

CITY OF CARLISLE, KENTUCKY
Carlisle, Kentucky

FINANCIAL STATEMENTS
June 30, 2016

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City of Carlisle

Management's Discussion and Analysis

Our discussion and analysis of the City of Carlisle financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2016. Please read the following in conjunction with the auditors' report on page 8 and the City's financial statements, which begin to appear on page 11.

OVERVIEW OF THIS ANNUAL REPORT

This annual report consists of the management's discussion and analysis report, the independent auditors' report, the basic financial statements of the City, and the independent auditors' report on compliance. The financial statements also include notes that explain in more detail some of the information in the financial statements.

In the past, the primary focus of local government financial statements has been summarized fund type information on a current financial resource basis. This approach has been modified; the City's financial statements now present two kinds of statements, each with a different snapshot of the City's finances. The new focus is both the City as a whole (government-wide) and the fund financial statements. The government-wide financial statements provide both long-term and short-term information about the City's overall financial status. The fund financial statements, which have been provided in the past, focus on the individual funds of the City, reporting the City's operations in more detail than the government-wide statements. Both perspectives (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison (year to year or government to government) and enhance the City's accountability.

GOVERNMENT – WIDE FINANCIAL STATEMENTS

The government-wide statements report information about the City as a whole, using accounting methods similar to those used by private-sector companies. One of the most important questions asked about the City's finances is "Is the City as a whole better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Activities report information about the City's activities in a way that will help answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenditures are taken into account regardless of when cash is received or paid.

These two statements report the net position of the City and the changes in it. One can think of the City's net position-the difference between assets and liabilities-as one way to measure financial health or financial position. Over time, increases or decreases in the City's net position are an indicator of whether its financial health or position is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, changes in property tax rates or valuation, infrastructure asset condition, and new or changed government legislation.

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

Governmental activities - Most of the City's basic services are reported here, including general government administration, police, fire, planning and zoning and streets. Property taxes, licenses and permits (including occupational licenses fees and franchise fees), and grants finance most of these activities.

Business-type activities - The City collects fees from customers to cover the costs of the services, provided by the water, gas, sewer and sanitation utility.

FUND FINANCIAL STATEMENTS

Traditional users of government financial statements will find the fund financial statement presentation more familiar. The focus is now on the City's funds. The fund financial statements provide more information about the City's funds and not the City as a whole.

The City has two kinds of funds:

Governmental Fund – Most of the City's basic services are included in governmental funds, which focus on how cash and other financial assets, that can readily be converted to cash, flow in and out and the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided at the bottom of the governmental funds statement that explains the relationship (or differences) between them.

Proprietary Fund-Services for which the City charges customers a fee are generally reported in proprietary funds.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

NET POSITION

Our analysis begins with a summary of the City's Statement of Net Position, which is presented on Table A-1 followed by an explanation of the results. Changes in net position are presented in Table A-2 which is also followed by an explanation of the results.

Table A-1

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>	<u>2015 Totals</u>
Current and Other Assets	\$ 170,422	\$ 104,357	\$ 274,779	\$ 289,194
Non Current and Capital Assets	1,188,092	4,087,740	5,275,832	5,632,470
Deferred Outflows of Resources	<u>249,097</u>	<u>174,038</u>	<u>423,135</u>	<u>118,980</u>
Total Assets and deferred outflows	<u>1,607,611</u>	<u>4,366,135</u>	<u>5,973,746</u>	<u>6,040,644</u>
Long-Term Debt Outstanding	107,555	371,246	478,801	581,634
Net Pension Liability	873,646	728,390	1,602,036	1,075,321
Current Liabilities	<u>204,126</u>	<u>477,202</u>	<u>681,328</u>	<u>557,600</u>
Total Liabilities	<u>1,185,327</u>	<u>1,576,838</u>	<u>2,762,165</u>	<u>2,214,555</u>
Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>120,000</u>
Net Position:				
Net Investment in Capital Assets	1,010,507	3,595,652	4,606,159	4,811,044
Restricted	33,481	39,720	73,201	88,896
Unrestricted	<u>(621,704)</u>	<u>(846,075)</u>	<u>(1,467,779)</u>	<u>(1,193,851)</u>
Total Net Position	<u>\$ 422,284</u>	<u>\$ 2,789,297</u>	<u>\$ 3,211,581</u>	<u>\$ 3,706,089</u>

Net position from one activity generally cannot be used to make up for any deficits in the other activities.

Table A-2

Condensed Statement of Activities

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>	<u>2015 Totals</u>
Program Revenues				
Charges for Services	\$ -	\$ 1,618,974	\$ 1,618,974	\$ 1,832,711
Operating Grants & Contributions	59,651	-	59,651	51,063
Capital Grants & Contributions	<u>-</u>	<u>4,304</u>	<u>4,304</u>	<u>66,307</u>
Total Revenue	<u>59,651</u>	<u>1,623,278</u>	<u>1,682,929</u>	<u>1,950,081</u>
Program Expenses				
General Government	\$ 280,358	\$ -	\$ 280,358	\$ 235,057
Public Safety – Police	736,595	-	736,595	624,971
Public Safety-Fire	94,401	-	94,401	90,401
Street Department	237,656	-	237,656	220,670
Planning & Zoning	1,321	-	1,321	2,225
Interest on long-term debt	9,236	-	9,236	9,608
Utilities	<u>-</u>	<u>1,692,899</u>	<u>1,692,899</u>	<u>1,679,701</u>
Total Program expenses	<u>1,359,567</u>	<u>1,692,899</u>	<u>3,052,466</u>	<u>2,862,633</u>
Net Program costs	<u>\$ (1,299,916)</u>	<u>\$ (69,621)</u>	<u>\$ (1,369,537)</u>	<u>\$ (912,552)</u>
General Revenues				
Taxes	\$ 179,695	\$ -	\$ 179,695	\$ 174,202
License fees	491,114	-	491,114	467,755
Permits	364	-	364	954
Fines & Forfeitures	17,975	-	17,975	20,210
Investment earnings	80	48	128	129
Miscellaneous	176,753	-	176,753	13,080
Gain on sale of assets	-	9,000	9,000	12,130
Transfers	<u>260,313</u>	<u>(260,313)</u>	<u>-</u>	<u>-</u>
Total General Revenue and transfers	<u>1,126,294</u>	<u>(251,265)</u>	<u>875,029</u>	<u>688,460</u>
Net Change in Net Position	<u>\$ (173,622)</u>	<u>\$ (320,886)</u>	<u>\$ (494,508)</u>	<u>\$ (224,092)</u>

The City's change in Net Position above appears to be analogous to the long-standing concept of net revenues, but under the full accrual basis utilized by the Government Activities, their numbers include dollars of "paper" depreciation expenses that are not cash expenditures of the City. Therefore, these "paper" bookkeeping entries are never considered as part of the City's budget process. Additionally, the principal portions of debt obligations are excluded from the above but are reflected as debt service expenditures along with capital outlay expenditures in the City's budget for governmental activities. The business-type activities have always been on the full accrual basis.

GOVERNMENTAL ACTIVITIES

Table A-3 details a condensed statement of the fiscal year's governmental activities.

Table A-3

Condensed Governmental Activities – Revenues & Expenditures

	<u>General</u>	<u>Other Gov't Funds</u>	<u>Total</u>	<u>2015 Totals</u>
Taxes	\$ 179,695	\$ -	\$ 179,695	\$ 174,202
Licenses and permits	491,478	-	491,478	468,709
Intergovernmental	59,651	-	59,651	93,082
Fines & Forfeits	17,975	-	17,975	20,210
Other Revenues	<u>176,832</u>	<u>1</u>	<u>176,833</u>	<u>17,139</u>
Total Revenues	<u>\$ 925,631</u>	<u>\$ 1</u>	<u>\$ 925,632</u>	<u>\$ 773,342</u>
General Government	\$ 265,503	\$ -	\$ 265,503	\$ 226,799
Public Safety-Police	649,867	-	649,867	601,078
Public Safety – Fire	65,292	-	65,292	61,887
Planning and Zoning	1,321	-	1,321	2,225
Public Works-Streets	199,561	1,700	201,261	196,854
Debt Service	43,196	-	43,196	26,722
Capital Outlay	<u>33,209</u>	<u>-</u>	<u>33,209</u>	<u>207,308</u>
Total Expenditures	<u>\$ 1,257,949</u>	<u>\$ 1,700</u>	<u>\$ 1,259,649</u>	<u>\$ 1,322,873</u>
Excess Expenditures over Revenues before other Financing sources	<u>\$ (332,318)</u>	<u>\$ (1,699)</u>	<u>\$ (334,017)</u>	<u>\$ (549,531)</u>

The bottom number of Table A-3 above, should not be confused with the end-of-year "Fund Balance" figure shown in the City's General Fund Budget, because the above does not reflect the General Fund's beginning-of-year balance and any debt proceeds or other financing sources received during the fiscal year.

BUDGET HIGHLIGHTS

Over the course of the fiscal year, the City amended its budget. The budget contains proposed expenditures and expected revenues. A comparison of the original budget to actual amounts for the General Fund is presented in the table below (Tables A-4 & A-5).

Table A-4

General Fund-Revenues

	<u>Budget</u>	<u>Actual</u>	<u>Change</u>
Taxes	\$ 155,168	\$ 179,695	\$ 24,527
Licenses and permits	581,376	491,478	(89,898)
Intergovernmental	955,577	59,651	(895,926)
Fines and forfeitures	-	17,975	17,975
Other Revenues	<u>-</u>	<u>176,832</u>	<u>176,832</u>
Total Revenues	<u>\$ 1,692,121</u>	<u>\$ 925,631</u>	<u>\$ (766,490)</u>

Table A-5**General Fund-Expenditures**

	<u>Budget</u>	<u>Actual</u>	<u>Change</u>
General Government	\$ 883,422	\$ 265,503	\$ (617,919)
Public Safety-Police	583,555	649,867	66,312
Public Safety-Fire	54,502	65,292	10,790
Planning and Zoning	2,090	1,321	(769)
Streets	151,942	199,561	47,619
Capital Outlay	-	33,209	33,209
Debt Service	-	43,196	43,196
	<u>\$ 1,675,511</u>	<u>\$ 1,257,949</u>	<u>\$ (417,562)</u>

The City budgeted for a total of \$1,692,121 in revenues for 2015-2016, but ended up having revenues of \$925,631. The City was under budget on revenues by 45 percent. A total of \$1,675,511 was budgeted for expenses, but expenditures only totaled \$1,257,949 at the end of 2016. The City was under budget on the expenses by 24 percent.

CAPITAL ASSETS

Table A-6 shows summary totals for a broad range of capital assets, including police equipment, buildings, land, street equipment and fire equipment and all of the equipment and materials involved in the operation of water, gas and sewer utilities. Table A-6 shows the breakdown of non-depreciated capital assets for both governmental and business-type activities.

Table A-6**Capital Assets at Year End Without Depreciation**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>
Land	\$ 305,563	\$ 38,154	\$ 343,717
Infrastructure	528,006	-	528,006
Building & Improvements	238,715	-	238,715
Vehicles & Equipment	533,696	305,581	839,277
Equipment	477,575	-	477,575
Water, Gas & Sewer System	-	11,318,729	11,318,729
Total Capital Assets	<u>\$ 2,083,555</u>	<u>\$ 11,662,464</u>	<u>\$ 13,746,019</u>

DEBT

Table A-7 provides a summary of all of the City's outstanding indebtedness.

Table A-7

<u>Debt Outstanding at Year End</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>
Leases	\$ 87,802	\$ 93,069	\$ 180,871
Bonds Payable	54,400	343,833	398,233
Total Debt Outstanding	<u>\$ 142,202</u>	<u>\$ 436,902</u>	<u>\$ 579,104</u>

ECONOMIC FACTORS AND NEXT YEARS BUDGETS

The Mayor and City Council consider many factors when setting the fiscal year budget. Some of the factors are the local economy, expected grant money and anticipated tax revenue and utility services (water, gas, sewer and trash).

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the citizens of the City, taxpayers, customers and investors 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 Angie Lyons, City Clerk, 107 E. Chestnut St., Carlisle, KY 40311.



INDEPENDENT AUDITORS' REPORT

Mayor and the City Council
City of Carlisle
Carlisle, Kentucky

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Qualified
Business-Type Activities	Qualified
General Fund	Qualified
Utility Fund	Qualified
Aggregate Remaining Fund Information	Unmodified

Basis for Qualified Opinion on Governmental Activities and General Fund

Our audit was limited because we were unable to verify the classification of certain revenues and expenses/expenditures due to limited controls over the recording of transactions. For the year ended June 30, 2016, proper records of revenues received and expenses/expenditures paid by the General Fund were not kept to ensure appropriate classifications. Consequently, some revenues and expenses/expenditures may not be classified correctly.

Basis for Qualified Opinion on Business-Type Activities and Utility Fund

Our audit was limited because we were unable to verify the balance of utility deposits as of June 30, 2016, which did not allow us to obtain sufficient evidence to determine whether deposits payable and utility revenues are fairly stated. Our audit was also limited because we were unable to verify the classification of certain expenses related to the City's Utility Fund due to limited controls over the processing of payments to vendors. Consequently, some expenses in the Utility Fund may not be classified correctly.

Qualified Opinions

In our opinion, except for the effects of the matters described in the "Basis for Qualified Opinion on Governmental Activities and General Fund" paragraph, and the "Basis for Qualified Opinion on Business-Type Activities and Utility Fund" paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the City of Carlisle, Kentucky, as of June 30, 2016, and the changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the aggregate remaining fund information of the City of Carlisle, Kentucky, as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and pension schedules on pages 1–7 and 33–35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Carlisle, Kentucky's financial statements as a whole. The balance sheet – combining nonmajor governmental funds; statement of revenues, expenditures and changes in fund balance combining – nonmajor governmental funds; and statement of operating revenues and expenses – proprietary fund are presented for purposes of additional analysis and are not a required part of the financial statements. This information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. This 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, except for the effects on the supplementary information of the qualified opinion on the basic financial statements as explained in the "Basis for Qualified Opinion on Governmental Activities and General Fund" and "Basis for Qualified Opinion on Business-Type Activities and Utility Fund" paragraphs, this information is fairly stated in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2019, on our consideration of the City of Carlisle, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Carlisle, Kentucky's internal control over financial reporting and compliance.

RFH

RFH, PLLC
Lexington, Kentucky
October 18, 2019

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

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets			
Receivables, net	\$ 163,504	\$ 111,275	\$ 274,779
Internal balances	6,918	(6,918)	-
Total current assets	<u>170,422</u>	<u>104,357</u>	<u>274,779</u>
Noncurrent assets			
Restricted cash and cash equivalents	33,481	39,720	73,201
Capital assets (Note 3)			
Land and improvements, net	305,563	38,154	343,717
Depreciable infrastructure, net	402,888	-	402,888
Utility systems, net	-	3,994,400	3,994,400
Depreciable buildings, property, vehicles, and equipment, net	446,160	-	446,160
Other assets	-	15,466	15,466
Total noncurrent assets	<u>1,188,092</u>	<u>4,087,740</u>	<u>5,275,832</u>
Total assets	<u>1,358,514</u>	<u>4,192,097</u>	<u>5,550,611</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows - pension	249,097	174,038	423,135
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u><u>\$ 1,607,611</u></u>	<u><u>\$ 4,366,135</u></u>	<u><u>\$ 5,973,746</u></u>
LIABILITIES			
Current Liabilities			
Cash deficit	\$ 16,045	\$ 55,471	\$ 71,516
Accounts payable	38,566	143,016	181,582
Customer deposits payable	-	105,196	105,196
Accrued liabilities	112,966	106,126	219,092
Accrued interest payable	1,902	1,737	3,639
Current portion of long-term obligations	34,647	65,656	100,303
Total current liabilities	<u>204,126</u>	<u>477,202</u>	<u>681,328</u>
Noncurrent liabilities			
Noncurrent portion of long-term obligations	107,555	371,246	478,801
Net pension liability	873,646	728,390	1,602,036
Total noncurrent liabilities	<u>981,201</u>	<u>1,099,636</u>	<u>2,080,837</u>
Total liabilities	<u>1,185,327</u>	<u>1,576,838</u>	<u>2,762,165</u>
NET POSITION			
Net investment in capital assets	1,010,507	3,595,652	4,606,159
Restricted for:			
Debt service	33,401	39,720	73,121
Other	80	-	80
Unrestricted	(621,704)	(846,075)	(1,467,779)
Total net position	<u>422,284</u>	<u>2,789,297</u>	<u>3,211,581</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u><u>\$ 1,607,611</u></u>	<u><u>\$ 4,366,135</u></u>	<u><u>\$ 5,973,746</u></u>

The accompanying notes are an integral
part of the financial statements.

CITY OF CARLISLE, KENTUCKY
STATEMENT OF ACTIVITIES
for the year ended June 30, 2016

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position Primary Government		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities							
General government	\$ 280,358	\$ -	\$ -	\$ -	\$ (280,358)	\$ -	\$ (280,358)
Public safety-Police	736,595	-	51,401	-	(685,194)	-	(685,194)
Public safety-Fire	94,401	-	8,250	-	(86,151)	-	(86,151)
Planning & zoning	1,321	-	-	-	(1,321)	-	(1,321)
Street department	237,656	-	-	-	(237,656)	-	(237,656)
Interest on long-term debt	9,236	-	-	-	(9,236)	-	(9,236)
Total governmental activities	1,359,567	-	59,651	-	(1,299,916)	-	(1,299,916)
Business-type activities							
Utilities	1,692,899	1,618,974	-	4,304	-	(69,621)	(69,621)
Total business-type activities	1,692,899	1,618,974	-	4,304	-	(69,621)	(69,621)
Total primary government	\$ 3,052,466	\$ 1,618,974	\$ 59,651	\$ 4,304	(1,299,916)	(69,621)	(1,369,537)
General revenues:							
Taxes:							
Property taxes, levied for general purposes					179,695	-	179,695
License fees:							
Franchise					37,479	-	37,479
Insurance premiums					200,608	-	200,608
Occupational					222,979	-	222,979
Other					30,048	-	30,048
Permits:							
Building					364	-	364
Fines & forfeitures					17,975	-	17,975
Investment earnings					80	48	128
Miscellaneous					176,753	-	176,753
Total general revenues					865,981	48	866,029
Gain from sale of assets					-	9,000	9,000
Transfers in (out)					260,313	(260,313)	-
Total general revenues, transfers, and gain on assets					1,126,294	(251,265)	875,029
Change in net position					(173,622)	(320,886)	(494,508)
Net position-beginning, as restated					595,906	3,110,183	3,706,089
NET POSITION-ENDING					\$ 422,284	\$ 2,789,297	\$ 3,211,581

The accompanying notes are an integral
part of the financial statements.

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

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 17,356	\$ 80	\$ 17,436
Receivables, net	163,504	-	163,504
Due from other funds	<u>6,918</u>	<u>-</u>	<u>6,918</u>
Total assets	<u>\$ 187,778</u>	<u>\$ 80</u>	<u>\$ 187,858</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 38,566	\$ -	\$ 38,566
Accrued liabilities	<u>112,966</u>	<u>-</u>	<u>112,966</u>
Total liabilities	<u>151,532</u>	<u>-</u>	<u>151,532</u>
Fund balances			
Restricted	33,401	80	33,481
Unassigned	<u>2,845</u>	<u>-</u>	<u>2,845</u>
Total fund balances	<u>36,246</u>	<u>80</u>	<u>36,326</u>
Total liabilities and fund balances	<u>\$ 187,778</u>	<u>\$ 80</u>	<u>\$ 187,858</u>

Amounts reported for *governmental activities* in the statement of net position are different because:

Fund balances reported above	\$ 36,326
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	1,154,611
Net deferred inflows/outflows related to the long-term net pension liability are not reported in the funds.	249,097
Interest accrued on general long-term debt is not a current expenditure and is not reported in the funds.	(1,902)
Long-term liabilities, including bonds/leases payable and net pension liability, are not due and payable in the current period and therefore are not reported in the funds.	<u>(1,015,848)</u>
Net position of governmental activities	<u>\$ 422,284</u>

The accompanying notes are an integral
part of the financial statements.

CITY OF CARLISLE, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
for the year ended June 30, 2016

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes	\$ 179,695	\$ -	\$ 179,695
Licenses and permits	491,478	-	491,478
Intergovernmental	59,651	-	59,651
Fines and forfeitures	17,975	-	17,975
Other revenues	<u>176,832</u>	<u>1</u>	<u>176,833</u>
Total revenues	<u>925,631</u>	<u>1</u>	<u>925,632</u>
EXPENDITURES			
Current:			
General administration	265,503	-	265,503
Public safety-Police	649,867	-	649,867
Public safety-Fire	65,292	-	65,292
Planning and zoning	1,321	-	1,321
Streets	199,561	1,700	201,261
Capital outlay	33,209	-	33,209
Debt service	<u>43,196</u>	<u>-</u>	<u>43,196</u>
Total expenditures	<u>1,257,949</u>	<u>1,700</u>	<u>1,259,649</u>
Excess (deficiency) of revenues over expenditures	<u>(332,318)</u>	<u>(1,699)</u>	<u>(334,017)</u>
Other Financing Sources (Uses)			
Transfers	<u>260,313</u>	<u>-</u>	<u>260,313</u>
Net Change in Fund Balance	(72,005)	(1,699)	(73,704)
Fund balances - beginning	<u>108,251</u>	<u>1,779</u>	<u>110,030</u>
FUND BALANCES - ENDING	<u>\$ 36,246</u>	<u>\$ 80</u>	<u>\$ 36,326</u>
Reconciliation to government-wide change in net position:			
Net change in fund balances			\$ (73,704)
add: capital outlay expenditures capitalized			33,209
add: debt service expenditures			43,196
less: change in net pension liability			(60,377)
less: depreciation on governmental activities assets			(106,710)
less: interest on long - term debt			<u>(9,236)</u>
Change in net position, governmental activities			<u>\$ (173,622)</u>

The accompanying notes are an integral
part of the financial statements.

CITY OF CARLISLE, KENTUCKY
BALANCE SHEET
PROPRIETARY FUNDS
June 30, 2016

	Business-type Activities Utility Fund
ASSETS	
Current assets	
Receivables, net	\$ 111,275
Total current assets	<u>111,275</u>
Noncurrent assets	
Restricted cash and cash equivalents	39,720
Other assets	15,466
Capital assets:	
Land	38,154
Utility systems	11,624,311
Less accumulated depreciation	<u>(7,629,911)</u>
Total noncurrent assets	<u>4,087,740</u>
Total assets	<u>4,199,015</u>
DEFERRED OUTFLOW OF RESOURCES	
Deferred outflows - pension	<u>174,038</u>
Total assets and deferred outflows of resources	<u>\$ 4,373,053</u>
LIABILITIES	
Current liabilities	
Cash deficit	\$ 55,471
Accounts payable	143,016
Customer deposits	105,196
Accrued liabilities	106,126
Accrued interest payable	1,737
Due to other funds	6,918
Bonds, notes, and loans payable	<u>65,656</u>
Total current liabilities	<u>484,120</u>
Noncurrent liabilities	
Bonds, notes, and loans payable	371,246
Net pension liability	<u>728,390</u>
Total noncurrent liabilities	<u>1,099,636</u>
Total liabilities	<u>1,583,756</u>
NET POSITION	
Net investment in capital assets	3,595,652
Restricted for other purposes	39,720
Unrestricted	<u>(846,075)</u>
Total net position	<u>2,789,297</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 4,373,053</u>

The accompanying notes are an integral
part of the financial statements.

CITY OF CARLISLE, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
for the year ended June 30, 2016

	Business-type Activities
	Utility Fund
Operating revenues	
Charges for services	\$ 1,567,953
Penalties	25,086
Other revenue	<u>25,935</u>
Total operating revenues	<u>1,618,974</u>
Operating expenses	
Gas department	305,560
Water department	501,511
Sewer department	307,852
Sanitation department	224,020
Depreciation	<u>330,137</u>
Total operating expenses	<u>1,669,080</u>
Operating income (loss)	<u>(50,106)</u>
Nonoperating revenues (expenses)	
Gain on sale of assets	9,000
Interest and investment revenue	48
Interest expense	<u>(23,819)</u>
Total nonoperating revenue (expenses)	<u>(14,771)</u>
Income before capital contributions and transfers	<u>(64,877)</u>
Capital contributions	
Grant revenue	3,720
Water and sewer tap fees	584
Transfers (out)	<u>(260,313)</u>
Increase (decrease) in net position	<u>(320,886)</u>
Total net position-beginning	<u>3,110,183</u>
TOTAL NET POSITION-ENDING	<u><u>\$ 2,789,297</u></u>

The accompanying notes are an integral
part of the financial statements.

**CITY OF CARLISLE, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
for the year ended June 30, 2016**

	Business-type Activities Utility Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 1,620,440
Payments to suppliers	(569,022)
Payments for employee services and benefits	(719,813)
	<u>331,605</u>
Net cash provided by operating activities	<u>331,605</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Cash overdraft	55,471
Transfers (to) from other funds	(260,313)
	<u>(204,842)</u>
Net cash (used by) noncapital financing activities	<u>(204,842)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital contributions - tap fees	584
Purchases of capital assets	(50,576)
Grant revenues	3,720
Proceeds from sale of capital assets	9,000
Principal paid on capital debt	(89,791)
Interest paid on capital debt	(23,274)
	<u>(150,337)</u>
Net cash (used by) capital and related financing activities	<u>(150,337)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	<u>48</u>
Net cash provided by investing activities	<u>48</u>
Net increase (decrease) in cash and cash equivalents	(23,526)
Balances-beginning of the year	<u>63,246</u>
BALANCES-END OF THE YEAR	\$ <u>39,720</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (50,106)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	330,137
Net pension liability activity	42,184
Change in assets and liabilities:	
Receivables, net	1,466
Other assets	(2,993)
Accounts and other payables	(8,668)
Accrued expenses	19,585
Net cash provided by operating activities	\$ <u>331,605</u>
Supplemental disclosures of cash flow information	
Noncash financing activities:	
Capital asset purchases accrued as a liability	<u>\$ 9,127</u>

The accompanying notes are an integral
part of the financial statements.

CITY OF CARLISLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Carlisle, Kentucky (the City), operates under the City Council form of government and provides the following services as authorized by its charter: public safety and public works. The accounting policies of the City of Carlisle conform to generally accepted accounting principles applicable to governmental units. The following is a summary of the more significant accounting policies.

A. Reporting Entity

Generally accepted accounting principles require governmental entities to determine the agencies or entities which comprise the government for financial reporting purposes, the criteria of oversight responsibility over such agencies or entities, special financing relationships and scope of public service provided by the agencies or entities are used. Oversight responsibility is determined by the extent of financial interdependency, control over the selection of the governing authority and management, ability to significantly influence operations, and accountability for fiscal matters. The Carlisle-Nicholas County Industrial Authority, Nicholas County Senior Citizens, Nicholas County Adult Education, Nicholas County Tourism Commission, and Nicholas County Public Library are not included in the accompanying financial statements. These are independent units that select management staff, set user charges, establish budgets, and control all aspects of daily activities. There are no other identified units not included.

B. Basis of Presentation

The City's financial statements consist of the following:

- Management's discussion and analysis (required supplementary information)
- Basic Financial Statements
 - Government-wide financial statements
 - Fund financial statements
 - Notes to financial statements
- Budgetary Comparison and Pension Schedules (required supplementary information)

Government-wide Financial Statements

The government-wide financial statements include the statement of net position and the statement of activities. These statements display information about the City as a whole. The statements distinguish between governmental and business-type activities of the City. These financial statements include the financial activities of the City except for fiduciary activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely on fees and charges for support. The government-wide statement of activities reflects costs of government by function for governmental activities and business-type activities. Program revenues include charges paid by recipient for the goods or services offered by the program and grants or contributions that are restricted to the program. Revenues which are not classified as program revenues are presented as general revenues of the City.

Fund Financial Statements

Fund financial statements report detailed information about the City. The accounts of the City are organized on the basis of funds each of which is considered to be a separate fiscal and accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that is comprised of its assets, liabilities, reserves, fund equity, revenues and expenditures or expenses.

CITY OF CARLISLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation, continued

Governmental funds are those through which most governmental functions are financed. The governmental fund measurement focus is upon determination of financial position and budgetary control over revenues and expenditures. Proprietary fund types are used to account for operations that are financed and operated in a manner similar to business enterprises - where intent of the governing body is that costs of providing services are to be financed or recovered primarily through user charges.

The following governmental funds are used by the City of Carlisle:

General Fund – The general operating fund of the City is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund

Municipal Road Aid – This fund accounts for receipts and expenditures from the State Municipal Aid program.

Proprietary Funds

Proprietary funds are used to account for the ongoing organizations and activities of the City, which are similar to those found in private business enterprises. The measurement focus is upon determination of net income, financial position, and changes in cash flows.

Enterprise funds are established to account for the acquisition, operations and maintenance of the City's facilities and services which are entirely or predominantly self-supported by user charges or where the City has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The accounts are maintained on the accrual basis of accounting. The City's enterprise operations include the following:

Utility Fund – A proprietary fund used to account for the gas, water, sewer, and sanitation utility services provided to the residents of the City of Carlisle, the operations of which are financed by user charges.

C. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Government-wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the City as a whole. The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of 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 individual funds.

CITY OF CARLISLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting, continued

Fund Financial Statements

The financial transactions of the City are recorded in individual funds. Their focus is on individual funds rather than reporting funds by type. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet.

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than interest on long-term debt, are recorded when the liability is incurred.

Proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and expenses are recognized when they are incurred.

Permits, fines and forfeits, and miscellaneous revenues (except for investment earnings) are recorded as revenues when received because they are generally not measurable until actually received. Taxes, intergovernmental revenues, investment earnings, and charges for services are accrued since they are measurable and available in all funds.

D. Fund Balance

In fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into nonspendable and spendable components, if applicable. The City has adopted Governmental Accounting Standards Board (GASB) 54 which further breaks down both non-spendable and spendable components into the following components:

Nonspendable – amounts that must be maintained intact legally or contractually.

Restricted – amounts constrained for a specific purpose by external parties, constitutional provisions or enabling legislation.

Committed – amounts constrained for a specific purpose by the City using its highest level of decision making authority.

Assigned – for all governmental funds, other than the General Fund, any remaining positive amounts not classified as nonspendable, restricted or committed. For the General Fund, amounts constrained, by intent, to be used for a specific purpose by the City or the elected City official given authority to assign amounts.

Unassigned – for the General Fund, amounts not classified as nonspendable, restricted, committed or assigned. For all other government funds, amounts expended in excess of resources that are nonspendable, restricted, committed or assigned.

For resources considered to be committed, the City issues an ordinance that can be changed with another corresponding ordinance.

CITY OF CARLISLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Fund Balance, continued

For resources considered to be assigned, the City has designated the Mayor to carry the intent of the City Council.

It is the policy of the City to spend restricted funds first when both restricted and unrestricted funds are available. Once restricted funds are spent, the City will use committed funds first, assigned funds second and unassigned funds last.

E. Budgeting

The City follows the procedures established pursuant to Section 91A.030 of the Kentucky Revised Statutes in establishing the budgetary data reflected in the financial statements. Budgets for all funds are adopted on a basis consistent with generally accepted accounting principles.

The City adopts budget ordinances in a summarized format that provide totals on a functional or department basis. Budgeted amounts in the financial statements are presented in a summarized format.

F. Capital Assets

The City of Carlisle has elected to not report major infrastructure retroactively. Capital assets acquired are recorded at cost or estimated cost. Depreciation of capital assets is provided over the estimated useful lives of the respective assets using the straight-line basis. The estimated useful lives are as follows:

Infrastructure	20-40 years
Buildings and improvements	25-40 years
Land improvements	10-20 years
Vehicles, furniture, and equipment	5-10 years
Utility systems	25-40 years

G. Management's Review of Subsequent Events

The City has evaluated and considered the need to recognize or disclose subsequent events through October 18, 2019, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended June 30, 2016, have not been evaluated by the City.

H. Other Accounting Policies

Inventory consists of utility supplies. Inventory amounts are stated at cost.

All cash and investments restricted and unrestricted are considered cash for purposes of the statement of cash flows.

The City records investments with maturities of one year or less at acquisition at cost in conformity with the GASB Codification.

Accounts receivable from customers are stated less an allowance for doubtful accounts on June 30, 2016 of \$800 for the utility fund and \$1,371, for the property tax receivable in the General Fund.

Interest costs are capitalized when incurred by proprietary funds on debt where proceeds were used to finance the construction of assets.

CITY OF CARLISLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Other Accounting Policies (continued)

Unearned revenues represent grant revenues received but unearned. Revenues are recognized when eligible expenditures are incurred.

The City does not use encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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 "internal balances". Interfund receivables and payables between funds within governmental activities and proprietary activities are eliminated in the Statement of Net Position.

Proprietary funds report all revenues and expenses as operating, except interest income, interest expense, amortization, grant revenues and capital contributions.

2. CASH AND INVESTMENTS

Under Kentucky Revised Statute 66.480, the City is allowed to invest in obligations of the U.S. Treasury and U.S. agencies, obligations of the Commonwealth of Kentucky and its agencies, insured savings and loans, or interest bearing deposits of insured national or state banks.

The City of Carlisle's deposits and investments at June 30, 2016 were covered by federal depository insurance or by collateral held by the custodial banks in the City's name. The book balances of the City's deposits were \$1,685, and the bank balances were \$103,539.

Statement of Cash Flow

The Utility Fund Statement of Cash Flow includes as cash and cash equivalents all cash restricted or unrestricted as follows:

Cash	\$ -
Cash-Restricted	<u>39,720</u>
Total cash and cash equivalents	<u>\$ 39,720</u>

CITY OF CARLISLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

3. CAPITAL ASSETS

A summary of capital asset activity during the fiscal year follows:

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016
Governmental Activities:				
Capital assets not depreciated:				
Land & Improvements	\$ 305,563	\$ -	\$ -	\$ 305,563
Capital assets that are depreciated:				
Buildings and Improvements	223,706	15,009	-	238,715
Vehicles	533,696	-	-	533,696
Equipment	459,375	18,200	-	477,575
Infrastructure Assets	528,006	-	-	528,006
Total depreciable capital assets	1,744,783	33,209	-	1,777,992
Total capital assets	2,050,346	33,209	-	2,083,555
Less Accumulated Depreciation:				
Buildings and Improvements	62,839	7,300	-	70,139
Vehicles	372,922	47,150	-	420,072
Equipment	285,889	27,726	-	313,615
Infrastructure Assets	100,584	24,534	-	125,118
Totals	822,234	106,710	-	928,944
Capital assets, net	\$ 1,228,112	\$ (73,501)	\$ -	\$ 1,154,611
Business-Type Activities				
Capital assets:				
Land	\$ 38,154	\$ -	\$ -	\$ 38,154
Water, Gas, and Sewer System	11,263,524	57,420	2,215	11,318,729
Vehicle and Equipment	385,579	2,282	82,280	305,581
Totals	11,687,257	59,702	84,495	11,662,464
Less Accumulated Depreciation	7,384,268	330,137	84,495	7,629,910
Capital assets, net	\$ 4,302,989	\$ (270,435)	\$ -	\$ 4,032,554

Depreciation expense was charged to the Governmental functions as follows:

General government	\$ 10,860
Police	37,964
Fire	28,154
Streets	29,732
Total Depreciation Expense	\$ 106,710

CITY OF CARLISLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

4. BUSINESS-TYPE ACTIVITIES LONG-TERM DEBT

Capital Lease – Garbage Truck

The City entered into a capital lease to purchase a new garbage truck and refinance an existing garbage truck during the fiscal year ended June 30, 2012. The total value of the lease was \$143,799. This included \$112,000 for a new Cobra garbage truck and \$38,505 for the refinancing of a 2007 capital lease for an existing garbage truck. The capital lease calls for quarterly payments of \$5,232 beginning on March 30, 2011 and ending on December 30, 2018. The lease bears interest at 3.8%. The net book value of the garbage trucks at June 30, 2016 totaled \$53,657.

The future capital lease payments are summarized as follows:

	Principal	Interest	Total
2017	\$ 19,315	\$ 1,615	\$ 20,930
2018	20,059	871	20,930
2019	<u>10,317</u>	<u>147</u>	<u>10,464</u>
	<u>\$ 49,691</u>	<u>\$ 2,633</u>	<u>\$ 52,324</u>

Capital Lease - Water, Sewer and Gas Trucks

On June 4, 2015, the City entered into two identical lease agreements for the purchase of two 2015 Chevrolet Silverado 1500 trucks to be used for the Water, Sewer and Gas departments. The total value of the leases was \$52,874. The leases called for annual payments of \$6,495 each beginning June 2016 and ending June 2020. The leases had an interest rate of 5.38%. In May 2017 the leases were refinanced to an interest rate of 5% with payments to be made quarterly over a period of four years. The net book value of the trucks at June 30, 2016 totaled \$41,415.

The future capital lease payments are summarized as follows:

	Principal	Interest	Total
2017	\$ 10,008	\$ 2,982	\$ 12,990
2018	10,546	2,444	12,990
2019	11,112	1,878	12,990
2020	<u>11,712</u>	<u>1,278</u>	<u>12,990</u>
	<u>\$ 43,378</u>	<u>\$ 8,582</u>	<u>\$ 51,960</u>

BONDS AND LOANS PAYABLE

The City issued \$402,000 of "City of Carlisle Utility System Revenue Bonds" dated January 1, 1999, bearing interest at the rate of 4.5% to provide funds for construction of sewer improvements. The bonds mature in 2039.

On July 9, 2010, the City issued \$226,000 of Kentucky Bond Corporation, Series 2010A bonds. The bonds bear interest at rates ranging from .75% to 2.4%. The bonds matured in 2016.

The City obtained a loan through the Kentucky Infrastructure Authority on June 1, 1998 for \$425,895 at rates of 3.1% to 5% for twenty years through June 1, 2017. The money was used for various utility projects. The loan was restructured on July 29, 2004 by having the reserve fund applied to the balance of the loan. There was also a \$10,058 discount which was applied to past refinancing costs and resulted in reducing these amortized costs. The restructuring also resulted in a fluctuating interest rate, ranging from 2.25%-5.25%, over the remaining life of the loan, which did not change.

CITY OF CARLISLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

4. BUSINESS-TYPE ACTIVITIES LONG-TERM DEBT (CONTINUED)

A summary of changes in business-type activities long-term debt follows:

	July 1, 2015	Additions	Retirements	June 30, 2016
Utility Revenue Bonds – 1999	\$ 323,000	\$ -	\$ (7,500)	\$ 315,500
2010A Series Bonds	24,197	-	(24,197)	-
Trash Truck – Lease	68,289	-	(18,598)	49,691
Kentucky Infrastructure Authority	58,333	-	(30,000)	28,333
Water, Sewer & Gas Truck – Leases	<u>52,874</u>	<u>-</u>	<u>(9,496)</u>	<u>43,378</u>
Total Debt	<u>\$ 526,693</u>	<u>\$ -</u>	<u>\$ (89,791)</u>	<u>\$ 436,902</u>

The debt service requirements for business-type long-term debt are summarized as follows:

Fiscal Year	Principal	Interest & Fees	Total
2017	\$ 65,656	\$ 22,502	\$ 88,158
2018	39,105	17,558	56,663
2019	30,429	15,885	46,314
2020	20,712	14,733	35,445
2021	9,500	13,050	22,550
2022-2026	55,000	58,389	113,389
2027-2031	68,500	44,866	113,366
2032-2036	85,500	27,968	113,468
2037-2039	<u>62,500</u>	<u>6,969</u>	<u>69,469</u>
Total	<u>\$ 436,902</u>	<u>\$ 221,920</u>	<u>\$ 658,822</u>

BOND ORDINANCE RESTRICTIONS

The "City of Carlisle Utility System Revenue Bonds" bond ordinances require that certain reserves be created and maintained as follows:

Utility Fund

Bond and interest reserve - This reserve is required to receive a monthly transfer equal to one twelfth of the next principle payment and one sixth of the next interest payment. The balance at June 30, 2016 was \$21. At June 30, 2016 the City did not meet this reserve requirement.

Depreciation reserve - This reserve is required to receive a monthly transfer of \$190 per month after provision for bonds and interest until a balance of \$22,800 is established. The balance of this reserve as of June 30, 2016 was \$39,699.

CITY OF CARLISLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

5. GOVERNMENTAL ACTIVITIES LONG-TERM DEBT

BOND PAYABLE

The City issued \$100,000 of "City of Carlisle General Obligation Bonds, Series 2008" dated January 30, 2008, bearing interest at the rate of 4.25% to provide funds for the acquisition of a fire truck. The bonds mature in 2023.

CAPITAL LEASES

The City entered into a lease agreement with Branch Banking and Trust Company on November 19, 2013 to purchase a vehicle for the police department. The lease calls for monthly principal and interest payments beginning August 2013 with the final lease payment due August 2017. The lease bears interest at 1.98%. At the end of the lease term the title to the vehicle is transferred to the City. The net book value of the vehicle at June 30, 2016 was \$26,217.

On December 5, 2014, the City entered into two identical lease agreements for the purchase of two 2015 Ford Interceptor Utility vehicles for the police department. The total value of the leases was \$77,994. The leases called for annual payments of \$9,235 each beginning December 2015 and ending December 2020. The leases had an interest rate of 6.0%. In May 2017 the leases were refinanced to an interest rate of 5% with payments to be made quarterly over a period of three years. The net book value of the vehicles at June 30, 2016 totaled \$54,594.

The City entered into a capital lease to purchase a new recorder during the fiscal year ended June 30, 2014. The capital lease calls for monthly payments of \$481 beginning on June 20, 2014 and ending on May 20, 2019. The fair value of the recorder when purchased was \$17,000, which resulted in a 24% implied interest rate on the lease. The net book value of the recorder at June 30, 2016 was \$13,600.

A summary of changes in governmental long-term debt follows:

	July 1, 2015	Additions	Retirements	June 30, 2016
USDA Fire Truck	\$ 61,000	\$ -	\$ (6,600)	\$ 54,400
Recorder	14,527	-	(2,530)	11,997
Police vehicles	<u>100,219</u>	<u>-</u>	<u>(24,414)</u>	<u>75,805</u>
Total	<u>\$ 175,746</u>	<u>\$ -</u>	<u>\$ (33,544)</u>	<u>\$ 142,202</u>

The debt service requirements for governmental long-term debt are summarized as follows:

Fiscal Year	Principal	Interest	Total
2017	\$ 34,647	\$ 8,814	\$ 43,461
2018	28,406	6,960	35,366
2019	28,581	4,301	32,882
2020	25,168	2,409	27,577
2021	8,100	1,080	9,180
2022-2023	<u>17,300</u>	<u>1,115</u>	<u>18,415</u>
Total	<u>\$ 142,202</u>	<u>\$ 24,679</u>	<u>\$ 166,881</u>

CITY OF CARLISLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

5. GOVERNMENTAL ACTIVITIES LONG-TERM DEBT (CONTINUED)

BOND ORDINANCE RESTRICTIONS

The "City of Carlisle General Obligation Bonds, Series 2008" bond ordinances require that certain reserves be created and maintained as follows:

Bond and Interest Reserve – This reserve is required to receive a monthly transfer, in an amount equal to one twelfth of the next principle payment and one sixth of the next interest payment. The balance at June 30, 2016 was \$28,677.

Depreciation Reserve – This reserve is required to receive a yearly transfer of \$960 until a balance of \$9,600 is established. The balance of this reserve as of June 30, 2016 was \$4,724. During fiscal year 2016 the City failed to make the required minimum transfer.

6. RETIREMENT PLAN

CERS

The City of Carlisle is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Retirement Systems website.

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of state legislature.

Contributions – For the year ended June 30, 2016, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding 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 basis adopted by the Board. For the year ended June 30, 2016, participating employers contributed 17.06% of each employee's wages, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5.00% of wages to their own account and 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

CITY OF CARLISLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

6. RETIREMENT PLAN (CONTINUED)

The City contributed \$131,054 for the year ended June 30, 2016, or 100% of the required contribution. The City's contributions were allocated \$95,410 to the CERS pension fund and \$35,644 to the CERS insurance fund.

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

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old 25 years service and any age
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal to 87+
	Reduced retirement	At least 10 years service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal to 87+
	Reduced retirement	Not available

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

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources –

At June 30, 2016, the City reported a liability of \$1,602,036 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2015, the City's proportion was .04 percent, an increase of .01 percent from the City's proportion measured as of June 30, 2014.

CITY OF CARLISLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

6. RETIREMENT PLAN (CONTINUED)

For the year ended June 30, 2016, the City recognized pension expense of \$222,542. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ 13,314	\$ -
Changes of assumptions	161,548	-
Net difference between projected and actual earnings on Plan investments	14,361	
Changes in proportion and differences between City contributions and proportionate share of contributions	106,173	-
City contributions subsequent to the measurement date	<u>127,739</u>	<u>-</u>
Total	<u>\$ 423,135</u>	<u>\$ -</u>

The \$127,739 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending June 30,

2017	\$ 101,195
2018	101,195
2019	47,904
2020	45,102

Actuarial Assumptions – The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary increases	4.00%, average, including inflation
Investment rate of return	7.50%, net of Plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP- 2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013.

CITY OF CARLISLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

6. RETIREMENT PLAN (CONTINUED)

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. Several factors are considered in evaluating the long-term rate of return assumptions including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer time frame. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target allocation and best estimates of nominal real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Nominal Real Rate of Return
Combined Equity	44%	5.4%
Combined Fixed Income	19%	1.5%
Real Return (Diversified Inflation Strategies)	10%	3.5%
Real Estate	5%	4.5%
Absolute Return (Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	8.5%
Cash Equivalent	2%	-.25%
Total	100%	

Discount Rate – The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 28 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate does not use a municipal bond rate.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	Discount rate	City's proportionate share of net pension liability
1% decrease	6.50%	\$ 2,045,201
Current discount rate	7.50%	\$ 1,602,036
1% increase	8.50%	\$ 1,222,509

CITY OF CARLISLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

6. RETIREMENT PLAN (CONTINUED)

Payable to the Pension Plan – At June 30, 2016, the City reported a payable of \$71,933 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2016. The payable includes both the pension and insurance contribution allocation.

7. PROPERTY TAX CALENDAR

Property taxes for fiscal year 2016 were levied in October 2015 on the assessed property located in the City of Carlisle as of the preceding January 1. The assessments are determined by the County Property Valuation Administrator in accordance with Kentucky Revised Statutes. The due date collection periods for all taxes exclusive of vehicle taxes are as follows:

Description	Date Per K.R.S. 134.020
1. Due date for payment of taxes	November 1, 2015
2. Discount of 2%	Before November 1, 2015
3. Face value amount payment dates	November 2 – December 31, 2015
4. 6% penalty delinquent dates	January 1, 2016

These taxes are collected by the City Clerk. Vehicle taxes are collected by the County Clerk of Nicholas County and are due in the birth month of the vehicle's licensee.

8. RISK MANAGEMENT

The City of Carlisle is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In addition to its general liability insurance, the City also carries commercial insurance for all other risks of loss such as worker's compensation and employee health and accident insurance. Claims resulting from these risks have not exceeded commercial coverage in any of the past three fiscal years. The City worker's compensation insurance coverage lapsed during a period subsequent to the year ended June 30, 2016. The City will be liable for all medical and disability costs associated with employee injuries that occurred during that period when the City had no worker's compensation insurance coverage.

9. SUBSEQUENT EVENT

The City of Carlisle is a participating employer of the County Employees' Retirement System (CERS). The City is required to contribute at an actuarially determined rate and up until December 2016 the City considered all employees as non-hazardous for CERS classification purposes. Beginning in December 2015 the City elected to have all eligible police officers treated as hazardous for CERS classification purposes. As a consequence of this election, both the eligible police officers and the City are now paying into CERS at the higher contribution rate for hazardous job classifications. Also, beginning in fiscal year 2017, the City will be required to report its proportionate share of the net pension liability for hazardous job classifications. The City's proportionate share of the net pension liability to be reported on the City's June 30, 2017 financial statements for hazardous job classifications is expected to be approximately \$525,000. This liability will be reported in addition to the City's proportionate share of the net pension liability for nonhazardous job classifications. The City is anticipating reporting a net pension liability for nonhazardous job classifications of approximately \$1,700,000 on its June 30, 2017 financial statements.

CITY OF CARLISLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

10. RESTATEMENT OF NET POSITION

The City is restating beginning net position for the governmental activities to record a capital lease for a recorder which was purchased during fiscal year 2014. The restatement of beginning net position is as follows:

Governmental Activities

Net position, at beginning of year	\$ 595,133
Recorder - capital lease	(14,527)
Recorder - capital asset	17,000
Recorder - accumulated depreciation	<u>(1,700)</u>
Net position, at beginning of year, as restated	<u>\$ 595,906</u>

Supplementary Information

CITY OF CARLISLE, KENTUCKY
REQUIRED SUPPLEMENTARY BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2016

	Original Budget	Amended Budget	Actual	Variance
REVENUE				
Property taxes	\$ 155,168	\$ 155,168	\$ 179,695	\$ 24,527
Licenses and permits	581,376	581,376	491,478	(89,898)
Intergovernmental revenue	955,577	955,577	59,651	(895,926)
Fines and forfeitures	-	-	17,975	17,975
Other revenues	<u>-</u>	<u>-</u>	<u>176,832</u>	<u>176,832</u>
Total Revenue	<u>1,692,121</u>	<u>1,692,121</u>	<u>925,631</u>	<u>(766,490)</u>
EXPENDITURES				
General Government	889,080	883,422	265,503	(617,919)
Public safety-Police	575,423	583,555	649,867	66,312
Public safety-Fire	54,502	54,502	65,292	10,790
Planning and Zoning	2,090	2,090	1,321	(769)
Streets	150,495	151,942	199,561	47,619
Capital outlay	-	-	33,209	33,209
Debt service	<u>-</u>	<u>-</u>	<u>43,196</u>	<u>43,196</u>
Total Expenditures	<u>1,671,590</u>	<u>1,675,511</u>	<u>1,257,949</u>	<u>(417,562)</u>
Excess (Deficiency) of Revenues over Expenditures	<u>\$ 20,531</u>	<u>\$ 16,610</u>	<u>\$ (332,318)</u>	<u>\$ (348,928)</u>

**CITY OF CARLISLE, KENTUCKY
REQUIRED SUPPLEMENTARY SCHEDULE OF
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Last Three Fiscal Years**

	2014	2015	2016
City's proportion of the net pension liability	0.03%	0.03%	0.04%
City's proportionate share of the net pension liability (asset)	\$ 1,213,441	\$ 1,075,321	\$ 1,602,036
City's covered employee payroll	\$ 781,779	\$ 802,779	\$ 933,174
City's share of the net pension liability (asset) as a percentage of its covered employee payroll	155.22%	133.95%	171.68%
Plan fiduciary net position as a percentage of the total pension liability	61.22%	66.80%	59.97%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2015 valuation:

The assumed investment rate of return was decreased from 7.75% to 7.5%.

The assumed rate of inflation was reduced from 3.5% to 3.25%.

The assumed rate of wage inflation was reduced from 1% to .75%.

Payroll growth assumption was reduced from 4.5% to 4%.

Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).

For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females).

For disabled members, the RP- 2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

The measurement date of the net pension liability is one year preceding the fiscal year of the City.

The City's covered payroll reported above is payroll for the corresponding measurement date of the net pension liability and differs from the City's fiscal year payroll, reported on the Schedule of Contributions.

**CITY OF CARLISLE, KENTUCKY
REQUIRED SUPPLEMENTARY
SCHEDULE OF CONTRIBUTIONS
Last Four Fiscal Years**

	2013	2014	2015	2016
Contractually required employer contribution	\$ 110,282	\$ 104,476	\$ 118,980	\$ 95,410
Contributions relative to contractually required employer contribution	<u>110,282</u>	<u>104,476</u>	<u>118,980</u>	<u>95,410</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	\$ 781,779	\$ 802,779	\$ 933,174	\$ 846,465
Employer contributions as a percentage of covered-employee payroll	14.11%	13.01%	12.75%	11.27%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2015 valuation:

The assumed investment rate of return was decreased from 7.75% to 7.5%.

The assumed rate of inflation was reduced from 3.5% to 3.25%.

The assumed rate of wage inflation was reduced from 1% to .75%.

Payroll growth assumption was reduced from 4.5% to 4%

Mortality rates were based on the RP-2000 Combined Mortality Table projected with

Scale BB to 2013 (multiplied by 50% for males and 30% for females)

For healthy retired members and beneficiaries, the mortality table used is the RP-2000

Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females).

For disabled members, the RP- 2000 Combined Disabled Mortality Table projected with

Scale BB to 2013 (set back 4 years for males) is used for the period after disability retiremer

The assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The above contributions only include those contributions allocated directly to the CERS pension fund.

The City's covered payroll reported above is payroll for the City's corresponding fiscal year and differs from the covered payroll reported on the Schedule of Proportionate Share of the Net Pension Liability.

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

	<u>Municipal Road Aid Fund</u>
ASSETS	
Cash	\$ 80
Total assets	<u>\$ 80</u>
 LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable	\$ -
Total liabilities	<u>-</u>
Fund balance - restricted	<u>80</u>
Total liabilities and fund balances	<u>\$ 80</u>

**CITY OF CARLISLE, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
COMBINING NONMAJOR GOVERNMENTAL FUNDS
for the year ended June 30, 2016**

	Municipal Road Aid Fund
REVENUES	
Intergovernmental revenues	\$ -
Other revenues	<u>1</u>
Total revenues	<u>1</u>
EXPENDITURES	
Streets	<u>1,700</u>
Total expenditures	<u>1,700</u>
Change in fund balance	(1,699)
Fund balances, July 1, 2015	<u>1,779</u>
FUND BALANCES- JUNE 30, 2016	<u><u>\$ 80</u></u>

CITY OF CARLISLE, KENTUCKY
STATEMENT OF OPERATING REVENUES AND EXPENSES
PROPRIETARY FUND
for the year ended June 30, 2016

	Gas	Water	Sewer	Sanitation	Utility Fund
OPERATING REVENUES					
Charges for services	\$ 550,521	\$ 489,643	\$ 273,133	\$ 228,092	\$ 1,541,389
Penalties	8,404	9,583	7,099	-	25,086
Other revenue	6,838	11,840	7,257	26,564	52,499
Total operating revenues	<u>565,763</u>	<u>511,066</u>	<u>287,489</u>	<u>254,656</u>	<u>1,618,974</u>
OPERATING EXPENSES					
Salaries and wages	77,114	227,114	133,052	69,018	506,298
Payroll taxes	5,916	17,772	10,195	5,299	39,182
Employee insurance	4,279	7,722	10,185	4,409	26,595
Retirement	19,760	55,774	33,517	17,684	126,735
Sick leave benefit	(399)	(399)	(399)	(399)	(1,596)
Advertising	-	62	-	72	134
Professional services	1,819	6,983	17,546	229	26,577
Uniforms	-	-	60	-	60
Maintenance and repairs	483	14,119	37,156	29,875	81,633
Travel and lodging	-	1,362	-	300	1,662
Utilities	1,193	72,083	30,734	-	104,010
Telephone	826	1,159	1,716	440	4,141
Permit fees	-	-	196	36,289	36,485
Insurance	9,986	8,295	7,558	7,048	32,887
Fuel and lube	4,972	5,439	3,665	12,180	26,256
Gas purchased	164,153	-	-	-	164,153
Chemicals	-	47,107	7,798	-	54,905
Materials and supplies	9,722	29,931	12,588	40,657	92,898
Dues and subscriptions	755	2,818	585	919	5,077
Other	4,981	4,170	1,700	-	10,851
Depreciation	24,792	182,691	98,102	24,552	330,137
Total operating expenses	<u>330,352</u>	<u>684,202</u>	<u>405,954</u>	<u>248,572</u>	<u>1,669,080</u>
Operating income (loss)	<u>\$ 235,411</u>	<u>\$ (173,136)</u>	<u>\$ (118,465)</u>	<u>\$ 6,084</u>	<u>\$ (50,106)</u>



**INDEPENDENT AUDITORS' 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**

Mayor and the City Council
City of Carlisle, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Carlisle, Kentucky, as of and for the year ended June 30, 2016, which collectively comprise the City of Carlisle, Kentucky's basic financial statements and have issued our report thereon dated October 18, 2019. Our report qualifies an opinion on the governmental activities, the business-type activities and each major fund of the City of Carlisle, Kentucky because of limited controls over the recording of General Fund and Utility Fund revenue and expenditures.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses, or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the schedule of findings and responses, we identified deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses (2016-001, 2016-002, 2016-003, 2016-004, 2016-005, 2016-007, 2016-008, and 2016-009).

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies (2016-006, 2016-010 and 2016-011).

Compliance and Other Matters

In connection with our engagement to audit the financial statements of the City of Carlisle, Kentucky, 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items (2016-003, 2016-004, 2016-005, 2016-006, 2016-010 and 2016-011).

We noted certain other matters that we reported to management of the City of Carlisle, Kentucky in a separate letter dated October 18, 2019.

The City of Carlisle, Kentucky's Response to Findings

The City of Carlisle, Kentucky's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City of Carlisle, Kentucky's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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



RFH, PLLC
Lexington, Kentucky
October 18, 2019

CITY OF CARLISLE, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2016

2016-001 - The City should have an internal control environment that promotes effective internal control over financial reporting. (Repeat)

Criteria: The City is required to have internal controls in place that enable it to prepare complete financial statements, including note disclosures, in compliance with generally accepting accounting principles.

Condition: The City did not have adequate personnel to perform accounting functions necessary in order to draft financial statements and related notes as well as provide organizational oversight to ensure adequate documentation was maintained to support the City's revenue and expenditure items.

Cause: The City had turnover in the finance department and failed to adequately train and monitor the new City Clerk.

Effect: The City was not able to ensure the financial statements were prepared in accordance with generally accepted accounting principles and the City was not able to produce adequate documentation to support multiple financial transactions.

Recommendation: We recommend that the City review the deficiencies described below and implement changes to address all weaknesses in internal control.

Management's Response: The City has reviewed all deficiencies and has begun to implement changes as noted below.

2016-002 - The City should have personnel employed that have adequate financial experience and training to properly perform their tasks. (Repeat)

Criteria: The City should have adequate personnel to accurately report the financial activity of the City and to ensure compliance with laws and regulations.

Condition: Personnel employed to perform accounting functions for the City did not have sufficient financial experience and training to properly perform their tasks.

Cause: The City had turnover in the finance department and failed to adequately train and monitor the new City Clerk.

Effect: There were numerous errors in recording, classifying and reporting financial activity of the City. The City utilized incomplete and inaccurate data in making financial decisions.

Recommendation: We recommend that the City evaluate and review the capabilities of current personnel and determine the need to either hire additional personnel, with the required expertise, and/or provide additional training in accounting and reporting for existing personnel. The City needs personnel with adequate accounting expertise on hand throughout the year and not just at year end. This will allow the City to make informed financial decisions that are in the best interest of the City on a contemporaneous basis.

Management's Response: The City hired a consultant with the necessary accounting expertise to assist and train the current city clerk. Training is ongoing.

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2016-003 - Kentucky Revised Statute (KRS) 91A.030(11) requires the City Council to review budgetary comparison reports no less than once every three months. (Repeat)

Criteria: The City should provide sufficient financial accounting and reporting oversight in accordance with (KRS) 91A.030(11).

Condition: During 2016, the City failed to provide the Council with budgetary comparison reports.

Cause: The City had a new and inexperienced City Clerk and the City Council failed to request the necessary budgetary comparison reports.

Effect: The Council was unable to provide adequate oversight due to lack of appropriate financial information.

Recommendation: We recommend the City Council receive monthly budgetary comparison reports to assist in making appropriate financial decisions and to assist in evaluating the overall financial position of the City. Additional reviews of monthly financial reports will also assist in mitigating the risk of inadequate segregation of duties due to a small staff size.

Management's Response: The City Council, effective January 1, 2019, will begin to review quarterly budgetary comparison reports prepared by the City Clerk. In addition, the City Clerk has been working with a consultant to ensure the accuracy of these reports.

2016-004 - In accordance with KRS 65.140, local governments are required to pay for purchases within 30 days or else incur an interest penalty of 1%. (Repeat)

Criteria: The City should have internal controls in place to ensure compliance with KRS 65.140.

Condition: The City's internal controls failed to assure compliance with KRS 65.140.

Cause: The City had a new and inexperienced City Clerk who failed to pay numerous invoices timely. Other employees as well as the City Council did not recognize the City's failure to pay invoices timely.

Effect: During the year, the City failed to pay numerous invoices within 30 days of receipt of the invoice. In addition, the City failed to remit certain employment and sales and use tax payments in accordance with state and federal laws. The City also failed to file certain tax returns timely and/or failed to maintain documentation on their filing. These failures resulted in significant penalties.

Recommendation: We recommend that the City pay all bills and file all tax returns when due. Documentation on payments and tax filings should be retained and organized in an appropriate manner to create an appropriate audit trail.

Management's Response: The City believes it is currently in compliance with KRS 65.140. Changes in personnel during 2012 are believed to have been the reason for failure to pay bills in a timely manner. The City Clerk has been receiving additional training and assistance to ensure that all bills are paid and returns are filed when due effective January 1, 2019.

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2016-005 - The City should timely file all required financial reports with the state. (Repeat)

Criteria: The state requires the City file annually required financial reports including the Uniform Financial Information Report.

Condition: Deficiencies in the City's internal controls prevented the timely completion and submission of the Uniform Financial Information report.

Effect: The City did not file timely the 2016 Uniform Financial Information Report and the City did not timely complete its annual financial statement audit.

Recommendation: We recommend the City implement the changes from the above itemized findings to allow for timely completion of accurate financial reports. This will allow them to be in compliance with laws and regulations that govern them.

Management's Response: The City believes that with the additional training provided to the City Clerk the City should be able to catch up on all required audit reporting and feels it is currently in compliance.

2016-006 - The City should expend monies in accordance with a budget ordinance as required by KRS 91A.030. (Repeat)

Criteria: KRS 91A.030 prohibits the expenditure of monies except in accordance with a budget ordinance.

Condition: The City adopted a budget ordinance; however the ordinance contained numerous mathematical errors and inconsistencies.

Cause: City personnel did not have sufficient training and expertise to ensure the annual budget was prepared and adhered to in accordance with KRS 91A.030.

Effect: Expenditures of the City were not in accordance with KRS 91A.030. In addition, the approved budget contained errors, which indicates failure to properly oversee the budget process.

Recommendation: We recommend that the City implement a more thorough process for budget preparation that includes appropriate oversight. In addition, we recommend that detail budget worksheets, used to assist in the creation of the budget, should be checked for mathematical accuracy and tied to the summarized budget ordinance.

Management's Response: The Mayor and the City Clerk will work with a consultant to ensure the budget and expenditures are in accordance with KRS 91A.030.

2016-007 - Purchases on the City's credit card should be approved and receipts should be maintained for every purchase. (Repeat)

Criteria: The City should have internal controls in place to ensure purchases made on the City's credit card are properly approved and documented.

Condition: The City did not have receipts or proper documentation to support purchases made on the credit card during the year under audit.

Cause: Accounting personnel did not match purchases made on the credit card with receipts.

Effect: During the audit, we could not verify whether purchases made on the City's credit card were properly approved. Additionally, we could not determine if purchases made were valid purchases for the City.

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2016-007 - Purchases on the City's credit card should be approved and receipts should be maintained for every purchase. (Repeat) (Continued)

Recommendation: We recommend that all purchases made on the City's credit card be approved prior to being made and that the City maintain sufficient supporting documentation for all purchases including but not limited to receipts.

Management's Response: All credit card purchases are to be approved by the Mayor and it is only used in situations that we cannot charge or be deemed an emergency situation.

2016-008 - All receipts of the City should be timely deposited in the appropriate bank account. (Repeat)

Criteria: The City should have internal controls in place to ensure all receipts of the City are deposited timely in order to be available for appropriation.

Condition: The City did not have sufficient accounting personnel to ensure all receipts of the City were deposited into one of the City's bank accounts.

Cause: The City Clerk forgot to deposit checks issued to the City that were proceeds from the closing of two certificate of deposits.

Effect: During the previous year, the City closed a certificate of deposit in the General Fund in the amount of \$4,724 as well as a certificate of deposit in the Utility Fund for \$39,699. The checks issued for the proceeds from the certificates of deposit did not get deposited into the City's bank account until January 2017.

Recommendation: We recommend the City review its internal controls related to receipts and ensure that all funds received by the City are deposited timely.

Management's Response: Effective January 1, 2019, all deposits are done on a daily basis.

2016-009 - The City should have compensating controls to account for a lack of segregation of duties related to cash disbursements, receipts, utility adjustments, and bank reconciliations. (Repeat)

Criteria: The City should have proper segregation of duties and compensating controls to ensure all cash disbursements are for a valid business purpose and to ensure all adjustments in the utility system are made in accordance with City policy. The City should be reconciling deposits and performing adequate oversight of receipts to ensure deposits are made timely.

Condition: During the year, the City had numerous checks written to an employee for which documentation could not be provided. The City also had multiple utility adjustments that were made to an employee and/or a family member that were not reviewed and approved by management. Additionally, the City had instances of receipts that were not timely deposited into one of the City's bank accounts. Also, monthly bank reconciliations were not reviewed by an individual other than the preparer.

Cause: Due to the size of the City, the City does not have sufficient segregation of duties related to cash disbursements, receipts, utility billing, and bank reconciliations. The City did not provide adequate oversight to compensate for the lack of segregation of duties.

Effect: We were not able to verify whether checks written to a City employee were for a valid business purpose. There were multiple utility adjustments for an employee and/or a family member that contained no support. The City did not provide adequate oversight related to the monthly bank reconciliation process.

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2016-009 - The City should have compensating controls to account for a lack of segregation of duties related to cash disbursements, receipts, utility adjustments, and bank reconciliations. (Repeat) (Continued)

Recommendation: We recommend the City implement compensating controls to address the lack of segregation of duties related to cash disbursements, receipts, utility billing adjustments and monthly bank reconciliations. The Mayor and/or a member of City Council should review all cash disbursements monthly to determine if they are appropriate and if adequate supporting documentation is maintained. The Mayor and/or a member of City Council should review monthly bank reconciliations. The City should have trained personnel to ensure all receipts are timely deposited and reconciled. An individual outside of the utility billing function should review and approve monthly utility billing adjustments.

Management's Response: The Mayor reviews all cash disbursements monthly to verify all documentation is attached. The Mayor also reviews all bank reconciliations monthly. All receipts are deposited and reconciled daily. The Collections Clerk writes all adjustments and only enters them after the Mayor has signed off on them.

2016-010 – In accordance with the provisions of Section 3 of the Kentucky Constitution, the City should not pay bonuses to employees.

Criteria: The City is required to compensate employees in accordance with the Kentucky Constitution.

Condition: The Mayor and the City Clerk during fiscal year 2016 were relatively new to their positions. They did not have adequate knowledge related to KRS and the Kentucky Constitution.

Cause: The City was unaware that payment of bonuses to employees is a violation of the Kentucky Constitution.

Effect: In December 2015, the City issued bonuses to employees. The bonuses were a violation of Section 3 of the Kentucky Constitution.

Recommendation: Bonuses to City employees should not be issued in the future. We recommend the City review the knowledge and experience of the acting Mayor and City Clerk. The acting Mayor and the City Clerk should possess sufficient knowledge related to KRS and the Kentucky Constitution in order to ensure future violations do not occur.

Management's Response: We no longer issue bonuses; we do currently offer longevity employee benefits.

2016-011 – The City should expend funds in accordance with Kentucky Revised Statute 424.260.

Criteria: As described in Kentucky Revised Statute 424.260, the City is required to advertise for bid involving an expenditure of more than \$20,000 before entering into a contract.

Condition: Personnel employed to perform the purchasing functions for the City did not have sufficient financial experience and training to ensure compliance with KRS 424.260.

Cause: The City had turnover in the finance department and failed to adequately train and monitor the new City Clerk.

Effect: The City failed to properly advertise for bid a purchase that exceeded \$20,000. Consequently, the City did not comply with KRS 424.260.

Recommendation: We recommend that all projects with a cost greater than \$20,000 be advertised for bid as required by KRS 424.260.

Management's Response: We currently are and will be bidding all projects at the bid limit going forward.

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PRIOR AUDIT FINDINGS

2015-001 - The City should have an internal control environment that promotes effective internal control over financial reporting. (Repeat)

2015-002 - The City should have personnel employed that have adequate financial experience and training to properly perform their tasks. (Repeat)

2015-003 - Kentucky Revised Statute (KRS) 91A.030(11) requires the City Council to review budgetary comparison reports no less than once every three months. (Repeat)

2015-004 - In accordance with KRS 65.140 local governments are required to pay for purchases within 30 days or else incur an interest penalty of 1%. (Repeat)

2015-005 - The City should timely file all required financial reports with the state and the U.S. Office of Management and Budget (OMB). (Repeat)

2015-006 - The City should expend monies in accordance with KRS 91A.030. (Repeat)

2015-007 - Purchases on the City's credit card should be approved and receipts should be maintained for every purchase. (Repeat)

2015-008 - All receipts of the City should be timely deposited in the appropriate bank account. (Repeat)

2015-009 - The City should have compensating controls to account for a lack of segregation of duties related to cash disbursements, receipts, utility adjustments, and bank reconciliations. (Repeat)