

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

Year Ended June 30, 2011

CITY OF CARROLLTON, KENTUCKY
TABLE OF CONTENTS
June 30, 2011

Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-10
Basic Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12-13
Balance Sheet – Governmental Funds	14
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	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 Assets – Proprietary Fund	18
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Fund	19
Statement of Cash Flows – Proprietary Fund	20-21
Notes to Basic Financial Statements	22-50
Required Supplemental Information	
Budgetary Comparison Schedule – General Fund	51
Notes to Budgetary Comparison Schedule	52
Other Supplemental Information	
Combining Balance Sheet – Nonmajor Governmental Funds	53
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds	54
Schedule of Departmental Operating Revenues and Expenses – Enterprise Fund – (Carrollton Utilities)	55
Schedule of Operation & Maintenance, General & Administrative Expenses By Department – Enterprise Fund – (Carrollton Utilities)	56
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <u>Government Auditing Standards</u>	57-58
Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	59-60
Schedule of Expenditures of Federal Awards	61
Schedule of Findings and Questioned Costs	62-64
Summary Schedule of Prior Audit Findings	65

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

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Carrollton, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Carrollton, Kentucky's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Carrollton, Kentucky, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated January 5, 2012, on our consideration of the City of Carrollton, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 10 and 51 through 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

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

Raisor, Zapp & Woods, PSC

RAISOR, ZAPP & WOODS, PSC
Certified Public Accountants

January 5, 2012

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, 2011. Please read it in conjunction with the City's financial statements, which begin on page 11.

FINANCIAL HIGHLIGHTS

- This year's sidewalk improvements resulted in a total expenditure of \$1,500.
- The City's land capital outlay of \$213,305 includes downtown property at 207 Main, 219 Main, 301 Main, 313 Main, 319 Main, and 321 Main Street for the river walk project.
- The City spent \$79,657 for architectural / engineering services for the Two Rivers RV Park.
- The City spent \$24,005 for surveying including \$5,275 for Two Rivers RV Park, \$2,450 for the River walk, and \$16,280 for the Polk Street Extension.
- The City spent \$25,167 for a new police vehicle.
- City's total net assets increased by \$613,749, primarily due to the T.E.A.C and B.P. gas prepurchase proceeds.
- In the City's business-type activities, charges for service decreased to \$46,539,385 (or 2.6%) and expenses decreased to \$46,283,061 (or 2.3%).
- The City's business-type activities spent \$31,258 to purchase a Mini-Excavator and \$5,325 to purchase a trailer to transport the mini excavator for the gas department.
- The City's business-type activities spent \$36,814 to purchase a vacuum excavator for the gas department.
- The City's business-type activities spent \$18,730 to purchase a 2011 Ford F150 for the sewer department.
- The City's business-type activities spent \$6,820 to purchase a new security system with key fob entry for the office.
- The City's business-type activities spent \$7,999 to purchase a large document scanner for the GIS department of the office.
- The City's business-type activities spent \$37,935 for inspection, maintenance and repair to wells for the water system.
- The City's business-type activities spent \$14,208 for inspection and rehabilitation of manholes in the main sewer service line behind Arkema near Martin Road.
- The City's business-type activities spent \$12,475 for purchase and installation of a pole barn at the wastewater treatment plant.
- Construction of two wastewater treatment projects neared 100% completion during this fiscal year. They are:

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

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

The Carrollton Area Regional Economic Development (CARED) Project will extend wastewater service to two industries in Gallatin County, Gallatin Steel and Steel Technologies, as well as additional residents in the City of Glencoe and businesses in the area of Exit 62 on I-71. This project will also connect the existing wastewater system in the City of Ghent to the Carrollton wastewater system adding approximately 140 additional residential customers and one industrial customer, North American Stainless. The project also provides sewer service to Burley Estates adding approximately seven residential customers. The budget for this project is \$3,727,291 and is funded by grants from the Economic Development Administration, Kentucky Infrastructure Authority, and Community Development Block Grant in the amounts of \$2,783,000, \$300,000, \$200,000, \$94,560, and \$349,731 respectively. Construction of this project is near 90% complete at fiscal year end.

- The City's business-type activities received \$5,458,822 in capital assets transferred from the City of Owenton for the gas system in Owenton and Owen County.

USING THIS ANNUAL REPORT

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

Reporting the City as a Whole:

The Statement of Net Assets and the Statement of Activities

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

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

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

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

Reporting the City's Most Significant Funds:

Fund Financial Statements

Our analysis of the City's major funds begins on page 7. The fund financial statements begin on page 14 and provide detailed information about the most significant funds. Some funds are required to be established by State law, like the Municipal Street Aid Fund and the L.G.E.A. Fund. The City's two kinds of funds - governmental and proprietary - use different accounting approaches.

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

THE CITY AS A WHOLE

The City's combined net assets **increased** from \$38.6 million to \$46.2 million. The net assets and net expenses of governmental and business-type activities show two different results. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's governmental and business-type activities.

TABLE 1
NET ASSETS

	GOVERNMENTAL		BUSINESS-TYPE		TOTAL	
	ACTIVITIES		ACTIVITIES		GOVERNMENT	
	09/10	10/11	09/10	10/11	09/10	10/11
CURRENT AND OTHER ASSETS	2,858,679	2,886,593	11,408,360	9,535,658	14,267,039	12,422,251
CAPITAL ASSETS	4,181,012	6,376,117	32,066,939	39,721,234	36,247,951	46,097,351
TOTAL ASSETS	7,039,691	9,262,710	43,475,299	49,256,892	50,514,990	58,519,602
NON-CURRENT LIABILITIES	11,863	1,233,842	5,940,928	5,981,934	5,952,791	7,215,776
CURRENT LIABILITIES	125,684	512,975	5,831,151	4,539,345	5,956,835	5,052,320
TOTAL LIABILITIES	137,547	1,746,817	11,772,079	10,521,279	11,909,626	12,268,096
NET ASSETS:						
INVESTED IN CAPITAL ASSETS						
[NET OF DEBT]	4,181,012	4,632,512	24,822,249	32,323,209	29,003,261	36,955,721
RESTRICTED	128,907	1,467,199	2,217,985	866,005	2,346,892	2,333,204
UNRESTRICTED	2,592,225	1,416,182	4,662,986	5,546,399	7,255,211	6,962,581
TOTAL NET ASSETS	6,902,144	7,515,893	31,703,220	38,735,613	38,605,364	46,251,506

Net assets of the City's governmental activities increased by 8.89 percent (\$7,515,893 compared to \$6,902,144). Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - changed from \$2,592,225 at June 30, 2010 to \$1,416,182 at the end of June 30, 2011.

The net assets of our business-type activities increased by 22.2 percent (\$38,735,613 compared to \$31,703,220). Unrestricted net assets changed from \$4,662,986 at the end of June 30, 2010 to \$5,546,399 at the end of June 30, 2011. The city generally can only use the unrestricted net assets to finance the continuing operations of the gas, water and sewer operations.

TABLE 2
CHANGES IN NET ASSETS

	GOVERNMENTAL		BUSINESS-TYPE		TOTAL	
	ACTIVITIES		ACTIVITIES		GOVERNMENT	
	09/10	10/11	09/10	10/11	09/10	10/11
REVENUES:						
PROGRAM REVENUES:						
CHARGES FOR SERVICES	784,395	792,316	47,736,817	46,539,385	48,521,212	47,331,701
FEDERAL GRANTS	147,451	153,053	2,239,647	1,692,595	2,387,098	1,845,648
STATE GRANTS/ENTITLEMENTS	-	255,250	1,180,647	47,010	1,180,647	302,260
LOCAL GRANTS/CONTRIBUTION	-		656,906	5,003,921	656,906	5,003,921
GENERAL REVENUES:						
PROPERTY TAXES	425,027	425,087	-	-	425,027	425,087
FRANCHISE TAXES	142,134	135,010	-	-	142,134	135,010
PEAK ANNUAL RETURN	1,465,252	1,500,633	-	-	1,465,252	1,500,633
INSURANCE LICENSES	535,105	451,548	-	-	535,105	451,548
OTHER GENERAL REVENUES	8,846	3,789	38,773	32,543	47,619	36,332
TOTAL REVENUES:	3,508,210	3,716,686	51,852,790	53,315,454	55,361,000	57,032,140
PROGRAM EXPENSES:						
GENERAL GOVERNMENT	546,182	553,249	-	-	546,182	553,249
PUBLIC SAFETY	1,304,273	1,349,379	-	-	1,304,273	1,349,379
PUBLIC WORKS	652,448	752,135	-	-	652,448	752,135
HEALTH & SANITATION	386,747	375,591	-	-	386,747	375,591
PARKS & RECREATION	33,091	47,941	-	-	33,091	47,941
COMMUNITY SERVICE	17,485	22,366	-	-	17,485	22,366
INTEREST: LONG TERM DEBT	-	2,276	-	-	-	2,276
GAS	-		44,513,117	43,284,117	44,513,117	43,284,117
WATER	-		913,790	946,353	913,790	946,353
SEWER	-		1,767,409	1,880,116	1,767,409	1,880,116
MANAGEMENT SERVICES	-		161,050	172,475	161,050	172,475
TOTAL EXPENSES:	2,940,226	3,102,937	47,355,366	46,283,061	50,295,592	49,385,998
EXCESS (DEFICIENCY) BEFORE TRANSFERS	567,984	613,749	4,497,424	7,032,393	5,065,408	7,646,142
TRANSFERS	-	-	-	-	-	-
INCREASE (DECREASE) IN NET ASSETS	567,984	613,749	4,497,424	7,032,393	5,065,408	7,646,142
BEGINNING NET ASSETS	6,334,160	6,902,144	27,205,796	31,703,220	33,539,956	38,605,364
ENDING NET ASSETS	6,902,144	7,515,893	31,703,220	38,735,613	38,605,364	46,251,506

The City's total revenues increased by \$1,671,140. The total cost of all programs and services decreased by \$909,594. Our analysis below separately considers the operations of governmental and business-type activities.

Governmental Activities

Revenues for the City's governmental activities increased by 5.94 percent (\$208,476) and total expenses increased by 5.53 percent (\$162,711). The increase in net assets for governmental activities was \$613,749 in FY 2010-2011. This compares to a \$567,984 increase in net assets in FY 2009-2010.

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

- The City budgeted several capital outlay projects: Develop the Liter's Quarry property into a RV campground and purchase of Main Street properties to build a river walk on the Ohio River.
- The City budgeted a 3 % increase in departmental salaries.
- The City kept the health insurance to Bluegrass Family Health with a 8.5% premium increase by keeping the deductibles at \$3,000 / \$9,000. The City's H.R.A. (health reimbursement account) will pay \$2,500 / \$8,000 deductible above the employees \$500 / \$1,000 cost.
- The City's retirement plan (C.E.R.S.) was raised from 16.16 percent to 16.93 percent by the Commonwealth of Kentucky.

The cost of all governmental activities this year was \$3,102,937 compared to \$2,940,226 last year. As shown in the Statement of Activities on pages 12-13, the amount that our taxpayers financed for these activities was \$792,316, and some of the cost was paid by other governments and organizations that subsidized certain programs with grants and contributions of \$408,303. Overall, the City's governmental program revenues, including intergovernmental aid and fees for services, increased in 2010/2011 from \$931,846 to \$1,200,619, due mainly to grants received for the fire and public works departments in 2011.

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	
	09/10	10/11	09/10	10/11
GENERAL GOVERNMENT	546,182	553,249	(404,489)	(407,033)
FIRE DEPARTMENT	456,383	499,976	(240,218)	(272,224)
POLICE DEPARTMENT	847,890	849,403	(775,774)	(772,551)
PUBLIC WORKS DEPARTMENT	652,448	752,135	(578,764)	(422,220)
SANITATION	386,747	375,591	41,441	44,293
ALL OTHERS	50,576	72,583	(50,576)	(72,583)
TOTALS:	2,940,226	3,102,937	(2,008,380)	(1,902,318)

Business-type Activities

Total revenues of the City's business type activities (see Table 2) increased by 2.75 percent in FY 10-11 compared to a 16.2 percent decrease in FY 09-10. The expenses in FY 10-11 decreased by 2.3 percent.

The approximate 2.5% increase in revenues and expenses of the City's business-type activities is directly related to a rate increase initiated for water and sewer customers and management services during fiscal year 2010-2011. The program revenues and expenses for the gas services of Carrollton Utilities decreased compared to the prior year by 3.2% (\$1,382,132) and 2.8% (\$1,229,000), 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	
	09-10	10-11	09-10	10-11
Gas	45,179,631	43,797,499	44,513,117	43,284,117
Water	899,739	962,355	913,790	946,353
Sewer	1,482,636	1,594,231	1,767,409	1,880,116
Management Services	174,811	185,300	161,050	172,475
Totals:	47,736,817	46,539,385	47,355,366	46,283,061

THE CITY'S FUNDS

As the City completed fiscal year 2010-2011, its governmental funds (as presented in the balance sheet on page 14) reported a combined fund balance of \$3,190,134 which represents an increase of \$1,410,617 from last year's total of \$1,779,517. The primary reasons for the General Fund's increase mirror the governmental activities analysis highlighted on page 7. In addition, these other changes in fund balances should be noted:

- The City's PEAK revenue was up by \$7,440.
- The City received \$247,000 reimbursement for the Polk Street project.
- The City received loan proceeds of \$1,500,000 for the new RV Park.
- The City's total expenditures increased by \$722,134 with the majority of the increase attributable to capital expenditures.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City Council revised the General Fund budget one time for fiscal year ending June 30, 2011. This amendment accounted for increases in revenues from property taxes, municipal road aid bond revenues, and the P.E.A.K. annual return. In addition, it accounted for the increases in all departments as a result of the annual salary increases.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2011, the City had \$43,565,009 (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 \$7,317,058 or 20.2%.

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

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTALS	
	2010	2011	2010	2011	2010	2011
LAND	624,145	844,425	590,622	593,122	1,214,767	1,437,547
BUILDINGS & IMPROVEMENTS	1,021,673	992,775	5,726,420	5,532,934	6,748,093	6,525,709
EQUIPMENT	679,809	619,031	3,514,274	3,256,822	4,194,083	3,875,853
INFRASTRUCTURE	1,819,495	2,176,280	18,845,714	29,151,526	20,665,209	31,327,806
CONSTRUCTION-IN-PROGRESS	35,890	239,856	3,389,909	158,238	3,425,799	398,094
TOTALS:	4,181,012	4,872,367	32,066,939	38,692,642	36,247,951	43,565,009

This year's major additions included:

- \$32,242 of computer upgrades
- \$1,500 of sidewalk improvements
- \$24,005 for surveying for Polk Street Extension Project, River walk, and the RV Park.
- \$50,503 for police and fire equipment.
- \$10,849 for boat and motor
- \$49,924 for 301 Main Street property
- \$42,344 for 207 Main Street property
- \$42,425 for 219 Main Street property
- \$28,329 for 319/321 Main Street property
- \$50,283 for 313 Main Street property
- \$14,419 for new electric service in Two Rivers RV Park
- \$36,583 for Mini-Excavator and trailer
- \$36,814 for vacuum excavator
- \$18,730 for truck purchase
- \$6,820 for security system upgrades at office.
- \$7,999 for large document scanner for GIS department
- \$37,935 for water well inspection, maintenance and repair
- \$14,208 for sewer manhole inspection and rehabilitation
- \$12,475 for purchase and installation of pole barn at wastewater treatment plant
- \$5,458,822 for assets transferred from City of Owenton gas system
- \$5,796,341 for assets transferred from CARED and Eagle Creek wastewater projects

Debt

At year-end, the City had \$7,880,368 in capital lease, notes payable and bonds payable compared to \$6,407,467 last year as shown in Table 6.

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

	GOVERNMENTAL		BUSINESS-TYPE			
	ACTIVITIES		ACTIVITIES		TOTALS	
	2010	2011	2010	2011	2010	2011
CAPITAL LEASE	-	1,500,000	838,755	589,351	838,755	2,089,351
NOTES PAYABLE	-	-	5,396,412	5,791,017	5,396,412	5,791,017
BONDS PAYABLE	-	-	172,300	-	172,300	-
TOTALS	-	1,500,000	6,407,467	6,380,368	6,407,467	7,880,368

The decrease in debt for bonds payable from the City's business-type activities resulted from the early pay off of bond issues from USDA/Rural Development in the amount of \$172,300.

Other obligations of the City represents accrued compensated absences for \$62,739 compared to \$62,193 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 2010-2011 budget. One of those factors is the economy - specifically the Consumer Price Index (CPI). The CPI was reported at 2.71 % according to the Commonwealth of Kentucky. Council decided to allocate a 3 % increase for departmental salaries.

The City received the 7th year of citations revenue which was to replace the base court revenue. However it still is not the same amount as was promised by the Commonwealth of Kentucky. The City had been collecting \$38,589 from base court revenue but the City only received \$ 13,590 this year. Kentucky League of Cities' lawsuit to have the cities receive the "hold harmless" amount still has not been paid by the state.

The City chose to raise the property tax rate by 4% as per KRS 132.027. This meant an increase of \$11,952 in property tax receipts.

As for the City's business-type activities, the Commission has budgeted an approximate 11% increase in gas revenues and expenses, a 2% and 3% increase in water rates for in-town and out-of-town customers, respectively, and the payoff of a long term loan result in an approximate 5% increase in net revenues and expenses, and a 2% and 3% increase in sewer rates for in-town and out-of-town customers, will result sewer revenues and expenses to be relatively constant to 2010-2011.

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

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

BECKY H. PYLES, MMC
City Clerk-Treasurer

CHASTITY ROBBINS
Carrollton Utilities Finance Officer

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF NET ASSETS
June 30, 2011

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets			
Cash, Including Time Deposits	\$ 646,632	\$ 5,661,622	\$ 6,308,254
Investments	912,758	-	912,758
Interest Receivable	-	2,382	2,382
Accounts Receivable (Net)	183,681	3,838,629	4,022,310
Other Receivables	-	1,096,535	1,096,535
Due from Other Governments	42,287	1,426	43,713
Due from Other Funds	1,101,235	(1,101,235)	-
Prepaid Expense	-	36,299	36,299
Total Current Assets	\$ 2,886,593	\$ 9,535,658	\$ 12,422,251
Noncurrent Assets			
Restricted Assets			
Cash, Including Time Deposits	\$ -	\$ 833,111	\$ 833,111
Investments	1,500,000	-	1,500,000
Construction Grants Receivable	-	187,731	187,731
Unamortized Lease Fee	3,750	7,750	11,500
Capital Assets (Net)	4,872,367	38,692,642	43,565,009
Total Noncurrent Assets	\$ 6,376,117	\$ 39,721,234	\$ 46,097,351
Total Assets	\$ 9,262,710	\$ 49,256,892	\$ 58,519,602
LIABILITIES			
Current Liabilities			
Accounts Payable	\$ 162,716	\$ 3,786,969	\$ 3,949,685
Accrued Compensated Absences	37,564	4,953	42,517
Accrued Wages	26,487	53,463	79,950
Accrued Interest Payable	2,276	2,072	4,348
Construction Retainage Payable	5,633	-	5,633
Current Portion - Capital Lease Obligations	278,299	220,091	498,390
Current Liabilities Payable from Restricted Assets:			
Accrued Interest	-	6,148	6,148
Construction Accounts Payable	-	83,002	83,002
Construction Retainage Payable	-	50,719	50,719
Notes Payable	-	331,928	331,928
Total Current Liabilities	\$ 512,975	\$ 4,539,345	\$ 5,052,320
Noncurrent Liabilities			
Accrued Compensated Absences	\$ 12,141	\$ 8,081	\$ 20,222
Obligations Under Capital Leases	1,221,701	369,260	1,590,961
Notes Payable	-	5,459,089	5,459,089
Deferred Loss - Early Debt Retirement	-	(3,185)	(3,185)
Noncurrent Liabilities Payable from Restricted Assets:			
Customer Deposits Payable	-	148,689	148,689
Total Noncurrent Liabilities	\$ 1,233,842	\$ 5,981,934	\$ 7,215,776
Total Liabilities	\$ 1,746,817	\$ 10,521,279	\$ 12,268,096
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	\$ 4,632,512	\$ 32,323,209	\$ 36,955,721
Restricted for:			
Capital Projects	1,376,410	379,254	1,755,664
Debt Service	-	486,751	486,751
Community Development Projects	46,008	-	46,008
Other Purposes	44,781	-	44,781
Unrestricted	1,416,182	5,546,399	6,962,581
Total Net Assets	\$ 7,515,893	\$ 38,735,613	\$ 46,251,506

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2011

		Program Revenues		
		Charges For	Operating	Capital
	Expenses	Services	Grants and	Grants and
			Contributions	Contributions
Functions / Programs				
Governmental Activities				
General Government	\$ 553,249	\$ 144,328	\$ 1,888	\$ -
Public Safety				
Fire Department	499,976	213,302	6,200	8,250
Police Department	849,403	14,802	62,050	-
Public Works	752,135	-	82,915	247,000
Sanitation	375,591	419,884	-	-
Parks & Recreation	47,941	-	-	-
Community Service	22,366	-	-	-
Interest on Long-Term Debt and Associated Lease Issuance Cost Amortization	2,276	-	-	-
Total Governmental Activities	\$ 3,102,937	\$ 792,316	\$ 153,053	\$ 255,250
Business-type Activities				
Gas	\$ 43,284,117	\$ 43,797,499	\$ -	\$ 5,003,921
Water	946,353	962,355	-	-
Sewer	1,880,116	1,594,231	-	1,739,605
Management Services	172,475	185,300	-	-
Total Business-type Activities	\$ 46,283,061	\$ 46,539,385	\$ -	\$ 6,743,526
Total Government	\$ 49,385,998	\$ 47,331,701	\$ 153,053	\$ 6,998,776

General Revenues

Taxes:

Property Taxes

Franchise Taxes

PEAK Returns

Insurance Licenses

Unrestricted Investment Income

Restricted Investment Income

Gain (Loss) on Sale of Equipment

Total General Revenues

Change in Net Assets

Net Assets - July 1

Net Assets - June 30

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

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (407,033)	\$ -	\$ (407,033)
(272,224)	-	(272,224)
(772,551)	-	(772,551)
(422,220)	-	(422,220)
44,293	-	44,293
(47,941)	-	(47,941)
(22,366)	-	(22,366)
<u>(2,276)</u>		<u>(2,276)</u>
\$ <u>(1,902,318)</u>	\$ -	\$ <u>(1,902,318)</u>
\$ -	\$ 5,517,303	\$ 5,517,303
-	16,002	16,002
-	1,453,720	1,453,720
-	12,825	12,825
<u>-</u>	<u>5,517,303</u>	<u>5,517,303</u>
\$ -	\$ 6,999,850	\$ 6,999,850
\$ <u>(1,902,318)</u>	\$ 6,999,850	\$ 5,097,532
\$ 425,087	\$ -	\$ 425,087
135,010	-	135,010
1,500,633	-	1,500,633
451,548	-	451,548
4,547	21,352	25,899
-	1,903	1,903
(758)	9,288	8,530
<u>\$ 2,516,067</u>	<u>\$ 32,543</u>	<u>\$ 2,548,610</u>
\$ 613,749	\$ 7,032,393	\$ 7,646,142
6,902,144	31,703,220	38,605,364
<u>\$ 7,515,893</u>	<u>\$ 38,735,613</u>	<u>\$ 46,251,506</u>

CITY OF CARROLLTON, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash, Including Time Deposits	\$ 554,672	\$ 91,960	\$ 646,632
Investments	912,758	-	912,758
Restricted Investments	1,500,000	-	1,500,000
Accounts Receivable: (Net of Allowance for Uncollectibles)			
Insurance Licenses	145,006	-	145,006
Business Licenses	7,179	-	7,179
Ad Valorem Tax	6,571	-	6,571
Franchise Fees	14,726	-	14,726
Miscellaneous	8,676	-	8,676
Due from Other Governments	31,194	11,093	42,287
Due from Other Funds	129,316	-	129,316
Total Assets	\$ 3,310,098	\$ 103,053	\$ 3,413,151
LIABILITIES			
Accounts Payable	\$ 158,966	\$ -	\$ 158,966
Accrued Compensated Absences	37,564	-	37,564
Accrued Wages	26,487	-	26,487
Total Liabilities	\$ 223,017	\$ -	\$ 223,017
FUND BALANCES			
Restricted	\$ 1,376,410	\$ 90,789	\$ 1,467,199
Assigned	-	12,264	12,264
Unassigned	1,710,671	-	1,710,671
Total Fund Balances	\$ 3,087,081	\$ 103,053	\$ 3,190,134
Total Liabilities and Fund Balances	\$ 3,310,098	\$ 103,053	\$ 3,413,151

**CITY OF CARROLLTON, KENTUCKY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2011**

Total Governmental Fund Balances	\$	3,190,134
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Total capital assets \$8,190,647 net of accumulated depreciation \$3,318,280.		4,872,367
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Lease issuance costs of general obligation debt are not financial resources and therefore are not reported in the funds. Lease issuance costs are \$3,750.		3,750
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Revenues that do not provide current financial resources are not reported as revenues in the funds. Amounts due on such revenues but not received subsequent to year end within 60 days have been reported as receivable in the Statement of Net Assets.		973,442
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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:

Lease Issurance Costs Payable	\$ 3,750	
Accrued Compensated Absences	12,141	
Accrued Interest on Capital Leases	2,276	
Construction Retainage Payable	5,633	
Capital Leases Payable	<u>1,500,000</u>	
		<u>(1,523,800)</u>

Net Assets of Governmental Activities	\$	<u>7,515,893</u>
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CITY OF CARROLLTON, KENTUCKY
STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2011

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Payments in Lieu of Taxes	\$ 23,005	\$ -	\$ 23,005
Ad Valorem Taxes	352,798	-	352,798
Delinquent Taxes	64,546	-	64,546
Franchise Fees	112,446	-	112,446
Garbage Collection	419,884	-	419,884
Bank Franchise Deposit Tax	22,951	-	22,951
Business Licenses	103,757	-	103,757
Insurance Licenses	455,017	-	455,017
Building Permits	1,782	-	1,782
Penalty & Interest	7,744	-	7,744
Interest Revenue	4,044	503	4,547
PEAK Revenue	1,472,692	-	1,472,692
Other Revenue/Donations	17,517	25,350	42,867
Proceeds from Outside Sources:			
HB413/Citations Revenue	13,590	-	13,590
C.C. Fiscal Court - Public Safety Salaries	212,779	-	212,779
Police & Firefighter's Incentive Pay	33,377	-	33,377
Kentucky Municipal Road Aid	-	80,882	80,882
Local Government Economic Assistance	-	1,334	1,334
State Fire Aid	8,250	-	8,250
Police Grants	9,523	-	9,523
Litter Abatement	2,034	-	2,034
Disaster Relief - FEMA/State	554	-	554
Transportation Enhancement Grant	247,000	-	247,000
Total Revenues	\$ 3,585,290	\$ 108,069	\$ 3,693,359
EXPENDITURES			
Current			
Administrative	\$ 907,632	\$ -	\$ 907,632
Public Safety			
Fire Department	435,475	-	435,475
Police Department	813,867	-	813,867
Public Works	488,114	90,894	579,008
Parks and Recreation	17,380	15,745	33,125
Community Service	-	22,366	22,366
Capital Outlay	532,630	458,639	991,269
Total Expenditures	\$ 3,195,098	\$ 587,644	\$ 3,782,742
Excess of Revenues Over (Under) Expenditures	\$ 390,192	\$ (479,575)	\$ (89,383)
Other Financing Sources (Uses):			
Transfers In	\$ 52	\$ 452,301	\$ 452,353
Transfers Out	(452,301)	(52)	(452,353)
Loan Proceeds	1,500,000	-	1,500,000
Total Other Financing Sources (Uses)	\$ 1,047,751	\$ 452,249	\$ 1,500,000
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	\$ 1,437,943	\$ (27,326)	\$ 1,410,617
Fund Balances - July 1	1,649,138	130,379	1,779,517
Fund Balances - June 30	\$ 3,087,081	\$ 103,053	\$ 3,190,134

See accompanying notes to the basic financial statements

**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, 2011**

Net Change in Fund Balances - Total Governmental Funds	\$ 1,410,617
<i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Capitalized Expenditures	996,902
Depreciation Expense	(304,789)
Some expenses reported in the Statement of Activities (current year) do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds until paid.	
Compensated Absences	\$ 278
Construction Retainage	5,633
	(5,911)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	19,964
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.	
	(2,276)
Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. 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.	
	(758)
The proceeds of the capital lease issued to finance the construction of an RV recreational facility through the Kentucky League of Cities are reported in the governmental funds as a source of financing. In the Statement of Net Assets, such proceeds constitute long-term liabilities.	
	(1,500,000)
Change in Net Assets of Governmental Activities	\$ 613,749

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2011

	Carrollton Utilities Enterprise Fund
ASSETS	
Current Assets	
Cash, Including Time Deposits	\$ 5,661,622
Interest Receivable	2,382
Accounts Receivable (Net)	3,838,629
Other Receivables	1,097,961
Prepaid Expense	36,299
Total Current Assets	\$ 10,636,893
Noncurrent Assets	
Restricted Assets	
Cash, Including Time Deposits	\$ 833,111
Construction Grants Receivable	187,731
Unamortized Lease Fee	7,750
Capital Assets (Net)	38,692,642
Total Noncurrent Assets	\$ 39,721,234
Total Assets	\$ 50,358,127
LIABILITIES	
Current Liabilities	
Accounts Payable	\$ 3,786,969
Due to Other Funds	1,101,235
Accrued Compensated Absences	4,953
Accrued Salaries, Wages & Benefits	53,463
Accrued Interest Payable	2,072
Capital Lease Obligations	220,091
Current Liabilities Payable from Restricted Assets:	
Accrued Interest Payable	6,148
Construction Accounts Payable	83,002
Construction Retainage Payable	50,719
Notes Payable	331,928
Total Current Liabilities	\$ 5,640,580
Noncurrent Liabilities	
Accrued Compensated Absences	\$ 8,081
Capital Lease Obligations	369,260
Notes Payable	5,459,089
Deferred Loss - Early Debt Retirement	(3,185)
Noncurrent Liabilities Payable from Restricted Assets:	
Customer Deposits Payable	148,689
Total Noncurrent Liabilities	\$ 5,981,934
Total Liabilities	\$ 11,622,514
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	\$ 32,323,209
Restricted for:	
Capital Projects	379,254
Debt Service	486,751
Unrestricted	5,546,399
Total Net Assets	\$ 38,735,613

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
For the Year Ended June 30, 2011

	<u>Carrollton Utilities Enterprise Fund</u>
Operating Revenues:	
Charges for Services:	
Gas Utility Charges (Net)	\$ 43,777,118
Water Utility Charges (Net)	949,425
Sewer Utility Charges (Net)	1,501,757
Connection Fees & Service Charges	101,732
Contractual Services	185,300
Total Charges for Services	<u>\$ 46,515,332</u>
Miscellaneous Revenues	24,053
Total Operating Revenues	<u><u>\$ 46,539,385</u></u>
Operating Expenses:	
Cost of Goods Sold	\$ 41,730,690
Operation & Maintenance	1,376,403
General & Administrative	1,569,190
Depreciation	1,476,534
Total Operating Expenses	<u><u>\$ 46,152,817</u></u>
Net Operating Income	<u><u>\$ 386,568</u></u>
Nonoperating Revenue (Expenses):	
Interest Income	\$ 23,255
Interest and Fiscal Charges	(128,030)
Amortization of Lease Fees	<u>(2,214)</u>
Total Nonoperating Revenue (Expenses)	<u><u>\$ (106,989)</u></u>
Net Income Before Contributions and Gain from Sale of Equipment	<u><u>\$ 279,579</u></u>
Capital Contributions	6,743,526
Gain from Sale of Equipment	<u>9,288</u>
Change in Net Assets	<u><u>\$ 7,032,393</u></u>
Net Assets - July 1	<u>31,703,220</u>
Net Assets - June 30	<u><u>\$ 38,735,613</u></u>

CITY OF CARROLLTON, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2011

	Carrollton Utilities Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	\$ 47,164,132
Payments to Suppliers	(43,902,667)
Payments to Employees	(1,292,445)
Receipts of Customer Meter Deposits	99,285
Refunds of Customer Meter Deposits	(59,120)
Net Cash Provided (Used) by Operating Activities	<u>\$ 2,009,185</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Contributions	\$ 3,161,115
Proceeds from Sale of Capital Assets	9,288
Purchases of Capital Assets	(3,820,428)
Proceeds from Capital Debt	722,255
Principal Paid on Capital Debt	(749,354)
Interest Paid on Capital Debt	(127,697)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ (804,821)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Certificates of Deposits	\$ (21,300)
Interest Received	23,707
Net Cash Provided (Used) by Investing Activities	<u>\$ 2,407</u>
 Net Increase (Decrease) in Cash and Cash Equivalents	 <u>\$ 1,206,771</u>
Balances-July 1	<u>4,258,030</u>
Balances-June 30	<u><u>\$ 5,464,801</u></u>

	Balances Per June 30, 2011 Statement of Net Assets	Balances Per June 30, 2011 Statement of Cash Flows
Cash	\$ 4,719,592	\$ 4,719,592
Time Deposits	942,030	-
Restricted Cash	745,209	745,209
Restricted Time Deposits	87,902	-
Total	<u>\$ 6,494,733</u>	<u><u>\$ 5,464,801</u></u>

(Continued)

**CITY OF CARROLLTON, KENTUCKY
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUND
For the Year Ended June 30, 2011**

	<u>Carrollton Utilities Enterprise Fund</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating Income (Loss)	\$ 386,568
Adjustments to Reconcile Operating Income to Net Cash	
Provided (Used) by Operating Activities:	
Depreciation Expense	1,476,534
Change in Assets and Liabilities:	
Receivables, Net (Increase) Decrease	(261,188)
Other Receivables (Increase) Decrease	885,935
Prepaid Expenses (Increase) Decrease	414
Accounts and Other Payables Increase (Decrease)	(541,878)
Due to Other Funds Increase (Decrease)	22,844
Customer Meter Deposits Payable Increase (Decrease)	40,165
Accrued Expenses Increase (Decrease)	(209)
Net Cash Provided by Operating Activities	<u><u>\$ 2,009,185</u></u>

SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

At June 30, 2011, the Proprietary Fund had outstanding obligations for the acquisition/construction of plant assets in the amount of \$133,721 included in accounts payable/retainage - construction. Also at June 30, 2011 there is \$187,731 construction grants receivable presented on the statement of net assets for contributed capital related to the CARED sewer project.

During the year ended June 30, 2011, the City of Owenton transferred its gas lines/distribution system to Carrollton Utilities. The value recorded for the transfer was \$5,458,822 less accumulated depreciation of \$454,901.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS

INDEX

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

- A. Fund Accounting Requirements**
- 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 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, Contingencies and Subsequent Events**
- D. Miscellaneous**

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1.A. FINANCIAL REPORTING ENTITY

The City's financial reporting entity comprises the following:

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

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

Blended Component Units

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

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

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

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.A. FINANCIAL REPORTING ENTITY (Continued)

Excluded from the reporting entity:

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

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

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

1.B. BASIS OF PRESENTATION

Government-wide Financial Statements:

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

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

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

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.B. BASIS OF PRESENTATION (Continued)

Fund Financial Statements:

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

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

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

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

Special Revenue Funds

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

Capital Project Funds

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

Proprietary Fund

Enterprise Fund

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

Fiduciary Funds (Not included in government-wide statements)

None

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.B. BASIS OF PRESENTATION (Continued)

Major and Nonmajor Funds

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

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

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

Measurement Focus

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

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

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Basis of Accounting

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

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

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

1.D. ASSETS, LIABILITIES, AND EQUITY

Cash and Investments

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

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

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Interfund Receivables and Payables

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

Receivables

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

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

Inventories

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

Fixed Assets

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

Government-wide Statements

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

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

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Fund Financial Statements

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

Restricted Assets

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

Capital Lease Expenses

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

Long-term Debt

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

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

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

Compensated Absences

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

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Equity Classifications

Government-wide Statements

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

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

Fund Statements

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

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

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

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

1.E. REVENUES, EXPENDITURES, AND EXPENSES

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

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Property Tax

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

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

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

Insurance License Tax

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

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

PEAK Project Returns

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

Operating Revenues and Expenses

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

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Expenditures/Expenses

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

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

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

Proprietary Fund-By Operating and Nonoperating

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

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

Interfund Transfers

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

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

2.A. FUND ACCOUNTING REQUIREMENTS

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

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

2.B. DEPOSITS AND INVESTMENTS, LAWS AND REGULATIONS

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

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2011

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

2.B. DEPOSITS AND INVESTMENTS, LAWS AND REGULATIONS (Continued)

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

2.C. REVENUE RESTRICTIONS

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

<u>Revenue Source</u>	<u>Legal Restrictions of Use</u>
Municipal Road Aid	Street & Alley Purposes
County Dispatch Revenue	E-911 Emergency Services Purposes
Water, Sewer, and Gas Revenue	Debt Service and Utility Operations
EIP/Facade Revenue	Beautification Improvement Projects
Law Enforcement Grants	Police Programs/Salaries
Local Government Economic Assistance Funds	Approved Expenditures
Assistance to Fire Fighters Grant	Fire Equipment Expenditures
State Fire Aid	Fire Equipment Expenditures
Economic Development Administration (EDA) Grant,	
Community Development Block Grant (CDBG) & KIA Grants	Carrollton Area Regional Economic Development Project (CARED)
	Eagle Creek Resort & Campground
Community Development Block Grant & KIA Grants	Sewer Project
	Polk Street Extension Project
Transportation Enhancement Grant	

For the year ended June 30, 2011, the City complied, in all material respects, with these revenue restrictions.

2.D. DEBT RESTRICTIONS AND COVENANTS

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

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

Kentucky League of Cities Lease Debt Service Reserve Funds

If the City, through Carrollton Utilities, fails to make any part of a lease rental payment when due, Debt Service Reserve Funds will be created and funded as prescribed by the lease agreements and used to satisfy lease rental payments. At June 30, 2011, the City was in compliance with the lease agreements and therefore, no Debt Service Reserve Funds have been created.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2011

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

2.D. DEBT RESTRICTIONS AND COVENANTS (Continued)

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

During fiscal year 2010, the Worthville wastewater collection system was transferred to the City of Carrollton. Worthville's related debt was part of this transfer. The Bond ordinance provides for monthly transfers to be made into a Bond and Interest Sinking Account.

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

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

The required payments were made timely, until the bond issues were fully refunded in March, 2011.

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

Under the 1998 Bond Ordinance, a Depreciation Account is to be established to provide funds for extraordinary repairs or extensions to the sewer system and/or make up any deficiency in the Bond and Interest Sinking Account. The provisions of the ordinance requires the sum of \$95 to be transferred monthly to the Depreciation Account until there is accumulated in such Depreciation Fund the sum of at least \$11,400, which amount shall be maintained, and when necessary, restored to said sum of \$11,400, so long as any Bonds are outstanding and unpaid. The account was fully funded. The account was closed when the bonds were fully refunded in March, 2011.

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

3.A. CASH AND INVESTMENTS

Deposits

The City of Carrollton, Kentucky's policies regarding deposits of cash are in accordance with the state statutes described in Note 2.B. The table presented below is designed to disclose the level of custody credit risk assumed by the City based upon how its deposits were insured or secured with collateral at June 30, 2011. The categories of credit risk are defined as follows:

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

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

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

Governmental Activities

Type of Deposits	Total Bank Balance	Custody Credit Risk Category			Total Carrying Value
		1	2	3	
Non-Interest Deposits	\$ 5,994	\$ 5,994	\$ -	\$ -	\$ 5,305
Time/Savings Deposits	721,122	416,008	207,977	97,137	637,278
Total Deposits	<u>\$ 727,116</u>	<u>\$ 422,002</u>	<u>\$ 207,977</u>	<u>\$ 97,137</u>	<u>\$ 642,583</u>

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2011

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

3.A. CASH AND INVESTMENTS (Continued)

Business-type Activities

Type of Deposits	Total Bank Balance	Custody Credit Risk Category			Total Carrying Value
		1	2	3	
Non-Interest Deposits	\$ 5,483,593	\$ 5,483,593	\$ -	\$ -	\$ 5,317,504
Time/Savings Deposit	1,175,979	646,047	529,932	-	1,175,979
Total Deposits	\$ 6,659,572	\$ 6,129,640	\$ 529,932	\$ -	\$ 6,493,483

	Governmental Activities	Business-type Activities	Total
Reconciliation to Statement of Net Assets			
Cash, including Time Deposits	\$ 646,632	\$ 5,661,622	\$ 6,308,254
Restricted Cash, including Time Deposits	-	833,111	833,111
	\$ 646,632	\$ 6,494,733	\$ 7,141,365
 Total Carrying Value	 \$ 642,583	 \$ 6,493,483	 \$ 7,136,066
Plus: Cash on Hand	4,049	1,250	5,299
	\$ 646,632	\$ 6,494,733	\$ 7,141,365

Investments

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

At June 30, 2011, investments consisted of the following:

Deposits in the Kentucky League of Cities Investment Pool Plus in the amount of \$2,412,758 of which \$1,500,000 is restricted for the construction of the City's Two Rivers RV Campground Project. This investment is made up of the pooled assets of several cities. The City of Carrollton holds a percentage of the pool's assets equal to its balance divided by the pool balance. The investments held in the pool include Freddie Mac, Fannie Mae, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal Farm Credit Bank, Fannie Discount Notes, and U.S. Treasury Notes.

The Kentucky League of Cities Investment Pool Plus was invested in the following at June 30, 2011:

	Cost	Market Value	% of Assets	Maturity
Bonds (see description above)	\$ 1,846,276	\$ 1,830,178	63.08%	7/12/10-1/25/12
Money Market/Short Term Investments	1,071,308	1,071,308	36.92%	N.A.
Total	\$ 2,917,584	\$ 2,901,486	100.00%	

3.B. RESTRICTED ASSETS

Restricted cash consists of the following:

KIA Loan Reserve Accounts	\$ 492,899
Customer Deposits	148,689
Construction Accounts	191,523
	\$ 833,111

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2011

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

3.B. RESTRICTED ASSETS (Continued)

Restricted investments consists of \$1,500,000 of deposits held in the City's Kentucky League of Cities' Investment Pool Plus account for construction of the Two Rivers RV Campground Project.

Restricted construction grants receivable consists of grants receivable due to Carrollton Utilities at June 30, 2011 related to the CARED Sewer Project.

In addition to these restrictions, the Utility Commission has established certificates in deposit in the amount of \$627,930 as reserved to mitigate the risk associated with industrial sales.

3.C. ACCOUNTS RECEIVABLE

Accounts receivable of the business-type activities consists of utilities receivable. Accounts receivable of the governmental activities consists of franchise tax (8%), insurance licenses (78%), property tax (5%), business licenses and other (9%) receivables. Receivables detail at June 30, 2011, is as follows:

	Governmental Activities	Business-type Activities	Total
Accounts receivable	\$ 186,460	\$ 3,881,181	\$ 4,067,641
Allowance for doubtful accounts	(2,779)	(42,552)	(45,331)
Net accounts receivable	<u>\$ 183,681</u>	<u>\$ 3,838,629</u>	<u>\$ 4,022,310</u>

3.D. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011, was as follows:

	Balance at July 1, 2010	Additions	Disposals	Balance at June 30, 2011
<u>Governmental Activities:</u>				
Land	\$ 624,145	\$ 220,280	\$ -	\$ 844,425
Buildings & Improvements	1,442,647	7,830	-	1,450,477
Machinery & Equipment	1,999,231	61,648	(9,766)	2,051,113
Infrastructure	3,101,598	503,178	-	3,604,776
Construction in Process	35,890	707,144	(503,178)	239,856
Totals at Historical Cost	<u>\$ 7,203,511</u>	<u>\$ 1,500,080</u>	<u>\$ (512,944)</u>	<u>\$ 8,190,647</u>
 Less: Accumulated Depreciation				
Buildings & Improvements	\$ 420,974	\$ 36,728	\$ -	\$ 457,702
Machinery & Equipment	1,319,422	121,668	(9,008)	1,432,082
Infrastructure	1,282,103	146,393	-	1,428,496
Total Accumulated Depreciation	<u>\$ 3,022,499</u>	<u>\$ 304,789</u>	<u>\$ (9,008)</u>	<u>\$ 3,318,280</u>
 Governmental Activities - Capital Assets, Net	 <u>\$ 4,181,012</u>	 <u>\$ 1,195,291</u>	 <u>\$ (503,936)</u>	 <u>\$ 4,872,367</u>

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2011

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	\$ 21,246
Public Safety	
Fire Department	64,428
Police Department	35,128
Public Works	22,778
Parks & Recreation	14,816
Infrastructure (Included with Public Works)	146,393
Total Depreciation Expense	<u>\$ 304,789</u>

\$239,856 of assets have been recorded under capital leases associated with the RV Recreational Park. These assets are included in construction in process and were not in service at June 30, 2011.

	Balance at July 1, 2010	Additions	Disposals	Balance at June 30, 2011
Business-type Activities:				
Land & Right of Ways	\$ 590,622	\$ 2,500	\$ -	\$ 593,122
Structures & Improvements	7,552,686	27,524	-	7,580,210
Distribution System	29,615,101	11,591,682	-	41,206,783
Wells	346,293	37,935	-	384,228
Plant, Machinery & Equipment	9,539,687	129,168	(30,845)	9,638,010
Construction in Process	3,389,909	3,565,121	(6,796,792)	158,238
Totals at Historical Cost	<u>\$ 51,034,298</u>	<u>\$ 15,353,930</u>	<u>\$ (6,827,637)</u>	<u>\$ 59,560,591</u>
 Less: Accumulated Depreciation				
Structures & Improvements	\$ 1,826,266	\$ 221,010	\$ -	\$ 2,047,276
Distribution System	10,916,808	1,307,027	-	12,223,835
Wells	198,872	16,778	-	215,650
Plant, Machinery & Equipment	6,025,413	386,620	(30,845)	6,381,188
Total Accumulated Depreciation	<u>\$ 18,967,359</u>	<u>\$ 1,931,435</u>	<u>\$ (30,845)</u>	<u>\$ 20,867,949</u>
 Business-type Activities Capital Assets, Net	<u>\$ 32,066,939</u>	<u>\$ 13,422,495</u>	<u>\$ (6,796,792)</u>	<u>\$ 38,692,642</u>

Included in additions above, is the contribution of the Owenton gas line. The net contributed value of \$5,003,921 is recorded as follows: Distribution system (asset) of \$5,458,822 and accumulated depreciation - distribution system of \$454,901.

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

Gas	\$ 449,866
Water	176,302
Sewer	850,366
Total Depreciation Expense	<u>\$ 1,476,534</u>

Reconciliation to Accumulated Depreciation Additions:

Depreciation Expense charged to	
Business-type Activities	\$ 1,476,534
Accumulated Depreciation from	
Owenton Gas Line Asset Transfer	454,901
Total Additions	<u>\$ 1,931,435</u>

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2011

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

3.D. CAPITAL ASSETS (Continued)

\$3,823,481 of assets have been recorded under capital leases associated with the Gas Distribution System. Accumulated depreciation of \$1,332,578 is associated with these assets.

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

3.E. LONG-TERM DEBT

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

Governmental Activities:

Capital Lease Obligations:

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

Current Portion	\$ 278,299
Noncurrent Portion	1,221,701
Total Capital Lease Obligations	<u>\$ 1,500,000</u>

Accrued Compensated Absences:

Current Portion	\$ 37,564
Noncurrent Portion	12,141
Total Accrued Compensated Absences	<u>\$ 49,705</u>

Business-type Activities:

As of June 30, 2011, 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. \$ 83,972

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. 1,557,029

Kentucky Infrastructure Authority represents a 20 year loan secured by sewer revenues. Interest is charged at the rate of 1.0%. The original principal balance was \$4,288,600. Semi-annual payments with final maturity December 1, 2026. 3,427,761

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2011

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

3.E. LONG-TERM DEBT (Continued)

Business-type Activities: (Continued)

Notes Payable: (Continued)

Kentucky Infrastructure Authority represents a 20 year loan secured by sewer revenues. Interest is charged at the rate of 1.07%. The principal balance shall not exceed \$750,000. At June 30, 2011, the outstanding principal balance was \$722,255. Principal payments will begin semi-annually on the due date (June 1 or December 1) which is at least six months after the last draw of funds occurs.

	<u>722,255</u>
Total Notes Payable	<u>\$ 5,791,017</u>
Current Portion	\$ 331,928
Noncurrent Portion	5,459,089
Total Notes Payable	<u>\$ 5,791,017</u>

Capital Lease Obligations:

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

\$ 511,663

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

	<u>77,688</u>
Total Capital Lease Obligations	<u>\$ 589,351</u>
Current Portion	\$ 220,091
Noncurrent Portion	369,260
Total Capital Lease Obligations	<u>\$ 589,351</u>

Accrued Compensated Absences:

Current Portion	\$ 4,953
Noncurrent Portion	8,081
Total	<u>\$ 13,034</u>

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2011

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

3.E. LONG-TERM DEBT (Continued)

Changes in Long-term Debt

The following is a summary of changes in long-term debt for the fiscal year ended June 30, 2011:

Type of Debt	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011	Current Portion
Governmental Activities					
Capital Lease Obligations	\$ -	\$ 1,500,000	\$ -	\$ 1,500,000	\$ 278,299
Accrued Compensated Absences	43,258	6,447	-	49,705	37,564
Total General Long-term Debt	<u>\$ 43,258</u>	<u>\$ 1,506,447</u>	<u>\$ -</u>	<u>\$ 1,549,705</u>	<u>\$ 315,863</u>
Business-type Activities					
Notes Payable	\$ 5,396,412	\$ 722,255	\$ 327,650	\$ 5,791,017	\$ 331,928
Capital Lease Obligations	838,755	-	249,404	589,351	220,091
Bonds Payable	172,300	-	172,300	-	-
Accrued Compensated Absences	18,935	-	5,901	13,034	4,953
Total Enterprise Fund Debt	<u>\$ 6,426,402</u>	<u>\$ 722,255</u>	<u>\$ 755,255</u>	<u>\$ 6,393,402</u>	<u>\$ 556,972</u>

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 will be 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.

Assuming the lease is not liquidated prior to maturity, the annual minimum obligation of the lease at June 30, 2011, is as follows:

Fiscal Year	Principal Payment	Interest Payment	Total Payment	Balance at End of Year
				\$ 1,500,000
2011-12	\$ 278,299	\$ 50,702	\$ 329,001	1,221,701
2012-13	288,750	40,251	329,001	932,951
2013-14	299,593	29,408	329,001	633,358
2014-15	310,842	18,159	329,001	322,516
2015-16	322,516	6,485	329,001	-
	<u>\$ 1,500,000</u>	<u>\$ 145,005</u>	<u>\$ 1,645,005</u>	<u>\$ -</u>

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2011

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

3.E. LONG-TERM DEBT (Continued)

Description of Debt Activity: (Continued)

Business-type Activities

Capital Lease Obligations-Kentucky League of Cities

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

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

In the Statement of Net Assets, the net costs associated with the early debt retirement of the 1992 issue are deferred and amortized over the remaining life of the defeased debt. The amount deferred is reported as a decrease (contra liability) to the book value of the new debt issued to finance the refunding. Total deferred costs were \$38,225. Amortization for the year was \$5,461 and is included as a component of interest expense. (Total amortization equals \$35,040 with \$3,185 remaining.)

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

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

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

Assuming the leases are not liquidated prior to maturity, the annual minimum obligation of the leases at June 30, 2011, are as follows:

<u>Fiscal Year</u>	<u>Principal Payment</u>	<u>Interest Payment</u>	<u>Fiscal Charges</u>	<u>Total Payment</u>	<u>Balance at End of Year</u>
					\$ 589,351
2011-12	\$ 220,091	\$ 16,379	\$ 4,115	\$ 240,585	369,260
2012-13	148,386	10,364	2,675	161,425	220,874
2013-14	154,550	5,184	1,633	161,367	66,324
2014-15	66,324	539	355	67,218	-
	<u>\$ 589,351</u>	<u>\$ 32,466</u>	<u>\$ 8,778</u>	<u>\$ 630,595</u>	<u>\$ -</u>

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2011

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

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

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

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

At June 30, 2011, a loan was open and subject to future draws. Through June 30, 2011, draws of \$722,255 had been made. The principal balance cannot exceed \$750,000. Payments will not begin until the final draw(s) is/are made. Excluding this note, the combined obligations of the outstanding notes at June 30, 2011 are as follows:

<u>Fiscal Year</u>	<u>Principal Payment</u>	<u>Interest Payment</u>	<u>Servicing Fee</u>	<u>Total Payment</u>	<u>Balance at End of Year</u>
					\$ 5,068,762
2011-12	\$ 331,928	\$ 62,570	\$ 9,972	\$ 404,470	4,736,834
2012-13	336,267	58,232	9,306	403,805	4,400,567
2013-14	340,669	53,831	8,632	403,132	4,059,898
2014-15	345,131	49,367	7,947	402,445	3,714,767
2015-16	349,659	44,840	7,255	401,754	3,365,108
2017-21	1,818,502	153,993	25,565	1,998,060	1,546,606
2022-26	1,400,639	45,117	8,438	1,454,194	145,967
2027-31	141,299	1,959	290	143,548	4,668
2031-32	4,668	56	7	4,731	-
	<u>\$ 5,068,762</u>	<u>\$ 469,965</u>	<u>\$ 77,412</u>	<u>\$ 5,616,139</u>	<u>\$ -</u>

Bonds Payable

City of Worthville 1998 Series A & B Sewer Revenue Bonds

With the Worthville Sewer asset transfer in fiscal year 2010, the sewer debt of the City of Worthville was assumed by the City of Carrollton. The 1998 Series A & B Bonds, original principal balances of \$124,000 and \$72,000, respectively, were paid off in March, 2011.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2011

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

3.E. LONG-TERM DEBT (Continued)

Annual Debt Service Requirements

The annual debt service requirements to maturity, including principal, interest, fiscal charges and servicing fees for long-term debt as of June 30, 2011 (excluding the Kentucky Infrastructure Loan not closed at year end), are as follows:

Fiscal Year	Governmental Activities		Business-type Activities	
	Principal	Interest & Fiscal Charges	Principal	Interest & Fiscal Charges
2011-12	\$ 278,299	\$ 50,702	\$ 552,019	\$ 93,693
2012-13	288,750	40,251	484,653	82,017
2013-14	299,593	29,408	495,219	116,992
2014-15	310,842	18,159	411,455	59,486
2015-16	322,516	6,485	349,659	52,095
2017-21	-	-	1,818,502	179,558
2022-26	-	-	1,400,639	53,555
2027-31	-	-	141,299	2,249
2032-36	-	-	4,668	63
2037-38	-	-	-	-
Total	<u>\$ 1,500,000</u>	<u>\$ 145,005</u>	<u>\$ 5,658,113</u>	<u>\$ 639,708</u>

3.F. INTEREST EXPENSE AND FISCAL CHARGES

Interest expense and fiscal charges for the Governmental Funds was \$2,276. Interest expense and fiscal charges for the Enterprise Fund for the year ended June 30, 2011, was \$128,030. No interest was capitalized during the year ended June 30, 2011.

3.G. INTERFUND TRANSACTIONS AND BALANCES

Interfund balances as reported in the fund financial statements at June 30, 2011, consisted of the following individual fund receivables and payables:

Receivable Fund	Payable Fund	Amount	Purpose
General Fund	Enterprise Fund	\$ 1,101,235	Sanitation Receipt Reimbursements/ PEAK Returns
Total		<u>\$ 1,101,235</u>	

Operating transfers during the year ended June 30, 2011 were as follows:

	Transfers In	Transfers Out
General Fund to Capital Projects Fund	<u>\$ 452,301</u>	<u>\$ 52</u>
Capital Projects Fund to General Fund	<u>\$ 52</u>	<u>\$ 452,301</u>
Grand Totals	<u>\$ 452,353</u>	<u>\$ 452,353</u>

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2011

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

3.H. FUND EQUITY

Restricted Net Assets

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

Governmental Activities

Activity	Restricted by	
Capital Projects - Two Rivers RV Campground	Lease Agreement	\$ 1,376,410
Community Development Projects	Grant Restrictions/Ordinance	\$ 46,008
Other Purposes:		
Municipal Road Aid	State Law	\$ 40,981
L.G.E.A.F.	State Law	3,800
		<u>\$ 44,781</u>

Business-type Activities

Restricted for:

Grant Funds Restricted for Wastewater Projects:

Cash and Investments	\$ 191,523
Construction Grants Receivable	187,731
Total Restricted for Capital Projects	<u>\$ 379,254</u>

Restricted for Debt Service:

Kentucky Infrastructure Authority (KIA) Notes Payable	\$ 492,899
Cash & Investments	-
Add: Accrued Interest Receivable	(6,148)
Less: Accrued Interest Payable	
Total KIA Notes Payable	<u>\$ 486,751</u>

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 or City Ordinances:

General Fund:	
Capital Projects - Two Rivers RV Campground	<u>\$ 1,376,410</u>
Other Governmental Funds:	
Community Development Projects (EIP)	\$ 46,008
Municipal Road Aid	40,981
L.G.E.A. F.	3,800
	<u>\$ 90,789</u>

Assigned for expenditures associated with the Shop with a Cop program as constrained to that purpose by action of the City Council:

Other Governmental Funds:	
Shop with a Cop	<u>\$ 12,264</u>

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2011

NOTE 4. OTHER NOTES

4.A. PENSION PLAN

Entry into the Commonwealth of Kentucky's County Employees' Retirement System (CERS) was authorized by the City Council and Carrollton Utilities Commission as of July 15, 1988 and September 1, 1992, respectively. The most recent financial report on CERS is included in the Kentucky Retirement System's annual report, June 30, 2010. Copies of this report will be distributed to each participating employer in the Kentucky Employees Retirement System, County Employees Retirement System, and State Police Retirement System. Copies will also be available to Legislative personnel and state libraries.

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

Contributions - For the fiscal year ended June 30, 2011, plan members were required to contribute 5% (6% for new members to CERS after September 1, 2008) of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565 (3), normal contribution and past service contribution rates shall be determined by the Board of Trustees of the Kentucky Retirement Systems (Board) on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the fiscal year ended June 30, 2011, participating employers contributed 16.93% of each employee's creditable compensation (17.93% for new members to CERS after September 1, 2008). The actuarially determined rate set by the Board for the fiscal year ended June 30, 2011, was 16.93% (17.93% for new members after September 1, 2008) of creditable compensation. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

The City's General Fund total payroll for the fiscal year ended June 30, 2011, was \$1,182,853. Contributions were based on \$1,083,234 (eligible gross wages). The total pension expense for the year ended June 30, 2011, was \$183,390 and \$54,948 for the employer and employees, respectively. All contributions were made as required during this fiscal year. There have been no changes in the plan since inception.

The City's Proprietary Fund total payroll for the fiscal year ended June 30, 2011, was \$1,292,236. Contributions were based on \$1,177,243 (eligible gross wages). The total pension expense for the fiscal year ended June 30, 2011, was \$199,148 and \$60,399 for the employer and employees, respectively. All contributions were made as required during this fiscal year. There have been no changes in the plan since inception.

The City's contribution for the year ended June 30, 2010, (general fund and proprietary fund combined) was .07 percent of the System's total contribution requirements for all employers.

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

	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Retiree Drug Subsidy Contributions</u>	<u>Percentage Contribution</u>
June 30, 2010	453,055,709	373,682,939	9,156,991	84.5%
June 30, 2009	425,830,683	303,046,162	7,623,628	72.9%
June 30, 2008	544,853,127	347,035,445	6,003,181	64.8%

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2011

NOTE 4. OTHER NOTES

4.A. PENSION PLAN (Continued)

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

4.B. RISK MANAGEMENT

Insurance and Related Activities

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

Under the health insurance plan adopted by the City, employee deductibles are \$3,000 (single plan)/\$9,000 (family plan). The City will pay for eligible medical expenditures incurred by employees above the maximum employee costs determined by the City of \$500 single/\$1,000 family up to the deductible of the plan (\$2,500 single/\$8,000 family). Any unused deductible remains with the City and does not accrue to the benefit of the employee. The estimated potential liability to the City under this policy is \$251,089. No accrual has been recorded in the financial statements due to the contingent nature of this liability.

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

4.C. COMMITMENTS, CONTINGENCIES & SUBSEQUENT EVENTS

Each employee is granted sick leave at the rate of eight hours per month up to a maximum of 1,440 hours. Employees shall not be paid for unused sick leave credit upon termination of employment, except that employees who retire and receive CERS retirement benefits may personally receive payment for unused sick leave for the same amount that CERS would charge for applying the accrued sick leave to extend retirement benefits. The total liability for accumulated sick leave at June 30, 2011 was \$506,069. No accrual has been recorded in the financial statements due to the contingent nature of this liability.

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

Carrollton Utilities has access to storage as part of its transportation services with Texas Gas Transmission. Gas is withdrawn from its storage account during the winter period (November – February) to be replenished the following summer period (March – October). At June 30, 2011, Carrollton Utilities has an unpaid and accrued storage liability estimated to be \$226,937.

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

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2011

NOTE 4. OTHER NOTES (Continued)

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

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

The City has entered into an interlocal agreement with the City of Ghent. Under this agreement the City of Ghent's system will become a part of the Regional Sewer System. In January, 2011, Carrollton Utilities took over the billing process for Ghent customers and the Ghent wastewater treatment plant was dismantled. However the formal transfer (including the assumption of the outstanding bonds) was not completed. The transfer will be fully completed during the 2011-12 fiscal year.

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 \$194,565 for the 2011-2012 fiscal year.

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

Two Rivers RV Campground Project

The City approved the construction of an RV camping facility. The contract bid was awarded to Ohio Valley Asphalt, LLC in the amount of \$1,174,000. Lose & Associates Inc. is the consultant engineer on the project. At June 30, 2011, the first draw had been made on the contract in the amount of \$107,034. This amount is included in accounts payable in the general fund. Retainage at that date was \$5,633. The project has been financed with a five year, \$1.5 million capital lease through the Kentucky League of Cities.

Carrollton Area Regional Economic Development (CARED) Project

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

With a projected cost of \$3,710,000, the project is being financed by \$500,269 of Kentucky Infrastructure Authority grants, an Economic Development Administration grant of \$2,783,000, a Community Development Block Grant of \$349,731 and local funds of \$77,000. The contractor bid was awarded to Mac Construction for \$2,747,321 (for both Contracts 5 and 6). The engineer on the project is MSE of Kentucky, Inc. At June 30, 2011, construction grants receivable included \$187,731 for this project. Also, at June 30, 2011, there was \$83,002 and \$50,719 of construction accounts payable and retainage, respectively, accrued on the statement of net assets.

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2011

NOTE 4. OTHER NOTES (Continued)

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

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, 2011, are as follows:

Assets	\$1,615,957,994
Liabilities	1,613,230,744
Total Net Assets	2,727,250
Costs Recoverable from Future Billings	7,264,874 *

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

Subsequent Event

Subsequent to year end the City was awarded a \$100,000 grant toward the establishment of walking trails. The City must provide a 100% match for the grant.

4.D. MISCELLANEOUS

Bad Debt Expense

Utility revenue charges have been netted with an estimated bad debt expense of \$27,350, \$7,500, and \$28,030 for gas, water and sewer services, respectively.

Income Tax Status

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2011

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, 2011, is presented as follows:

CONDENSED STATEMENT OF NET ASSETS

	Gas	Water	Sewer	Total
Assets:				
Current Assets	\$ 11,747,636	\$ (170,540)	\$ (940,203)	\$ 10,636,893
Other Noncurrent Assets	72,792	20,121	935,679	1,028,592
Capital Assets (Net)	11,020,655	1,977,119	25,694,868	38,692,642
Total Assets	<u>\$ 22,841,083</u>	<u>\$ 1,826,700</u>	<u>\$ 25,690,344</u>	<u>\$ 50,358,127</u>
Liabilities:				
Due to Other Funds	\$ 1,076,064	\$ 25,171	\$ -	\$ 1,101,235
Other Current Liabilities	3,820,691	151,553	567,101	4,539,345
Noncurrent Liabilities	442,059	17,098	5,522,777	5,981,934
Total Liabilities	<u>\$ 5,338,814</u>	<u>\$ 193,822</u>	<u>\$ 6,089,878</u>	<u>\$ 11,622,514</u>
Net Assets:				
Invested in Capital Assets, Net of Related Debt	\$ 10,516,742	\$ 1,902,616	\$ 19,903,851	\$ 32,323,209
Restricted	-	-	866,005	866,005
Unrestricted	6,985,527	(269,738)	(1,169,390)	5,546,399
Total Net Assets	<u>\$ 17,502,269</u>	<u>\$ 1,632,878</u>	<u>\$ 19,600,466</u>	<u>\$ 38,735,613</u>

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

	Gas	Water	Sewer	Total
Operating Revenues	\$ 43,797,499	\$ 1,147,655	\$ 1,594,231	\$ 46,539,385
Depreciation Expense	(449,866)	(176,302)	(850,366)	(1,476,534)
Other Operating Expenses	(42,807,979)	(931,218)	(937,086)	(44,676,283)
Net Operating Income (Loss)	<u>\$ 539,654</u>	<u>\$ 40,135</u>	<u>\$ (193,221)</u>	<u>\$ 386,568</u>
Nonoperating Revenues (Expenses):				
Interest Income	14,697	3,333	5,225	23,255
Interest & Fiscal Charges	(24,058)	(11,308)	(92,664)	(128,030)
Amortization of Lease Fees	(2,214)	-	-	(2,214)
Capital Contributions	5,003,921	-	1,739,605	6,743,526
Gain from Sale of Equipment	9,288	-	-	9,288
Change in Net Assets	<u>\$ 5,541,288</u>	<u>\$ 32,160</u>	<u>\$ 1,458,945</u>	<u>\$ 7,032,393</u>
Beginning Net Assets	11,960,981	1,600,718	18,141,521	31,703,220
Ending Net Assets	<u>\$ 17,502,269</u>	<u>\$ 1,632,878</u>	<u>\$ 19,600,466</u>	<u>\$ 38,735,613</u>

CONDENSED STATEMENT OF CASH FLOWS

	Gas	Water	Sewer	Total
Net Cash Provided (Used) by:				
Operating Activities	\$ 1,075,721	\$ 216,078	\$ 717,386	\$ 2,009,185
Capital and Related Financing Activities	(324,514)	(427,486)	(52,821)	(804,821)
Investing Activities	2,311	48	48	2,407
Net Increase (Decrease)	<u>\$ 753,518</u>	<u>\$ (211,360)</u>	<u>\$ 664,613</u>	<u>\$ 1,206,771</u>
Beginning Cash and Cash Equivalents	5,561,068	(132,951)	(1,170,087)	4,258,030
Ending Cash and Cash Equivalents	<u>\$ 6,314,586</u>	<u>\$ (344,311)</u>	<u>\$ (505,474)</u>	<u>\$ 5,464,801</u>

CITY OF CARROLLTON, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2011

NOTE 4. OTHER NOTES (Continued)

4.D. MISCELLANEOUS (Continued)

Economic Dependence

Carrollton Utilities Commission provides natural gas to residential, commercial, and industrial customers. It should be noted that 95% of the total gas revenue is received from seven industrial customers. As described in Note 4.C., all natural gas purchases are made through the Public Energy Authority of Kentucky (PEAK). \$39,389,313 of the \$41,730,690 gas cost of goods sold are for natural gas purchases, excluding related transportation costs. Additionally, 41% of the City's General Fund revenues are attributable to gas prepurchase agreements with PEAK.

Related Party Transactions

For the year ended June 30, 2011, the City received \$23,005 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
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>With Final</u> <u>Budget</u> <u>Favorable</u> <u>(Unfavorable)</u>
Budgetary Fund Balance, July 1	\$1,247,533	\$1,339,310	\$1,352,359	\$ 13,049
ESTIMATED REVENUES				
Payments in Lieu of Taxes	\$ 20,000	\$ 23,006	\$ 23,005	\$ (1)
Ad Valorem Taxes	370,100	354,666	352,798	(1,868)
Delinquent Taxes	46,000	59,149	64,546	5,397
Franchise Fees	100,000	98,900	112,446	13,546
Garbage Collection	437,000	432,000	419,884	(12,116)
Bank Franchise Deposit Tax	20,000	22,951	22,951	-
Business Licenses	95,000	95,000	103,757	8,757
Insurance Licenses	450,000	525,000	455,017	(69,983)
Building Permits	2,500	2,500	1,782	(718)
Penalty & Interest	4,000	5,100	7,744	2,644
Interest Revenue	4,300	2,575	4,044	1,469
PEAK Annual Return	1,224,000	1,458,255	1,472,692	14,437
Other Revenue	1,500	13,735	17,517	3,782
Proceeds from Outside Sources:				
Carroll County Tourism	15,000	15,000	-	(15,000)
HB413/Citations	15,000	14,182	13,590	(592)
CC Fiscal Court - Public Safety Salaries	205,125	205,125	212,779	7,654
Police & Firefighter's Incentive Pay	40,300	32,952	33,377	425
State Fire Aid	8,250	8,250	8,250	-
Police Grants	16,000	16,000	9,523	(6,477)
Disaster Relief FEMA/State	-	555	554	(1)
Litter Abatement	2,100	2,034	2,034	-
Transfers from other funds	1,561,350	1,395,255	52	(1,395,203)
Health Insurance Reimbursements	12,480	10,320	-	(10,320)
Transportation Enhancement (TE) Grant	-	247,000	247,000	-
Proceeds Kentucky League of Cities Lease	-	500,000	1,500,000	1,000,000
Total Estimated Revenues	\$4,650,005	\$5,539,510	\$5,085,342	\$ (454,168)
Total Resources Available for Appropriation	\$5,897,538	\$6,878,820	\$6,437,701	\$ (441,119)
APPROPRIATIONS				
Administrative	\$ 861,678	\$ 868,293	\$ 907,632	\$ (39,339)
Public Safety				
Fire Department	408,739	428,254	435,475	(7,221)
Police Department	820,100	807,153	813,867	(6,714)
Public Works	510,595	469,845	488,114	(18,269)
Parks and Recreation	70,900	82,375	17,380	64,995
Capital Outlay	1,148,150	1,471,880	532,630	939,250
Transfers to other funds	1,328,300	1,187,946	452,301	735,645
Debt Retirement	-	75,000	-	75,000
Total Appropriations	\$5,148,462	\$5,390,746	\$3,647,399	\$ 1,743,347
Excess of Resources and Revenues Over (Under) Appropriations	\$ 749,076	\$1,488,074	\$2,790,302	\$ 1,302,228
Estimated Fund Balances at June 30, 2011	\$ 749,076	\$1,488,074	\$2,790,302	\$ 1,302,228

CITY OF CARROLLTON, KENTUCKY
NOTES TO BUDGETARY COMPARISON SCHEDULE
June 30, 2011

Budgetary Accounting

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

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

Budget to Actual Reconciliation

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

	<u>General Fund</u>
Sources/inflows of resources:	
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 6,437,701
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	(1,352,359)
Transfers from other funds are inflows of budgetary resources, but are not revenues for financial reporting purposes.	(52)
Proceeds from Kentucky League of Cities lease for the development of a recreational vehicle park are inflows of budgetary resources, but are not revenues for financial reporting purposes.	<u>(1,500,000)</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 3,585,290</u>
Uses/outflows of resources:	
Actual amounts (budgetary basis) "total appropriations" from the budgetary comparison schedule	\$ 3,647,399
Differences - budget to GAAP:	
Transfers to other funds are out flows of budgetary resources but are not expenditures for financial reporting purposes.	<u>(452,301)</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 3,195,098</u>

CITY OF CARROLLTON, KENTUCKY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2011

	Special Revenue Funds				Capital Project Funds		Total Nonmajor Governmental Funds
	Municipal Road Aid	L.G.E.A.F. Program	Enterprise / Facade Improvement Program	Shop With A Cop	Skate Park	Polk Street Extension Project	
ASSETS							
Cash	\$ 30,285	\$ 3,403	\$ 46,008	\$ 12,264	\$ -	\$ -	\$ 91,960
Due from Other Governments	10,696	397	-	-	-	-	11,093
Total Assets	<u>\$ 40,981</u>	<u>\$ 3,800</u>	<u>\$ 46,008</u>	<u>\$ 12,264</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 103,053</u>
LIABILITIES							
Accounts Payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
FUND BALANCES							
Restricted	\$ 40,981	\$ 3,800	\$ 46,008	\$ -	\$ -	\$ -	\$ 90,789
Assigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,264</u>	<u>-</u>	<u>-</u>	<u>12,264</u>
Total Fund Balances	<u>\$ 40,981</u>	<u>\$ 3,800</u>	<u>\$ 46,008</u>	<u>\$ 12,264</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 103,053</u>
Total Liabilities and Fund Balances	<u>\$ 40,981</u>	<u>\$ 3,800</u>	<u>\$ 46,008</u>	<u>\$ 12,264</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 103,053</u>

CITY OF CARROLLTON, KENTUCKY
COMBINING STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2011

	Special Revenue Funds				Capital Project Funds		Total Nonmajor Governmental Funds
	Municipal Road Aid	L.G.E.A.F. Program	Enterprise / Facade Improvement Program	Shop With A Cop	Skate Park	Polk Street Extension Project	
REVENUES							
Kentucky Municipal Road Aid	\$ 80,882	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 80,882
Local Government Economic Assistance	-	1,334	-	-	-	-	1,334
Donations	-	-	-	25,350	-	-	25,350
Interest / Investment Revenue	226	37	104	64	4	68	503
Total Revenues	\$ 81,108	\$ 1,371	\$ 104	\$ 25,414	\$ 4	\$ 68	\$ 108,069
EXPENDITURES							
Current:							
Public Works	\$ 90,894	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 90,894
Parks & Recreation	-	12,976	-	-	2,769	-	15,745
Community Service	-	-	-	22,366	-	-	22,366
Capital Outlay	-	4,850	-	-	-	453,789	458,639
Total Expenditures	\$ 90,894	\$ 17,826	\$ -	\$ 22,366	\$ 2,769	\$ 453,789	\$ 587,644
Excess of Revenues Over (Under) Expenditures	\$ (9,786)	\$ (16,455)	\$ 104	\$ 3,048	\$ (2,765)	\$ (453,721)	\$ (479,575)
Other Financing Sources (Uses)							
Transfers In	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 452,301	\$ 452,301
Transfers Out	-	-	-	-	-	(52)	(52)
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 452,249	\$ 452,249
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	\$ (9,786)	\$ (16,455)	\$ 104	\$ 3,048	\$ (2,765)	\$ (1,472)	\$ (27,326)
Fund Balances - July 1	50,767	20,255	45,904	9,216	2,765	1,472	130,379
Fund Balances - June 30	\$ 40,981	\$ 3,800	\$ 46,008	\$ 12,264	\$ -	\$ -	\$ 103,053

CITY OF CARROLLTON, KENTUCKY
SCHEDULE OF DEPARTMENTAL OPERATING REVENUES AND EXPENSES
ENTERPRISE FUND
(CARROLLTON UTILITIES)
For the Year Ended June 30, 2011

	Departments			Contractual	
	Gas	Water	Sewer	Services	Total
Operating Revenues:					
Charges for Services:					
Utility Charges (Net of Bad Debt Expense)	\$ 43,777,118	\$ 949,425	\$ 1,501,757	\$ -	\$ 46,228,300
Connection Fees & Service Charges	15,624	6,629	79,479	-	101,732
Contractual Services	-	-	-	185,300	185,300
Total Charges for Services	<u>\$ 43,792,742</u>	<u>\$ 956,054</u>	<u>\$ 1,581,236</u>	<u>\$ 185,300</u>	<u>\$ 46,515,332</u>
 Miscellaneous Revenues	 4,757	 6,301	 12,995	 -	 24,053
Total Operating Revenues	<u>\$ 43,797,499</u>	<u>\$ 962,355</u>	<u>\$ 1,594,231</u>	<u>\$ 185,300</u>	<u>\$ 46,539,385</u>
 Operating Expenses:					
Cost of Goods Sold	\$ 41,730,690	\$ -	\$ -	\$ -	\$ 41,730,690
Operation & Maintenance	289,715	439,150	551,065	96,473	1,376,403
General & Administrative	787,574	319,593	386,021	76,002	1,569,190
Depreciation	449,866	176,302	850,366	-	1,476,534
Total Operating Expenses	<u>\$ 43,257,845</u>	<u>\$ 935,045</u>	<u>\$ 1,787,452</u>	<u>\$ 172,475</u>	<u>\$ 46,152,817</u>
Net Operating Income (Loss)	<u>\$ 539,654</u>	<u>\$ 27,310</u>	<u>\$ (193,221)</u>	<u>\$ 12,825</u>	<u>\$ 386,568</u>

CITY OF CARROLLTON, KENTUCKY
SCHEDULE OF OPERATION & MAINTENANCE, GENERAL &
ADMINISTRATIVE EXPENSES BY DEPARTMENT
ENTERPRISE FUND
(CARROLLTON UTILITIES)
For the Year Ended June 30, 2011

	Departments			Contractual Services	Total
	Gas	Water	Sewer		
OPERATION & MAINTENANCE					
Customer Service	\$ 61,010	\$ 38,465	\$ -	\$ 48,672	\$ 148,147
Mains	103,780	32,176	90,812	37,500	264,268
Transportation	34,484	29,382	48,778	8,315	120,959
Plant and Equipment	84,010	223,451	321,681	1,986	631,128
Chemicals	-	54,134	37,057	-	91,191
Electric, Light and Power	6,431	61,542	52,737	-	120,710
Total	<u>\$ 289,715</u>	<u>\$ 439,150</u>	<u>\$ 551,065</u>	<u>\$ 96,473</u>	<u>\$ 1,376,403</u>
GENERAL & ADMINISTRATIVE EXPENSES					
Office Salaries	\$ 246,956	\$ 57,523	\$ 77,317	\$ 14,287	\$ 396,083
Employee Benefits	283,197	132,931	159,763	52,694	628,585
Payroll Taxes	34,309	24,166	25,816	8,104	92,395
Commissioner Fees	3,269	3,245	3,245	-	9,759
Office Expenses	40,044	37,655	35,914	-	113,613
Professional and Outside Services	51,990	30,870	50,958	-	133,818
Insurance	84,758	8,857	8,857	-	102,472
Other	43,051	24,346	24,151	917	92,465
Total	<u>\$ 787,574</u>	<u>\$ 319,593</u>	<u>\$ 386,021</u>	<u>\$ 76,002</u>	<u>\$ 1,569,190</u>

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Carrollton, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the City of Carrollton, Kentucky's basic financial statements and have issued our report thereon dated January 5, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting (Items 11-1 and 11-2). 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.

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

COMPLIANCE AND OTHER MATTERS

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

We noted certain matters that we reported to management of City of Carrollton, Kentucky in a separate letter dated January 5, 2012.

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

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

Raisor, Zapp & Woods, PSC

RAISOR, ZAPP & WOODS, PSC
Certified Public Accountants

January 5, 2012

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

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Compliance

We have audited City of Carrollton, Kentucky's, compliance with the types of compliance requirements described in the (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of City of Carrollton, Kentucky's major federal programs for the year ended June 30, 2011. City of Carrollton, Kentucky's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of City of Carrollton, Kentucky's management. Our responsibility is to express an opinion on City of Carrollton, Kentucky's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Carrollton, Kentucky's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City of Carrollton, Kentucky's compliance with those requirements.

In our opinion, City of Carrollton, Kentucky, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of City of Carrollton, Kentucky is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Carrollton, Kentucky's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Carrollton, Kentucky's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis.

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

Internal Control Over Compliance (Continued)

A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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

Raisor, Zapp & Woods, PSC

RAISOR, ZAPP, & WOODS, PSC
Certified Public Accountants

January 5, 2012

CITY OF CARROLLTON, KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2011

<u>Federal Grant/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Justice</u>			
Pass-through the Kentucky Justice and Public Safety Cabinet		2010 - JAG - Carrollton PD -	
ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	16.803	00712	\$ 982
Total Pass-through the Kentucky Justice & Public Safety Cabinet			\$ 982
Total U.S. Department of Justice			\$ 982
<u>U.S. Department of Homeland Security, Federal Emergency Management Agency</u>			
Direct Program			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	-	\$ 41,749
Total Direct Program from U.S. Department of Homeland Security, Federal Emergency Management Agency			\$ 41,749
<u>U.S. Department of Commerce, Economic Development Administration</u>			
Direct Program			
Public Works and Economic Development Cluster			
ARRA - Economic Adjustment Assistance	11.307	-	\$ 1,372,850
Total Public Works and Economic Development Cluster			\$ 1,372,850
Total Direct Program from U.S. Department of Commerce, Economic Development Administration			\$ 1,372,850
<u>U.S. Department of Housing and Urban Development, Office of Community Planning and Development</u>			
Pass-through the Kentucky Department for Local Government			
Pass-through Owen County Fiscal Court			
CDBG State - Administered Small Cities Program Cluster			
Community Development Block Grants/State's Program and Non-entitlement Grants in Hawaii (State - Administered Small Cities Program)	14.228	08-017	\$ 10,525
Pass-through the Kentucky Department for Local Government			
Pass-through Gallatin County Fiscal Court			
CDBG State - Administered Small Cities Program Cluster			
ARRA - Community Development Block Grants/State's Program and Non-entitlement Grants in Hawaii (Recovery Act Funded) (State - Administered Small Cities Program)	14.255	08-106-A	178,039
Total CDBG State - Administered Small Cities Program Cluster			\$ 188,564
Total Pass-through the Kentucky Department for Local Government			\$ 188,564
Total U.S. Department of Housing and Urban Development, Office of Community Planning and Development			\$ 188,564
Total Expenditures of Federal Awards			\$ 1,604,145

Note A - Basis of Presentation

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

CITY OF CARROLLTON, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2011

A. SUMMARY OF AUDITORS' RESULTS:

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

Public Works and Economic Development Cluster
ARRA – Economic Adjustment Assistant CFDA 11.307
8. The threshold used for distinguishing Type A and Type B programs was \$300,000.
9. The City of Carrollton, Kentucky, did not qualify as a low risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

DEFICIENCIES IN INTERNAL CONTROL

GOVERNMENT AUDITING STANDARDS

11-1 SIZE OF ENTITY, CROSS-TRAINING AND CHECKING PROCEDURES

CONDITION:

Due to the size of the entity, cross-training and checking procedures are not in place for certain administrative positions. This limits internal control. This condition was cited as a material weakness in the schedule of findings and questioned costs for the year ended June 30, 2010 as 10-1.

CRITERIA:

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

CITY OF CARROLLTON, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Fiscal Year Ended June 30, 2011

B. FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)

DEFICIENCIES IN INTERNAL CONTROL (CONTINUED)

GOVERNMENT AUDITING STANDARDS (CONTINUED)

11-1 SIZE OF ENTITY, CROSS-TRAINING AND CHECKING PROCEDURES (CONTINUED)

CAUSE:

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

EFFECT:

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

RECOMMENDATION:

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

RESPONSE:

Efforts have been made to cross-train employees and implement additional checking procedures. We will continue our efforts to improve our review process.

11-2 FAILURE TO PREPARE A COMPLETE SET OF FINANCIAL STATEMENTS INCLUDING REQUIRED NOTE DISCLOSURES

CONDITION:

City government-wide financial statements, including the required disclosures are prepared as part of the annual audit. This condition was also cited as a significant deficiency in the schedule of findings and questioned costs for the year ended June 30, 2010 as 10-2.

CRITERIA:

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

CAUSE:

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

EFFECT:

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

**CITY OF CARROLLTON, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Fiscal Year Ended June 30, 2011**

B. FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)

DEFICIENCIES IN INTERNAL CONTROL (CONTINUED)

GOVERNMENT AUDITING STANDARDS (CONTINUED)

**11-2 FAILURE TO PREPARE A COMPLETE SET OF FINANCIAL STATEMENTS INCLUDING REQUIRED
NOTE DISCLOSURES (CONTINUED)**

RECOMMENDATION:

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

RESPONSE:

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

COMPLIANCE

None.

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

SIGNIFICANT DEFICIENCIES

None

COMPLIANCE

None

**CITY OF CARROLLTON, KENTUCKY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Fiscal Year June 30, 2011**

There were no prior year audit findings to report.