

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

Year Ended June 30, 2015

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS

INDEX

Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-10
Basic Financial Statements:	
Statement of Net Position	11
Statement of Activities	12-13
Balance Sheet – Governmental Funds	14
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	15
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Statement of Net Position – Proprietary Fund	18
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Fund	19
Statement of Cash Flows – Proprietary Fund	20-21
Notes to Basic Financial Statements	22-52
Required Supplemental Information	
Budgetary Comparison Schedule – General Fund	53
Notes to Budgetary Comparison Schedule	54
Schedule of the City's Proportionate Share of the Net Pension Liability – County Employees Retirement System	55
Schedule of City Contributions – County Employees Retirement System	56
Other Supplemental Information	
Combining Balance Sheet – Nonmajor Governmental Funds	57
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds	58
Schedule of Departmental Operating Revenues and Expenses – Enterprise Fund – (Carrollton Utilities)	59
Schedule of Operation & Maintenance, General & Administrative Expenses By Department – Enterprise Fund – (Carrollton Utilities)	60
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 <i>Government Auditing Standards</i>	61-62
Schedule of Findings and Responses	63-64

RAISOR, ZAPP & WOODS, PSC

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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, 2015, 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, 2015, 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.

Changes in Accounting Principle

As described in Note 4.E. to the financial statements, in the year ended June 30, 2015, the City adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* and GASB Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB No. 68*. Our opinion is not modified with respect to this matter.

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 City 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 fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2016, on our consideration of the City of Carrollton, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Carrollton, Kentucky's internal control over financial reporting and compliance.

Raisor, Zapp & Woods, PSC

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

January 7, 2016

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, 2015. Please read it in conjunction with the City's financial statements, which begin on page 11.

FINANCIAL HIGHLIGHTS

- \$202,840 was spent this year on City Streets with Municipal Road Aid funds.
- The City's capital outlay for riverfront development includes the following:
 - \$44,359 was spent on additional paving of the Riverwalk connecting the two sections in the JCTC parking area.
 - \$50,010 final payment was made to Walter Martin Excavating for the construction of the Riverwalk.
 - \$43,400 was received as a final payment to the City from the Recreational Trails Grant.
 - \$6,455 was spent for Crumb Rubber for the playground at Point Park. This money came partially from a \$5,350 State Crumb Rubber Grant.
- The City spent \$31,595 for a new Police vehicle. A Police cruiser that was totaled was replaced with insurance money and an additional \$4,442 from the general fund.
- The City spent \$8,250 for new bunker gear and a new piece of equipment for the Fire Department with State Aid funds paying for this.
- The City's total net position of the City's Governmental Funds increased by \$90,445. The net position of the City's business-type activities increased by \$697,870. The City's net position as of July 1, 2014 was restated to reflect the reporting of its share of the unfunded net pension liability associated with its employees' participation in the County Employees Retirement System as required by the implementation of GASB 68. Net position decreased \$1,681,000 and \$2,042,000 for the governmental funds and business-type funds, respectively as of July 1, 2014 with this restatement.
- In the City's business-type activities, charges for service decreased to \$45,415,192 (or 13.2%) and expenses decreased to \$44,997,697 (or 13.3%).
- The City's business-type activities spent \$912,309 for the Carroll County Interconnect Project for replacement of aging main water lines and interconnections with other districts.
- The City obtained financing through the Kentucky Infrastructure Authority Federally Assisted Drinking Water Revolving Loan Fund in the amount of \$1,657,988 at 1.00% interest with 25% principal forgiveness. The proceeds from this loan were used to fund the Carroll County Interconnect Project. This is a regional and joint project with Carrollton Utilities, West Carroll Water District, and Carroll County Water District #1 that will provide interconnections and infrastructure additions to all three entities. Construction began on this project in the 2014 – 2015 fiscal year and was substantially complete in the 2015 – 2016 fiscal year. The City has recorded a receivable for \$1,855 and \$45,913 for the amount of the loan less principal forgiveness due from West Carroll Water District and Carroll County Water District #1, respectively, to Carrollton Utilities for their portion of the project.
- The City's business-type activities spent \$340,387 for construction of a natural gas line under the Kentucky River from Point Park to Prestonville.
- The City's business-type activities spent \$35,054 for replacement of the odorizer at the Locust natural gas purchase station.
- The City's business-type activities spent \$27,673 on gas mains extensions and service line installations in Owenton.
- The City's business-type activities spent \$350,000 to purchase the building and property at 324 Main Street, the JCTC building.
- The City's business-type activities spent \$12,935 to purchase a 20' equipment trailer.

- The City's business-type activities spent \$24,259 to purchase a 2014 Ford F150.
- The City's business-type activities spent \$10,790 to purchase a new copier for the office.
- The City's business-type activities spent \$10,624 on grading and landscaping for the vacant lot next to the water treatment plant.
- The City's business-type activities spent \$39,000 for SCADA monitoring equipment for the water treatment system.
- The City's business-type activities spent \$101,411 to repair a collapsed sewer main line near PMC.
- The City's business-type activities spent \$16,720 for paving in the Eagle Creek Campground area.
- The City's business-type activities spent \$38,801 for a mini-excavator for the wastewater department.
- The City's business-type activities spent \$45,367 for new lift station pumps in the wastewater 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 \$44.9 million (as restated) to \$45.7 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	
	13/14	14/15	13/14	14/15	13/14	14/15
	(as restated)		(as restated)		(as restated)	
CURRENT AND OTHER ASSETS	2,573,374	2,547,542	13,661,992	11,826,386	16,235,366	14,373,928
CAPITAL ASSETS	6,313,861	5,980,098	38,650,053	39,126,256	44,963,914	45,106,354
TOTAL ASSETS	8,887,235	8,527,640	52,312,045	50,952,642	61,199,280	59,480,282
DEFERRED OUTFLOWS OF RESOURCES	217,583	207,454	264,385	256,014	481,968	463,468
CURRENT LIABILITIES	503,873	448,729	5,791,514	3,923,581	6,295,387	4,372,310
NON-CURRENT LIABILITIES	2,224,651	1,637,626	8,223,006	7,804,295	10,447,657	9,441,921
TOTAL LIABILITIES	2,728,524	2,086,355	14,014,520	11,727,876	16,743,044	13,814,231
DEFERRED INFLOWS OF RESOURCES	-	182,000	-	221,000	-	403,000
NET POSITION:						
NET INVESTMENT IN CAPITAL ASSETS						
ASSETS	5,680,503	5,657,583	32,910,806	33,509,658	38,591,309	39,167,241
RESTRICTED	136,452	32,058	425,461	522,892	561,913	554,950
UNRESTRICTED	559,339	777,098	5,225,643	5,227,230	5,784,982	6,004,328
TOTAL NET POSITION	6,376,294	6,466,739	38,561,910	39,259,780	44,938,204	45,726,519

Net position of the City's governmental activities increased by 1.42 percent (\$6,376,294 at June 30, 2014 (as restated) compared to \$6,466,739 at June 30, 2015). 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 \$559,339 at June 30, 2014 (as restated) to \$777,098 at June 30, 2015.

The net position of our business-type activities increased by 1.78% (\$38,561,910 at June 30, 2014 (as restated) compared to \$39,259,780 at June 30, 2015). Unrestricted net assets changed from \$5,225,643 at June 30, 2014 (as restated) to \$5,227,230 at June 30, 2015. 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		BUSINESS-TYPE		TOTAL	
	ACTIVITIES		ACTIVITIES		GOVERNMENT	
	(as restated)		(as restated)		(as restated)	
	13/14	14/15	13/14	14/15	13/14	14/15
REVENUES:						
PROGRAM REVENUES:						
CHARGES FOR SERVICES	825,072	797,146	52,302,832	45,415,192	53,127,904	46,212,338
FEDERAL GRANTS	115,102	-	-	-	115,102	-
STATE GRANTS/ENTITLEMENTS	129,846	147,025			129,846	147,025
LOCAL GRANTS/CONTRIBUTION	27,285	-			27,285	-
PRINCIPLE FORGIVENESS - KIA			383,549	208,371	383,549	208,371
GENERAL REVENUES:						
PROPERTY TAXES	456,661	466,840			456,661	466,840
FRANCHISE TAXES	156,196	249,408			156,196	249,408
PEAK ANNUAL RETURN	1,497,472	1,273,923			1,497,472	1,273,923
INSURANCE LICENSES	459,739	498,850			459,739	498,850
OTHER GENERAL REVENUES	241	26,156	35,697	72,004	35,938	98,160
TOTAL REVENUES:	3,667,614	3,459,348	52,722,078	45,695,567	56,389,692	49,154,915
PROGRAM EXPENSES:						
GENERAL GOVERNMENT	581,437	622,979	-	-	581,437	622,979
PUBLIC SAFETY	1,462,681	1,306,498	-	-	1,462,681	1,306,498
PUBLIC WORKS	770,620	942,336	-	-	770,620	942,336
HEALTH & SANITATION	315,767	321,797	-	-	315,767	321,797
PARKS & RECREATION	188,305	141,344	-	-	188,305	141,344
COMMUNITY SERVICE	22,869	16,236	-	-	22,869	16,236
INTEREST: LONG TERM DEBT	28,977	17,713	-	-	28,977	17,713
GAS			48,571,706	41,562,192	48,571,706	41,562,192
WATER			1,052,876	1,143,307	1,052,876	1,143,307
SEWER			2,114,342	2,101,965	2,114,342	2,101,965
MANAGEMENT SERVICES			203,924	190,233	203,924	190,233
TOTAL EXPENSES:	3,370,656	3,368,903	51,942,848	44,997,697	55,313,504	48,366,600
CHANGE IN NET POSITION	296,958	90,445	779,230	697,870	1,076,188	788,315
BEGINNING NET POSITION	6,079,336	6,376,294	37,782,680	38,561,910	43,862,016	44,938,204
ENDING NET POSITION	6,376,294	6,466,739	38,561,910	39,259,780	44,938,204	45,726,519

The City's total revenues decreased by \$7,234,777. The total cost of all programs and services decreased by \$6,946,904. Our analysis below separately considers the operations of governmental and business-type activities.

Governmental Activities

Revenues for the City's governmental activities decreased by 5.7 percent (\$208,266) and total expenses decreased by .05 percent (\$1,753). The increase in net position for governmental activities was \$90,445 in FY 2014-2015. This compares to a \$296,598 increase in net position in FY 2013-2014.

- The City budgeted the following capital outlay project:
 \$34,000 for police cruiser
- The City budgeted a 3% increase in departmental salaries.
- The City changed the health insurance to a self insured plan along with several other Northern Kentucky government entities with a budgeted 7% premium increase and kept the deductibles at \$3,000 / \$6,000. The City's H.R.A. (health reimbursement account) will pay \$2,500 / \$5,000 deductible above the employees \$500 / \$1,000 cost.
- The City's retirement plan (C.E.R.S.) contribution rate was decreased from 18.89 percent to 17.67 percent by the Commonwealth of Kentucky.

The cost of all governmental activities this year was \$3,368,903 compared to \$3,370,656 last year. As shown in the Statement of Activities on pages 12-13, the amount that our taxpayers financed for these activities was \$797,146, and some of the cost was paid by other governments and organizations that subsidized certain programs with grants and contributions of \$147,025. Overall, the City's governmental program revenues, including intergovernmental aid and fees for services decreased from \$1,097,305 to \$944,171 due mainly to grant funds received for the Riverwalk project and fire equipment in fiscal year 2013-14.

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

**TABLE 3
GOVERNMENTAL ACTIVITIES**

	TOTAL COST		NET COST	
	OF SERVICES		OF SERVICES	
	13/14	14/15	13/14	14/15
GENERAL GOVERNMENT	581,437	622,979	(434,332)	(468,274)
FIRE DEPARTMENT	196,132	209,653	(176,287)	(196,683)
POLICE DEPARTMENT	1,266,549	1,096,845	(989,381)	(833,721)
PUBLIC WORKS DEPARTMENT	770,620	942,336	(679,495)	(851,811)
SANITATION	315,767	321,797	45,788	38,430
ALL OTHERS	240,151	175,293	(39,644)	(112,673)
TOTALS:	3,370,656	3,368,903	(2,273,351)	(2,424,732)

Business-type Activities

Total revenues of the City's business type activities (see Table 2) decreased by 13.3 percent in FY 14-15 compared to a 28.1 percent increase in FY 13-14. The expenses in FY 14-15 also decreased by 13.3 percent.

The approximate 13% decrease in revenues and expenses of the City's business-type activities is directly related to the gas services provided by Carrollton Utilities. Whereas, the program revenues and expenses of the water, sewer and management services of Carrollton Utilities stayed relatively constant compared to the prior year, the revenues and expenses of the gas services decreased by 14.4% (\$7,079,614) and 14.4% (\$7,009,514), 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	
	13-14	14-15	13-14	14-15
Gas	49,143,421	42,063,807	48,571,706	41,562,192
Water	1,049,618	1,074,984	1,052,876	1,143,307
Sewer	1,859,290	2,025,898	2,114,342	2,101,965
Management Services	250,503	250,503	203,924	190,233
Totals:	52,302,832	45,415,192	51,942,848	44,997,697

THE CITY'S FUNDS

As the City completed fiscal year 2014-2015, its governmental funds (as presented in the balance sheet on page 14) reported a combined fund balance of \$1,656,888 which represents an increase of \$249,002 from last year's total of \$1,407,886. The primary reason for the General Fund's increase on page 7 is the following:

- The City's largest revenue source, PEAK, was \$1,497,472.
- Is that its expenditures decreased by \$236,835 with the majority of the decrease attributable to less capital expenditures as the Riverwalk project was completed the previous year.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City Council revised the General Fund budget one time for fiscal year ending June 30, 2015. 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, 2015, the City had \$45,106,354 (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 \$142,440 or 0.32%.

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

	GOVERNMENTAL		BUSINESS-TYPE		TOTALS	
	ACTIVITIES		ACTIVITIES			
	13/14	14/15	13/14	14/15	13/14	14/15
LAND	1,104,050	1,105,050	643,278	713,278	1,747,328	1,818,328
BUILDINGS & IMPROVEMENTS	2,727,192	2,596,570	5,013,613	5,082,264	7,740,805	7,678,834
EQUIPMENT	730,258	657,585	2,885,590	2,630,017	3,615,848	3,287,602
INFRASTRUCTURE	1,750,989	1,619,521	29,910,754	29,609,344	31,661,743	31,228,865
CONSTRUCTION-IN-PROGRESS	1,372	1,372	196,818	1,091,353	198,190	1,092,725
TOTALS:	6,313,861	5,980,098	38,650,053	39,126,256	44,963,914	45,106,354

This year's major additions included:

- \$ 31,595 for new Police Cruiser/Equipment
- \$8,250 for Fire Department equipment with State Aid paying for \$8,250
- \$350,000 for property at 324 Main Street
- \$340,387 for a 6" main natural gas line under the Kentucky River
- \$27,673 for gas main extensions and services in Owenton
- \$35,054 for replacement of the gas odorizer at Locust purchase station
- \$12,935 for 20' equipment trailer
- \$24,259 for a 2014 Ford F150
- \$10,790 for a new copier
- \$39,000 for SCADA equipment for the water treatment plant
- \$38,801 for a mini excavator

Debt

At year-end, the City had \$6,408,064 in capital lease, notes payable and bonds payable compared to \$6,853,387 last year as shown in Table 6.

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

	GOVERNMENTAL		BUSINESS-TYPE		TOTALS	
	ACTIVITIES		ACTIVITIES			
	13/14	14/15	13/14	14/15	13/14	14/15
CAPITAL LEASE	633,358	322,515	66,324	-	699,682	322,515
NOTES PAYABLE			6,153,705	6,085,549	6,153,705	6,085,549
TOTALS	633,358	322,515	6,220,029	6,085,549	6,853,387	6,408,064

Other obligations of the City represents accrued compensated absences for \$41,122 compared to \$44,359 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 2014-2015 budget. One of those factors is the economy - specifically the Consumer Price Index (CPI). The CPI was reported at 1.5016 % 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 FY14-15 which kept the property tax rate at \$.30 per \$100 of assessment. This meant a loss of revenue of \$14,297 in property tax receipts. Next year's budget, FY15-16, has a projected decrease in PEAK revenue of \$212,000. Also budgeted for the next fiscal year is the purchase of 5 new police cruisers in order to provide take home vehicles for all of the officers at a budgeted cost of \$180,000.

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

The City was approved for a Kentucky Infrastructure Authority loan in the amount \$1,657,988 at 1.00% interest with 25% principal forgiveness. The proceeds from this loan will be used to fund the Carroll County Interconnect Project. This is a regional and joint project with Carrollton Utilities, West Carroll Water District, and Carroll County Water District #1 that will provide interconnection and infrastructure additions to all three districts. Construction began on this project in the 2014-2015 fiscal year and should be complete by June 30, 2016.

The City was approved for a Kentucky Infrastructure Authority Loan in the amount of \$963,931 at 1.00% interest with 50% principal forgiveness. The proceeds from this loan will be used to fund the Focusing on Core Mission and Infrastructure Project. This project will focus on preventative measures and the replacement of obsolete equipment for Carrollton Utilities in association with Henry County Water District, Carroll County Water District, and West Carroll Water District. Construction will begin on this project in the 2015-2016 fiscal year and should be complete by April 30, 2016.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

LEATHA S. GRIMES, CMC
City Clerk-Treasurer

CHASTITY ROBBINS
Carrollton Utilities, Director of Finance

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2015

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets			
Cash, Including Time Deposits	\$ 1,399,209	\$ 6,706,194	\$ 8,105,403
Interest Receivable	-	720	720
Accounts Receivable (Net)	248,917	3,178,083	3,427,000
Other Receivables	-	901,245	901,245
Due from Other Governments	33,510	112,583	146,093
Due from Other Funds	858,650	(858,650)	-
Current Portion - Interlocal Receivable	-	16,555	16,555
Prepaid Expense	7,256	43,529	50,785
Total Current Assets	\$ 2,547,542	\$ 10,100,259	\$ 12,647,801
Noncurrent Assets			
Restricted Assets			
Cash, Including Time Deposits	\$ -	\$ 1,129,592	\$ 1,129,592
Interest Receivable	-	322	322
Interlocal Receivable	-	596,213	596,213
Capital Assets (Net)	5,980,098	39,126,256	45,106,354
Total Noncurrent Assets	\$ 5,980,098	\$ 40,852,383	\$ 46,832,481
Total Assets	\$ 8,527,640	\$ 50,952,642	\$ 59,480,282
DEFERRED OUTFLOWS OF RESOURCES			
Employer Pension Contributions Made Subsequent to Measurement Date	\$ 207,454	\$ 256,014	\$ 463,468
LIABILITIES			
Current Liabilities			
Accounts Payable	\$ 61,077	\$ 3,174,147	\$ 3,235,224
Accrued Compensated Absences	14,697	4,495	19,192
Accrued Wages	42,477	54,908	97,385
Accrued Interest Payable	463	-	463
Unearned Income	7,500	-	7,500
Construction Retainage Payable	-	256,400	256,400
Current Portion - Capital Lease Obligations	322,515	-	322,515
Current Liabilities Payable from Restricted Assets:			
Accrued Interest	-	6,687	6,687
Notes Payable	-	426,944	426,944
Total Current Liabilities	\$ 448,729	\$ 3,923,581	\$ 4,372,310
Noncurrent Liabilities			
Accrued Compensated Absences	\$ 8,626	\$ 13,304	\$ 21,930
Notes Payable	-	5,658,605	5,658,605
Net Pension Liability	1,629,000	1,979,000	3,608,000
Noncurrent Liabilities Payable from Restricted Assets:			
Customer Deposits Payable	-	153,386	153,386
Total Noncurrent Liabilities	\$ 1,637,626	\$ 7,804,295	\$ 9,441,921
Total Liabilities	\$ 2,086,355	\$ 11,727,876	\$ 13,814,231
DEFERRED INFLOWS OF RESOURCES			
Net Pension Liability - Difference Between Projected and Actual Earnings	\$ 182,000	\$ 221,000	\$ 403,000
NET POSITION			
Net Investment in Capital Assets	\$ 5,657,583	\$ 33,509,658	\$ 39,167,241
Restricted for:			
Debt Service	-	522,892	522,892
Other Purposes	32,058	-	32,058
Unrestricted	777,098	5,227,230	6,004,328
Total Net Position	\$ 6,466,739	\$ 39,259,780	\$ 45,726,519

See accompanying notes to the basic financial statements

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Functions / Programs				
Governmental Activities				
General Government	\$ 622,979	\$ 146,995	\$ 7,710	\$ -
Public Safety				
Fire Department	209,653	1,620	11,350	-
Police Department	1,096,845	236,602	26,522	-
Public Works	942,336	-	90,525	-
Sanitation	321,797	360,227	-	-
Parks & Recreation	141,344	51,702	2,694	-
Community Service	16,236	-	8,224	-
Interest on Long-Term Debt	17,713	-	-	-
Total Governmental Activities	\$ 3,368,903	\$ 797,146	\$ 147,025	\$ -
Business-type Activities				
Gas	\$ 41,562,192	\$ 42,063,807	\$ -	\$ -
Water	1,143,307	1,074,984	-	208,371
Sewer	2,101,965	2,025,898	-	-
Management Services	190,233	250,503	-	-
Total Business-type Activities	\$ 44,997,697	\$ 45,415,192	\$ -	\$ 208,371
Total Government	\$ 48,366,600	\$ 46,212,338	\$ 147,025	\$ 208,371

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

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

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (468,274)	\$ -	\$ (468,274)
(196,683)	-	(196,683)
(833,721)	-	(833,721)
(851,811)	-	(851,811)
38,430	-	38,430
(86,948)	-	(86,948)
(8,012)	-	(8,012)
(17,713)	-	(17,713)
<u>\$ (2,424,732)</u>	<u>\$ -</u>	<u>\$ (2,424,732)</u>
\$ -	\$ 501,615	\$ 501,615
-	140,048	140,048
-	(76,067)	(76,067)
-	60,270	60,270
<u>\$ -</u>	<u>\$ 625,866</u>	<u>\$ 625,866</u>
<u>\$ (2,424,732)</u>	<u>\$ 625,866</u>	<u>\$ (1,798,866)</u>
\$ 466,840	\$ -	\$ 466,840
249,408	-	249,408
1,273,923	-	1,273,923
498,850	-	498,850
(69)	7,967	7,898
-	3,232	3,232
5,697	50,635	56,332
20,528	10,170	30,698
<u>\$ 2,515,177</u>	<u>\$ 72,004</u>	<u>\$ 2,587,181</u>
\$ 90,445	\$ 697,870	\$ 788,315
6,376,294	38,561,910	44,938,204
<u>\$ 6,466,739</u>	<u>\$ 39,259,780</u>	<u>\$ 45,726,519</u>

**CITY OF CARROLLTON, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2015**

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash, Including Time Deposits	\$ 1,325,751	\$ 73,458	\$ 1,399,209
Accounts Receivable: (Net of Allowance for Uncollectibles)			
Insurance Licenses	112,331	-	112,331
Business Licenses	11,737	-	11,737
Ad Valorem Tax	6,760	-	6,760
Franchise Fees	96,722	-	96,722
Miscellaneous	12,525	-	12,525
Due from Other Governments	21,903	11,607	33,510
Due from Other Funds	109,845	-	109,845
Total Assets	\$ 1,697,574	\$ 85,065	\$ 1,782,639
LIABILITIES			
Accounts Payable	\$ 61,077	\$ -	\$ 61,077
Accrued Compensated Absences	14,697	-	14,697
Accrued Wages	42,477	-	42,477
Deferred Revenue	7,500	-	7,500
Total Liabilities	\$ 125,751	\$ -	\$ 125,751
FUND BALANCES			
Restricted	\$ -	\$ 32,058	\$ 32,058
Committed	127,275	29,737	157,012
Assigned	-	23,270	23,270
Unassigned	1,444,548	-	1,444,548
Total Fund Balances	\$ 1,571,823	\$ 85,065	\$ 1,656,888
Total Liabilities and Fund Balances	\$ 1,697,574	\$ 85,065	\$ 1,782,639

CITY OF CARROLLTON, KENTUCKY
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET POSITION
 June 30, 2015

Total Governmental Fund Balances	\$	1,656,888
<i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Total capital assets \$10,639,856 net of accumulated depreciation \$4,659,758.		5,980,098
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.		757,647
Deferred Inflows of Resources		
Net Pension Liability - Difference between projected and actual earnings		(182,000)
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	\$ 8,626	
Accrued Interest on Capital Leases	463	
Net Pension Liability	1,629,000	
Capital Leases Payable	322,515	
		(1,960,604)
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.		7,256
Deferred Outflows of Resources:		
Employer Pension Contributions Made Subsequent to the Measurement Date		207,454
Net Position of Governmental Activities	\$	6,466,739

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2015

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Payments in Lieu of Taxes	\$ 32,553	\$ -	\$ 32,553
Ad Valorem Taxes	456,540	10,300	466,840
Franchise Fees	222,427	-	222,427
Garbage Collection	360,227	-	360,227
Bank Franchise Deposit Tax	26,982	-	26,982
Business Licenses	94,489	-	94,489
Insurance Licenses	498,850	-	498,850
Building Permits	2,298	-	2,298
Penalty & Interest	9,100	-	9,100
Interest Revenue	(593)	263	(330)
PEAK Revenue	1,497,472	-	1,497,472
Campground Receipts	51,702	-	51,702
Other Revenue/Donations	15,148	10,918	26,066
Proceeds from Outside Sources:			
HB413/Citations Revenue	9,793	-	9,793
C.C. Fiscal Court - Public Safety Salaries	222,097	-	222,097
Police & Firefighter's Incentive Pay	29,622	-	29,622
Kentucky Municipal Road Aid	-	90,525	90,525
Local Government Economic Assistance	-	7,709	7,709
State Fire Aid	8,250	-	8,250
U.S. Department of Transportation Recreational Trails Program Grant	12,653	-	12,653
Total Revenues	\$ 3,549,610	\$ 119,715	\$ 3,669,325
EXPENDITURES			
Current			
Administrative	\$ 916,368	\$ 22,961	\$ 939,329
Public Safety			
Fire Department	146,160	-	146,160
Police Department	1,100,588	-	1,100,588
Public Works	591,804	202,840	794,644
Parks and Recreation	37,743	3,637	41,380
Community Service	-	16,236	16,236
Capital Outlay	73,665	-	73,665
Debt Repayment			
Principal	310,843	-	310,843
Interest	18,159	-	18,159
Total Expenditures	\$ 3,195,330	\$ 245,674	\$ 3,441,004
Excess (Deficit) of Revenues Over (Under) Expenditures	\$ 354,280	\$ (125,959)	\$ 228,321
OTHER FINANCING SOURCES (USES):			
Insurance Recoveries	\$ 20,681	\$ -	\$ 20,681
Total Other Financing Sources (Uses):	\$ 20,681	\$ -	\$ 20,681
Excess (Deficit) of Revenues & Other Financing Sources over Expenditures & Other Financing Uses	\$ 374,961	\$ (125,959)	\$ 249,002
Fund Balances - July 1, 2014	1,196,862	211,024	1,407,886
Fund Balances - June 30, 2015	\$ 1,571,823	\$ 85,065	\$ 1,656,888

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, 2015

Net Change in Fund Balances - Total Governmental Funds	\$ 249,002
<i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>	
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense.</p>	
Capitalized Expenditures	73,665
Depreciation Expense	(385,753)
<p>Repayment of capital lease obligation principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.</p>	
	310,843
<p>Some expenses reported in the Statement of Activities (current year) do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds until paid.</p>	
Compensated Absences	(4,115)
Miscellaneous	(717)
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.</p>	
	(230,505)
<p>Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.</p>	
	446
<p>Expenditures in the Statement of Revenues, Expenditures, and Changes in Fund Balances that are for goods and services not yet received are not reported as expenses in the Statement of Activities.</p>	
	278
<p>Governmental funds report City pension contributions through the governmental funds to the County Employees' Retirement System as expenditures. However in the Statement of Activities, the cost of pension benefits earned, net of employee contributions, is reported as pension expense.</p>	
City pension contributions	207,454
Cost of benefits earned net of employee contributions	(130,000)
<p>Governmental funds only report the disposal of assets to the extent proceeds are received. In the Statement of Activities, a gain or loss is reported for each disposal. This is the difference in the amount of the gain/loss vs. the proceeds received on asset disposals.</p>	
	(153)
Change in Net Position of Governmental Activities	\$ 90,445

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUND
June 30, 2015

	<u>Carrollton Utilities Enterprise Fund</u>
ASSETS	
Current Assets	
Cash, Including Time Deposits	\$ 6,706,194
Interest Receivable	720
Accounts Receivable (Net)	3,178,083
Other Receivables	901,245
Due from Other Governments	112,583
Current Portion - Interlocal Receivable	16,555
Prepaid Expense	43,529
Total Current Assets	<u>\$ 10,958,909</u>
Noncurrent Assets	
Restricted Assets	
Cash, Including Time Deposits	\$ 1,129,592
Interest Receivable	322
Interlocal Receivable	596,213
Capital Assets (Net)	39,126,256
Total Noncurrent Assets	<u>\$ 40,852,383</u>
Total Assets	<u>\$ 51,811,292</u>
DEFERRED OUTFLOWS OF RESOURCES	
Employer Pension Contributions Made Subsequent to Measurement Date	<u>\$ 256,014</u>
LIABILITIES	
Current Liabilities	
Accounts Payable	\$ 3,174,147
Due to Other Funds	858,650
Accrued Compensated Absences	4,495
Accrued Salaries, Wages & Benefits	54,908
Construction Retainage Payable	256,400
Current Liabilities Payable from Restricted Assets:	
Accrued Interest Payable	6,687
Notes Payable	426,944
Total Current Liabilities	<u>\$ 4,782,231</u>
Noncurrent Liabilities	
Accrued Compensated Absences	\$ 13,304
Notes Payable	5,658,605
Net Pension Liability	1,979,000
Noncurrent Liabilities Payable from Restricted Assets:	
Customer Deposits Payable	153,386
Total Noncurrent Liabilities	<u>\$ 7,804,295</u>
Total Liabilities	<u>\$ 12,586,526</u>
DEFERRED INFLOWS OF RESOURCES	
Net Pension Liability - Difference Between Projected and Actual Earnings	<u>\$ 221,000</u>
NET POSITION	
Net Investment in Capital Assets	\$ 33,509,658
Restricted for:	
Debt Service	522,892
Unrestricted	5,227,230
Total Net Position	<u>\$ 39,259,780</u>

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
For the Year Ended June 30, 2015

	<u>Carrollton Utilities Enterprise Fund</u>
Operating Revenues:	
Charges for Services:	
Gas Utility Charges (Net)	\$ 42,036,192
Water Utility Charges (Net)	1,067,851
Sewer Utility Charges (Net)	1,820,584
Connection Fees & Service Charges	240,062
Contractual Services	250,503
Total Charges for Services	<u>\$ 45,415,192</u>
Miscellaneous Revenues	50,635
Total Operating Revenues	<u>\$ 45,465,827</u>
 Operating Expenses:	
Cost of Goods Sold	\$ 39,622,113
Operation & Maintenance	1,707,038
General & Administrative	1,833,546
Depreciation	1,753,526
Total Operating Expenses	<u>\$ 44,916,223</u>
 Net Operating Income	<u>\$ 549,604</u>
 Nonoperating Revenue (Expenses):	
Interest Income	\$ 11,199
Interest and Fiscal Charges	(81,474)
Gain (Loss) from Sale of Assets	10,170
Total Nonoperating Revenue (Expenses)	<u>\$ (60,105)</u>
 Net Income Before Capital Contributions	<u>\$ 489,499</u>
Capital Contributions	<u>208,371</u>
 Change in Net Position	<u>\$ 697,870</u>
 Net Position - July 1	<u>38,561,910</u>
 Net Position - June 30	<u>\$ 39,259,780</u>

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2015

	Carrollton Utilities Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	\$ 47,559,849
Payments to Suppliers	(43,655,211)
Payments to Employees	(1,580,490)
Receipts of Customer Meter Deposits	108,223
Refunds of Customer Meter Deposits	(103,514)
Net Cash Provided (Used) by Operating Activities	\$ 2,328,857
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Proceeds from Noncapital Debt	\$ 63,691
Interest Paid on Noncapital Debt	(589)
Net Cash Provided (Used) by Noncapital Financing Activities	\$ 63,102
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Contributions	\$ 208,371
Proceeds from Sale of Capital Assets	10,170
Purchases of Capital Assets	(2,323,476)
Proceeds from Capital Debt	416,568
Principal Paid on Capital Debt	(469,612)
Interest Paid on Capital Debt	(81,742)
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ (2,239,721)
CASH FLOWS FROM INVESTING ACTIVITIES	
Advance - Interlocal Receivable	\$ (63,691)
Principal Paid on Interlocal Debt	24,143
Interest and Fees Paid on Interlocal Debt	3,456
Purchase of Certificates of Deposits	(6,359)
Interest Received	10,141
Net Cash Provided (Used) by Investing Activities	\$ (32,310)
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 119,928
Balances-July 1	6,342,543
Balances-June 30	\$ 6,462,471

	Balances Per June 30, 2015 Statement of Net Position	Balances Per June 30, 2015 Statement of Cash Flows
Cash	\$ 5,725,217	\$ 5,725,217
Time Deposits	981,001	-
Restricted Cash	737,254	737,254
Restricted Time Deposits	392,314	-
Total	\$ 7,835,786	\$ 6,462,471

(Continued)

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUND
For the Year Ended June 30, 2015

	<u>Carrollton Utilities Enterprise Fund</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating Income (Loss)	\$ 549,604
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation Expense	1,753,526
Pension Expense	(98,014)
Change in Assets and Liabilities:	
Receivables, Net (Increase) Decrease	1,753,399
Other Receivables (Increase) Decrease	291,385
Prepaid Expenses (Increase) Decrease	4,002
Accounts and Other Payables Increase (Decrease)	(1,787,344)
Due to Other Funds Increase (Decrease)	(194,281)
Customer Meter Deposits Payable Increase (Decrease)	4,709
Accrued Expenses Increase (Decrease)	51,871
Net Cash Provided by Operating Activities	<u>\$ 2,328,857</u>

At June 30, 2015, Carrollton Utilities had received principal forgiveness on its non-capital debt through the Kentucky Infrastructure Authority. Under the debt agreement, an interlocal agreement with West Carroll Water District was approved under which Carrollton Utilities used a portion of the debt proceeds to finance line improvements to the West Carroll Water District distribution system. Additionally, under the interlocal agreement, the debt forgiveness attributable to West Carroll Water District's portion of the proceeds, reduced the funds receivable from West Carroll Water District for its portion of the debt. The amount of debt forgiveness attributable to West Carroll Water District's portion of the debt was \$618.

At June 30, 2015, Carrollton Utilities had received principal forgiveness on its non-capital debt through the Kentucky Infrastructure Authority. Under the debt agreement, an interlocal agreement with Carroll County Water District #1 was approved under which Carrollton Utilities used a portion of the debt proceeds to finance line improvements to the Carroll County Water District #1's distribution system. Additionally, under the interlocal agreement, the debt forgiveness attributable to Carroll County Water District #1's portion of the proceeds, reduced the funds receivable from Carroll County Water District #1 for its portion of the debt. The amount of debt forgiveness attributable to Carroll County Water District #1's portion of the debt was \$15,314.

At June 30, 2015, Carrollton Utilities had \$256,400 outstanding retainage payable.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS

INDEX

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

- A. Fund Accounting Requirements
- B. Deposits and Investments, Laws and Regulations
- C. Revenue Restrictions
- D. Debt Restrictions and Covenants

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

- A. Cash and Cash Equivalents and Investments
- B. Restricted Assets
- C. Accounts Receivable
- D. Capital Assets
- E. Long-term Debt
- F. Interest Expense and Fiscal Charges
- G. Interfund Transactions and Balances
- H. Fund Equity

NOTE 4. OTHER NOTES

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

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2015

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, 2015

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, 2015

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, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.B. BASIS OF PRESENTATION (Continued)

Major and Nonmajor Funds

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

Fund	Brief Description
<i>Major:</i> General Fund	See above for description.
<i>Proprietary Fund:</i> Carrollton Utilities	Accounts for activities in providing water, wastewater, and gas services to the public.
<i>Nonmajor:</i> 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, 2015

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, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Receivables (Continued)

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

Interlocal Receivable

The City of Carrollton f/b/o Carrollton Utilities has entered into an interlocal agreement with the West Carroll Water District under which the West Carroll Water District is the sub recipient of loan proceeds from the Kentucky Infrastructure Authority funding the Countywide Underserved Project. The City of Carrollton f/b/o Carrollton Utilities is the recipient of the loan proceeds. Carrollton Utilities is also the entity overseeing the engineering and construction contracts, and other general costs associated with the project. West Carroll Water District, under the interlocal agreement, has agreed to pay Carrollton Utilities for the portion of the debt associated with improvements made to its distribution system. \$881,877 was expended toward line extensions and improvements on the West Carroll Water District's distribution system. The amount due from West Carroll Water District to Carrollton Utilities after principal forgiveness of \$308,657 from Kentucky Infrastructure Authority was originally \$573,220 at the closing of the loan. At June 30, 2015 the amount due from West Carroll Water District was \$565,000. An Interlocal Receivable is presented in the Statement of Net Position to represent this amount due from the West Carroll Water District to the City of Carrollton f/b/o Carrollton Utilities.

The City of Carrollton f/b/o Carrollton Utilities has entered into a second interlocal agreement with the West Carroll Water District under which the West Carroll Water District is the sub recipient of loan proceeds from the Kentucky Infrastructure Authority funding the Carroll County Interconnect Project. The City of Carrollton f/b/o Carrollton Utilities is the recipient of the loan proceeds. Carrollton Utilities is also the entity overseeing the engineering and construction contracts, and other general costs associated with the project. West Carroll Water District, under the interlocal agreement, has agreed to pay Carrollton Utilities for the portion of the debt associated with improvements made to its distribution system. At June 30, 2015, \$2,474 had been expended toward line extensions and improvements on the West Carroll Water District's distribution system. The amount due from West Carroll Water District to Carrollton Utilities after principal forgiveness of \$618 from Kentucky Infrastructure Authority is \$1,855. An Interlocal Receivable is presented in the Statement of Net position to represent this amount due from the West Carroll Water District to the City of Carrollton f/b/o Carrollton Utilities.

The City of Carrollton f/b/o Carrollton Utilities has entered into an interlocal agreement with Carroll County Water District #1 under which Carroll County Water District #1 is the sub recipient of loan proceeds from the Kentucky Infrastructure Authority funding the Carroll County Interconnect Project. The City of Carrollton f/b/o Carrollton Utilities is the recipient of the loan proceeds. Carrollton Utilities is also the entity overseeing the engineering and construction contracts, and other general costs associated with the project. Carroll County Water District #1, under the interlocal agreement, has agreed to pay Carrollton Utilities for the portion of the debt associated with improvements made to its distribution system. \$61,218 had been expended toward line extensions and improvements on Carroll County Water District #1's distribution system. The amount due from Carroll County Water District #1 to Carrollton Utilities after principal forgiveness of \$15,305 from Kentucky Infrastructure Authority is \$45,913. An Interlocal Receivable is presented in the Statement of Net Position to represent this amount due from Carroll County Water District #1 to the City of Carrollton f/b/o Carrollton Utilities.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Inventories

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

Fixed Assets

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

Government-wide Statements

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

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

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

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

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.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Long-term Debt

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

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

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

Debt Issuance Costs are expensed as incurred.

Pensions

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

Deferred Outflows and Deferred Inflows

Deferred Outflows and Deferred Inflows 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.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Equity Classifications (Continued)

Government-wide Statements (Continued)

- c. Unrestricted net position – All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

Fund Statements

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

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

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

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

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

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.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Property Tax

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

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

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

Insurance License Tax

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

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

PEAK Project Returns

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

Operating Revenues and Expenses

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

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

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Expenditures/Expenses (Continued)

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

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

Interfund Transfers

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

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

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

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.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2015

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

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
U.S. Department of Transportation Federal Highway Administration (FHWA) Recreational Trails Program Project	Riverwalk Project
Environmental Protection Agency – Clean Water State Revolving Funds	Underserved Project
Environmental Protection Agency – Drinking Water State Revolving Funds	Interconnect Project and Focus on Care Mission Project

For the year ended June 30, 2015, the City complied, in all material respects, with these revenue restrictions.

2.D. DEBT RESTRICTIONS AND COVENANTS

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

Funded Maintenance, Replacement Reserve Accounts are required by the City's Assistance Agreements AO1-03, B99-03, AO5-01, B08-06, and F11-15 with the Kentucky Infrastructure Authority. Under the agreements, the City must deposit into these accounts \$8,000 annually, \$236 semi-annually, \$30,000 annually, \$2,250 annually, and \$5,100 annually, until the amounts accumulated on deposit are equal to \$80,000, \$5,610, \$300,000, \$22,500 and \$51,000, respectively. The reserve accounts for agreements A01-03, 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.

Kentucky League of Cities Lease Debt Service Reserve Funds

If the City, through Carrollton Utilities, fails to make any part of a lease rental payment when due, Debt Service Reserve Funds will be created and funded as prescribed by the lease agreements and used to satisfy lease rental payments. At June 30, 2015, the City had no outstanding lease debt.

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

3.A. CASH AND INVESTMENTS

Deposits

City of Carrollton, Kentucky's policies regarding deposits of cash are in accordance with the state statutes. Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of June 30, 2015, in accordance with the City's policy \$2,005,103 of the City's deposits were covered by federal depository insurance and \$7,634,520 respectively, were collateralized by securities held by the pledging financial institution's agent in the City's name. Thus the City had no deposits that were exposed to custodial credit risk.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

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

3.A. CASH AND INVESTMENTS (Continued)

Deposits (Continued)

Cash and cash equivalents and investments at June 30, 2015, consisted of the following:

Governmental Activities

<u>Type of Deposits</u>	<u>Total Bank Balance</u>	<u>Total Carrying Value</u>
Demand Deposits	\$ 6,729	\$ 6,729
Time/Savings Deposits	1,402,507	1,348,764
Total Deposits	\$ 1,409,236	\$ 1,355,493

Business-type Activities

<u>Type of Deposits</u>	<u>Total Bank Balance</u>	<u>Total Carrying Value</u>
Demand Deposits	\$ 6,794,244	\$ 6,447,821
Time/Savings Deposit	1,436,143	1,386,715
Total Deposits	\$ 8,230,387	\$ 7,834,536

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Reconciliation to Statement of Net Position Cash, including Time Deposits	\$ 1,399,209	\$ 6,706,194	\$ 8,105,403
Restricted Cash, including Time Deposits	-	1,129,592	1,129,592
	\$ 1,399,209	\$ 7,835,786	\$ 9,234,995
Total Carrying Value	\$ 1,355,493	\$ 7,834,536	\$ 9,190,029
Plus: Cash on Hand	43,716	1,250	44,966
	\$ 1,399,209	\$ 7,835,786	\$ 9,234,995

Investments

At June 30, 2014, the City had deposits invested in the Kentucky League of Cities investment Pool Plus of \$649,570. This investment was made up of the pooled assets of several cities. During the year ended June 30, 2015, the City withdrew all of its deposits from this investment. Investment losses included in the financial statements were \$1,571.

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2015

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

3.B. RESTRICTED ASSETS

Restricted assets consists of the following:

	Cash	Interest Receivable	Total
KIA Loan Reserve Accounts	\$ 529,257	\$ 322	\$ 529,579
Customer Deposits	153,386	-	153,386
KIA Construction Accounts	446,949	-	446,949
Total	\$ 1,129,592	\$ 322	\$ 1,129,914

In addition to these restrictions, the Utility Commission has established certificates of deposit in the amount of \$683,468 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 (39%), insurance licenses (45%), property tax (2%), business licenses (5%) and other (9%) receivables. Receivables detail at June 30, 2015, is as follows:

	Governmental Activities	Business-type Activities	Total
Accounts receivable	\$ 255,426	\$ 3,196,212	\$ 3,451,638
Allowance for doubtful accounts	(6,509)	(18,129)	(24,638)
Net accounts receivable	\$ 248,917	\$ 3,178,083	\$ 3,427,000

3.D. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015, was as follows:

	Balance at July 1, 2014	Additions	Disposals	Balance at June 30, 2015
Governmental Activities:				
Land	\$ 1,104,050	\$ 1,000	\$ -	\$ 1,105,050
Buildings & Improvements	3,487,075	-	(21,522)	3,465,553
Machinery & Equipment	2,414,837	72,665	(39,147)	2,448,355
Infrastructure	3,619,526	-	-	3,619,526
Construction in Process	1,372	-	-	1,372
Totals at Historical Cost	\$ 10,626,860	\$ 73,665	\$ (60,669)	\$ 10,639,856
Less: Accumulated Depreciation				
Buildings & Improvements	\$ 759,883	\$ 111,252	\$ (2,152)	\$ 868,983
Machinery & Equipment	1,684,579	143,033	(36,842)	1,790,770
Infrastructure	1,868,537	131,468	-	2,000,005
Total Accumulated Depreciation	\$ 4,312,999	\$ 385,753	\$ (38,994)	\$ 4,659,758
Governmental Activities - Capital Assets, Net	\$ 6,313,861	\$ (312,088)	\$ (21,675)	\$ 5,980,098

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

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

3.D. CAPITAL ASSETS (Continued)

Depreciation Expense was charged to governmental activities as follows:

General Government	\$ 15,861
Public Safety	
Fire Department	66,436
Police Department	41,723
Public Works	30,708
Parks & Recreation	99,557
Infrastructure (Included with Public Works)	131,468
Total Depreciation Expense	<u>\$ 385,753</u>

\$1,727,019 of assets have been recorded under capital leases associated with the RV Recreational Park. Accumulated depreciation of \$248,085 is associated with these assets.

Land and Construction in process are assets which are not depreciated. \$1,729,343 of depreciable assets are fully depreciated.

	Balance at July 1, 2014	Additions	Disposals	Balance at June 30, 2015
<u>Business-type Activities:</u>				
Land & Right of Ways	\$ 643,278	\$ 70,000	\$ -	\$ 713,278
Structures & Improvements	7,733,728	301,712	-	8,035,440
Distribution System	45,298,112	787,227	(14,000)	46,071,339
Wells	400,333	-	-	400,333
Plant, Machinery & Equipment	10,338,732	176,254	-	10,514,986
Construction in Process	196,818	1,235,363	(340,828)	1,091,353
Totals at Historical Cost	<u>\$ 64,611,001</u>	<u>\$ 2,570,556</u>	<u>\$ (354,828)</u>	<u>\$ 66,826,729</u>
Less: Accumulated Depreciation				
Structures & Improvements	\$ 2,720,115	\$ 233,061	\$ -	\$ 2,953,176
Distribution System	15,505,066	1,070,214	(14,000)	16,561,280
Wells	282,625	18,423	-	301,048
Plant, Machinery & Equipment	7,453,142	431,827	-	7,884,969
Total Accumulated Depreciation	<u>\$ 25,960,948</u>	<u>\$ 1,753,525</u>	<u>\$ (14,000)</u>	<u>\$ 27,700,473</u>
Business-type Activities Capital Assets, Net	<u>\$ 38,650,053</u>	<u>\$ 817,031</u>	<u>\$ (340,828)</u>	<u>\$ 39,126,256</u>

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

Gas	\$ 578,237
Water	200,171
Sewer	975,117
Total Depreciation Expense	<u>\$ 1,753,525</u>

\$3,823,481 of assets have been recorded under capital leases associated with the Gas Distribution System. Accumulated depreciation of \$1,769,547 is associated with these assets. The final payment on the lease was made during the fiscal year.

Land, right of ways, and construction in process are capital assets not being depreciated. \$10,805,344 of depreciable assets are fully depreciated.

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2015

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

3.E. LONG-TERM DEBT

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

Governmental Activities:

Capital Lease Obligations:

RV Recreation Park - \$1,500,000 fixed rate lease agreement assigned to PNC Equipment Finance, LLC by the Kentucky League of Cities Funding Trust dated June, 2011. Terms are: 5 years; interest charged at 3.692%, secured by revenue of the City. Monthly payments are \$27,417, with final maturity June 16, 2016.

Current Portion	\$	322,515
Noncurrent Portion		-
Total Capital Lease Obligations	\$	322,515

Accrued Compensated Absences:

Current Portion	\$	14,697
Noncurrent Portion		8,626
Total Accrued Compensated Absences	\$	23,323

Business-type Activities:

As of June 30, 2015, 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. \$ 70,066

Kentucky Infrastructure Authority represents a 20 year loan secured by sewer revenues. Interest is charged at the rate of 1.8%. The original principal balance was \$2,518,301. Semi-annual payments with final maturity December 1, 2022. 1,051,438

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. 2,593,263

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. 768,551

Kentucky Infrastructure Authority represents a 30 year loan secured by sewer revenues. Interest is charged at 1.00% per annum. In addition, a loan servicing fee of .25 percent of the annual outstanding loan balance will be payable to the authority as a part of each interest payment. The original principal balance was \$1,977,731. The note was reduced by principal forgiveness of \$692,206. Semi-annual payments with final maturity December 1, 2044. 1,267,100

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2015

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

3.E. LONG-TERM DEBT (Continued)

Business-type Activities: (Continued)

Kentucky Infrastructure Authority represents a 30 year loan secured by sewer 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, 2015 were \$446,842. The note has been reduced by 25% principal forgiveness of \$111,711. This loan has not been closed and an amortization schedule is not presented.

	\$ 335,131
Total Notes Payable	\$ 6,085,549
Current Portion	\$ 426,944
Noncurrent Portion	5,658,605
Total Notes Payable	\$ 6,085,549

Accrued Compensated Absences:

Current Portion	\$ 4,495
Noncurrent Portion	13,304
Total	\$ 17,799

Changes in Long-term Debt

The following is a summary of changes in long-term debt for the fiscal year ended June 30, 2015:

<u>Type of Debt</u>	<u>Balance</u> <u>July 1, 2014</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2015</u>	<u>Current</u> <u>Portion</u>
Governmental Activities					
Capital Lease Obligations	\$ 633,358	\$ -	\$ 310,843	\$ 322,515	\$ 322,515
Accrued Compensated Absences	20,149	45,793	42,619	23,323	14,697
Total General Long-term Debt	\$ 653,507	\$ 45,793	\$ 353,462	\$ 345,838	\$ 337,212
Business-type Activities					
Notes Payable	\$ 6,153,705	\$ -	\$ 403,287	\$ 5,750,418	\$ 426,944
Note Payable - Not closed at Year-End	-	446,842	111,711	335,131	-
Capital Lease Obligations	66,324	-	66,324	-	-
Accrued Compensated Absences	24,210	5,525	11,936	17,799	4,495
Total Enterprise Fund Debt	\$ 6,244,239	\$ 452,367	\$ 593,258	\$ 6,103,348	\$ 431,439

Description of Debt Activity:

Governmental Activities

Capital Lease Obligation – Kentucky League of Cities

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

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2015

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

3.E. LONG-TERM DEBT (Continued)

Description of Debt Activity: (Continued)

Governmental Activities (Continued)

Capital Lease Obligation – Kentucky League of Cities (Continued)

Assuming the lease is not liquidated prior to maturity, the annual minimum obligation of the lease at June 30, 2015, is as follows:

<u>Fiscal Year</u>	<u>Principal Payment</u>	<u>Interest Payment</u>	<u>Total Payment</u>	<u>Balance at End of Year</u>
2015-16	\$ 322,515	\$ 6,486	\$ 329,001	\$ -

Business-type Activities

Capital Lease Obligation - Kentucky League of Cities

On October 4, 2004, the City of Carrollton, Kentucky entered into a \$1,300,000 lease agreement with the Kentucky League of Cities Funding Trust. The proceeds of the lease were used to fund an expansion of natural gas lines along U.S. Highway 42. The lease was made with proceeds from the \$50,000,000 Kentucky League of Cities Funding Trust Lease Program Revenue Bonds, variable rate 2004 Series A, issued by the City of Morehead, Kentucky.

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

The final payment on the lease was made during the fiscal year.

Notes Payable to Kentucky Infrastructure Authority

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

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

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

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

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2015

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

3.E. LONG-TERM DEBT (Continued)

Description of Debt Activity: (Continued)

Business-type Activities (Continued)

Notes Payable to Kentucky Infrastructure Authority (Continued)

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

A sixth loan with Kentucky Infrastructure Authority had not been closed as of June 30, 2015. The loan provided financing for the Carroll County Interconnect Project to provide interconnections between Carrollton Utilities, Carroll County Water District, and West Carroll Water District. Total loans draws through June 30, 2015 were \$446,843. 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 \$2,474 less the District's share of principal forgiveness of \$618. An interlocal receivable from the Carroll County Water District was recorded in the amount of \$61,217 less loan forgiveness of \$15,305. Principal forgiveness for Carrollton Utilities has been recognized in the amount of \$208,372, including additional principal forgiveness of \$112,583 recorded based on costs incurred for which loan draws had not been received. An amortization schedule has not been presented as additional draws were taken in fiscal year 2016.

The combined obligations of the outstanding notes at June 30, 2015 are as follows:

Fiscal Year	Principal Payment	Interest Payment	Servicing Fee	Total Payment	Balance at End of Year
					\$ 5,750,418
2015-16	\$ 426,944	\$ 65,534	\$ 11,917	\$ 504,395	5,323,474
2016-17	432,338	60,140	11,042	503,520	4,891,136
2017-18	437,808	54,671	10,156	502,635	4,453,328
2018-19	443,352	49,127	9,258	501,737	4,009,976
2019-20	448,972	43,506	8,350	500,828	3,561,004
2020-24	1,948,837	137,316	28,470	2,114,623	1,612,167
2024-29	814,770	57,666	13,196	885,632	797,397
2029-34	347,998	30,663	7,522	386,183	449,399
2034-39	231,213	17,315	4,329	252,857	218,186
2039-44	218,186	5,491	1,373	225,050	-
	<u>\$ 5,750,418</u>	<u>\$ 521,429</u>	<u>\$ 105,613</u>	<u>\$ 6,377,460</u>	<u>\$ -</u>

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2015

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

3.E. LONG-TERM DEBT (Continued)

Description of Debt Activity: (Continued)

Business-type Activities (Continued)

Annual Debt Service Requirements

The annual debt service requirements to maturity, including principal, interest, fiscal charges and servicing fees for long-term debt as of June 30, 2015 are as follows:

Fiscal Year	Governmental Activities		Business-type Activities	
	Principal	Interest & Fiscal Charges	Principal	Interest & Fiscal Charges
2015-16	\$ 322,515	\$ 6,486	\$ 426,944	\$ 77,451
2016-17	-	-	432,338	71,182
2017-18	-	-	437,808	64,827
2018-19	-	-	443,352	58,385
2019-20	-	-	448,972	51,856
2020-24	-	-	1,948,837	165,786
2024-29	-	-	814,770	70,862
2029-34	-	-	347,998	38,185
2034-39	-	-	231,213	21,644
2039-44	-	-	218,186	6,864
Total	\$ 322,515	\$ 6,486	\$ 5,750,418	\$ 627,042

3.F. INTEREST EXPENSE AND FISCAL CHARGES

Interest expense and fiscal charges for the Governmental Funds was \$17,713. Interest expense and fiscal charges for the Enterprise Fund for the year ended June 30, 2015, was \$81,474. No interest was capitalized during the year ended June 30, 2015.

3.G. INTERFUND TRANSACTIONS AND BALANCES

Interfund balances reported in the financial statements at June 30, 2015, consisted of the following individual fund receivables and payables:

Receivable Fund	Payable Fund	Amount	Purpose
General Fund	Enterprise Fund	\$ 858,650	Sanitation Receipt Reimbursements/ PEAK Returns
Total		\$ 858,650	

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	Amount
Other Purposes:		
Municipal Road Aid	State Law	\$ 14,909
L.G.E.A.F.	State Law	17,149
		\$ 32,058

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2015

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

3.H. FUND EQUITY (Continued)

Business-type Activities

Restricted for Debt Service:

Kentucky Infrastructure Authority (KIA) Notes Payable	\$ 529,257
Cash & Investments	322
Add: Accrued Interest Receivable	(6,687)
Less: Accrued Interest Payable	(6,687)
Total KIA Notes Payable	\$ 522,892

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	\$ 14,909
L.G.E.A. F.	17,149
	\$ 32,058

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

General Fund:

Grant Matching Funds	\$ 93,275
Land Acquisition	34,000
	\$ 127,275

Other Governmental Funds:

Community Development Projects (EIP)	\$ 29,737
Total Committed	\$ 157,012

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

Other Governmental Funds:

Shop with a Cop	\$ 18,383
Riverwalk Development	4,887
Total Assigned	\$ 23,270

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2015

NOTE 4. OTHER NOTES

4.A. PENSION PLAN

GASB Statement 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27*, and GASB Statement 71 – *Pension Transition for Contributions made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68* became effective for periods beginning after June 15, 2014. Under these statements governments are required to report the net pension liability associated with its employees' pensions as a liability in their accrual-based financial statements. The underlying data necessary for some supplemental information and other disclosures is unavailable, but will be included in future reports as it becomes available.

The City of Carrollton participates in the Commonwealth of Kentucky's County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute Section 61.645, the CERS pension fund is administered by the Board of Trustees of the Kentucky Retirement System, which also includes the Kentucky Employees Retirement System (KERS) and State Police Retirement System (SPRS). Although the assets of the systems are invested as a whole, each system's assets are used only for the payment of benefits to the members of that plan, and a pro rata share of administrative costs, in accordance with the provisions of Kentucky Revised Statute Sections 16.555, 61.570, and 78.630. Kentucky Retirement System issues a publicly available financial report that can be obtained at <https://kyret.ky.gov/Publications/Issued%20Financial%20Statements-20141.pdf>. The most recent financial report on CERS is included in the Kentucky Retirement System's annual report, dated June 30, 2014. Participation in the retirement system was authorized by the City Commission as of July 1, 1988.

Non-Hazardous Employees Pension Plan

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in non-hazardous duty positions of each participating county, city and school board, and any additional eligible local agencies electing to participate in CERS.

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

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

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

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

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

NOTE 4. OTHER NOTES

4.A. PENSION PLAN (Continued)

Non-Hazardous Employees Pension Plan (Continued)

Cost of living adjustments are provided at the discretion of the General Assembly. 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 years ended June 30, 2014 and 2013, 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 years ended June 30, 2014 and 2013, participating employers contributed 18.89% and 19.55%, respectively, of each employer's creditable compensation. The actuarially determined rates set by the Board for the fiscal years ended June 30, 2014 and 2013, were 18.89% and 19.55%, respectively. Administrative costs of KRS are financed through employer contributions and investment earnings.

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

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Non-hazardous members contribute 5% of their annual creditable compensation and 1% to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

NOTE 4. OTHER NOTES

4.A. PENSION PLAN (Continued)

Actuarial Methods and Assumptions

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2014
Experience Study	July 1, 2005 – June 30, 2008
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	30 Years
Asset Valuation Method	5-year smoothed market
Inflation	3.5%
Salary Increase	4.5%, average, including inflation
Investment Rate of Return	7.75%, net of pension plan investment expense, including inflation

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

At June 30, 2015, the City reported a liability of \$3,608,000 (Government Activities \$1,629,000 and Business-type Activities \$1,979,000) for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2014, the City's proportion was .011208 percent. Data is not available for the change in its proportion from previous periods.

For the year ended June 30, 2015, the City's General Fund's total payroll for the fiscal year ended June 30, 2015 was \$1,257,726. Contributions were based on \$1,229,141 (eligible gross wages). The total pension contributions for the year ended June 30, 2015 were \$207,454 and \$66,641 for the employer and employees, respectively.

The City's Proprietary Fund's total payroll for the year ended June 30, 2015 was \$1,583,123. Contributions were based on \$1,448,861 (eligible gross wages). The total pension contributions for the year ended June 30, 2015 were \$256,014 and \$78,186 for the employer and employees, respectively.

The City's General Fund total payroll for the fiscal year ended June 30, 2014, was \$1,296,878. Contributions were based on \$1,080,879 (eligible gross wages). The total pension contributions for the year ended June 30, 2014, were \$217,583 and \$61,808 for the employer and employees, respectively.

The City's Proprietary Fund total payroll for the fiscal year ended June 30, 2014, was \$1,549,136. Contributions were based on \$1,309,423 (eligible gross wages). The total pension contributions for the fiscal year ended June 30, 2014, were \$264,374 and \$74,721 for the employer and employees, respectively.

All contributions were made as required during these years.

The City's contribution for the year ended June 30, 2014, (general and proprietary fund combined) was .111214 percent of the System's total contribution requirements, (non-hazardous).

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

NOTE 4. OTHER NOTES (Continued)

4.A. PENSION PLAN (Continued)

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

For the year ended June 30, 2014, the City recognized pension expense of \$288,000, \$130,000 attributed to the General Fund, and \$158,000 attributed to the Proprietary Fund. At June 30, 2015 the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Governmental Funds		Proprietary Fund	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments.	\$ -	\$ 182,000	\$ -	\$ 221,000
City contributions subsequent to the measurement date	207,454	-	256,014	-
Total	\$ 207,454	\$ 182,000	\$ 256,014	\$ 221,000

\$463,468 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred inflows of resources related to pensions will be amortized over five years and recognized in pension expense as follows:

Year ended June 30,

2016	\$80,600
2017	80,600
2018	80,600
2019	80,600
2020	80,600

4.B. RISK MANAGEMENT

Insurance and Related Activities

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

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

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

NOTE 4. OTHER NOTES (Continued)

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, 2015 was \$571,056. No accrual has been recorded in the financial statements due to the contingent nature of this liability.

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

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

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, 2015, Carrollton Utilities has an unpaid and accrued storage liability estimated to be \$269,246.

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

Ownership of the wastewater system remains with Prestonville. Under the agreement, Carrollton Utilities bills Prestonville customers the sanitary sewer service rate currently in effect for Carrollton customers plus an amount (Debt Service Surcharge – PDSS) designated by Prestonville to pay the debts incurred in construction. Carrollton Utilities forwards the PDSS billed to Prestonville. This debt service surcharge ended August 2014.

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 \$250,503 for the 2014-2015 fiscal year.

Carrollton Utilities is currently disputing long distance telephone charges with their provider due to a change in their long distance telephone plan. Carrollton Utilities contends that they do not owe for charges and are working with their provider to mitigate these charges. At June 30, 2015, these charges with proposed penalty and interest, amounted to \$29,025. No accrual has been recorded for this liability.

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

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

NOTE 4. OTHER NOTES (Continued)

4.C. COMMITMENTS & CONTINGENCIES (Continued)

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 audited financial statements for the year ended June 30, 2014, are as follows:

Assets and Deferred Outflows	\$ 335,814,855
Liabilities and Deferred Inflows	331,285,261
Total Net Position	4,529,594
Costs Recoverable from Future Billings	(22,884,058)

- * 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.

Carroll County Interconnect Project

The City continues to work on the Carroll County Interconnect Project. This is a regional and joint project with Carrollton Utilities, West Carroll Water District and Carroll County Water District #1 that will provide interconnection and infrastructure additions to all three entities. Total projected costs for the project are \$1,757,706. At June 30, 2015, \$976,000 had been expended. The project is expected to be complete during 2015-2016.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

NOTE 4. OTHER NOTES (Continued)

4.C. COMMITMENTS & CONTINGENCIES (Continued)

Focusing on Core Mission and Infrastructure Project

The City was approved for a Kentucky Infrastructure Authority Loan in the amount of \$963,931 at 1.00% interest with 50% principal forgiveness. The proceeds from this loan will be used to fund the Focusing on Core Mission and Infrastructure Project. This project will focus on preventative measures and the replacement of obsolete equipment for Carrollton Utilities in association with Henry County Water District, Carroll County Water District, and West Carroll Water District. Design began on this project in the 2014-15 fiscal year. Construction is expected to be complete in 2016.

Carrollton Utilities has several smaller projects that the Utilities plans to complete during 2015 – 2016 fiscal year.

4.D. MISCELLANEOUS

Bad Debt Expense

Utility revenue charges have been netted with an estimated bad debt expense of \$3,019, \$818, and \$21,377 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 98.6% 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). \$39,137,764 of the \$39,622,115 gas cost of goods sold are for natural gas purchases, excluding related transportation costs. Additionally, 42.2% of the City's General Fund revenues are attributable to gas prepurchase agreements with PEAK.

Related Party Transactions

For the year ended June 30, 2015, the City received \$32,553 from the Carrollton Housing Authority as payments in lieu of tax.

Carrollton Utilities Natural Gas Hedge Policy

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

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

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2015

NOTE 4. OTHER NOTES (Continued)

4.D. MISCELLANEOUS (Continued)

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, 2015, is presented as follows:

CONDENSED STATEMENT OF NET POSITION

	Gas	Water	Sewer	Total
Assets:				
Current Assets	\$ 12,142,956	\$ (951,682)	\$ (232,365)	\$ 10,958,909
Other Noncurrent Assets	71,088	1,127,390	527,649	1,726,127
Capital Assets (Net)	11,331,446	4,185,237	23,609,573	39,126,256
Total Assets	\$ 23,545,490	\$ 4,360,945	\$ 23,904,857	\$ 51,811,292
Deferred Outflows	\$ 106,472	\$ 61,335	\$ 88,207	\$ 256,014
Liabilities:				
Due to Other Funds	\$ 832,363	\$ 26,287	\$ -	\$ 858,650
Other Current Liabilities	3,094,910	357,394	471,277	3,923,581
Noncurrent Liabilities	906,616	2,233,164	4,664,515	7,804,295
Total Liabilities	\$ 4,833,889	\$ 2,616,845	\$ 5,135,792	\$ 12,586,526
Deferred Inflows	\$ 91,914	\$ 71,869	\$ 57,217	\$ 221,000
Net Position:				
Net Investment in Capital Assets	\$ 11,331,446	\$ 3,051,957	\$ 19,126,255	\$ 33,509,658
Restricted	-	58,577	464,315	522,892
Unrestricted	7,394,713	(1,376,968)	(790,515)	5,227,230
Total Net Position	\$ 18,726,159	\$ 1,733,566	\$ 18,800,055	\$ 39,259,780

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

	Gas	Water	Sewer	Total
Operating Revenues	\$ 42,112,944	\$ 1,326,458	\$ 2,026,426	\$ 45,465,828
Depreciation Expense	(578,238)	(200,171)	(975,117)	(1,753,526)
Other Operating Expenses	(40,983,149)	(1,119,680)	(1,059,869)	(43,162,698)
Net Operating Income (Loss)	\$ 551,557	\$ 6,607	\$ (8,560)	\$ 549,604
Nonoperating Revenues (Expenses):				
Interest Income	6,006	3,468	1,725	11,199
Interest & Fiscal Charges	(807)	(13,689)	(66,978)	(81,474)
Gain (Loss) on Sale of Assets	1,811	3,859	4,500	10,170
Capital Contributions	-	208,371	-	208,371
Change in Net Position	\$ 558,567	\$ 208,616	\$ (69,313)	\$ 697,870
Beginning Net Position (As Restated)	18,167,592	1,524,950	18,869,368	38,561,910
Ending Net Position	\$ 18,726,159	\$ 1,733,566	\$ 18,800,055	\$ 39,259,780

CONDENSED STATEMENT OF CASH FLOWS

	Gas	Water	Sewer	Total
Net Cash Provided (Used) by:				
Operating Activities	\$ 1,106,804	\$ 318,081	\$ 903,972	\$ 2,328,857
Noncapital Financing Activities	-	63,102	-	63,102
Capital and Related Financing Activities	(1,148,986)	(369,979)	(720,756)	(2,239,721)
Investing Activities	(277)	(32,459)	426	(32,310)
Net Increase (Decrease)	\$ (42,459)	\$ (21,255)	\$ 183,642	\$ 119,928
Beginning Cash and Cash Equivalents	7,612,402	(732,593)	(537,266)	6,342,543
Ending Cash and Cash Equivalents	\$ 7,569,943	\$ (753,848)	\$ (353,624)	\$ 6,462,471

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2015

NOTE 4. OTHER NOTES (Continued)

4.E. FINANCIAL STATEMENTS RESTATEMENT

In June, 2012, the GASB issued Statement 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27*. In November, 2013, the GASB issued Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB No. 68*. Both of these statements were adopted by the City for the fiscal year ended June 30, 2015. Under these statements, the City is required to report in its accrual based financial statement(s), the net pension liability associated with its' employees' pensions as a liability. It is also required to report a deferred outflow of resources for its pension contributions made subsequent to the measurement date of the beginning net pension liability.

These balances reflect the government's obligation to pay deferred benefits earned by its employees when the pension [plan's] liability exceeds the value of the pension plan's assets.

Retroactive application by restating financial statements for all periods presented is required. The effect of the reinstatement is as follows for the year ended June 30, 2014.

Statement of Net Position:

	Governmental Activities	Business-Type Activities
Total Net Position as Originally Presented June 30, 2014	\$ 8,057,294	\$ 40,603,910
Less Net Pension Liability	(1,898,583)	(2,306,385)
Plus Deferred Outflows Employer Pension Contributions	217,583	264,385
Total Net Position as Restated, June 30, 2014	\$ 6,376,294	\$ 38,561,910

The components of Net Position at June 30, 2014
 after restatement are as follows:

	Governmental Activities	Business-Type Activities
Net Investment in Capital Assets	\$ 5,680,503	\$ 32,910,806
Restricted for Debt Service	-	425,461
Restricted for Other Purposes	136,452	-
Unrestricted	559,339	5,225,643
Total Net Position	\$ 6,376,294	\$ 38,561,910

CITY OF CARROLLTON, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 For the Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 957,772	\$ 1,036,441	\$ 1,043,595	\$ 7,154
ESTIMATED REVENUES				
Payments in Lieu of Taxes	\$ 32,000	\$ 32,554	\$ 32,553	\$ (1)
Ad Valorem Taxes	422,715	451,550	456,540	4,990
Franchise Fees	110,000	110,000	222,427	112,427
Garbage Collection	358,000	362,370	360,227	(2,143)
Bank Franchise Deposit Tax	24,000	26,982	26,982	-
Business Licenses	103,000	98,000	94,489	(3,511)
Insurance Licenses	450,000	460,000	498,850	38,850
Building Permits	1,000	1,550	2,298	748
Penalty & Interest	7,500	7,500	9,100	1,600
Interest Revenue	1,335	1,697	(593)	(2,290)
PEAK Annual Return	1,440,000	1,492,020	1,497,472	5,452
Two Rivers Campground Receipts	60,000	60,000	51,702	(8,298)
Other Revenue	15,407	6,218	15,148	8,930
Proceeds from Outside Sources:				
Carroll County Tourism	15,000	-	-	-
HB413/Citations	10,000	10,000	9,793	(207)
CC Fiscal Court - Public Safety Salaries	221,493	224,118	222,097	(2,021)
Police & Firefighter's Incentive Pay	34,100	30,294	29,622	(672)
State Fire Aid	8,250	8,250	8,250	-
U.S. Department of Homeland Security (FEMA) Grant	-	5,147	-	(5,147)
U.S. Department of Transportation - Recreational Trails Grant Program	25,000	43,400	12,653	(30,747)
Transfers from other funds	855,000	1,303,000	-	(1,303,000)
Insurance Recoveries	-	-	20,681	20,681
Total Estimated Revenues	\$ 4,193,800	\$ 4,734,650	\$ 3,570,291	\$ (1,164,359)
Total Resources Available for Appropriation	\$ 5,151,572	\$ 5,771,091	\$ 4,613,886	\$ (1,157,205)
APPROPRIATIONS				
Administrative	\$ 946,372	\$ 1,326,685	\$ 916,368	\$ 410,317
Public Safety				
Fire Department	162,442	149,162	146,160	3,002
Police Department	1,234,214	1,109,333	1,100,588	8,745
Public Works	550,040	497,575	591,804	(94,229)
Parks and Recreation	51,709	43,845	37,743	6,102
Capital Outlay	106,854	181,650	73,665	107,985
Transfers to other funds	900,000	1,027,798	-	1,027,798
Debt Retirement	329,002	329,002	329,002	-
Total Appropriations	\$ 4,280,633	\$ 4,665,050	\$ 3,195,330	\$ 1,469,720
Excess of Resources and Revenues Over (Under) Appropriations	\$ 870,939	\$ 1,106,041	\$ 1,418,556	\$ 312,515
Estimated Fund Balances at June 30, 2015	\$ 870,939	\$ 1,106,041	\$ 1,418,556	\$ 312,515

CITY OF CARROLLTON, KENTUCKY
 NOTES TO BUDGETARY COMPARISON SCHEDULE
 June 30, 2015

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 during the year and by ordinance at year end.

Budget to Actual Reconciliation

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

	General Fund
Sources/inflows of resources:	
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 4,613,886
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	(1,043,595)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	\$ 3,570,291
Uses/outflows of resources:	
Actual amounts (budgetary basis) "total appropriations" from the budgetary comparison schedule	\$ 3,195,330
Differences - budget to GAAP:	
None	-
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	\$ 3,195,330

CITY OF CARROLLTON, KENTUCKY

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

June 30, 2015*

City's proportion of the net pension liability (asset)	0.1112%
City's proportionate share of the net pension liability (asset)	\$3,608,000
City's covered-employee payroll	\$2,390,302
City's proportionate share of the net pension liability (asset) as a percentage of its of its covered- employee payroll	150.94%
Plan fiduciary net position as a percentage of the total pension liability	62.60%

*Calculations based on June 30, 2014, County Employees Retirement Systems' Schedules of Employer Allocations and Pension Amounts by Employer and fiscal year 2014 City Payroll.

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.

CITY OF CARROLLTON, KENTUCKY
 SCHEDULE OF THE CITY'S CONTRIBUTIONS
 County Employees Retirement System
 Last Ten (10) Fiscal Years Ended June 30

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Contractually required contributions	\$ 463,468	\$ 475,408	\$ 469,528	\$ 452,627	\$ 382,538	\$ 358,372	\$ 291,986	\$ 334,209	\$ 255,140	\$ 209,416
Contributions in relation to the contractually required contributions	463,468	475,408	469,528	452,627	382,538	358,372	291,986	334,209	255,140	209,416
Contribution deficiency (excess)	<u>\$ -</u>									
City's covered-employee payroll	\$ 2,678,002	\$ 2,390,302	\$ 2,496,449	\$ 2,384,753	\$ 2,260,477	\$ 2,217,653	\$ 2,162,858	\$ 2,066,862	\$ 1,934,350	\$ 1,907,250
Contributions as a percentage of covered-employee payroll	17.31%	19.89%	18.81%	18.98%	16.92%	16.16%	13.50%	16.17%	13.19%	10.98%

CITY OF CARROLLTON, KENTUCKY
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2015

	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	\$ 4,409	\$ 16,042	\$ 29,737	\$ 18,383	\$ 4,887	\$ 73,458
Due from Other Governments	10,500	1,107	-	-	-	11,607
Total Assets	<u>\$ 14,909</u>	<u>\$ 17,149</u>	<u>\$ 29,737</u>	<u>\$ 18,383</u>	<u>\$ 4,887</u>	<u>\$ 85,065</u>
LIABILITIES						
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
FUND BALANCES						
Restricted	\$ 14,909	\$ 17,149	\$ -	\$ -	\$ -	\$ 32,058
Committed	-	-	29,737	-	-	29,737
Assigned	-	-	-	18,383	4,887	23,270
Total Fund Balances	<u>\$ 14,909</u>	<u>\$ 17,149</u>	<u>\$ 29,737</u>	<u>\$ 18,383</u>	<u>\$ 4,887</u>	<u>\$ 85,065</u>
Total Liabilities and Fund Balances	<u>\$ 14,909</u>	<u>\$ 17,149</u>	<u>\$ 29,737</u>	<u>\$ 18,383</u>	<u>\$ 4,887</u>	<u>\$ 85,065</u>

CITY OF CARROLLTON, KENTUCKY
 COMBINING STATEMENT OF REVENUES,
 EXPENDITURES, AND CHANGES IN FUND BALANCES -
 NONMAJOR GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2015

	Special Revenue Funds					Total Nonmajor Governmental Funds
	Municipal Road Aid	L.G.E.A.F. Program	Enterprise Improvement Program	Shop With A Cop	Riverwalk Development Fund	
REVENUES						
Ad Valorem Taxes	\$ -	\$ -	\$ 10,300	\$ -	\$ -	\$ 10,300
Kentucky Municipal Road Aid	90,525	-	-	-	-	90,525
Local Government Economic Assistance	-	7,709	-	-	-	7,709
Donations	-	-	-	8,224	2,694	10,918
Interest / Investment Revenue	194	18	16	35	-	263
Total Revenues	\$ 90,719	\$ 7,727	\$ 10,316	\$ 8,259	\$ 2,694	\$ 119,715
EXPENDITURES						
Current:						
Administrative	\$ -	\$ -	\$ 22,961	\$ -	\$ -	\$ 22,961
Public Works	202,840	-	-	-	-	202,840
Community Service	-	-	-	16,236	-	16,236
Parks and Recreation	-	-	-	-	3,637	3,637
Total Expenditures	\$ 202,840	\$ -	\$ 22,961	\$ 16,236	\$ 3,637	\$ 245,674
Excess of Revenues Over (Under) Expenditures	\$ (112,121)	\$ 7,727	\$ (12,645)	\$ (7,977)	\$ (943)	\$ (125,959)
Fund Balances - July 1	127,030	9,422	42,382	26,360	5,830	211,024
Fund Balances - June 30	\$ 14,909	\$ 17,149	\$ 29,737	\$ 18,383	\$ 4,887	\$ 85,065

CITY OF CARROLLTON, KENTUCKY
SCHEDULE OF DEPARTMENTAL OPERATING REVENUES AND EXPENSES
ENTERPRISE FUND
(CARROLLTON UTILITIES)
For the Year Ended June 30, 2015

	Departments			Contractual Services	Total
	Gas	Water	Sewer		
Operating Revenues:					
Charges for Services:					
Utility Charges (Net of Bad Debt Expense)	\$ 42,036,193	\$ 1,067,851	\$ 1,820,583	\$ -	\$ 44,924,627
Connection Fees & Service Charges	27,615	7,132	205,315	-	240,062
Contractual Services	-	-	-	250,503	250,503
Total Charges for Services	\$ 42,063,808	\$ 1,074,983	\$ 2,025,898	\$ 250,503	\$ 45,415,192
Miscellaneous Revenues	49,136	971	528	-	50,635
Total Operating Revenues	\$ 42,112,944	\$ 1,075,954	\$ 2,026,426	\$ 250,503	\$ 45,465,827
Operating Expenses:					
Cost of Goods Sold	\$ 39,622,113	\$ -	\$ -	\$ -	\$ 39,622,113
Operation & Maintenance	450,921	540,144	618,306	97,667	1,707,038
General & Administrative	910,114	389,304	441,562	92,566	1,833,546
Depreciation	578,237	200,171	975,118	-	1,753,526
Total Operating Expenses	\$ 41,561,385	\$ 1,129,619	\$ 2,034,986	\$ 190,233	\$ 44,916,223
Net Operating Income (Loss)	\$ 551,559	\$ (53,665)	\$ (8,560)	\$ 60,270	\$ 549,604

CITY OF CARROLLTON, KENTUCKY
SCHEDULE OF OPERATION & MAINTENANCE, GENERAL &
ADMINISTRATIVE EXPENSES BY DEPARTMENT
ENTERPRISE FUND
(CARROLLTON UTILITIES)
For the Year Ended June 30, 2015

	Departments				Total
	Gas	Water	Sewer	Contractual Services	
OPERATION & MAINTENANCE					
Customer Service	\$ 77,483	\$ 53,122	\$ 800	\$ -	\$ 131,405
Mains	138,977	35,946	68,410	57,820	301,153
Transportation	37,664	22,160	35,556	27,905	123,285
Plant and Equipment	186,295	247,786	396,294	7,238	837,613
Chemicals	-	114,158	54,843	4,705	173,706
Electric, Light and Power	10,502	66,970	62,404	-	139,876
Total	\$ 450,921	\$ 540,142	\$ 618,307	\$ 97,668	\$ 1,707,038
GENERAL & ADMINISTRATIVE EXPENSES					
Office Salaries	\$ 214,010	\$ 57,972	\$ 103,246	\$ 21,608	\$ 396,836
Employee Benefits	292,533	177,512	192,038	60,317	722,400
Payroll Taxes	51,934	28,916	29,336	9,016	119,202
Commissioner Fees	3,269	3,245	3,245	-	9,759
Office Expenses	49,696	48,177	47,487	-	145,360
Professional and Outside Services	96,116	21,665	19,532	-	137,313
Insurance	123,503	13,283	13,283	-	150,069
Other	79,052	38,534	33,396	1,625	152,607
Total	\$ 910,113	\$ 389,304	\$ 441,563	\$ 92,566	\$ 1,833,546

RAISOR, ZAPP & WOODS, PSC

Certified Public Accountants

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Carrollton, Kentucky as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Carrollton, Kentucky's basic financial statements and have issued our report thereon dated January 7, 2016.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies (Items 2015-001 and 2015-002).

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

COMPLIANCE AND OTHER MATTERS

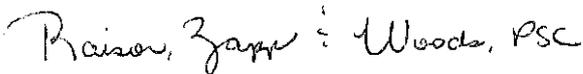
As part of obtaining reasonable assurance about whether the City of Carrollton, Kentucky's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have 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
Certified Public Accountants
Carrollton, Kentucky

January 7, 2016

CITY OF CARROLLTON, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended June 30, 2015

A. SUMMARY OF AUDITOR'S RESULTS:

1. The auditor's report expresses an unmodified opinion on the financial statements of the City of Carrollton, Kentucky.
2. Two deficiencies in internal control disclosed during the audit of the financial statements are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. Items 2015-001 and 2015-002 are reported as significant deficiencies.
3. No instances of noncompliance material to the financial statements of City of Carrollton, Kentucky, that would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

DEFICIENCIES IN INTERNAL CONTROL

GOVERNMENT AUDITING STANDARDS

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

CONDITION:

Due to the size of the entity, cross-training and checking procedures are not in place for certain administrative positions and reconciliation procedures. Review and reconciliation procedures were not implemented for all revenue sources included in the Governmental Funds. Reports were not produced and reconciled to the general ledger in a timely manner. These conditions limit internal control. This condition was cited in the schedule of findings and questioned costs for the year ended June 30, 2014 as a significant deficiency as Item 2014-001.

CRITERIA:

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

CAUSE:

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

EFFECT:

This limitation may affect the ability to timely record, process, summarize and report financial data. Depreciation subsidiary ledgers for prior years' asset purchases are not detailed for personnel to determine that all assets listed are still in service or to remove sold items properly. Miscellaneous accounts receivable were not billed and collected timely.

RECOMMENDATION:

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

CITY OF CARROLLTON, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
For the Fiscal Year Ended June 30, 2015

B. FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)

DEFICIENCIES IN INTERNAL CONTROL (CONTINUED)

GOVERNMENT AUDITING STANDARDS (CONTINUED)

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

RESPONSE:

Efforts have continued to cross-train employees and implement additional checking procedures. Personnel are working to identify and establish routine reporting and reconciliation procedures. We will continue our efforts to improve our review processes.

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

CONDITION:

City financial statements, including the required disclosures are prepared as part of the annual audit. This condition was also cited as a significant deficiency in the schedule of findings and questioned costs for the year ended June 30, 2014 as Item 2014-002.

CRITERIA:

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

CAUSE:

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

EFFECT:

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

RECOMMENDATION:

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

RESPONSE:

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

COMPLIANCE

None