

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

Year Ended June 30, 2017

CITY OF CARROLLTON, KENTUCKY

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RAISOR, ZAPP & WOODS, PSC

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Carrollton, Kentucky, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Carrollton, Kentucky's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Carrollton, Kentucky, as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on Pages 3 through 10, the budgetary comparison information on pages 53 and 54, the Schedule of the City's Proportionate Share of the Net Pension Liability – County Employees Retirement System on page 55, and Schedule of the City's Contributions – County Employees Retirement System on page 56 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2017, on our consideration of the City of Carrollton, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Carrollton's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Carrollton, Kentucky's internal control over financial reporting and compliance.

Raisor, Zapp & Woods, PSC

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

December 8, 2017

Our discussion and analysis of the City of Carrollton's financial performance provides an overview of the City's financial activities for the year ended June 30, 2017. Please read it in conjunction with the City's financial statements, which begin on page 11.

FINANCIAL HIGHLIGHTS

- Capital outlay expended in the City's governmental funds includes the following:
 - \$265,939 was spent for a used aerial ladder fire truck to replace a forty-year-old one.
 - \$14,577 for a new security camera system at City Hall.
 - \$15,000 for a K9 drug dog for the Police Department.
 - \$19,952 was spent to install a new server in the Administrative offices of City Hall to replace an aging one.
 - \$6,780 for a new box salt spreader for Public Works.
 - \$118,070 was spent on the Down on Main Project.
 - \$40,000 was spent to stabilize the old firehouse on Court Street.

- The City spent \$11,000 for new bunker gear and boots for the Fire Department with State Aid funds paying for this. The Fire Department also spent \$5,082 for 14 new SCBA cylinders and \$5,698 for rescue equipment.

- City's total net position decreased by \$148,025.

- In the City's business-type activities, charges for service increased to \$40,780,418 (or 26.3%) and expenses increased to \$40,587,496 (or 26.1%).

- Capital outlay expended through the City's business-type activities includes the following:
 - \$34,637 on a new truck.
 - \$684,253 for construction of a new office building on Clay Street. Construction was completed and offices relocated to the new building on October 6, 2017.
 - \$7,118 for a new trench box.
 - \$13,065 for a new side by side vehicle for the gas department.
 - \$7,375 for a new hand-held meter reading device and charging cradle.
 - \$22,253 for (2) new gas leak detectors.
 - \$24,290 for Omni-Sites for the wastewater department.
 - \$9,408 to install electric service to and enclose a section of the pole barn at the wastewater treatment plant.
 - \$69,780 for the purchase of a warehouse and property on Polk Street to build a new gas and water distribution center. The old warehouse on that site was deemed unusable and demolished at a cost of \$38,500 during fiscal year 2017. Construction should begin by June 30, 2018 and be complete by December 31, 2018.
 - \$74,109 for purchase, removal, and transport of the tanks and material for the Green Sand Project and engineering and design of the construction of addition of green sand tanks to existing water treatment plant.
 - \$864,869 for the purchase of the Campbellsburg Sewer System.

USING THIS ANNUAL REPORT

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

Reporting the City as a Whole:

The Statement of Net Position and the Statement of Activities

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

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

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

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

Reporting the City's Most Significant Funds:

Fund Financial Statements

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

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

THE CITY AS A WHOLE

The City's combined net position increased from \$48.0 million to \$48.2 million. The net position and net expenses of governmental and business-type activities show two different results. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the City's governmental and business-type activities.

**TABLE 1
NET POSITION**

	GOVERNMENTAL		BUSINESS-TYPE		TOTAL	
	ACTIVITIES		ACTIVITIES		GOVERNMENT	
	15/16	16/17	15/16	16/17	15/16	16/17
CURRENT AND OTHER ASSETS	3,798,041	3,604,759	12,725,471	13,085,326	16,523,512	16,690,085
CAPITAL ASSETS	5,957,980	6,072,753	39,537,211	40,364,826	45,495,191	46,437,579
TOTAL ASSETS	9,756,021	9,677,512	52,262,682	53,450,152	62,018,703	63,127,664
DEFERRED OUTFLOWS OF RESOURCES	458,911	599,084	562,510	733,770	1,021,421	1,332,854
NON-CURRENT LIABILITIES	2,176,444	2,434,731	9,389,555	9,301,752	11,565,999	11,736,483
CURRENT LIABILITIES	190,163	113,004	3,303,597	4,416,238	3,493,760	4,529,242
TOTAL LIABILITIES	2,366,607	2,547,735	12,693,152	13,717,990	15,059,759	16,265,725
DEFERRED INFLOWS OF RESOURCES	0	28,561	0	6,225	0	34,786
NET POSITION:						
NET INVESTMENT IN CAPITAL ASSETS	5,957,980	6,072,753	33,411,070	34,077,420	39,369,050	40,150,173
RESTRICTED	113,467	108,929	528,621	535,739	642,088	644,668
UNRESTRICTED	1,776,878	1,518,618	6,192,349	5,846,548	7,969,227	7,365,166
TOTAL NET POSITION	7,848,325	7,700,300	40,132,040	40,459,707	47,980,365	48,160,007

Net position of the City's governmental activities decreased by 2 percent (\$7,848,325) compared to (\$7,700,300). Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - changed from \$1,776,878 at June 30, 2016 to \$1,518,618 at the end of June 30, 2017.

The net position of our business-type activities increased by 0.80% (\$40,132,040 compared to \$40,459,707). Unrestricted net assets changed from \$6,192,349 at the end of June 30, 2016 to \$5,846,548 at the end of June 30, 2017. The City generally can only use the unrestricted net assets to finance the continuing operations of the gas, water and sewer operations.

**TABLE 2
CHANGES IN NET
POSITION**

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTAL GOVERNMENT	
	15/16	16/17	15/16	16/17	15/16	16/17
REVENUES:						
PROGRAM REVENUES:						
CHARGES FOR SERVICES	836,991	896,945	32,281,408	40,780,418	33,118,399	41,677,363
STATE GRANTS/ENTITLEMENTS	145,287	148,787	22,918		168,205	148,787
LOCAL GRANTS/CONTRIBUTION	0	49,474	116,661		116,661	49,474
PRINCIPAL FORGIVENESS - KIA			508,901		508,901	0
GENERAL REVENUES:						
PROPERTY TAXES	442,007	447,842			442,007	447,842
FRANCHISE TAXES	360,377	363,313			360,377	363,313
PEAK ANNUAL RETURN	2,472,011	1,020,274			2,472,011	1,020,274
INSURANCE LICENSES	490,829	547,393			490,829	547,393
OTHER GENERAL REVENUES	13,325	13,394	135,223	134,745	148,548	148,139
TOTAL REVENUES:	4,760,827	3,487,422	33,065,111	40,915,163	37,825,938	44,402,585
PROGRAM EXPENSES:						
GENERAL GOVERNMENT	631,813	638,176			631,813	638,176
PUBLIC SAFETY	1,508,873	1,658,863			1,508,873	1,658,863
PUBLIC WORKS	742,437	848,030			742,437	848,030
HEALTH & SANITATION	326,485	332,589			326,485	332,589
PARKS & RECREATION	149,351	142,460			149,351	142,460
COMMUNITY SERVICE	14,258	15,329			14,258	15,329
INTEREST: LONG TERM DEBT	6,024				6,024	0
GAS			28,589,028	37,014,579	28,589,028	37,014,579
WATER			1,207,665	1,326,854	1,207,665	1,326,854
SEWER			2,189,015	2,033,004	2,189,015	2,033,004
MANAGEMENT SERVICES			207,143	213,059	207,143	213,059
TOTAL EXPENSES:	3,379,241	3,635,447	32,192,851	40,587,496	35,572,092	44,222,943
CHANGE IN NET POSITION	1,381,586	-148,025	872,260	327,667	2,253,846	179,642
BEGINNING NET POSITION	6,466,739	7,848,325	39,259,780	40,132,040	45,726,519	47,980,365
ENDING NET POSITION	7,848,325	7,700,300	40,132,040	40,459,707	47,980,365	48,160,007

The City's total revenues increased by \$6,576,647. The total cost of all programs and services increased by \$8,650,851. Our analysis below separately considers the operations of governmental and business-type activities.

Governmental Activities

Revenues for the City's governmental activities decreased by 26.7 percent (\$1,273,405) and total expenses increased by 7.5 percent (\$256,206). The decrease in net position for governmental activities was \$148,025 in FY 2016-2017. This compares to a \$1,381,586 increase in net position in FY 2015-2016. The major difference is the PEAK end of project return in FY 2015-16.

The City budgeted the following capital outlay projects:

\$25,000 for a new server in the Administrative Department.

\$301,550 for Riverfront Development

\$325,000 for a new or used aerial fire truck

\$16,000 for a K9 unit for the Police Department

\$30,000 for sidewalks

\$120,000 for the old firehouse building stabilization and Streetscape project on Main Street

\$6,780 for a new salt spreader

- The City budgeted a 3% increase in departmental salaries.
- The City continued with the self-insured health insurance plan along with several other Northern Kentucky government entities with a budgeted 7% premium increase and offered several different options to the employees with different deductibles. Also, if employees chose a Healthy Plan their plan would be provided at no cost to them when choosing certain plans.
- The City's retirement plan (C.E.R.S.) contribution rate was increased from 17.06 percent to 18.68 percent by the Commonwealth of Kentucky.

The cost of all governmental activities this year was \$3,635,447 compared to \$3,379,241 last year. As shown in the Statement of Activities on pages 12-13, the amount that our taxpayers financed for these activities was \$896,945, and some of the cost was paid by other governments and organizations that subsidized certain programs with grants and contributions of \$148,787. Overall, the City's governmental program revenues, including intergovernmental aid and fees for services increased from \$982,278 to \$1,095,206.

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

**TABLE 3
GOVERNMENTAL ACTIVITIES
TOTAL COST
OF SERVICES**

	TOTAL COST OF SERVICES		NET COST OF SERVICES	
	15/16	16/17	15/16	16/17
GENERAL GOVERNMENT	631,813	638,176	(492,895)	(484,817)
FIRE DEPARTMENT	209,934	230,430	(198,584)	(215,430)
POLICE DEPARTMENT & DISPATCH	1,298,939	1,428,433	(1,015,002)	(1,114,653)
PUBLIC WORKS DEPARTMENT	742,437	848,030	(655,598)	(765,055)
SANITATION	326,485	332,589	43,007	42,969
ALL OTHERS	169,633	157,789	(77,891)	(3,255)
TOTALS:	<u>3,379,241</u>	<u>3,635,447</u>	<u>(2,396,963)</u>	<u>(2,540,241)</u>

Business-type Activities

Total revenues of the City's business type activities (see Table 2) increased by 23.7 percent in FY 16-17 compared to a 28.9 percent decrease in FY 15-16. The expenses in FY 16-17 increased by 26.1 percent.

The approximate 26% increase in revenues and expenses of the City's business-type activities is directly related to the gas services provided by Carrollton Utilities. Whereas, the program revenues and expenses of the water, sewer and management services of Carrollton Utilities stayed relatively constant compared to the prior year, the revenues and expenses of the gas services both increased by 29% (\$8,437,878) and (\$8,425,551), 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	
	15-16	16-17	15-16	16-17
Gas	28,846,138	37,284,016	28,589,028	37,014,579
Water	1,087,132	1,085,462	1,207,665	1,326,854
Sewer	2,092,625	2,162,762	2,189,015	2,033,004
Management Services	255,513	248,178	207,143	213,059
Totals:	<u>32,281,408</u>	<u>40,780,418</u>	<u>32,192,851</u>	<u>40,587,496</u>

THE CITY'S FUNDS

As the City completed fiscal year 2016-2017, its governmental funds (as presented in the balance sheet on page 14) reported a combined fund balance of \$3,229,887 which represents an increase of \$1,557,127 from last year's total of \$1,672,760.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City Council revised the General Fund budget one time for fiscal year ending June 30, 2017. This amendment accounted for increases in revenues from property taxes, and decreases in licenses/permits and charges for services. In addition, it accounted for the increases in all departments as a result of the annual salary increases.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2017, the City had \$6,072,753 (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 \$114,773 or 2%.

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

	GOVERNMENTAL		BUSINESS-TYPE		TOTALS	
	ACTIVITIES		ACTIVITIES			
	15/16	16/17	15/16	16/17	15/16	16/17
LAND	1,140,777	1,141,271	761,437	834,439	1,902,214	1,975,710
BUILDINGS & IMPROVEMENTS	2,485,856	2,375,143	4,880,846	4,703,232	7,366,702	7,078,375
EQUIPMENT	746,539	931,395	2,431,710	2,195,246	3,178,249	3,126,641
INFRASTRUCTURE	1,488,054	1,538,774	30,980,877	31,262,145	32,468,931	32,800,919
CONSTRUCTION-IN-PROGRESS	96,754	86,170	482,341	1,369,764	579,095	1,455,934
TOTALS:	5,957,980	6,072,753	39,537,211	40,364,826	45,495,191	46,437,579

This year's major additions included:

- \$ 265,939 for a new aerial ladder fire truck.
- \$19,952 for a new server in the administrative department.
- \$14,577 for a new security camera system at City Hall.
- \$15,000 for a K9 in the Police Department.
- \$44,669 on sidewalks.
- \$7,118 for trench box for all utility departments
- \$13,065 for side by side vehicle for the gas department (old side by side given to Street Dept)
- \$7,375 for a new hand-held meter reading device and charging cradle
- \$22,253 for (2) new gas leak detectors
- \$3,034 for new confined space meters for the sewer department
- \$24,290 for Omni-Sites for the sewer department lift stations communications
- \$9,408 to install electric and heat and to fully enclose the pole barn at the sewer plant
- \$34,637 for a Ford F150 truck for the general manager
- \$684,253 for construction of the new office building on Clay Street included in construction in progress at year end.
- \$69,780 to purchase old warehouse and property on Polk Street for new distribution warehouse
- \$38,500 to tear down old warehouse on Polk Street property to clear lot for new warehouse
- \$74,109 for purchase, removal, and transport of the tanks and material for the Green Sand Project and engineering and design of the construction of addition of green sand tanks to existing water plant
- \$864,869 for the purchase of the Campbellsburg Sewer System.

Debt

At year-end, the City had no capital lease, notes payable and bonds payable outstanding.

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

	GOVERNMENTAL		BUSINESS-TYPE		TOTALS	
	ACTIVITIES		ACTIVITIES			
	15/16	16/17	15/16	16/17	15/16	16/17
CAPITAL LEASE	-	-	-	-	-	-
NOTES PAYABLE	-	-	7,048,930	6,572,304	7,048,930	6,572,304
BONDS PAYABLE	-	-	-	-	-	-
TOTALS	-	-	7,048,930	6,572,304	7,048,930	6,572,304

Other obligations of the City represents accrued compensated absences for \$39,515 compared to \$29,563 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 2016-2017 budget. One of those factors is the economy - specifically the Consumer Price Index (CPI). The CPI was reported at .7% according to the Commonwealth of Kentucky. Council decided to allocate a 3% increase for departmental salaries.

The City chose not to raise the property tax rate by 4% as per KRS 132.027 in FY16-17 which kept the property tax rate at \$.30 per \$100 of assessment. This meant a loss of revenue of \$15,167 in property tax receipts. Next year's budget, FY17-18 includes several Capital Projects with the continuation of the extension of the Riverwalk from the JCTC parking lot to the Kentucky River, the restoration of the Bow Bridge connecting the Campground with Point Park, and paving a walkway along the Kentucky River leading up to the Bow Bridge. Three separate grants will be used to help fund these projects at a total budgeted cost of \$301,550. \$40,000 was budgeted to repair and replace city sidewalks. \$200,000 was budgeted for a spray/water park at Point Park. \$10,000 was budgeted for new Christmas decorations for downtown. Several pieces of equipment were budgeted for the Public Works Department: a John Deere 6 foot bush hog for \$4,554, a new dump bed for the dump truck for \$11,228 and an asphalt hotbox to be shared with Carrollton Utilities with the City's half budgeted at \$21,080. New radar units were budgeted for \$11,800.

As for the City's business-type activities, the Commission has budgeted an approximate 9% increase in gas revenues and expenses, a 2% (in town) and 3% (out of town) increase in water rates, and a 2% (in town) and 3% (out of town) increase in sewer rates.

The City began construction of a new administration building in 2016-2017. The building is estimated to cost approximately \$1.6 million and the project consists of the construction of a 6,500-sq. ft. office building, parking lot, drive thru lane, storm detention basin and all site work. Construction was substantially completed, and offices relocated permanently to 900 Clay Street on October 6, 2017.

The City purchased property on Polk Street that was the site of a dilapidated warehouse. The warehouse was demolished in 2016-2017 and the property will be used for construction of a new distribution center/warehouse for the gas and water system. Construction will begin in 2017-2018 and should be complete by December 31, 2018.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

LEATHA S. GRIMES, CMC
City Clerk-Treasurer

BILL R. OSBORNE
Carrollton Utilities General Manager

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2017

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets			
Cash, Including Time Deposits	\$ 2,872,899	\$ 8,185,648	\$ 11,058,547
Interest Receivable	-	763	763
Accounts Receivable (Net)	265,997	3,297,600	3,563,597
Other Receivables	-	377,565	377,565
Due from Other Governments	41,738	65,678	107,416
Due from Other Funds	417,523	(417,523)	-
Current Portion - Interlocal Receivable	-	24,691	24,691
Prepaid Expense	6,602	49,467	56,069
Total Current Assets	\$ 3,604,759	\$ 11,583,889	\$ 15,188,648
Noncurrent Assets			
Restricted Assets			
Cash, Including Time Deposits	\$ -	\$ 742,625	\$ 742,625
Interlocal Receivable	-	758,812	758,812
Capital Assets (Net)	6,072,753	40,364,826	46,437,579
Total Noncurrent Assets	\$ 6,072,753	\$ 41,866,263	\$ 47,939,016
Total Assets	\$ 9,677,512	\$ 53,450,152	\$ 63,127,664
DEFERRED OUTFLOWS OF RESOURCES			
Attributable to Employer Pension Plan	\$ 599,084	\$ 733,770	\$ 1,332,854
LIABILITIES			
Current Liabilities			
Accounts Payable	\$ 50,520	\$ 3,390,268	\$ 3,440,788
Accrued Compensated Absences	29,902	1,072	30,974
Accrued Wages	32,582	29,725	62,307
Construction Retainage Payable	-	498,605	498,605
Current Liabilities Payable from Restricted Assets:			
Accrued Interest	-	6,936	6,936
Notes Payable	-	489,632	489,632
Total Current Liabilities	\$ 113,004	\$ 4,416,238	\$ 4,529,242
Noncurrent Liabilities			
Accrued Compensated Absences	\$ 9,613	\$ 14,222	\$ 23,835
Notes Payable	-	6,082,672	6,082,672
Net Pension Liability	2,425,118	3,004,909	5,430,027
Noncurrent Liabilities Payable from Restricted Assets:			
Customer Deposits Payable	-	199,949	199,949
Total Noncurrent Liabilities	\$ 2,434,731	\$ 9,301,752	\$ 11,736,483
Total Liabilities	\$ 2,547,735	\$ 13,717,990	\$ 16,265,725
DEFERRED INFLOWS OF RESOURCES			
Attributable to Employer Pension Plan	\$ 28,561	\$ 6,225	\$ 34,786
NET POSITION			
Net Investment in Capital Assets	\$ 6,072,753	\$ 34,077,420	\$ 40,150,173
Restricted for:			
Debt Service	-	535,739	535,739
Other Purposes	108,929	-	108,929
Unrestricted	1,518,618	5,846,548	7,365,166
Total Net Position	\$ 7,700,300	\$ 40,459,707	\$ 48,160,007

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

	Program Revenues			
	Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions / Programs				
Governmental Activities				
General Government	\$ 638,176	\$ 143,603	\$ 9,756	\$ -
Public Safety				
Fire Department	230,430	-	4,000	11,000
Dispatch	381,520	249,077	-	10,310
Police Department	1,046,913	13,550	40,843	-
Public Works	848,030	-	79,881	3,094
Sanitation	332,589	375,558	-	-
Parks & Recreation	142,460	115,157	-	25,070
Community Service	15,329	-	14,307	-
Total Governmental Activities	\$ 3,635,447	\$ 896,945	\$ 148,787	\$ 49,474
Business-type Activities				
Gas	\$ 37,014,579	\$ 37,284,016	\$ -	\$ -
Water	1,326,854	1,085,462	-	-
Sewer	2,033,004	2,162,762	-	-
Management Services	213,059	248,178	-	-
Total Business-type Activities	\$ 40,587,496	\$ 40,780,418	\$ -	\$ -
Total Government	\$ 44,222,943	\$ 41,677,363	\$ 148,787	\$ 49,474

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

Net (Expense) Revenue and
Changes in Net Position

Governmental Activities	Business-type Activities	Total
\$ (484,817)	\$ -	\$ (484,817)
(215,430)	-	(215,430)
(122,133)	-	(122,133)
(992,520)	-	(992,520)
(765,055)	-	(765,055)
42,969	-	42,969
(2,233)	-	(2,233)
(1,022)	-	(1,022)
<u>\$ (2,540,241)</u>	<u>\$ -</u>	<u>\$ (2,540,241)</u>
\$ -	\$ 269,437	\$ 269,437
-	(241,392)	(241,392)
-	129,758	129,758
-	35,119	35,119
<u>\$ -</u>	<u>\$ 192,922</u>	<u>\$ 192,922</u>
<u>\$ (2,540,241)</u>	<u>\$ 192,922</u>	<u>\$ (2,347,319)</u>
\$ 447,842	\$ -	\$ 447,842
363,313	-	363,313
1,020,274	-	1,020,274
547,393	-	547,393
13,394	8,913	22,307
-	9,270	9,270
-	100,392	100,392
-	16,170	16,170
<u>\$ 2,392,216</u>	<u>\$ 134,745</u>	<u>\$ 2,526,961</u>
<u>\$ (148,025)</u>	<u>\$ 327,667</u>	<u>\$ 179,642</u>
<u>7,848,325</u>	<u>40,132,040</u>	<u>47,980,365</u>
<u>\$ 7,700,300</u>	<u>\$ 40,459,707</u>	<u>\$ 48,160,007</u>

CITY OF CARROLLTON, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2017

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash, Including Time Deposits	\$ 2,700,797	\$ 172,102	\$ 2,872,899
Accounts Receivable: (Net of Allowance for Uncollectibles)			
Insurance Licenses	133,068	-	133,068
Business Licenses	15,677	-	15,677
Ad Valorem Tax	5,257	-	5,257
Franchise Fees	76,114	-	76,114
Miscellaneous	19,173	-	19,173
Due from Other Governments	41,738	13,563	55,301
Due from Other Funds	165,402	-	165,402
Total Assets	\$ 3,157,226	\$ 185,665	\$ 3,342,891
LIABILITIES			
Accounts Payable	\$ 50,520	\$ -	\$ 50,520
Accrued Compensated Absences	29,902	-	29,902
Accrued Wages	32,582	-	32,582
Total Liabilities	\$ 113,004	\$ -	\$ 113,004
FUND BALANCES			
Restricted	\$ -	\$ 108,929	\$ 108,929
Committed	195,893	55,436	251,329
Assigned	-	21,300	21,300
Unassigned	2,848,329	-	2,848,329
Total Fund Balances	\$ 3,044,222	\$ 185,665	\$ 3,229,887
Total Liabilities and Fund Balances	\$ 3,157,226	\$ 185,665	\$ 3,342,891

CITY OF CARROLLTON, KENTUCKY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2017

Total Governmental Fund Balances	\$	3,229,887
<i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Total capital assets \$11,442,630 net of accumulated depreciation \$5,369,877.		6,072,753
Revenues that do not provide current financial resources are not reported as revenues in the funds. Amounts due on such revenues but not received subsequent to year end within 60 days have been reported as receivable in the Statement of Net Position.		255,266
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Accrued Compensated Absences	\$	9,613
Net Pension Liability		<u>2,425,118</u>
		(2,434,731)
Expenditures that have used current financial resources but have been made for goods and services to be received subsequent to year end have been reported as a prepaid expense in the Statement of Net Position.		6,602
Deferred Outflows of Resources:		
Attributable to CERS Employer Pension Plan:		
Employer Pension Contributions Made Subsequent to the Measurement Date		230,287
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments		227,986
Change of Assumptions		128,470
Difference Between Expected and Actual Experience		10,587
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions		<u>1,754</u>
		599,084
Deferred Inflows of Resources		
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions		<u>(28,561)</u>
Net Position of Governmental Activities	\$	<u><u>7,700,300</u></u>

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2017

REVENUES	General Fund	Other Governmental Funds	Total Governmental Funds
Taxes:			
Property Taxes	\$ 447,842	\$ -	\$ 447,842
Franchise Taxes	336,893	-	336,893
Insurance Taxes	547,393	-	547,393
Bank Deposits	26,420	-	26,420
Licenses and Permits	99,226	-	99,226
Intergovernmental Revenues	340,301	86,637	426,938
PEAK Revenue	2,685,748	-	2,685,748
Charges for Sanitation Services	375,558	-	375,558
Interest Revenue	4,642	285	4,927
Miscellaneous	215,994	14,307	230,301
Total Revenues	\$ 5,080,017	\$ 101,229	\$ 5,181,246
EXPENDITURES			
Current			
Administrative	\$ 925,512	\$ -	\$ 925,512
Public Safety			
Fire Department	161,695	-	161,695
Emergency Dispatch	350,982	-	350,982
Police Department	930,275	-	930,275
Public Works	568,866	91,318	660,184
Parks and Recreation	47,673	-	47,673
Community Service	-	15,329	15,329
Capital Outlay	532,469	-	532,469
Total Expenditures	\$ 3,517,472	\$ 106,647	\$ 3,624,119
Net Change in Fund Balances	\$ 1,562,545	\$ (5,418)	\$ 1,557,127
Fund Balances - Beginning of Year	1,481,677	191,083	1,672,760
Fund Balances - End of Year	\$ 3,044,222	\$ 185,665	\$ 3,229,887

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, 2017

Net Change in Fund Balances - Total Governmental Funds \$ 1,557,127

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

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

Capitalized Expenditures 532,469

Depreciation Expense (420,790)

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

Compensated Absences 3,285

Revenues in the Statement of Revenues, Expenditures and Changes in Fund
 Balances that provided current financial resources but were recognized
 in the Statement of Activities when earned previously. (1,696,918)

Expenditures in the Statement of Revenues, Expenditures, and Changes
 in Fund Balances that are for goods and services not yet received
 are not reported as expenses in the Statement of Activities. (314)

Governmental funds report City pension contributions through the
 governmental funds to the County Employees' Retirement System as
 expenditures. However in the Statement of Activities, the cost of pension
 benefits earned, net of employee contributions, is reported as pension expense.

City pension contributions 230,287

Cost of benefits earned net of employee contributions (356,265)

Capital Assets transferred to the Governmental Funds from the City's
 Proprietary Fund. 3,094

Change in Net Position of Governmental Activities \$ (148,025)

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUND
June 30, 2017

		Carrollton Utilities Enterprise Fund
ASSETS		
Current Assets		
Cash, Including Time Deposits	\$	8,185,648
Interest Receivable		763
Accounts Receivable (Net)		3,297,600
Other Receivables		377,565
Due from Other Governments		65,678
Current Portion - Interlocal Receivable		24,691
Prepaid Expense		49,467
Total Current Assets	\$	12,001,412
Noncurrent Assets		
Restricted Assets		
Cash, Including Time Deposits	\$	742,625
Interlocal Receivable		758,812
Capital Assets (Net)		40,364,826
Total Noncurrent Assets	\$	41,866,263
Total Assets	\$	53,867,675
DEFERRED OUTFLOWS OF RESOURCES		
Attributable to Employer Pension Plan	\$	733,770
LIABILITIES		
Current Liabilities		
Accounts Payable	\$	3,390,268
Due to Other Funds		417,523
Accrued Compensated Absences		1,072
Accrued Salaries, Wages & Benefits		29,725
Construction Retainage Payable		498,605
Current Liabilities Payable from Restricted Assets:		
Accrued Interest Payable		6,936
Notes Payable		489,632
Total Current Liabilities	\$	4,833,761
Noncurrent Liabilities		
Accrued Compensated Absences	\$	14,222
Notes Payable		6,082,672
Net Pension Liability		3,004,909
Noncurrent Liabilities Payable from Restricted Assets:		
Customer Deposits Payable		199,949
Total Noncurrent Liabilities	\$	9,301,752
Total Liabilities	\$	14,135,513
DEFERRED INFLOWS OF RESOURCES		
Attributable to Employer Pension Plan	\$	6,225
NET POSITION		
Net Investment in Capital Assets	\$	34,077,420
Restricted for:		
Debt Service		535,739
Unrestricted		5,846,548
Total Net Position	\$	40,459,707

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
For the Year Ended June 30, 2017

	<u>Carrollton Utilities Enterprise Fund</u>
Operating Revenues:	
Charges for Services:	
Gas Utility Charges (Net)	\$ 37,257,983
Water Utility Charges (Net)	1,079,239
Sewer Utility Charges (Net)	1,985,817
Connection Fees & Service Charges	209,201
Contractual Services	248,178
Total Charges for Services	<u>\$ 40,780,418</u>
Miscellaneous Revenues	100,392
Total Operating Revenues	<u>\$ 40,880,810</u>
Operating Expenses:	
Cost of Goods Sold	\$ 34,854,063
Operation & Maintenance	1,707,986
General & Administrative	2,226,761
Depreciation	1,711,171
Total Operating Expenses	<u>\$ 40,499,981</u>
Net Operating Income	<u>\$ 380,829</u>
Nonoperating Revenue (Expenses):	
Interest Income	\$ 18,183
Interest and Fiscal Charges	(87,515)
Gain (Loss) from Sale of Assets	16,170
Total Nonoperating Revenue (Expenses)	<u>\$ (53,162)</u>
Change in Net Position	\$ 327,667
Net Position - July 1	<u>40,132,040</u>
Net Position - June 30	<u>\$ 40,459,707</u>

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2017

	Carrollton Utilities Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	\$ 41,778,964
Payments to Suppliers	(37,572,180)
Payments to Employees	(1,692,451)
Receipts of Customer Meter Deposits	102,410
Refunds of Customer Meter Deposits	(72,744)
Net Cash Provided (Used) by Operating Activities	<u>\$ 2,543,999</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from Sale of Capital Assets	\$ 16,170
Purchases of Capital Assets	(2,332,405)
Proceeds from Capital Debt	321,663
Principal Paid on Capital Debt	(476,626)
Interest Paid on Capital Debt	(87,657)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ (2,558,855)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Principal Received on Interlocal Debt	\$ 109,848
Interest and Fees Paid on Interlocal Debt	3,742
Purchase of Certificates of Deposits	(4,980)
Interest Received	18,183
Net Cash Provided (Used) by Investing Activities	<u>\$ 126,793</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 111,937
Balances-July 1	<u>7,658,790</u>
Balances-June 30	<u><u>\$ 7,770,727</u></u>

	Balances Per June 30, 2017 Statement of Net Position	Balances Per June 30, 2017 Statement of Cash Flows
Cash	\$ 7,421,742	\$ 7,421,742
Time Deposits	763,906	-
Restricted Cash	348,985	348,985
Restricted Time Deposits	393,640	-
Total	<u><u>\$ 8,928,273</u></u>	<u><u>\$ 7,770,727</u></u>

(Continued)

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUND
For the Year Ended June 30, 2017

	<u>Carrollton Utilities Enterprise Fund</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating Income (Loss)	\$ 380,829
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation Expense	1,711,171
Pension Expense	205,864
Change in Assets and Liabilities:	
Receivables, Net (Increase) Decrease	(868,903)
Other Receivables (Increase) Decrease	1,840,806
Prepaid Expenses (Increase) Decrease	(9,173)
Accounts and Other Payables Increase (Decrease)	1,002,212
Due to Other Funds Increase (Decrease)	(1,640,921)
Customer Meter Deposits Payable Increase (Decrease)	29,666
Accrued Expenses Increase (Decrease)	<u>(107,552)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 2,543,999</u></u>

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

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS

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CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1.A. FINANCIAL REPORTING ENTITY

The City's financial reporting entity comprises the following:

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

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

Blended Component Units

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

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

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

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.A. FINANCIAL REPORTING ENTITY (Continued)

Excluded from the reporting entity:

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

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

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

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

1.B. BASIS OF PRESENTATION

Government-wide Financial Statements:

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

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

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

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.B. BASIS OF PRESENTATION (Continued)

Government-wide Financial Statements: (Continued)

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

Fund Financial Statements:

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

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

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

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

Special Revenue Funds

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

Capital Project Funds

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

Proprietary Fund

Enterprise Fund

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

Fiduciary Funds (Not included in government-wide statements)

None

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.B. BASIS OF PRESENTATION (Continued)

Major and Nonmajor Funds

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

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

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

Measurement Focus

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

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

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

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Basis of Accounting

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

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

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

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

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

Cash and Investments

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

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

Interfund Receivables and Payables

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

Receivables

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

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Receivables (Continued)

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

Interlocal Receivable

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

<u>Project:</u>	<u>District:</u>	Original Balance of KIA <u>Loan</u>	Debt <u>Forgiveness</u>	Net Loan <u>To District</u>	Interlocal Agreement Balance <u>June 30, 2017</u>
Countywide Underserved	West Carroll Water	\$ 881,877	\$ 308,657	\$ 573,220	\$ 531,724
Carroll County Interconnect	West Carroll Water	\$ 44,310	\$ 11,077	\$ 33,233	\$ 32,241
Carroll County Interconnect	Carroll County Water	\$ 301,721	\$ 75,430	\$ 226,291	\$ 219,538
Focus on Core Mission and Infrastructure	West Carroll Water	\$ 30,735	\$ 15,367	\$ 15,368	\$ -

Inventories

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

Fixed Assets

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

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Government-wide Statements

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

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

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

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

Fund Financial Statements

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

Restricted Assets

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

Capital Lease Expenses

Proprietary Fund capital lease fees are expensed as incurred.

Long-term Debt

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

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

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

Debt Issuance Costs are expensed as incurred.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Pensions

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

Deferred Outflows of Resources and Deferred Inflows of Resources

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

Compensated Absences

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

Equity Classifications

Government-wide Statements

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

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

Fund Statements

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

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

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Equity Classifications (Continued)

Fund Statements (Continued)

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

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

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

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

1.E. REVENUES, EXPENDITURES, AND EXPENSES

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

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

Property Tax

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

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

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

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Insurance License Tax

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

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

PEAK Project Returns

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

Operating Revenues and Expenses

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

Expenditures/Expenses

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

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

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

Proprietary Fund-By Operating and Nonoperating

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

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

Interfund Transfers

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

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2017

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

2.A. FUND ACCOUNTING REQUIREMENTS

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

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

2.B. DEPOSITS AND INVESTMENTS, LAWS AND REGULATIONS

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

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

2.C. REVENUE RESTRICTIONS

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

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

For the year ended June 30, 2017, the City complied, in all material respects, with these revenue restrictions.

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2017

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

2.D. DEBT RESTRICTIONS AND COVENANTS

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

Funded Maintenance, Replacement Reserve Accounts are required by the City's Assistance Agreements AO1-03, B99-03, AO5-01, B08-06, F11-15, F13-007, and F14-013, with the Kentucky Infrastructure Authority. Under the agreements, the City must deposit into these accounts \$8,000 annually, \$236 semi-annually, \$30,000 annually, \$2,250 annually, \$5,100 annually, \$4,100 annually and \$2,400 annually, until the amounts accumulated on deposit are equal to \$80,000, \$5,610, \$300,000, \$22,500 and \$51,000, respectively. The reserve accounts for agreements AO1-03, B99-03, AO5-01, B08-06, and F11-15 are fully funded. The reserve for B08-06 and F11-15 were fully funded upon inception. The Reserve Account for F13-007 was not set up and was not funded at June 30, 2017. The reserve account for F14-013 did not require funding until December 2017.

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

3.A. CASH AND CASH EQUIVALENTS AND INVESTMENTS

Deposits

City of Carrollton, Kentucky's policies regarding deposits of cash are in accordance with the state statutes. Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of June 30, 2017, in accordance with the City's policy \$1,803,086 of the City's deposits were covered by federal depository insurance and \$11,158,149 respectively, were collateralized by securities held by the pledging financial institution's agent in the City's name. Thus the City had \$-0- of deposits that were exposed to custodial credit risk.

Cash and cash equivalents and investments at June 30, 2017, consisted of the following:

Governmental Activities

<u>Type of Deposits</u>	<u>Total Bank Balance</u>	<u>Total Carrying Value</u>
Demand Deposits	\$ 60,649	\$ 60,649
Time/Savings Deposits	2,881,747	2,810,718
Total Deposits	<u>\$ 2,942,396</u>	<u>\$ 2,871,367</u>

Business-type Activities

<u>Type of Deposits</u>	<u>Total Bank Balance</u>	<u>Total Carrying Value</u>
Demand Deposits	\$ 8,792,598	\$ 7,700,782
Time/Savings Deposit	1,226,241	1,226,241
Total Deposits	<u>\$ 10,018,839</u>	<u>\$ 8,927,023</u>

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017

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

3.A. CASH AND INVESTMENTS (Continued)

Deposits (Continued)

Business-type Activities (Continued)

	Governmental Activities	Business-type Activities	Total
Reconcilement to Statement of Net Position			
Cash, including Time Deposits	\$ 2,872,899	\$ 8,185,648	\$ 11,058,547
Restricted Cash, including Time Deposits	-	742,625	742,625
	<u>\$ 2,872,899</u>	<u>\$ 8,928,273</u>	<u>\$ 11,801,172</u>
Total Carrying Value	\$ 2,871,367	\$ 8,927,023	\$ 11,798,390
Plus: Cash on Hand	1,532	1,250	2,782
	<u>\$ 2,872,899</u>	<u>\$ 8,928,273</u>	<u>\$ 11,801,172</u>

3.B. RESTRICTED ASSETS

Restricted assets consists of the following:

	Cash
KIA Loan Reserve Accounts	\$ 542,675
Customer Deposits	199,950
Total	<u>\$ 742,625</u>

In addition to these restrictions, the Utility Commission has designated certificates of deposit in the amount of \$663,906 and demand deposits of \$27,500 as reserved to mitigate the risk associated with industrial sales.

3.C. ACCOUNTS RECEIVABLE

Accounts receivable of the business-type activities consists of utilities receivable. Accounts receivable of the governmental activities consists of franchise tax (29%), insurance licenses (50%), business licenses (6%) and other (15%) receivables. Receivables detail at June 30, 2017, is as follows:

	Governmental Activities	Business-type Activities	Total
Accounts receivable	\$ 271,099	\$ 3,315,729	\$ 3,586,828
Allowance for doubtful accounts	(5,102)	(18,129)	(23,231)
Net accounts receivable	<u>\$ 265,997</u>	<u>\$ 3,297,600</u>	<u>\$ 3,563,597</u>

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017

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

3.D. INTERFUND TRANSACTIONS AND BALANCES

Interfund balances reported in the financial statements at June 30, 2017, consisted of the following individual fund receivables and payables:

Receivable Fund	Payable Fund	Amount	Purpose
General Fund	Enterprise Fund	\$ 417,523	Sanitation Receipt Reimbursements/ PEAK Returns
Total		<u>\$ 417,523</u>	

3.E. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017, was as follows:

	Balance at July 1, 2016	Additions	Disposals	Balance at June 30, 2017
Governmental Activities:				
Land	\$ 1,140,777	\$ 494	\$ -	\$ 1,141,271
Buildings & Improvements	3,465,553	-	-	3,465,553
Machinery & Equipment	2,653,347	360,744	68,890	2,945,201
Infrastructure	3,619,526	184,909	-	3,804,435
Construction in Process	96,754	135,986	146,570	86,170
Totals at Historical Cost	<u>\$ 10,975,957</u>	<u>\$ 682,133</u>	<u>\$ 215,460</u>	<u>\$ 11,442,630</u>
Less: Accumulated Depreciation				
Buildings & Improvements	\$ 979,697	\$ 110,713	\$ -	\$ 1,090,410
Machinery & Equipment	1,906,808	175,888	68,890	2,013,806
Infrastructure	2,131,472	134,189	-	2,265,661
Total Accumulated Depreciation	<u>\$ 5,017,977</u>	<u>\$ 420,790</u>	<u>\$ 68,890</u>	<u>\$ 5,369,877</u>
Governmental Activities - Capital Assets, Net	<u>\$ 5,957,980</u>	<u>\$ 261,343</u>	<u>\$ 146,570</u>	<u>\$ 6,072,753</u>

Depreciation Expense was charged to governmental activities as follows:

General Government	\$ 20,199
Public Safety	
E911 Dispatch	3,294
Fire Department	63,387
Police Department	75,245
Public Works	30,385
Parks & Recreation	94,091
Infrastructure (included with Public Works)	134,189
Total Depreciation Expense	<u>\$ 420,790</u>

Land and Construction in process are assets which are not depreciated. \$1,784,631 of depreciable assets are fully depreciated.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017

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

3.E. CAPITAL ASSETS (Continued)

	Balance at July 1, 2016	Additions	Disposals	Balance at June 30, 2017
<u>Business-type Activities:</u>				
Land & Right of Ways	\$ 761,437	\$ 73,002	\$ -	\$ 834,439
Structures & Improvements	8,070,676	20,108	-	8,090,784
Distribution System	48,190,786	1,354,767	-	49,545,553
Wells	765,876	49,851	-	815,727
Plant, Machinery & Equipment	10,703,156	156,729	(90,024)	10,769,861
Construction in Process	482,341	1,302,024	(414,601)	1,369,764
Totals at Historical Cost	<u>\$ 68,974,272</u>	<u>\$ 2,956,481</u>	<u>\$ (504,625)</u>	<u>\$ 71,426,126</u>
Less: Accumulated Depreciation				
Structures & Improvements	\$ 3,189,830	\$ 197,722	\$ -	\$ 3,387,552
Distribution System	17,652,868	1,090,472	-	18,743,340
Wells	322,917	32,878	-	355,795
Plant, Machinery & Equipment	8,271,446	390,099	(86,930)	8,574,615
Total Accumulated Depreciation	<u>\$ 29,437,061</u>	<u>\$ 1,711,171</u>	<u>\$ (86,930)</u>	<u>\$ 31,061,302</u>
Business-type Activities Capital Assets, Net	<u>\$ 39,537,211</u>	<u>\$ 1,245,310</u>	<u>\$ (417,695)</u>	<u>\$ 40,364,826</u>

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

Gas	\$ 605,870
Water	263,773
Sewer	834,269
Management Services	7,259
Total Depreciation Expense	<u>\$ 1,711,171</u>

Land, right of ways, and construction in process are capital assets not being depreciated. \$13,200,555 of depreciable assets are fully depreciated.

3.F. 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	\$ 29,902
Noncurrent Portion	9,613
Total Accrued Compensated Absences	<u>\$ 39,515</u>

Business-type Activities:

As of June 30, 2017, 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. \$ 62,773

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2017

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

3.F. LONG-TERM DEBT (Continued)

Business-type Activities: (Continued)

Notes Payable (Continued)

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. 784,723

Kentucky Infrastructure Authority represents a 20 year loan secured by sewer revenues. Interest is charged at the rate of 1.0%. The original principal balance was \$4,288,600. Semi-annual payments with final maturity December 1, 2026. 2,163,360

Kentucky Infrastructure Authority represents a 20 year loan secured by sewer revenues. Interest is charged at the rate of 1.07%. The original principal balance was \$867,091. Semi-annual payments with final maturity December 1, 2032. 687,804

Kentucky Infrastructure Authority represents a 30 year loan secured by water revenues. Interest is charged at 1.00% per annum. In addition, a loan servicing fee of .25 percent of the annual outstanding loan balance is payable to the authority as a part of each interest payment. The original principal balance was \$1,977,731. The note was reduced by principal forgiveness of \$692,206. Semi-annual payments with final maturity December 1, 2044. 1,192,474

Kentucky Infrastructure Authority represents a 30 year loan secured by water revenues. Interest is charged at .75% per annum. In addition a loan servicing fee of .25 percent of the annual outstanding loan balance is payable to the authority as a part of each interest payment. Total draws on the loan through June 30, 2016 were \$1,657,988. The note has been reduced by 25% principal forgiveness of \$414,497. Semi-annual payments with final maturity June 1, 2046. 1,206,383

Kentucky Infrastructure Authority represents a 30 year loan secured by water revenues. Interest is charged at .75% per annum. In addition a loan servicing fee of .25 percent of the annual outstanding loan balance will be payable to the authority as a part of each interest payment. Total draws on the loan through June 30, 2016 were \$963,931. The note has been reduced by 50% principal forgiveness of \$481,965. Semi-annual payments with final maturity December 1, 2046. 474,787

Total Notes Payable \$ 6,572,304

Current Portion \$ 489,632

Noncurrent Portion 6,082,672

Total Notes Payable \$ 6,572,304

Accrued Compensated Absences:

Current Portion \$ 1,072

Noncurrent Portion 14,222

Total \$ 15,294

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2017

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

3.F. LONG-TERM DEBT (Continued)

Changes in Long-term Debt

The following is a summary of changes in long-term debt for the fiscal year ended June 30, 2017:

<u>Type of Debt</u>	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2017</u>	<u>Current Portion</u>
Governmental Activities					
Accrued Compensated Absences	29,563	9,952	-	39,515	29,902
Total General Long-term Debt	\$ 29,563	\$ 9,952	\$ -	\$ 39,515	\$ 29,902
Business-type Activities					
Notes Payable	\$ 7,048,930	\$ -	\$ 476,626	\$ 6,572,304	\$ 489,632
Accrued Compensated Absences	16,905	-	1,611	15,294	1,072
Total Enterprise Fund Debt	\$ 7,065,835	\$ -	\$ 478,237	\$ 6,587,598	\$ 490,704

Description of Debt Activity:

Business-type Activities

Notes Payable to Kentucky Infrastructure Authority

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

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

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

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

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

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

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2017

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

3.F. LONG-TERM DEBT (Continued)

Description of Debt Activity: (Continued)

Business-type Activities (Continued)

Notes Payable to Kentucky Infrastructure Authority (Continued)

A loan with Kentucky Infrastructure Authority for \$963,931 had not formally closed as of June 30, 2017. The loan provided financing for the Focusing on Core Missions Project, to provide distribution system improvements for Carrollton Utilities and system improvements to Carroll County Water District #1, West Carroll Water District, and Henry County Water District #2. The loan contained a principal forgiveness clause in the amount of fifty percent (50%). An interlocal receivable from the West Carroll Water District was recorded in the amount of \$30,735 less the District's share of principal forgiveness of \$15,367. An interlocal receivable from the Carroll County Water District was recorded in the amount of \$123,433 less principal forgiveness of \$61,717. An interlocal receivable from the Henry County Water District was recorded in the amount of \$30,735 less principal forgiveness of \$15,367. Henry County Water District paid this interlocal receivable in full in fiscal year 2017. Principal forgiveness for Carrollton Utilities was recognized in the amount of \$389,516.

The combined obligations of the outstanding notes at June 30, 2017 are as follows:

Fiscal Year	Principal Payment	Interest Payment	Servicing Fee	Total Payment	Balance at End of Year
2017-18	\$ 489,632	\$ 67,182	\$ 14,326	\$ 571,140	\$ 6,572,304
2018-19	495,565	61,249	13,299	570,113	6,082,672
2019-20	501,578	55,237	12,259	569,074	5,587,107
2020-21	507,670	49,144	11,208	568,022	5,085,529
2021-22	513,845	42,969	10,143	566,957	4,577,859
2022-27	1,843,000	144,197	37,061	2,024,258	4,064,014
2027-32	752,751	82,445	23,150	858,346	2,221,014
2032-37	542,705	51,637	15,182	609,524	1,468,263
2037-42	541,397	28,808	8,548	578,753	925,558
2042-47	384,161	6,429	1,989	392,579	384,161
	<u>\$ 6,572,304</u>	<u>\$ 589,297</u>	<u>\$ 147,165</u>	<u>\$ 7,308,766</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, 2017 are as follows:

Fiscal Year	Governmental Activities		Business-type Activities	
	Principal	Interest & Fiscal Charges	Principal	Interest & Fiscal Charges
2017-18	\$ -	\$ -	\$ 489,632	\$ 81,508
2018-19	-	-	495,565	74,548
2019-20	-	-	501,578	67,496
2020-21	-	-	507,670	60,352
2021-22	-	-	513,845	53,112
2022-27	-	-	1,843,000	181,258
2027-32	-	-	752,751	105,595
2032-37	-	-	542,705	66,819
2037-42	-	-	541,397	37,356
2042-47	-	-	384,161	8,418
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,572,304</u>	<u>\$ 736,462</u>

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2017

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

3.G. INTEREST EXPENSE AND FISCAL CHARGES

Interest expense and fiscal charges for the Enterprise Fund for the year ended June 30, 2017, was \$87,515. No interest was capitalized during the year ended June 30, 2017.

3.H. FUND EQUITY

Restricted Net Position

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

Governmental Activities

Activity	Restricted by	
Other Purposes:		
Municipal Road Aid	State Law	\$ 76,533
L.G.E.A.F.	State Law	32,396
		<u>\$ 108,929</u>

Business-type Activities

Restricted for Debt Service:		
Kentucky Infrastructure Authority (KIA) Notes Payable		\$ 542,675
Cash & Investments		(6,936)
Less: Accrued Interest Payable		535,739
		<u>\$ 535,739</u>

Fund Balance Classifications

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

Restricted for the following purposes under Kentucky Statutes:

Other Governmental Funds:		
Municipal Road Aid		\$ 76,533
L.G.E.A. F.		32,396
		<u>\$ 108,929</u>

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

General Fund:		
Bowbridge Project		\$ 28,360
Dispatch Equipment Grant		10,000
Walking Trails Projects		82,533
Water Park Grant		75,000
Total Committed		<u>\$ 195,893</u>

Other Governmental Funds:		
Community Development Projects (EIP)		\$ 55,436
Total Committed		<u>\$ 55,436</u>

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2017

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

3.H. FUND EQUITY (Continued)

Fund Balance Classifications (Continued)

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

Other Governmental Funds:

Shop with a Cop	\$	17,244
Riverwalk Development		4,056
Total Assigned	\$	21,300

Unrestricted net position of the governmental funds and proprietary fund was reduced by \$149,960 and \$205,865 respectively, as a result of the transactions recorded by the District to reflect its proportionate share of the County Employees Retirement System's Net Pension Liability. The accounts affected were as follows:

	Governmental Funds	Proprietary Fund
Increase in Deferred Outflows of Resources	\$ 140,173	\$ 171,259
Increase in Deferred Inflows of Resources	(28,561)	(6,225)
Increase in Net Pension Liability	(261,572)	(370,899)
Net Decrease in Unrestricted Net Position	\$ (149,960)	\$ (205,865)

NOTE 4. OTHER NOTES

4.A. COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN

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

Under the provision of Kentucky Revised Statute ("KRS") Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. The most recent financial report, dated June 30, 2016, may be obtained from <https://kyret.ky.gov/Audit%20Reports/Audit%20Report%20June%2030.%202015-2016.pdf>. Additionally, the Kentucky Retirement System issues a publically available financial report that includes the Schedules of Employer Allocations and Pension amounts by Employer. The most recent report, dated June 30, 2016 may be obtained from <https://kyret.ky.gov/Audited%20Report%20Links/KRS%206-30-16%20Proportionate%20Share%20Audit%20Report.pdf>.

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers all regular full-time members employed in non-hazardous duty positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in CERS. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Prior to July 1, 2009, COLAs were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce the COLA if, in its judgment, the welfare of the Commonwealth so demands. No COLA has been granted since July 1, 2011.

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2017

NOTE 4. OTHER NOTES

4.A. COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN
 (Continued)

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

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

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

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

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

Contributions - For the fiscal year ended June 30, 2016, plan members who began participating prior to September 1, 2008, were required to contribute 5% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the fiscal year ended June 30, 2016, participating employers contributed 17.06%, of each employer's creditable compensation. The actuarially determined rates set by the Board for the fiscal year ended June 30, 2016, was 17.06%. Administrative costs of KRS are financed through employer contributions and investment earnings.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017

NOTE 4. OTHER NOTES

4.A. COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN
(Continued)

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

If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(h) account is non-refundable and is forfeited. For plan members who began participating prior to September 1, 2008, their contributions remain at 5% of their annual creditable compensation.

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. These members were classified in the Tier 3 structure of benefits. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Non-hazardous members contribute 5% of their annual creditable compensation and 1% to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

Methods and Assumptions Used in Calculation of Actuarially Determined Contributions

Per the GASB Statement No. 68 Report for the County Employees Retirement System prepared as of June 30, 2016, the actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal year ended 2016, determined as of June 30, 2015. Per the GASB Statement No. 68 Report for the County Employees Retirement System prepared as of June 30, 2016, the actuarially determined contribution rates are determined on an annual basis beginning with the fiscal year ending 2018, determined as of July 1, 2016. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30 year period. The following actuarial methods and assumptions were used to determine contribution rates reported for all KRS Systems:

Actuarial Cost Method	Entry Age
Amortization Method	Level of Percentage of Payroll, closed
Remaining Amortization Period	27 years
Asset Valuation Method	5 year Smoothed Market
Inflation	3.25%
Salary Increase	4%, average, including Inflation
Investment Rate of Return	7.5%, Net of Pension Plan Investment Expense, including Inflation

There were no changes of benefit terms during the year ended June 30, 2016.

The total pension liability was determined by an actuarial valuation as of June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary Increases	4%, average, including inflation
Investment Rate of Return	7.5%, net of pension plan investment expense, including inflation

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2017

NOTE 4. OTHER NOTES

4.A. COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN
 (Continued)

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

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	Cash Equivalent Long Term Expected Real Rate of Return
Combined Equity	44%	5.4%
Combined Fixed Income	19%	1.5%
Real Return (Diversified Inflation Strategies)	10%	3.5%
Real Estate	5%	4.5%
Absolute Return (Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	8.5%
Cash Equivalent	2%	-0.25%
Total	100%	

The projection of cash flows used to determine the discount rate assumed that the employer would contribute the actuarially determined contribution rate of projected compensation. The remaining amortization period of the unfunded actuarial accrued liability is 27 years. Once the unfunded actuarial accrued liability is fully amortized, the employer will only contribute the normal cost rate and the administrative expense rate on the close payroll for existing members.

The actuarial valuation date upon which the total pension liability was based is June 30, 2015. An expected total pension liability is determined as of June 30, 2016, using standard roll forward techniques. The roll forward calculation adds the annual cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year, then applies the expected investment rate of return for the year.

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013. The long term assumed rate of return was based upon an analysis adopted by the Board of Trustees on December 3, 2015. The discount rate used to measure the total pension liability remained at 7.5%. The long term assumed investment rate of return and discount rate were based upon an analysis adopted by the Board of Trustees on December 3, 2015.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the Systems. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated December 3, 2015. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2017

NOTE 4. OTHER NOTES

4.A. COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN
 (Continued)

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

The projection of cash flows used to determine the discount rate assumed that employers would contribute the actuarially determined contribution rate of projected compensation over the remaining amortization period of the unfunded actuarial accrued liability.

The discount rate determination does not use a municipal bond rate. Projected future benefit payments for all current plan members were projected through 2117.

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

The following table presents the net pension liability of CERS [as reported in its publicly available financial statements for the year ended June 30, 2016], calculated using the discount rate of 7.5%, as well as what CERS' net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.5%) or one percentage point higher (8.5%) than the current rate:

<u>As of June 30, 2016</u>	<u>1% Decrease [6.5%]</u>	<u>Current Discount [7.5%]</u>	<u>1% Increase [8.5%]</u>
Net Pension Liability	\$ 6,135,625,606	\$ 4,923,618,237	\$ 3,884,686,628
City's Proportionate Share	6,766,693	5,430,027	4,284,238

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

At June 30, 2017, the City reported a liability of \$5,430,027 (Governmental Activities, \$2,425,118 and Business-type Activities, \$3,004,909), respectively for its proportionate share of the net pension liability. The net pension liability for CERS was measured as of June 30, 2016 and was based on the actual liability of the employees and former employees relative to the total liability of the system as determined by an actuarial valuation as of those dates. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2016 the City's proportion was 0.1129 percent, which is an increase of 0.00107% for the year.

For the year ended June 30, 2017, the City's General Fund's total payroll for the fiscal year ended June 30, 2017 was \$1,311,853. Contributions were based on \$1,232,800 (eligible gross wages). The total employer pension contributions for the year ended June 30, 2017 were \$230,287.

The City's Proprietary Fund's total payroll for the year ended June 30, 2017 was \$1,658,648. Contributions were based on \$1,472,254 (eligible gross wages). The total employer pension contributions for the year ended June 30, 2017 were \$275,008.

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

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

All contributions were made as required during these years.

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2017

NOTE 4. OTHER NOTES

4.A. COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN
 (Continued)

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

The City's contribution for the County Employees' Retirement System's year ended June 30, 2016, (general and proprietary fund combined) was .11029 percent of the System's total contribution requirements for all employers (non-hazardous).

For the year ended June 30, 2017, the City recognized pension expense of \$861,119, (\$380,247 attributed to the General Fund, and \$480,872 attributed to the Proprietary Fund). At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to CERS pensions from the following sources:

	June 30, 2017			
	Governmental Funds		Proprietary Fund	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	\$ 10,587	\$ -	\$ 13,119	\$ -
Change in Assumptions	128,470	-	159,184	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	1,754	28,561	3,967	6,225
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	227,986	-	282,492	-
City Contributions Made Subsequent to the NPL Measurement Date	230,287	-	275,008	-
Total	<u>\$ 599,084</u>	<u>\$ 28,561</u>	<u>\$ 733,770</u>	<u>\$ 6,225</u>

\$505,295 reported as deferred outflows of resources related to pensions arising from City contributions made subsequent to the measurement date will be recognized as a reduction in the net pension liability in the years ended June 30, 2018. Amounts reported as deferred inflows and outflows of resources due to the net difference between projected and actual investment earnings on pension plan investments will be netted and amortized over five years and recognized in pension expense. Amounts reported as deferred outflows of resources due to the difference between expected and actual experience, change of assumptions, and changes in proportion and differences between employer contributions and proportionate share of contributions will be amortized and recognized in pension expense over the expected remaining service lives of all employees. Total amortization to be recognized in pension expense is presented below as follows:

Year Ended June 30, 2017:	Governmental Funds	Proprietary Fund
	Increase (Decrease) to Pension Expense	Increase (Decrease) to Pension Expense
2018	\$ 127,383	\$ 169,420
2019	77,704	112,008
2020	84,632	109,023
2021	50,517	62,086
	<u>\$ 340,236</u>	<u>\$ 452,537</u>

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017

NOTE 4. OTHER NOTES

4.A. COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN
(Continued)

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

Payable to the Pension Fund

At June 30, 2017, the City reported a payable of \$40,536 for the amount of contributions required for the year then ended. This amount represents the employee withholding and employer match for the last month of the year. The payable includes both pension and insurance contributions.

4.B. RISK MANAGEMENT

Insurance and Related Activities

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

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

4.C. COMMITMENTS & CONTINGENCIES

Each employee is granted sick leave at the rate of eight hours per month up to a maximum of 1,040 hours. Employees shall not be paid for unused sick leave credit upon termination of employment, except that employees who retire and receive CERS retirement benefits may personally receive payment for unused sick leave for the same amount that CERS would charge for applying the accrued sick leave to extend retirement benefits. The total liability for accumulated sick leave at June 30, 2017 was \$573,820. 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.

The City and Carroll County Fiscal Court are in the process of updating the original interlocal agreement for operating the Carroll County/City of Carrollton E-911 Dispatch Commission. It is anticipated that the City will begin maintaining all records for the Dispatch beginning July 1, 2017. Costs in excess of revenues collected will be funded equally by the City and County.

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, 2017, Carrollton Utilities has an unpaid and accrued storage liability estimated to be \$180,071.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017

NOTE 4. OTHER NOTES (Continued)

4.C. COMMITMENTS & CONTINGENCIES (Continued)

The Carrollton Utilities Commission has an operational agreement with West Carroll Water District. Under the agreement, Carrollton Utilities provides operation and maintenance of the West Carroll Water Distribution System, as well as, customer billing services, accounting functions, and other agreed related services. The annual compensation to Carrollton Utilities for providing these services has been set at \$248,178 for the 2016-2017 fiscal year.

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

Long Term Gas Supply Arrangements

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

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

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

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

PEAK issues separate financial statements available through its administrative offices. Summarized totals for PEAK, from its unaudited financial statements for the year ended June 30, 2017, are as follows:

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

Assets and Deferred Outflows	\$	15,319,341
Liabilities and Deferred Inflows		10,777,646
Total Net Position		4,541,695
Costs Recoverable from Future Billings		(288,071)

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

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017

NOTE 4. OTHER NOTES (Continued)

4.C. COMMITMENTS & CONTINGENCIES (Continued)

Recreational Trails Projects

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

- **Bow Bridge Project** Funded eighty percent (80%) through a Federal Aid Highway Program Grant. Total estimated project cost \$160,000.

- **Kentucky River Trail** Funded fifty percent (50%) by a Federal Land and Water Conservation Grant through the Kentucky Department of Local Government. Total estimated cost \$82,550.

- **Ohio River Trail** Funded fifty percent (50%) by a National Recreational Trails Fund Grant through the Kentucky Department of Local Government. Total estimated cost \$104,000.

Carrollton Utilities Administration Building Project

Carrollton Utilities is in the process of constructing of a new administration building. The current estimate of construction for the project is \$1,600,000. The new administration building estimated construction costs includes a 6,500 square foot office building with parking lot, drive thru lane, storm detention basin and all site work. Also included in the budget is new information technology capabilities, security, multi-media, some furnishings and moving costs. Construction began December 5, 2016 and the project was substantially completed October 6, 2017. \$778,638 and \$94,385 have been included in construction work in process at June 30, 2017 and 2016, respectively for the building project.

Carrollton Utilities has several smaller projects that the Utilities plans to complete during 2017 – 2018 fiscal year.

4.D. MISCELLANEOUS

Bad Debt Expense

Utility revenue charges have been netted with an estimated bad debt expense of \$8,563, \$5,258, and \$19,970 for gas, water and sewer services, respectively.

Income Tax Status

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

Economic Dependence

Carrollton Utilities Commission provides natural gas to residential, commercial, and industrial customers. It should be noted that 94.3% of the total gas revenue is received from seven industrial customers. As described in Note 4.C., all natural gas purchases are made through the Public Energy Authority of Kentucky (PEAK). \$34,379,783 of the \$34,854,063 gas cost of goods sold are for natural gas purchases, excluding related transportation costs. Additionally, 53.5% of the City's General Fund revenues are attributable to gas prepurchase agreements with PEAK.

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2017

NOTE 4. OTHER NOTES (Continued)

4.D. MISCELLANEOUS (Continued)

Related Party Transactions

For the year ended June 30, 2017, the City received \$40,368 from the Carrollton Housing Authority as payments in lieu of tax.

Carrollton Utilities Natural Gas Hedge Policy

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

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

Segment Information – Enterprise Fund

The City maintains an enterprise fund which provides gas, water, and sewer services. Selected financial information for business segments of the enterprise fund for the year ended June 30, 2017, is presented as follows:

CONDENSED STATEMENT OF NET POSITION

	Gas	Water	Sewer	Total
Assets:				
Current Assets	\$ 12,803,516	\$ (448,459)	\$ (353,645)	\$ 12,001,412
Other Noncurrent Assets	75,884	874,412	551,141	1,501,437
Capital Assets (Net)	11,632,640	5,509,249	23,222,937	40,364,826
Total Assets	\$ 24,512,040	\$ 5,935,202	\$ 23,420,433	\$ 53,867,675
Deferred Outflows:	\$ 308,183	\$ 176,105	\$ 249,482	\$ 733,770
Liabilities:				
Due to Other Funds	\$ 387,290	\$ 30,233	\$ -	\$ 417,523
Other Current Liabilities	3,735,998	193,865	486,375	4,416,238
Noncurrent Liabilities	1,339,280	3,814,625	4,147,847	9,301,752
Total Liabilities	\$ 5,462,568	\$ 4,038,723	\$ 4,634,222	\$ 14,135,513
Deferred Inflows:	\$ 2,589	\$ 2,024	\$ 1,612	\$ 6,225
Net Position:				
Net Investment in Capital Assets	\$ 11,179,591	\$ 3,386,705	\$ 19,511,124	\$ 34,077,420
Restricted for Debt Service	-	59,757	475,982	535,739
Unrestricted	8,175,475	(1,375,902)	(953,025)	5,846,548
Total Net Position	\$ 19,355,066	\$ 2,070,560	\$ 19,034,081	\$ 40,459,707

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2017

NOTE 4. OTHER NOTES (Continued)

4.D. MISCELLANEOUS (Continued)

Segment Information – Enterprise Fund (Continued)

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

	Gas	Water	Sewer	Total
Operating Revenues	\$ 37,320,816	\$ 1,362,263	\$ 2,197,731	\$ 40,880,810
Depreciation Expense	(613,129)	(263,773)	(834,269)	(1,711,171)
Other Operating Expenses	(36,410,448)	(1,235,062)	(1,143,300)	(38,788,810)
Net Operating Income (Loss)	\$ 297,239	\$ (136,572)	\$ 220,162	\$ 380,829
Nonoperating Revenues (Expenses):				
Interest Income	7,384	9,804	995	18,183
Interest & Fiscal Charges	-	(32,080)	(55,435)	(87,515)
Gain (Loss) on Sale of Assets	16,170	-	-	16,170
Change in Net Position	\$ 320,793	\$ (158,848)	\$ 165,722	\$ 327,667
Beginning Net Position	19,034,273	2,229,408	18,868,359	40,132,040
Ending Net Position	\$ 19,355,066	\$ 2,070,560	\$ 19,034,081	\$ 40,459,707

CONDENSED STATEMENT OF CASH FLOWS

	Gas	Water	Sewer	Total
Net Cash Provided (Used) by:				
Operating Activities	\$ 1,037,361	\$ 302,977	\$ 1,203,661	\$ 2,543,999
Capital and Related Financing Activities	(483,763)	(461,891)	(1,613,201)	(2,558,855)
Investing Activities	4,229	123,328	(764)	126,793
Net Increase (Decrease)	\$ 557,827	\$ (35,586)	\$ (410,304)	\$ 111,937
Beginning Cash and Cash Equivalents	8,215,857	(518,098)	(38,969)	7,658,790
Ending Cash and Cash Equivalents	\$ 8,773,684	\$ (553,684)	\$ (449,273)	\$ 7,770,727

4.E. RECENT GASB PRONOUNCEMENTS

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

4.F. CHANGE IN PRESENTATION – DISPATCH SERVICES

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

CITY OF CARROLLTON, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 For the Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		Favorable (Unfavorable)
Budgetary Fund Balance, July 1	\$ 949,982	\$ 1,206,535	\$ 1,262,259	\$ 55,724
ESTIMATED REVENUES				
Payments in Lieu of Taxes	\$ 33,000	\$ 40,367	\$ 40,367	\$ -
Ad Valorem Taxes	431,215	438,757	447,842	9,085
Franchise Fees	368,000	324,000	336,893	12,893
Garbage Collection	360,000	372,000	375,558	3,558
Bank Franchise Deposit Tax	26,000	26,421	26,421	-
Business Licenses	93,000	93,000	97,833	4,833
Insurance Licenses	470,000	480,000	547,393	67,393
Building Permits	1,000	800	1,393	593
Penalty & Interest	8,000	8,000	8,467	467
Interest Revenue	962	4,842	4,642	(200)
PEAK Annual Return	1,170,963	2,665,637	2,685,748	20,111
Two Rivers Campground Receipts	50,000	110,000	146,600	36,600
Other Revenue	13,123	90,627	3,860	(86,767)
Proceeds from Outside Sources:				
HB413/Citations/Police Misc. Receipts	10,500	12,500	17,014	4,514
CC Fiscal Court - Public Safety Salaries	237,039	267,000	259,387	(7,613)
Police & Firefighter's Incentive Pay	44,000	44,000	41,529	(2,471)
State Fire Aid	8,250	11,000	11,000	-
KY Dept of Local Government - Recreational Trail Grants	88,275	88,275	10,511	(77,764)
Federal Aid Highway Program Grant - Bow Bridge	100,000	100,000	14,559	(85,441)
U.S. Dept of Transportation - Highway Safety Grant	-	1,498	3,000	1,502
Transfers from Other Funds	752,600	1,682,727	-	(1,682,727)
FEMA Grants	625,000	-	-	-
Total Estimated Revenues	\$ 4,890,927	\$ 6,861,451	\$ 5,080,017	\$ (1,781,434)
Total Resources Available for Appropriation	\$ 5,840,909	\$ 8,067,986	\$ 6,342,276	\$ (1,725,710)
APPROPRIATIONS				
Administrative	\$ 1,091,414	\$ 895,217	\$ 925,512	\$ (30,295)
Public Safety				
Fire Department	155,143	151,128	161,695	(10,567)
Dispatch	353,511	346,760	350,982	(4,222)
Police Department	882,044	945,184	930,275	14,909
Public Works	607,923	596,157	568,866	27,291
Parks and Recreation	90,250	89,350	47,673	41,677
Capital Outlay	1,482,206	839,868	532,469	307,399
Transfers to other funds	631,652	1,764,779	-	1,764,779
Total Appropriations	\$ 5,294,143	\$ 5,628,443	\$ 3,517,472	\$ 2,110,971
Excess of Resources and Revenues Over (Under) Appropriations	\$ 546,766	\$ 2,439,543	\$ 2,824,804	\$ 385,261
Estimated Fund Balances at June 30, 2017	\$ 546,766	\$ 2,439,543	\$ 2,824,804	\$ 385,261

**CITY OF CARROLLTON, KENTUCKY
NOTES TO BUDGETARY COMPARISON SCHEDULE
June 30, 2017**

Budgetary Accounting

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

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

Budget to Actual Reconciliation

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

	General Fund
Sources/inflows of resources:	
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 6,342,276
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	1,262,259
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	\$ 5,080,017
Uses/outflows of resources:	
Actual amounts (budgetary basis) "total appropriations" from the budgetary comparison schedule	\$ 3,517,472
Differences - budget to GAAP:	
None	-
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	\$ 3,517,472

CITY OF CARROLLTON, KENTUCKY

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

June 30, 2017

	June 30, 2016*	June 30, 2015*	June 30, 2014*
City's proportion of the net pension liability (asset)	0.11029%	0.11158%	0.1112%
City's proportionate share of the net pension liability (asset)	\$ 5,430,027	\$ 4,797,556	\$ 3,608,000
City's covered-employee payroll	\$ 2,609,781	\$ 2,678,002	\$ 2,390,302
City's proportionate share of the net pension liability (asset) as a percentage of its of its covered-employee payroll	208.06%	179.15%	150.94%
Plan fiduciary net position as a percentage of the total pension liability	55.5%	59.97%	62.60%

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

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

Changes in Assumptions:

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

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

CITY OF CARROLLTON, KENTUCKY

SCHEDULE OF THE CITY'S CONTRIBUTIONS -
COUNTY EMPLOYEES RETIREMENT SYSTEM

Last Ten (10) Fiscal Years Ended June 30

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually required contributions	\$ 505,295	\$ 445,255	\$ 463,468	\$ 475,408	\$ 469,528	\$ 452,627	\$ 382,538	\$ 358,372	\$ 291,986	\$ 334,209
Contributions in relation to the contractually required contributions	505,295	445,255	463,468	475,408	469,528	452,627	382,538	358,372	291,986	334,209
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
City's covered-employee payroll	\$ 2,705,054	\$ 2,609,781	\$ 2,678,002	\$ 2,390,302	\$ 2,496,449	\$ 2,384,753	\$ 2,260,477	\$ 2,217,653	\$ 2,162,858	\$ 2,066,862
Contributions as a percentage of covered-employee payroll	18.68%	17.06%	17.31%	19.89%	18.81%	18.98%	16.92%	16.16%	13.50%	16.17%

CITY OF CARROLLTON, KENTUCKY
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2017

	Special Revenue Funds					Total Nonmajor Governmental Funds
	Municipal Road Aid	L.G.E.A.F. Program	Enterprise Improvement Program	Shop With A Cop	Riverwalk Development Fund	
ASSETS						
Cash	\$ 67,328	\$ 28,038	\$ 55,436	\$ 17,244	\$ 4,056	\$ 172,102
Due from Other Governments	9,205	4,358	-	-	-	13,563
Total Assets	<u>\$ 76,533</u>	<u>\$ 32,396</u>	<u>\$ 55,436</u>	<u>\$ 17,244</u>	<u>\$ 4,056</u>	<u>\$ 185,665</u>
LIABILITIES						
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
FUND BALANCES						
Restricted	\$ 76,533	\$ 32,396	\$ -	\$ -	\$ -	\$ 108,929
Committed	-	-	55,436	-	-	55,436
Assigned	-	-	-	17,244	4,056	21,300
Total Fund Balances	<u>\$ 76,533</u>	<u>\$ 32,396</u>	<u>\$ 55,436</u>	<u>\$ 17,244</u>	<u>\$ 4,056</u>	<u>\$ 185,665</u>
Total Liabilities and Fund Balances	<u>\$ 76,533</u>	<u>\$ 32,396</u>	<u>\$ 55,436</u>	<u>\$ 17,244</u>	<u>\$ 4,056</u>	<u>\$ 185,665</u>

**CITY OF CARROLLTON, KENTUCKY
 COMBINING STATEMENT OF REVENUES,
 EXPENDITURES, AND CHANGES IN FUND BALANCES -
 NONMAJOR GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2017**

Special Revenue Funds

	Municipal Road Aid	L.G.E.A.F. Program	Enterprise Improvement Program	Shop With A Cop	Riverwalk Development Fund	Total Nonmajor Governmental Funds
REVENUES						
Kentucky Municipal Road Aid	\$ 76,881	\$ -	\$ -	\$ -	\$ -	\$ 76,881
Local Government Economic Assistance	-	9,756	-	-	-	9,756
Donations	-	-	-	14,307	-	14,307
Interest / Investment Revenue	104	39	114	28	-	285
Total Revenues	\$ 76,985	\$ 9,795	\$ 114	\$ 14,335	\$ -	\$ 101,229
EXPENDITURES						
Current:						
Public Works	\$ 91,318	\$ -	\$ -	\$ -	\$ -	\$ 91,318
Community Service	-	-	-	15,329	-	15,329
Total Expenditures	\$ 91,318	\$ -	\$ -	\$ 15,329	\$ -	\$ 106,647
Net Change in Fund Balances	\$ (14,333)	\$ 9,795	\$ 114	\$ (994)	\$ -	\$ (5,418)
Fund Balances - July 1	90,866	22,601	55,322	18,238	4,056	191,083
Fund Balances - June 30	\$ 76,533	\$ 32,396	\$ 55,436	\$ 17,244	\$ 4,056	\$ 185,665

CITY OF CARROLLTON, KENTUCKY
SCHEDULE OF DEPARTMENTAL OPERATING REVENUES AND EXPENSES
ENTERPRISE FUND
(CARROLLTON UTILITIES)
For the Year Ended June 30, 2017

	Departments				Total
	Gas	Water	Sewer	Contractual Services	
Operating Revenues:					
Charges for Services:					
Utility Charges (Net of Bad Debt Expense)	\$ 37,257,982	\$ 1,079,239	\$ 1,985,817	\$ -	\$ 40,323,038
Connection Fees & Service Charges	26,033	6,223	176,945	-	209,201
Contractual Services	-	-	-	248,178	248,178
Total Charges for Services	\$ 37,284,015	\$ 1,085,462	\$ 2,162,762	\$ 248,178	\$ 40,780,417
 Miscellaneous Revenues	 11,801	 3,623	 9,969	 75,000	 100,393
 Total Operating Revenues	 \$ 37,295,816	 \$ 1,089,085	 \$ 2,172,731	 \$ 323,178	 \$ 40,880,810
 Operating Expenses:					
Cost of Goods Sold	\$ 34,854,063	\$ -	\$ -	\$ -	\$ 34,854,063
Operation & Maintenance	473,070	540,434	601,772	92,710	1,707,986
General & Administrative	1,077,498	486,490	537,449	125,324	2,226,761
Depreciation	605,870	263,773	834,269	7,259	1,711,171
 Total Operating Expenses	 \$ 37,010,501	 \$ 1,290,697	 \$ 1,973,490	 \$ 225,293	 \$ 40,499,981
 Net Operating Income (Loss)	 \$ 285,315	 \$ (201,612)	 \$ 199,241	 \$ 97,885	 \$ 380,829

CITY OF CARROLLTON, KENTUCKY
SCHEDULE OF OPERATION & MAINTENANCE, GENERAL &
ADMINISTRATIVE EXPENSES BY DEPARTMENT
ENTERPRISE FUND
(CARROLLTON UTILITIES)
For the Year Ended June 30, 2017

	Departments			Contractual Services	Total
	Gas	Water	Sewer		
OPERATION & MAINTENANCE					
Customer Service	\$ 71,040	\$ 45,736	\$ 1,200	\$ 19,829	\$ 137,805
Mains	129,808	39,744	70,344	32,425	272,321
Transportation	18,866	13,682	32,588	2,804	67,940
Plant and Equipment	241,077	244,284	395,835	37,652	918,848
Chemicals	-	123,253	37,283	-	160,536
Electric, Light and Power	12,279	73,735	64,522	-	150,536
Total	\$ 473,070	\$ 540,434	\$ 601,772	\$ 92,710	\$ 1,707,986
GENERAL & ADMINISTRATIVE EXPENSES					
Office Salaries	\$ 225,108	\$ 52,201	\$ 119,934	\$ 22,829	\$ 420,072
Employee Benefits	442,512	283,269	271,088	87,811	1,084,680
Payroll Taxes	54,238	27,778	27,520	9,087	118,623
Commissioner Fees	7,200	3,600	3,600	-	14,400
Office Expenses	52,813	51,706	49,014	-	153,533
Professional and Outside Services	57,164	21,721	21,860	-	100,745
Insurance	166,589	14,381	14,381	-	195,351
	71,874	31,834	30,052	5,597	139,357
Total	\$ 1,077,498	\$ 486,490	\$ 537,449	\$ 125,324	\$ 2,226,761

RAISOR, ZAPP & WOODS, PSC

Certified Public Accountants

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Susan A. Dukes, CPA

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Carrollton, Kentucky as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Carrollton, Kentucky's basic financial statements and have issued our report thereon dated December 8, 2017.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies (Items 2017-001 and 2017-002).

The Mayor and Members of the City Council
of the City of Carrollton
Page Two

COMPLIANCE AND OTHER MATTERS

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

CITY OF CARROLLTON, KENTUCKY'S RESPONSE TO FINDINGS

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

PURPOSE OF THIS REPORT

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

Raisor, Zapp & Woods, PSC

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

December 8, 2017

CITY OF CARROLLTON, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2017

A. SUMMARY OF AUDITOR'S RESULTS:

1. The auditor's report expresses an unmodified opinion on whether the financial statements of the City of Carrollton, Kentucky were prepared in accordance with GAAP.
2. Two deficiencies in internal control disclosed during the audit of the financial statements are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. Items 2017-001 and 2017-002 are reported as significant deficiencies.
3. No instances of noncompliance material to the financial statements of City of Carrollton, Kentucky, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

DEFICIENCIES IN INTERNAL CONTROL

GOVERNMENT AUDITING STANDARDS

2017-001 SIZE OF ENTITY AND CHECKING PROCEDURES

CRITERIA:

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

CONDITION:

Due to the size of the Administrative Staff, internal control is limited. Procedures for certain transaction reviews have not been implemented. A similar condition was cited in the schedule of findings and questioned costs for the year ended June 30, 2016 as a significant deficiency as Item 2016-001.

CONTEXT:

The City is a small entity with limited staff.

EFFECT:

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

CAUSE:

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

RECOMMENDATION:

Management should implement checking processes and establish expanded control procedures.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION:

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

CITY OF CARROLLTON, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES (Continued)
For the Year Ended June 30, 2017

B. FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)

DEFICIENCIES IN INTERNAL CONTROL (CONTINUED)

GOVERNMENT AUDITING STANDARDS (CONTINUED)

2017-002 FAILURE TO PREPARE A COMPLETE SET OF FINANCIAL STATEMENTS INCLUDING REQUIRED NOTE DISCLOSURES

CRITERIA:

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

CONDITION:

City financial statements, including the required disclosures, are prepared as part of the annual audit. The condition was also cited as a significant deficiency in the Schedule of Findings and Questioned Costs for the year ended June 30, 2016 as item 2016-002.

CONTEXT:

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

EFFECT:

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

CAUSE:

Management of the City are not sufficiently familiar with all accounting, financial reporting and disclosure requirements to prepare internal financial statements. The draft accrual basis (government-wide) financial statements and disclosures are prepared during the audit process. Entries are not entered into the City's general ledger and financial reports.

RECOMMENDATION:

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

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:

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

COMPLIANCE ISSUES

COMPLIANCE AND OTHER MATTERS

NONE