2013-14	-	-	498,719	76,598
2014-15	-	-	415,155	65,368
2016-20	-	-	1,816,075	239,944
2021-25	-	-	1,560,269	102,212
2026-30	-	-	411,161	27,105
2031-35	-	-	52,162	13,075
2036-38	-	-	30,500	2,654
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,407,467</u>	<u>\$ 831,670</u>

3.F. INTEREST EXPENSE AND FISCAL CHARGES

Interest expense and fiscal charges for the Enterprise Fund for the year ended June 30, 2010, was \$168,343. No interest was capitalized during the year ended June 30, 2010. There was no interest expense incurred by the Governmental Funds during the year ended June 30, 2010.

3.G. INTERFUND TRANSACTIONS AND BALANCES

Interfund balances as reported in the fund financial statements at June 30, 2010, consisted of the following individual fund receivables and payables:

Receivable Fund	Payable Fund	Amount	Purpose
General Fund	Enterprise Fund	\$ 134,413	Sanitation Receipt Reimbursements/ PEAK Returns
Total		<u>\$ 134,413</u>	

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2010

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

3.G. INTERFUND TRANSACTIONS AND BALANCES (Continued)

Operating transfers during the year ended June 30, 2010 were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund:		
Capital Projects Fund	\$ -	\$ 1,500
Capital Projects Fund		
General Fund	\$ 1,500	\$ -
Grand Totals	<u>\$ 1,500</u>	<u>\$ 1,500</u>

3.H. FUND EQUITY

Restricted Net Assets

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

Governmental Activities

Activity	Restricted by	
Community Development Projects	Grant Restrictions/Ordinance	<u>\$ 45,904</u>
Other Purposes:		
Municipal Road Aid	State Law	\$ 50,767
L.G.E.A.F.	State Law	20,255
Skate Park Project	Contribution Restrictions	2,765
Shop With A Cop	Contribution Restrictions	9,216
		<u>\$ 83,003</u>

Business-type Activities

Restricted for Capital Projects

Grant Funds Reserved for Wastewater Projects:	\$ 71,063
Cash and Investments	1,609,241
Construction Grants Receivable	<u>1,680,304</u>
Total Restricted for Capital Projects	<u>\$ 1,680,304</u>

Restricted for Debt Service:

Kentucky Infrastructure Authority (KIA) Notes Payable	\$ 484,131
Cash & Investments	-
Add: Accrued Interest Receivable	(6,558)
Less: Accrued Interest Payable	<u>477,573</u>
Total KIA Notes Payable	<u>\$ 477,573</u>

Sewer Revenue Bonds

Cash & Investments	\$ 63,985
Add: Accrued Interest Receivable	-
Less: Accrued Interest Payable	(3,877)
Total Sewer Revenue Bonds	<u>\$ 60,108</u>

Total Restricted for Debt Service

\$ 537,681

The following represents the reserved fund balance as shown on the Balance Sheet – Governmental Funds

Reserved for Prepaid Insurance (Lack of Liquidity)	<u>\$ 63,054</u>
Reserved for Capital Projects (Polk Street Project)	<u>\$ 298,150</u>

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2010

NOTE 4. OTHER NOTES

4.A. PENSION PLAN

Entry into the Commonwealth of Kentucky's County Employees' Retirement System (CERS) was authorized by the City Council and Carrollton Utilities Commission as of July 15, 1988 and September 1, 1992, respectfully. The most recent financial report on CERS is included in the Kentucky Retirement System's annual report, June 30, 2009. Copies of this report will be distributed to each participating employer in the Kentucky Employees Retirement System, County Employees Retirement System, and State Police Retirement System. Copies will also be available to Legislative personnel and state libraries.

Plan Description - CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in non-hazardous duty positions of each county, city and school board, and any additional eligible local agencies electing to participate in CERS. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits under the plan will vary based on final compensation, years of service and other factors as fully described in the plan documents. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of the State Legislature.

Contributions - For the fiscal year ended June 30, 2010, plan members were required to contribute 5% (6% for new members to CERS after September 1, 2008) of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565 (3), normal contribution and past service contribution rates shall be determined by the Board of Trustees of the Kentucky Retirement Systems (Board) on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the fiscal year ended June 30, 2010, participating employers contributed 16.16% of each employee's creditable compensation (17.16% for new members to CERS after September 1, 2008). The actuarially determined rate set by the Board for the fiscal year ended June 30, 2010, was 16.16% (17.16% for new members after September 1, 2008) of creditable compensation. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

The City's General Fund total payroll for the fiscal year ended June 30, 2010, was \$1,142,154. Contributions were based on \$1,033,523 (eligible gross wages). The total pension expense for the year ended June 30, 2010, was \$167,016 and \$52,023 for the employer and employees, respectively. All contributions were made as required during this fiscal year. There have been no changes in the plan since inception.

The City's Proprietary Fund total payroll for the fiscal year ended June 30, 2010, was \$1,274,728. Contributions were based on \$1,184,130 (eligible gross wages). The total pension expense for the fiscal year ended June 30, 2010, was \$191,356 and \$63,098 for the employer and employees, respectively. All contributions were made as required during this fiscal year. There have been no changes in the plan since inception.

The City's contribution for the year ended June 30, 2009, (general fund and proprietary fund combined) was .07 percent of the System's total contribution requirements for all employers.

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

	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Retiree Drug Subsidy Contributions</u>	<u>Percentage Contribution</u>
June 30, 2009	425,830,683	303,046,162	7,623,628	72.9%
June 30, 2008	544,853,127	347,035,445	6,003,181	64.8%
June 30, 2007	398,108,795	271,869,651	9,623,431	70.7%

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2010

NOTE 4. OTHER NOTES (Continued)

4.A. PENSION PLAN (Continued)

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

4.B. RISK MANAGEMENT

Insurance and Related Activities

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

Under the health insurance plan adopted by the City, employee deductibles are \$3,000 (single plan)/\$9,000 (family plan). The City will pay for eligible medical expenditures incurred by employees above the maximum employee costs determined by the City of \$500 single/\$1,000 family up to the deductible of the plan (\$2,500 single/\$8,000 family). Any unused deductible remains with the City and does not accrue to the benefit of the employee. The estimated potential liability to the City under this policy is \$340,695. No accrual has been recorded in the financial statements due to the contingent nature of this liability.

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

4.C. COMMITMENTS, CONTINGENCIES & SUBSEQUENT EVENTS

Each employee is granted sick leave at the rate of eight hours per month up to a maximum of 1,440 hours. Employees shall not be paid for unused sick leave credit upon termination of employment, except that employees who retire and receive CERS retirement benefits may personally receive payment for unused sick leave for the same amount that CERS would charge for applying the accrued sick leave to extend retirement benefits. The total liability for accumulated sick leave at June 30, 2010 was \$488,656. No accrual has been recorded in the financial statements due to the contingent nature of this liability.

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

Carrollton Utilities has access to storage as part of its transportation services with Texas Gas Transmission. Gas is withdrawn from its storage account during the winter period (November – February) to be replenished the following summer period (March – October). At June 30, 2010, Carrollton Utilities has an unpaid and accrued storage liability estimated to be \$287,170.

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

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2010

NOTE 4. OTHER NOTES (Continued)

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

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

Previously, the City had an interlocal operating agreement with the City of Worthville to operate and maintain its wastewater collection system. During the fiscal year, an asset transfer agreement between the City of Carrollton and the City of Worthville, Kentucky was executed. City of Worthville's sewer system assets were transferred to the City of Carrollton. In consideration for the assets transferred, the City of Carrollton assumed Worthville's outstanding debt. As described in Note 3.E., the City of Carrollton assumed Worthville's 1998 Series A & B Sewer Revenue Bonds. The presented proprietary fund statements reflect this transaction.

The City entered into an interlocal agreement with the City of Ghent. Under this agreement the City of Ghent's system will become a part of the Regional Sewer System. At that time, Ghent's Wastewater Treatment Plant will be dismantled and its outstanding bonds paid or assumed by Carrollton. The transfer of the Ghent sewer system to Carrollton Utilities will be completed during the 2010-11 fiscal year.

The City has entered into an interlocal agreement with the City of Campbellsburg under which Carrollton, through Carrollton Utilities, will operate and maintain the Campbellsburg wastewater collection system. During 2006-2007, the City of Campbellsburg connected to the Regional Wastewater Plant.

The City has entered into an interlocal agreement with the City of Owenton whereby Carrollton through Carrollton Utilities will provide natural gas service to the City of Owenton and the surrounding areas and will own, operate and maintain the Owenton gas distribution system. Currently, an asset transfer agreement is being drafted to transfer ownership of the Owenton gas system to the City of Carrollton.

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 \$185,300 for the 2010-2011 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.

Polk Street Project/Safe Route Grant

The City was awarded a \$247,000 grant through the Kentucky Transportation Cabinet to establish a Safe Route (sidewalks) from the local schools. The project includes an extension of Polk Street and Schuerman Avenue to create a Safe Route from the schools for students to walk or bike. The entire project is estimated at approximately \$545,150. Additional funding will be provided from City resources.

Eagle Creek Resort and Campground Sewer Project

During the fiscal year, construction began on the sanitary sewer collection system for Eagle Creek Resort and Eagle Creek Campground in Owen County, Kentucky. With a projected cost of \$2,799,731, the project is being financed by a Bluegrass Pride grant of \$200,000, a Community Development Block Grant of \$1,000,000, Kentucky Infrastructure Authority Grants of \$750,000, a \$750,000 Kentucky Infrastructure Authority Loan, and \$99,731 of local funds. The contractor bid was awarded to Grant's Excavating for \$2,157,971. The engineer on the project is Envirotech, Inc. At June 30, 2010, construction grants receivable included \$360,450 for this project. Also, at June 30, 2010, there was \$360,450 and \$131,181 of construction accounts payable and retainage, respectively, accrued on the statement of net assets.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2010

NOTE 4. OTHER NOTES (Continued)

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

Carrollton Area Regional Economic Development (CARED) Project

During the fiscal year, Carrollton Utilities began the Carrollton Area Regional Economic Development (CARED) Project. This project envelopes several locations where sewer lines are being extended and/or upgraded. The areas or types of work involved are: Exit 55 sewer extensions, Gallatin Steel Company force main, sewer extensions to area commercial district, Worthville force main, Exit 44 pump station upgrade, Mason Street pump station upgrade, sewer line extension to industries located on Highway 42, I-71 crossing at U.S. 127 and SCADA/telemetry additions for existing Ghent pump station.

With a projected cost of \$3,710,000, the project is being financed by \$500,269 of Kentucky Infrastructure Authority grants, an Economic Development Administration grant of \$2,783,000, a Community Development Block Grant of \$349,731 and local funds of \$77,000. The contractor bid was awarded to Mac Construction for \$2,747,321 (for both Contract 5 and 6). The engineer on the project is MSE of Kentucky, Inc. At June 30, 2010, construction grants receivable included \$1,248,791 for this project. Also, at June 30, 2010, there was \$223,415 and \$140,787 of construction accounts payable and retainage, respectively, accrued on the statement of net assets.

Long Term Gas Supply Arrangements

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

Public Energy Authority of Kentucky, Inc. (PEAK, Inc.) 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, 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. Gas requirement services are being provided by PEAK, Inc. pursuant to contracts and agreements entered into between the Members and PEAK, Inc. PEAK has entered into gas sale contracts with the cities and other public agencies (the Participants) providing for the sale of specific quantities of gas. Under the terms of the various agreements, PEAK 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 PEAK from revenues of their public gas utilities as an operating and maintenance expense and as a cost of purchased natural gas.

Effective September 5, 2008 under the Kentucky Natural Gas Acquisition Authority Act, PEAK, Inc. was converted to the Public Energy Authority of Kentucky (PEAK). The newly created entity assumed all assets, liabilities, and ongoing operations of PEAK, Inc.

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, 2010, are as follows:

Assets	\$1,695,946,444
Liabilities	1,691,798,991
Total Net Assets	4,147,453
Costs Recoverable from Future Billings	14,259,922 *

* The gas supply contracts establish the billing procedures under which the Members are charged. Expenses in excess of amounts currently billable to the Members under these procedures will be recoverable from future billings to the Members.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2010

NOTE 4. OTHER NOTES (Continued)

4.D. MISCELLANEOUS

Segment Information – Enterprise Fund

The City maintains an enterprise fund which provides gas, water, and sewer services. Selected financial information for business segments of the enterprise fund for the year ended June 30, 2010, is presented as follows:

CONDENSED STATEMENT OF NET ASSETS

	Gas	Water	Sewer	Total
Assets:				
Current Assets	\$ 11,576,760	\$ 38,186	\$ (1,475,103)	\$ 10,139,843
Other Noncurrent Assets	62,462	18,656	2,265,790	2,346,908
Capital Assets (Net)	6,299,920	1,841,919	23,925,100	32,066,939
Total Assets	\$ 17,939,142	\$ 1,898,761	\$ 24,715,787	\$ 44,553,690
Liabilities:				
Due to Other Funds	\$ 1,048,334	\$ 30,052	\$ 5	\$ 1,078,391
Other Current Liabilities	4,352,478	180,018	1,298,655	5,831,151
Noncurrent Liabilities	577,349	87,973	5,275,606	5,940,928
Total Liabilities	\$ 5,978,161	\$ 298,043	\$ 6,574,266	\$ 12,850,470
Net Assets:				
Invested in Capital Assets, Net of Related Debt	\$ 5,661,486	\$ 1,660,208	\$ 17,500,555	\$ 24,822,249
Restricted	-	-	2,217,985	2,217,985
Unrestricted	6,299,495	(59,490)	(1,577,019)	4,662,986
Total Net Assets	\$ 11,960,981	\$ 1,600,718	\$ 18,141,521	\$ 31,703,220

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

	Gas	Water	Sewer	Total
Operating Revenues	\$ 45,179,631	\$ 1,074,550	\$ 1,482,636	\$ 47,736,817
Depreciation Expense	(378,197)	(168,887)	(784,255)	(1,331,339)
Other Operating Expenses	(44,102,819)	(890,399)	(860,251)	(45,853,469)
Net Operating Income (Loss)	\$ 698,615	\$ 15,264	\$ (161,870)	\$ 552,009
Nonoperating Revenues (Expenses):				
Interest Income	23,541	2,895	6,177	32,613
Interest & Fiscal Charges	(29,886)	(15,554)	(122,903)	(168,343)
Amortization of Lease Fees	(2,215)	-	-	(2,215)
Capital Contributions	-	-	4,077,200	4,077,200
Gain from Sale of Equipment	6,160	-	-	6,160
Change in Net Assets	\$ 696,215	\$ 2,605	\$ 3,798,604	\$ 4,497,424
Beginning Net Assets	11,264,766	1,598,113	14,342,917	27,205,796
Ending Net Assets	\$ 11,960,981	\$ 1,600,718	\$ 18,141,521	\$ 31,703,220

CONDENSED STATEMENT OF CASH FLOWS

	Gas	Water	Sewer	Total
Net Cash Provided (Used) by:				
Operating Activities	\$ 859,744	\$ 271,449	\$ 648,254	\$ 1,779,447
Capital and Related Financing Activities	(235,633)	(236,877)	(2,018,803)	(2,491,313)
Investing Activities	158,613	5,709	6,888	171,210
Net Increase (Decrease)	\$ 782,724	\$ 40,281	\$ (1,363,661)	\$ (540,656)
Beginning Cash and Cash Equivalents	4,778,344	(173,232)	193,574	4,798,686
Ending Cash and Cash Equivalents	\$ 5,561,068	\$ (132,951)	\$ (1,170,087)	\$ 4,258,030

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2010

NOTE 4. OTHER NOTES (Continued)

4.D. MISCELLANEOUS (Continued)

Bad Debt Expense

Utility revenue charges have been netted with an estimated bad debt expense of \$10,638, \$4,735, and \$15,502 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 95% of the total gas revenue is received from eight industrial customers. As described in Note 4.C., all natural gas purchases are made through the Public Energy Authority of Kentucky (PEAK). \$42,536,190 of the \$42,921,468 gas cost of goods sold are for natural gas purchases, excluding related transportation costs. Additionally, 29% of the City's General Fund revenues are attributable to gas prepurchase agreements with PEAK.

Related Party Transactions

For the year ended June 30, 2010, the City received \$21,579 from the Carrollton Housing Authority as payments in lieu of tax.

Carrollton Utilities Natural Gas Hedge Policy

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

Subject to certain guidelines, Carrollton Utilities executes hedges for its large industrial customers without specific approval of the Carrollton Utilities Commission. The Commission shall approve all other hedges, including those relating to system supply gas requirements, *i.e.*, gas requirements for residential, commercial and industrial customers with annual requirements less than 15,000 Mcf per year. At June 30, 2010, the hedge for an industrial customer has resulted in an estimated \$896,726 receivable (included in "Other Receivables") and an estimated payable to the gas customer of \$807,054 (included in "Accounts Payable").

CITY OF CARROLLTON, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 For the Year Ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 1,335,456	\$ 1,514,217	\$ 1,532,555	\$ 18,338
ESTIMATED REVENUES				
Payments in Lieu of Taxes	\$ 20,000	\$ 21,580	\$ 21,579	\$ (1)
Ad Valorem Taxes	370,100	361,805	329,044	(32,761)
Delinquent Taxes	44,000	50,830	55,800	4,970
Franchise Fees	85,000	102,657	123,830	21,173
Garbage Collection	439,100	435,700	428,188	(7,512)
Bank Franchise Deposit Tax	20,000	17,650	17,649	(1)
Business Licenses	95,000	100,000	104,191	4,191
Insurance Licenses	440,000	450,000	531,636	81,636
Building Permits	2,000	2,500	2,713	213
Penalty & Interest	4,000	5,800	7,183	1,383
Interest Revenue	8,700	10,951	8,054	(2,897)
PEAK Annual Return	852,420	962,560	785,774	(176,786)
Other Revenue	2,500	15,091	11,397	(3,694)
Proceeds from Outside Sources:				
Carroll County Tourism	15,000	15,000	-	(15,000)
HB413/Citations	16,000	14,268	13,944	(324)
CC Fiscal Court - Public Safety Salaries	193,473	193,473	202,385	8,912
Police & Firefighter's Incentive Pay	37,200	36,817	35,839	(978)
State Fire Aid	8,250	8,250	8,250	-
Police Grants	15,000	15,000	17,195	2,195
Disaster Relief FEMA/State	-	765	765	-
Litter Abatement	2,100	1,934	2,071	137
Transfers from other funds	925,000	744,500	-	(744,500)
Total Estimated Revenues	\$ 3,594,843	\$ 3,567,131	\$ 2,707,487	\$ (859,644)
Total Resources Available for Appropriation	\$ 4,930,299	\$ 5,081,348	\$ 4,240,042	\$ (841,306)
APPROPRIATIONS				
Administrative	\$ 912,759	\$ 900,124	\$ 901,483	\$ (1,359)
Public Safety				
Fire Department	380,922	389,393	390,708	(1,315)
Police Department	846,368	807,625	811,354	(3,729)
Public Works	501,081	432,731	430,751	1,980
Parks and Recreation	9,000	6,900	14,365	(7,465)
Capital Outlay	99,280	459,724	413,883	45,841
Transfers to other funds	884,320	837,318	1,500	835,818
Total Appropriations	\$ 3,633,730	\$ 3,833,815	\$ 2,964,044	\$ 869,771
Excess of Resources and Revenues Over (Under) Appropriations	\$ 1,296,569	\$ 1,247,533	\$ 1,275,998	\$ 28,465
Estimated Fund Balances at June 30, 2010	\$ 1,296,569	\$ 1,247,533	\$ 1,275,998	\$ 28,465

**CITY OF CARROLLTON, KENTUCKY
NOTES TO BUDGETARY COMPARISON SCHEDULE
June 30, 2010**

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 headfunction 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	\$ 4,240,042
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	(1,532,555)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	\$ 2,707,487
Uses/outflows of resources:	
Actual amounts (budgetary basis) "total appropriations" from the budgetary comparison schedule	\$ 2,964,044
Differences - budget to GAAP:	
Transfers to other funds are out flows of budgetary resources but are not expenditures for financial reporting purposes.	(1,500)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	\$ 2,962,544

CITY OF CARROLLTON, KENTUCKY
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2010

	Special Revenue Funds				Capital Project Funds		Total Nonmajor Governmental Funds
	Municipal Road Aid	L.G.E.A.F. Program	Enterprise / Facade Improvement Program	Shop With A Cop	Skate Park	Polk Street Extension Project	
ASSETS							
Cash	\$ 46,334	\$ 19,829	\$ 45,904	\$ 9,216	\$ 2,765	\$ 1,472	\$ 125,520
Due from Other Governments	4,433	426	-	-	-	-	4,859
Total Assets	\$ 50,767	\$ 20,255	\$ 45,904	\$ 9,216	\$ 2,765	\$ 1,472	\$ 130,379
LIABILITIES							
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
FUND BALANCES							
Unreserved - Undesignated	\$ 50,767	\$ 20,255	\$ 45,904	\$ 9,216	\$ 2,765	\$ 1,472	\$ 130,379
Total Fund Balances	\$ 50,767	\$ 20,255	\$ 45,904	\$ 9,216	\$ 2,765	\$ 1,472	\$ 130,379
Total Liabilities and Fund Balances	\$ 50,767	\$ 20,255	\$ 45,904	\$ 9,216	\$ 2,765	\$ 1,472	\$ 130,379

CITY OF CARROLLTON, KENTUCKY
 COMBINING STATEMENT OF REVENUES,
 EXPENDITURES, AND CHANGES IN FUND BALANCES -
 NONMAJOR GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2010

	Special Revenue Funds				Capital Project Funds		Total Nonmajor Governmental Funds
	Municipal Road Aid	L.G.E.A.F. Program	Enterprise / Facade Improvement Program	Shop With A Cop	Skate Park	Polk Street Extension Project	
REVENUES							
Ad Valorem Taxes	\$ -	\$ -	\$ 33,000	\$ -	\$ -	\$ -	\$ 33,000
Kentucky Municipal Road Aid	71,613	-	-	-	-	-	71,613
Local Government Economic Assistance	-	2,268	-	-	-	-	2,268
Donations	-	-	-	14,235	-	-	14,235
Interest / Investment Revenue	444	143	99	90	14	1	791
Total Revenues	\$ 72,057	\$ 2,411	\$ 33,099	\$ 14,325	\$ 14	\$ 1	\$ 121,907
EXPENDITURES							
Current:							
Administrative	\$ -	\$ -	\$ 15,308	\$ -	\$ -	\$ 29	\$ 29
Public Works	62,126	-	-	-	-	-	77,434
Parks & Recreation	-	3,116	-	-	-	-	3,116
Community Service	-	-	-	17,485	-	-	17,485
Total Expenditures	\$ 62,126	\$ 3,116	\$ 15,308	\$ 17,485	\$ -	\$ 29	\$ 98,064
Excess of Revenues Over (Under) Expenditures	\$ 9,931	\$ (705)	\$ 17,791	\$ (3,160)	\$ 14	\$ (28)	\$ 23,843
Other Financing Sources (Uses)							
Transfers In	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,500	\$ 1,500
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,500	\$ 1,500
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	\$ 9,931	\$ (705)	\$ 17,791	\$ (3,160)	\$ 14	\$ 1,472	\$ 25,343
Fund Balances - July 1	40,836	20,960	28,113	12,376	2,751	-	105,036
Fund Balances - June 30	\$ 50,767	\$ 20,255	\$ 45,904	\$ 9,216	\$ 2,765	\$ 1,472	\$ 130,379

CITY OF CARROLLTON, KENTUCKY
SCHEDULE OF DEPARTMENTAL OPERATING REVENUES AND EXPENSES
ENTERPRISE FUND
(CARROLLTON UTILITIES)
For the Year Ended June 30, 2010

	Departments			Contractual Services	Total
	Gas	Water	Sewer		
Operating Revenues:					
Charges for Services:					
Utility Charges (Net of Bad Debt Expense)	\$ 45,059,182	\$ 891,023	\$ 1,430,829	\$ -	\$ 47,381,034
Connection Fees & Service Charges	22,265	7,539	50,094	-	79,898
Contractual Services	-	-	-	174,811	174,811
Total Charges for Services	\$ 45,081,447	\$ 898,562	\$ 1,480,923	\$ 174,811	\$ 47,635,743
Miscellaneous Revenues	98,184	1,177	1,713	-	101,074
Total Operating Revenues	\$ 45,179,631	\$ 899,739	\$ 1,482,636	\$ 174,811	\$ 47,736,817
Operating Expenses:					
Cost of Goods Sold	\$ 42,921,468	\$ -	\$ -	\$ -	\$ 42,921,468
Operation & Maintenance	326,798	421,134	532,817	86,438	1,367,187
General & Administrative	854,553	308,215	327,434	74,612	1,564,814
Depreciation	378,197	168,887	784,255	-	1,331,339
Total Operating Expenses	\$ 44,481,016	\$ 898,236	\$ 1,644,506	\$ 161,050	\$ 47,184,808
Net Operating Income (Loss)	\$ 698,615	\$ 1,503	\$ (161,870)	\$ 13,761	\$ 552,009

CITY OF CARROLLTON, KENTUCKY
SCHEDULE OF OPERATION & MAINTENANCE, GENERAL &
ADMINISTRATIVE EXPENSES BY DEPARTMENT
ENTERPRISE FUND
(CARROLLTON UTILITIES)
For the Year Ended June 30, 2010

	Departments			Contractual Services	Total
	Gas	Water	Sewer		
OPERATION & MAINTENANCE					
Customer Service	\$ 63,503	\$ 38,035	\$ -	\$ 45,836	\$ 147,374
Mains	117,736	32,649	76,529	32,105	259,019
Transportation	27,920	18,500	31,484	7,201	85,105
Plant and Equipment	113,038	221,197	334,370	1,296	669,901
Chemicals	-	52,791	48,158	-	100,949
Electric, Light and Power	4,601	57,962	42,276	-	104,839
Total	\$ 326,798	\$ 421,134	\$ 532,817	\$ 86,438	\$ 1,367,187
GENERAL & ADMINISTRATIVE EXPENSES					
Office Salaries	\$ 254,523	\$ 58,409	\$ 73,247	\$ 15,086	\$ 401,265
Employee Benefits	275,745	129,505	144,240	50,629	600,119
Payroll Taxes	38,066	23,134	23,469	7,603	92,272
Commissioner Fees	3,269	3,245	3,245	-	9,759
Office Expenses	42,855	39,937	35,495	-	118,287
Professional and Outside Services	49,175	15,778	13,881	-	78,834
Insurance	141,366	15,459	15,459	-	172,284
Other	49,554	22,748	18,398	1,294	91,994
Total	\$ 854,553	\$ 308,215	\$ 327,434	\$ 74,612	\$ 1,564,814

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Carrollton, Kentucky as of and for the year ended June 30, 2010, which collectively comprise City of Carrollton, Kentucky's basic financial statements and have issued our report thereon dated January 20, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider deficiency 10-1 described in the accompanying schedule of findings and questioned costs to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider deficiency 10-2 described in the accompany schedule of findings and questioned costs to be a significant deficiency.

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

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether City of Carrollton, Kentucky's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 10-3.

We noted certain other matters that we reported to management of City of Carrollton, Kentucky in a separate letter dated January 20, 2011.

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

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

Raisor, Zapp & Woods, PSC

RAISOR, ZAPP & WOODS, PSC
Certified Public Accountants

January 20, 2011

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

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

Compliance

We have audited the compliance of City of Carrollton, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2010. City of Carrollton, Kentucky's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of City of Carrollton, Kentucky's management. Our responsibility is to express an opinion on City of Carrollton, Kentucky's compliance based on our audit.

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; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 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. Our audit does not provide a legal determination of City of Carrollton, Kentucky's compliance with those requirements.

In our opinion, City of Carrollton, Kentucky, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

Management of City of Carrollton, Kentucky is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Carrollton, Kentucky's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

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

Internal Control Over Compliance (Continued)

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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Raisor, Zapp & Woods, PSC

RAISOR, ZAPP, & WOODS, PSC
Certified Public Accountants

January 20, 2011

CITY OF CARROLLTON, KENTUCKY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS,
 For the Year Ended June 30, 2010

Federal Grant/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
<u>U.S. Department of Justice</u>			
Pass-through the Kentucky Justice and Public Safety Cabinet ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	16.803	2009 - JAG - Carrollton PD - 00252	\$ 1,147
Total Pass-through the Kentucky Justice & Public Safety Cabinet			\$ 1,147
Total U.S. Department of Justice			\$ 1,147
<u>U.S. Department of Transportation, National Highway Traffic Safety Administration (NHTSA)</u>			
Pass-through Kentucky Office of Highway Safety Division of Highway Safety Programs Highway Safety Cluster State and Community Highway Safety	20.600	K2-10-08	\$ 967
Total Pass-through Kentucky Office of Highway Safety Division of Highway Safety Programs			\$ 967
Total U.S. Department of Transportation, National Highway Traffic Safety Administration (NHTSA)			\$ 967
<u>U.S. Department of Homeland Security, Federal Emergency Management Agency</u>			
Direct Program Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	-	\$ 38,720
Total Direct Program from U.S. Department of Homeland Security, Federal Emergency Management Agency			\$ 38,720
<u>U.S. Department of Commerce, Economic Development Administration</u>			
Direct Program Public Works and Economic Development Cluster ARRA - Economic Adjustment Assistance	11.307	-	\$ 1,223,314
Total Public Works and Economic Development Cluster			\$ 1,223,314
Total Direct Program from U.S. Department of Commerce, Economic Development Administration			\$ 1,223,314
<u>U.S. Department of Housing and Urban Development, Office of Community Planning and Development</u>			
Pass-through the Kentucky Department for Local Government Pass-through Owen County Fiscal Court CDBG State - Administered Small Cities Program Cluster Community Development Block Grants/State's Program and Non-entitlement Grants in Hawaii (State - Administered Small Cities Program)	14.228	08-017	\$ 987,475
Pass-through the Kentucky Department for Local Government Pass-through Gallatin County Fiscal Court CDBG State - Administered Small Cities Program Cluster ARRA - Community Development Block Grants/State's Program and Non-entitlement Grants in Hawaii (Recovery Act Funded) (State - Administered Small Cities Program)	14.255	08-106-A	160,039
Total CDBG State - Administered Small Cities Program Cluster			\$ 1,147,514
Total Pass-through the Kentucky Department for Local Government			\$ 1,147,514
Total U.S. Department of Housing and Urban Development, Office of Community Planning and Development			\$ 1,147,514
Total Expenditures of Federal Awards			\$ 2,411,662

Note A - Basis of Presentation

The schedule of expenditures of federal awards includes the federal grant activity of the City of Carrollton, Kentucky and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

CITY OF CARROLLTON, KENTUCKY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Fiscal Year Ended June 30, 2010

A. SUMMARY OF AUDITORS' RESULTS:

1. The auditors' report expresses an unqualified opinion on the financial statements of the City of Carrollton, Kentucky.
2. Two deficiencies in internal control disclosed during the audit of the financial statements are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. Deficiency 10-1 is reported as a material weakness.
3. One instance of noncompliance material to the financial statements of City of Carrollton, Kentucky, that would be required to be reported in accordance with Government Auditing Standards, was disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for the City of Carrollton, Kentucky, expresses an unqualified opinion on all the major federal programs.
6. There are no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 in this schedule.
7. The programs tested as major programs included:

CDBG – State – Administered Small Cities Program Cluster Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (State – Administered Small Cities Program)	CFDA	14.228
ARRA – Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (Recovery Act Funded) (State – Administered Small Cities Program)	CFDA	14.255
Public Works and Economic Development Cluster ARRA – Economic Adjustment Assistant	CFDA	11.307
8. The threshold used for distinguishing Type A and Type B programs was \$300,000.
9. The City of Carrollton, Kentucky, did not qualify as a low risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

DEFICIENCIES IN INTERNAL CONTROL

GOVERNMENT AUDITING STANDARDS

10-1 SIZE OF ENTITY, CROSS-TRAINING AND CHECKING PROCEDURES

CONDITION:

Due to the size of the entity, cross-training and checking procedures are not in place for certain administrative positions. This limits internal control. This condition was also cited as a significant deficiency in the schedule of findings and responses for the year ended June 30, 2009 as 09-1.

CITY OF CARROLLTON, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Fiscal Year Ended June 30, 2010

B. FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)

DEFICIENCIES IN INTERNAL CONTROL (CONTINUED)

GOVERNMENT AUDITING STANDARDS (CONTINUED)

10-1 SIZE OF ENTITY, CROSS-TRAINING AND CHECKING PROCEDURES (CONTINUED)

CRITERIA:

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

CAUSE:

Responsibilities associated with individual positions limit the availability of individuals to rotate duties and implement checking procedures.

EFFECT:

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

RECOMMENDATION:

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

RESPONSE:

We concur with the recommendation.

10-2 FAILURE TO PREPARE A COMPLETE SET OF FINANCIAL STATEMENTS INCLUDING REQUIRED NOTE DISCLOSURES

CONDITION:

City government-wide financial statements, including the required disclosures are prepared as part of the annual audit. This condition was also cited as a significant deficiency in the schedule of findings and responses for the year ended June 30, 2009 as 09-2.

CRITERIA:

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

CAUSE:

The City prepares fund financial statements. However, the draft accrual basis (government wide) financial statements and disclosures are prepared during the audit process. Entries are not entered into the City's general ledger/financial reports.

EFFECT:

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

CITY OF CARROLLTON, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Fiscal Year Ended June 30, 2010

B. FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)

DEFICIENCIES IN INTERNAL CONTROL (CONTINUED)

GOVERNMENT AUDITING STANDARDS (CONTINUED)

10-2 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

10-3 VIOLATION OF KRS 424.260

CONDITION:

The City did not advertise for bids on certain equipment.

CRITERIA:

KRS 424.260 requires cities to implement procedures to ascertain that any qualified purchase greater than \$20,000 is properly bid.

CAUSE:

Procedures were not followed regarding Kentucky Revised Statute 424.260.

EFFECT:

Equipment may not have been purchased at the most competitive price.

RECOMMENDATION:

Review planned purchases for any bid requirements.

RESPONSE:

We concur with the recommendation.

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

SIGNIFICANT DEFICIENCIES

None

COMPLIANCE

None

**CITY OF CARROLLTON, KENTUCKY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Fiscal Year Ended June 30, 2010**

June 30, 2009 was not a Single Audit. Therefore, there are no prior year audit findings to report.