

Presented by: John John
3-28-2012
@ 10 AM.

**CITY OF NORTONVILLE, KENTUCKY
FINANCIAL STATEMENTS AND AUDITOR'S REPORT
JUNE 30, 2011**

CITY OF NORTONVILLE, KENTUCKY
FINANCIAL STATEMENTS AND AUDITOR'S REPORT
JUNE 30, 2011
TABLE OF CONTENTS

Introductory Section	
Letter of Transmittal	1 - 3
Listing of Principal Officials	4
Financial Section	
Independent Auditor's Report	5
 Management's Discussion and Analysis	 6 - 11
 Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	12
Statement of Activities	13
 Fund Financial Statements:	
Balance Sheet-Governmental Funds & Reconciliation of Governmental Funds	
Balance Sheet to the Statement of Net Assets - Governmental Activities	14
Statement of Revenues, Expenditures, and Changes in Fund Balances- Governmental Fund	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Net Assets-Proprietary Funds	17
Statement of Revenues, Expenses, and Changes In Fund Nets Assets- Proprietary Funds	18
Statement of Cash Flows-Proprietary Funds	19
 Notes to Financial Statements	 20 - 34
 Required Supplementary Information	
Schedule of Revenues, Expenditures, and Changes in Fund Balances- Budget and Actual-General Fund	35
Schedule of Revenues, Expenditures, and Changes in Fund Balances- Budget and Actual-General Fund	36-37
Schedule of Revenues, Expenditures, and Changes in Fund Balance- Budget and Actual-Proprietary Fund	38
Schedule of Revenues, Expenditures, and Changes in Fund Balance- Budget and Actual-Proprietary Fund	39
 Additional Information	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	40 - 41
 Schedule of Findings	 42 - 45

City of Nortonville
199 SOUTH MAIN STREET
Nortonville, KY 42442

March 20, 2012

Honorable Barry L. Merrill, Mayor and
Distinguished Members of the City Council
Nortonville, Kentucky

The financial statements and auditor's report of the City of Nortonville, Kentucky (the City) for the fiscal year ended June 30, 2011, is hereby submitted in accordance with the requirements of both our City Charter and state statutes. The Charter and statutes require that the City issue annually a report of its financial position and activity. The Charter also requires the report to be audited by an independent firm of Certified Public Accountants.

Responsibility for both the accuracy of the data presented and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner that presents fairly the financial position and results of operations of the City on a government-wide and fund basis. All disclosures necessary to enable the reader to gain the maximum understanding of the City's activities have been included.

The annual financial report is prepared in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB).

The report is presented in two sections: introductory and financial, and includes the following:

1. **Introductory section – Letter of Transmittal with comments on the operations of the City and a list of principal officials**
2. **Financial Section – Basic Financial Statements and Required Supplementary Information. The Basic Financial Statements include Management's Discussion and Analysis, Government-wide Financial Statements, Fund Financial Statements, Notes to the Basic Financial Statements and Required Supplementary Information, as well as the auditor's report on the financial statements and schedules.**

Accounting principles generally accepted in the United States of America (GAAP) require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditor.

City of Nortonville
199 SOUTH MAIN STREET
Nortonville, KY 42442

Governmental Structure, Local Economic Condition and Outlook

The City was incorporated in 1847. The City operates under the Mayor – Commission form of government. Policy-making and legislative authority are vested in the six-member City Councilmembers. The Council is made up of four members elected by registered voters. The Council are elected to two-year terms. The Mayor is elected to a four-year term. The City Council is responsible, among other things, for passing ordinances, adopting the budget, and confirming mayoral appointments of non-elected City offices. The City Clerk is responsible for carrying out the policies and ordinances of the City Commission. The Mayor is responsible for overseeing the daily operations of the City, and for appointing the City department heads. The City provides a full range of services, including police and fire protection; water and sewer services; the construction and maintenance of streets and infrastructure; cemetery maintenance; and general administration.

Through the budget, the City Council sets the direction of the City, allocates its resources, and establishes its priorities. The annual budget assures the effective and efficient use of the City's economic resources as well as establishes that the highest priority objectives are accomplished.

The City Charter established the fiscal year as the twelve-month period beginning July 1. The departments of the City submit to the Mayor a budget of estimated expenditures for the ensuing fiscal year after which the Mayor submits a budget of estimated expenditures and revenues to the City Commission by June 1.

The City Council is required to hold public hearings only on the Municipal Road Aid, Local Governmental Economic Assistance, and Cemetery funds for the proposed budget. The Commission holds a first reading on the Budget Ordinance and Tax Roll Ordinance. The Budget and Tax Roll Ordinances are passed during the second reading. Information about the Budget Ordinance is then published in the official newspaper of the City.

Budget-to-actual comparisons are provided in this report for each individual fund for which an appropriated annual budget has been adopted. For the General Fund, this comparison is presented on page 35 as part of the required supplementary information for the governmental funds.

Financial Information

The City's Finance Department is responsible for establishing and maintaining internal controls designed to ensure that the assets of the City are protected from loss, theft, or misuse, and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. The internal controls being used are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the costs of control procedures are weighed against the expected benefits to be derived, and that the evaluation of costs and benefits requires educated estimates and professional judgments by management. All of the City's internal accounting control evaluations occur within this framework.

As a recipient of federal, state and local financial assistance, the City is also responsible for ensuring that adequate internal controls are in place to ensure and document compliance with applicable laws and regulations related to these programs. These internal controls are subject to periodic evaluations by management and the finance department staff of the City.

City of Nortonville
199 SOUTH MAIN STREET
Nortonville, KY 42442

The City adopts fiscal year budgets that are established in accordance with the various laws that govern the City's operations as authorized by the Council. The budget is divided into monthly budget allocations based on expenditure expectations and on historical trends, whenever possible. These allocations are reviewed monthly against actual expenditures, and variances are addressed in the monthly financial reports presented to the City Commission. At mid-year, unless conditions dictate an earlier need, budgets are reviewed, year-end projections are made, adjustments to the financial plan are considered, and any necessary changes are legally adopted through the passage of an amended budget.

Cash management Policies and Practices: The City's investment policy authorizes investments in obligations of the U. S. Treasury and U. S. Agencies, certain Federal instruments, repurchase agreements, commercial banks' certificates of deposit, savings and loan deposits, and the Commonwealth of Kentucky investment pool.

Other Information:

Independent Audit: State Statute and the City Charter require an annual audit of all financial records by independent Certified Public Accountants. The audit of fiscal year 2011 was performed for the City Council by the firm John L. Jones, CPA, PLLC, a licensed Certified Public Accountant. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City, for the fiscal year ended June 30, 2011, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statements presentation.

The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements, for the fiscal year ended June 30, 2011, are fairly presented in conformity with accounting principles generally accepted in the United States of America. The independent auditor's report is presented as the first component of the financial section of this report. In addition to meeting the requirements set forth in state statutes, the audit was also designed to meet the requirements of the Auditing Standards Generally Accepted in the United States of America in conducting the engagement.

CITY OF NORTONVILLE
LIST OF GOVERNING BODY MEMBERS
June 30, 2011

Barry L. Merrill	Mayor
Chuck Coburn	Council member
Carroll D. Grace	Council member
Andrew Holmes	Council member
Michael W. Jarvis	Council member
Marshall P. Lee	Council member
Jesse McGary	Council member

Appointed Officials:

Trena Victory	City Clerk
Patricia E. Dane	City Clerk
Angela Hopper	City Clerk

JOHN L. JONES, CPA, PLLC
1100 South Main Street, Suite 2
P. O. Box 1537
Hopkinsville, KY 42241-1537

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Nortonville, Kentucky

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Nortonville, Kentucky (the City) as of June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. My responsibility is to express opinions on these financial statements based on my audit.

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

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

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and budgetary comparison information on pages 6 through 11 and 35 through 39 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures does not provide me with sufficient evidence to express an opinion or provide any assurance.

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's financial statements as a whole. The introductory section is presented for the purposes of additional analysis and is not a required part of the financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on it.

Sincerely,


John L. Jones, CPA, PLLC
March 20, 2012

INTRODUCTORY SECTION

MANAGEMENT'S DISCUSSION AND ANALYSIS

The financial management of the City of Nortonville, Kentucky (the City) offers readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with other information that we have furnished in our letter of transmittal and the notes to the financial statements.

Financial Highlights

- The City's assets exceeded its liabilities at the close of the June 30, 2011 fiscal year by \$1,003,880 (net assets). Of this amount, \$213,155 (unrestricted net assets) may be used to meet the government's ongoing obligations to its citizens and creditors.
- The government's total net assets increased by \$237,941. This increase is a direct result from the City's receiving a project grant for prior year expenditures.
- As the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$309,889.
- At the close of the current fiscal year, unassigned fund balance for the General Fund was \$197,046 while total fund balance was \$309,889. General Fund revenues were \$28,015 more than General Fund expenditures (\$367,484 in General Fund revenues vs. \$339,469 in General Fund expenditures). General Fund revenues were approximately 78.1% more than that of the previous fiscal year (an increase of \$248,861). This high 78.1% is mainly due to receiving the remaining project grant of \$200,000 for prior year expenditures. The increase in revenues would be \$48,861 excluding the project grant an increase of 15.33% in revenues. The General Fund expenditures were approximately 10.2% higher than that of the previous fiscal year (an increase of \$36,626).
- The City's total indebtedness at the close of the current fiscal year was \$94,462. a comparison to the previous fiscal year is not done because of unrecorded liabilities.

Overview of the Financial Statements

This management's discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1. government-wide financial statements, 2. fund financial statements, and 3. notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of City's finances in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of cash flows*. Thus, revenues and expenses are reported in

the statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes).

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion & Analysis (cont.)

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The City's governmental activities include general governmental administration, protection to people and property, road and street construction and maintenance, economic assistance, cemetery maintenance, and community development. The City has one business-type activity – a combined water and sewer utility service.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the City's funds can be divided into two broad categories: *governmental funds* and *proprietary funds*.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains one individual major governmental fund. Information is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances for the general government, public safety, street service, and community service.

Nortonville adopts an annual appropriated budget for its major governmental fund. A budgetary comparison schedule has been provided for each of these services to demonstrate compliance with their budgets.

Proprietary Funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the combined Sewer system and Water system, which is considered to be the business-type activities of the City.

Notes to the Financial Statements.

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Government-wide Financial Analysis.

Net Assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

	Governmental Activities		Business-Type Activities		Total	
	6/30/2010	6/30/2011	6/30/2010	6/30/2011	6/30/2010	6/30/2011
Assets						
Current & other assets	\$ 49,584	\$ 369,001	\$ 73,427	\$ 311,642	\$ 123,011	\$ 680,643
Capital assets, net	745,724	729,341	5,225,950	5,111,439	5,971,674	5,840,780
Total assets	795,308	1,098,342	5,299,377	5,423,081	6,094,685	6,521,423
Liabilities						
Current & other liabilities	64,128	59,112	189,639	165,262	253,767	224,374
Long-term liabilities	29,369	35,350	3,488,251	3,580,772	3,517,620	3,616,122
Total liabilities	93,497	94,462	3,677,890	3,746,034	3,771,387	3,840,496
Net Assets						
Invested in capital assets,						
net of related debt	716,355	693,991	2,146,568	1,441,949	2,862,923	2,135,940
Restricted	-	148,193	72,157	247,109	72,157	395,302
Unrestricted (deficit)	(14,544)	161,696	(597,238)	(12,011)	(611,782)	149,685
Total net assets	\$ 701,811	\$ 1,003,880	\$ 1,621,487	\$ 1,677,047	\$ 2,323,298	\$ 2,680,927

Change in Net Assets.

Governmental Activities. Governmental activities increased the City's net assets by \$158,749 in fiscal year 2011. A summary schedule of these changes is presented on the next page. Key elements of this increase are as follows:

- Total revenues increased by \$48,861 excluding the \$200,000 remaining payment of the project grant for previous year expenditures. The and other financing sources were \$165,864, a decrease of approximately 10.57% from that of the previous fiscal year (\$185,470). The decrease was primarily due to actually receiving less in several revenue sources than what those same revenue sources had been budgeted for, especially in court system fees (\$6,003 actual versus \$8,900 budgeted).
- Expenditures and other disbursements totaled \$395,805 during fiscal year 2011, an increase of approximately 10.2% from the previous year (\$359,179.). The increase was primarily due to a increases in the services of governmental activities for fiscal year 2011.

Financial Analysis of the City's Funds

Governmental Funds Overview. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

As noted earlier, Nortonville uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

	Governmental Activities		Business-Type Activities		Total	
	6/30/2010	6/30/2011	6/30/2010	6/30/2011	6/30/2010	6/30/2011
Revenues:						
Program revenues:						
Charges for services - general government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Charges for services - water system	-	-	235,404	254,084	235,404	254,084
Charges for services - sewer	-	-	477,514	522,517	477,514	522,517
Operating grants-contributions general government	110,962	20,865	-	-	110,962	20,865
Operating grants-contributions - public safety	12,612	14,130	-	-	12,612	14,130
Operating grants-contributions - public service	7,343	70,405	-	-	7,343	70,405
Operating grants-contributions community service	-	-	-	-	-	-
Capital grants-contributions general government	-	200,000	-	-	-	200,000
General revenues:						
Property taxes	59,842	88,700	-	-	59,842	88,700
Franchise tax	38,290	30,323	-	-	38,290	30,323
Insurance tax	80,000	124,584	-	-	80,000	124,584
Telecommunication tax	3,283	1,642	-	-	3,283	1,642
Interest	96	18	36	3	132	21
Occupational license fees	2,705	1,275	-	-	2,705	1,275
Other local revenue	3,490	10,016	-	-	3,490	10,016
Insurance claim	-	-	-	6,250	-	6,250
Gain (loss) on fixed asset	-	-	-	719	-	719
Miscellaneous	-	5,526	-	101	-	5,627
Other receipts (disbursements), net	-	-	-	-	-	-
Total revenues	318,623	567,484	712,954	783,674	1,031,577	1,351,158
Expenses:						
General government	182,249	122,201	-	-	182,249	122,201
Public safety	98,157	155,988	-	-	98,157	155,988
Public service	19,232	40,219	-	-	19,232	40,219
Community service	1,467	21,061	-	-	1,467	21,061
Depreciation expense	56,336	56,336	-	-	56,336	56,336
Water system	-	-	256,602	235,682	256,602	235,682
Sewer system	-	-	431,778	370,119	431,778	370,119
Debt service -interest	1,738	-	57,691	124,053	59,429	124,053
Total expenses	359,179	395,805	746,071	729,854	1,105,250	1,125,659
Excess of revenues over (under) expenses	(40,556)	171,679	(33,117)	53,820	(73,673)	225,499
Proceeds from loan	5,000	-	-	-	5,000	-
Capital contributions	11,797	66,681	-	47,673	11,797	114,354
Rounding account	(59,089)	-	(53,952)	-	(113,041)	-
Net transfers in (out)	17,957	(79,611)	(17,957)	79,611	-	-
Change in net assets	(64,891)	158,749	(105,026)	181,104	(169,917)	339,853
Net assets - beginning	910,022	845,131	1,600,969	1,495,943	2,510,991	2,341,074
Net assets - ending	\$ 845,131	\$ 1,003,880	\$ 1,495,943	\$ 1,677,047	\$ 2,341,074	\$ 2,680,927

MANAGEMENT'S DISCUSSION AND ANALYSIS

As of the end of the June 30, 2011 fiscal year, the combined ending fund balances of the City's governmental funds were \$309,889. Of this amount, \$53,731 was committed to the City's revenue source and \$94,462 was assigned for budgeted expenditures. This leaves \$161,696 as unassigned in the General Fund and is the amount the City currently has available as working capital and to use for current spending in accordance for their specific purposes.

The City has one major governmental fund but has four different services: general government, public safety, street service and community service.

1. The general government is the primary operations of the City. At the end of the June 30, 2011 fiscal year, expenditures were \$122,201 that is 36.0% of the total \$339,469 expenditures (this excludes depreciation expense) of governmental activities. Combining operating grants & contribution \$20,865 with taxes and fees \$246,524 total \$267,389 represents 72.8% of the revenues for governmental activities in the area of operating grants & contributions and general revenues.
2. The public safety consists of the police and fire departments. The expenditures for the services were \$155,988. This was 45.9% of total governmental activities. The revenues of operating grants & contributions and general revenues total \$14,130 representing 5.3%.
3. The street or public service is related to city street maintenance and road construction. It is also responsible for ground maintenance for the City. The expenditures for the fiscal year 2011 were \$40,219 representing 11.8% of government activities. The operating grants & contributions and general revenues were \$70,405 representing 20.7%.
4. The community services consist of library, parks, gym, café and playgrounds. The expenditures were \$21,061 for fiscal year 2011 representing 6.2% of the governmental activities. The revenues were only from general revenues totaling \$8,136 that was about 3% of the total \$267,389.

Proprietary Funds Overview. The City's proprietary fund statements provide the same type of information found in the government-wide statements, but in more detail. The City has two enterprise-type business activities the Water System and Sewer System (the Proprietary Fund).

The Sewer System's unrestricted net assets at the end of the June 30, 2011 fiscal year amounted to \$115,503. The net assets increased \$127,468 for the fiscal year 2011. The expenditures were \$370,119 including depreciation expense and 14.3% less than the previous fiscal year at \$431,778. The program revenues were \$522,517 that was 9.4% increase in revenues for the previous fiscal year at \$477,514.

The Water System's unrestricted net assets at the end of fiscal year June 30, 2011 amounted to a deficit of (\$127,514). The net assets increased by \$6,660 for the fiscal year. The expenditures were \$235,682 including depreciation expense and 8.2% less than the previous fiscal year of \$256,602. The revenues were \$254,084 for fiscal year 2011 an increase of \$18,680 representing an increase of 7.9%.

General Fund Budgetary Highlights

The budgeted highlights are favorable for the General Fund and the Proprietary Fund. The General Fund was in budgeted surplus by \$241,954 that includes the \$200,000 project funds for the previous year expenditures. The surplus would have been \$41,954 without the funds. The Proprietary Fund had a surplus of \$129,044.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Assets and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business type activities as of June 30, 2011, amounts to \$2,135,940 (net of accumulated depreciation and related debt). The investment in capital assets includes land, buildings, vehicles, machinery and equipment, office furniture and fixtures, utility plant, the new water treatment plant, transportation equipment, other equipment, and current year infrastructure additions. The City has elected to report infrastructure assets prospectively per GASB No. 34 provisions.

	Governmental Activities		Business-Type Activities		Total	
	6/30/2010	6/30/2011	6/30/2010	6/30/2011	6/30/2010	6/30/2011
Land	\$ 45,000	\$ 45,000	\$ -	\$ -	\$ 45,000	\$ 45,000
Buildings	98,763	98,763	160,563	160,563	259,326	259,326
Water system	-	-	861,017	866,260	861,017	866,260
Sewer System	-	-	8,293,505	8,270,640	8,293,505	8,270,640
Vehicles	174,925	199,300	21,210	21,210	196,135	220,510
Machinery & equipment	558,108	565,678	22,191	22,191	580,299	587,869
Improvements-infrastructure	585,730	593,738	26,117	26,117	611,847	619,855
Total	1,462,526	1,502,479	9,384,603	9,366,981	10,847,129	10,869,460
Less accumulated depreciation	(716,802)	(773,138)	(4,144,444)	(4,255,542)	(4,861,246)	(5,028,680)
Total capital assets, net	745,724	729,341	5,240,159	5,111,439	5,985,883	5,840,780
Less: related debt		(35,350)	(3,490,882)	(3,669,490)	(3,490,882)	(3,704,840)
Total invested in capital assets, net of related debt	\$ 745,724	\$ 693,991	\$ 1,749,277	\$ 1,441,949	\$ 2,495,001	\$ 2,135,940

Additional information on the City's capital assets can be found in Note 4 of this report.

Long-Term Debt. At the end of the 2011 fiscal year, Nortonville had total outstanding long-term debt of \$3,704,840. Additional information can be found regarding these long-term debt issues in Note 8 to the basic financial statements.

Other Matters

The following factors are expected to have a significant effect on the City's financial position or results of operations and were taken into account in developing the 2011 fiscal year budget:

- Program cuts at the State level may have a negative impact on funding for city programs. The City Council may decide to alter the operations or funding of City operations impacted by State revenue shortfalls.
- The 2012 fiscal year Adopted Budget continues most services at current levels with the exception for which federal or state funding is decreasing or for projects that have been completed or are nearing completion.

FINANCIAL SECTION

CITY OF NORTONVILLE, KENTUCKY
Statement of Net Assests
June 30, 2011

	Primary Government		Total
	Governmental Activities	Business-type Activities	
ASSETS			
Current cash and cash equivalents	\$ 235,659	\$ 80,365	\$ 316,024
Receivables	53,731	60,575	114,306
Due from other funds	79,611	-	79,611
Inventory	-	9,125	9,125
Restricted assets	-	161,577	161,577
Capital assets, net	729,341	5,111,439	5,840,780
Other assets	-	0	0
Total assets	1,098,342	5,423,081	6,521,423
LIABILITIES			
Accounts payable and accrued liabilities	7,653	137	7,790
Due to other funds	-	79,611	79,611
Deferred revenues	51,459	-	51,459
Accrued interest payable	-	194,149	194,149
Customer deposits	-	76,407	76,407
Long-term liabilities:			
Portion due within one year:	6,476	60,000	66,476
Portion due after one year	28,874	3,335,730	3,364,604
Total liabilities	94,462	3,746,034	3,840,496
NET ASSETS			
Invested in capital assets, net of related debt	693,991	1,441,949	2,135,940
Restricted for:			
Debt service	35,350	161,577	196,927
Utilities	-	85,532	85,532
General government	112,843	-	112,843
Unrestricted (deficit)	161,696	(12,011)	149,685
Total net assets	1,003,880	1,677,047	2,680,927
Total liabilities and net assets	\$ 1,098,342	\$ 5,423,081	\$ 6,521,423

See accompanying notes to the financial statements.

CITY OF NORTONVILLE, KENTUCKY
Statement of Activities
For The Year Ended June 30, 2011

Functions/Programs	Program Revenues				Net (Expenses), Revenue, & Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Primary Government							
Governmental activities:							
General government	\$ 122,201	\$ -	\$ 20,865	\$ 200,000	\$ 98,664	\$ -	\$98,664
Public safety	155,988	-	14,130	-	(141,858)	-	(141,858)
Public service	40,219	-	70,405	-	30,186	-	30,186
Community service	21,061	-	-	-	(21,061)	-	(21,061)
Capital contributions	-	-	-	-	66,681	-	66,681
Depreciation expense	56,336	-	-	-	(56,336)	-	(56,336)
Total governmental activities	<u>395,805</u>	<u>-</u>	<u>105,400</u>	<u>200,000</u>	<u>(23,724)</u>	<u>-</u>	<u>(90,405)</u>
Business-type activities							
Water system	235,682	254,084	-	-	-	18,402	18,402
Debt service - interest	18,822	-	-	-	-	(18,822)	(18,822)
Sewer system	370,119	522,517	-	-	-	152,398	152,398
Debt service - interest	105,231	-	-	-	-	(105,231)	(105,231)
Capital contributions	-	-	-	-	-	47,673	47,673
Total business-type activities	<u>729,854</u>	<u>254,084</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>94,420</u>	<u>151,978</u>
Total primary government	<u>\$ 1,125,659</u>	<u>\$ 254,084</u>	<u>\$ 105,400</u>	<u>\$ 200,000</u>	<u>(23,724)</u>	<u>94,420</u>	<u>61,573</u>
General Revenues:							
Taxes:							
					88,700	-	88,700
					30,323	-	30,323
					124,584	-	124,584
					1,642	-	1,642
					18	3	21
					1,275	-	1,275
					10,016	-	10,016
					0	6,250	6,250
					0	719	719
					5,526	101	5,627
					(79,511)	79,511	0
					<u>182,473</u>	<u>86,684</u>	<u>269,157</u>
					158,749	181,104	330,730
					845,131	1,495,943	2,341,074
					<u>\$ 1,003,880</u>	<u>\$ 1,677,047</u>	<u>\$ 2,671,804</u>

See accompanying notes to the financial statements.

CITY OF NORTONVILLE, KENTUCKY
Balance Sheet
Governmental Fund
June 30, 2011

	General Fund	Totals
ASSETS		
Current cash and cash equivalents	\$ 235,659	\$ 235,659
Property taxes receivable - delinquent	51,708	51,708
Other receivables	2,023	2,023
Due from other funds	79,611	79,611
Total assets	369,001	369,001
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable and accrued liabilities	7,653	7,653
Due to other funds	-	-
Deferred revenue	51,459	51,459
Total liabilities	59,112	59,112
Fund balances:		
Committed	53,731	53,731
Assigned	94,462	94,462
Unassigned	161,696	161,696
Total fund balances	309,889	309,889
Total liabilities and fund balances	\$ 369,001	\$ 369,001

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

Total fund balances for governmental funds	\$	309,889
Total net assets reported for governmental activities for governmental activities in the statement of net assets is different because:		
1. Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds		(35,350)
2. Capital assets (net of depreciation) used in governmental activities are not current financial resources and therefore are not reported in the governmental funds		729,341
Net assets of governmental activities	\$	1,003,880

See accompanying notes to the financial statements.

CITY OF NORTONVILLE, KENTUCKY
STATEMENT OF REVENUE , EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUND
For The Year Ended June 30, 2011

	Major Funds		
	General Fund	Capital Projects	Total
REVENUES			
Property taxes	\$ 88,700	\$ -	\$ 88,700
Penalites and interest on taxes	-	-	-
Telecommunication tax	1,642	-	1,642
Occupational license	1,275	-	1,275
Insurance premium taxes	124,584	-	124,584
Franchise tax	30,323	-	30,323
Grants	-	200,000	200,000
Interest	18	-	18
Intergovernmental Revenues	105,400	-	105,400
Rental income	7,818	-	7,818
Franchise fees	-	-	-
Cemetary plots sold	1,880	-	1,880
Miscellaneous	5,526	-	5,526
Donations	318	-	318
Total Revenues	<u>367,484</u>	<u>200,000</u>	<u>567,484</u>
EXPENDITURES			
Current:			
General government	122,201	-	122,201
Public safety	155,988	-	155,988
Street services	40,219	-	40,219
Community services	21,061	-	21,061
Total expenditures	<u>339,469</u>	<u>-</u>	<u>339,469</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	28,015	200,000	228,015
OTHER FINANCING SOURCES (USES):			
Operating transfers in	-	-	-
Operating transfers out	(79,611)	-	(79,611)
Total Other Financing Sources (Uses):	<u>(79,611)</u>	<u>-</u>	<u>(79,611)</u>
Net Change In Fund Balances	(51,596)	200,000	148,404
Fund Balance, July 1, 2010	361,485	(200,000)	161,485
Fund Balance - June 30, 2011	<u>\$ 309,889</u>	<u>\$ -</u>	<u>\$ 309,889</u>

See accompanying notes to financial statements

CITY OF NORTONVILLE, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2011

Total net change in fund balances for governmental fund	\$	148,404
<p>The change in net assets reported for governmental activities in the statement of activities is different because:</p>		
<p>1. Governmental fund report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$xxx,xxx) exceed depreciation (\$xxx,xxx) in the current period.</p>		
		<u>10,345</u>
Change in net assets of governmental activities	\$	<u>158,749</u>

See accompanying notes to financial statements

CITY OF NORTONVILLE, KENTUCKY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2011

	Business-type Activities--Enterprise Funds		
	Sewer System	Water System	Totals
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 75,861	\$ 4,504	\$ 80,365
Investments	-	-	-
Accounts receivable	39,642	20,933	60,575
Due from other funds	-	-	-
Inventory	-	9,125	9,125
Restricted cash and cash equivalents	140,077	21,500	161,577
Total current assets	<u>255,580</u>	<u>56,062</u>	<u>311,642</u>
Noncurrent assets:			
Restricted cash and cash equivalents	-	-	-
Capital assets, net of accumulation:	4,598,773	512,666	5,111,439
Total noncurrent assets	<u>4,598,773</u>	<u>512,666</u>	<u>5,111,439</u>
Total assets	<u>4,854,353</u>	<u>568,728</u>	<u>5,423,081</u>
LIABILITIES AND FUND EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities	-	137	137
Due to other funds	48,322	31,289	79,611
Payable from restricted funds:			
Accrued interest payable	186,050	8,099	194,149
Revenue bonds payable	41,000	19,000	60,000
Customer deposits	-	76,407	76,407
Total current liabilities	<u>275,372</u>	<u>134,932</u>	<u>410,304</u>
Noncurrent liabilities:			
Revenue bonds payable, net	408,000	373,500	781,500
KIA loan	2,554,230	-	2,554,230
Total noncurrent liabilities	<u>2,962,230</u>	<u>373,500</u>	<u>3,335,730</u>
Total liabilities	<u>3,237,602</u>	<u>508,432</u>	<u>3,746,034</u>
Net Assets			
Invested in capital assets, net of related debt	1,361,171	80,778	1,441,949
Restricted for:			
Debt service	140,077	21,500	161,577
Utilities	-	9,125	9,125
Customer deposits	-	76,407	76,407
Unrestricted	115,503	(127,514)	(12,011)
Total net assets	<u>1,616,751</u>	<u>60,296</u>	<u>1,677,047</u>
Total liabilities and net assets	<u>\$ 4,854,353</u>	<u>\$ 568,728</u>	<u>\$ 5,423,081</u>

See accompanying notes to the financial statements.

CITY OF NORTONVILLE, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS

For the year ended June 30, 2011

	Business-type Activities—Enterprise Funds		
	Sewer System	Water System	Totals
Operating revenues			
Charges for services	\$ 311,412	\$ 247,198	\$ 558,610
Meter tap fees	-	300	300
Sludge dump fees	32,695	-	32,695
Service charges and penalties	178,410	6,586	184,996
Miscellaneous	1	100	101
Total operating revenues	<u>522,518</u>	<u>254,184</u>	<u>776,702</u>
Operating and maintenance expense:			
Salaries and wages	51,162	54,624	105,786
Payroll taxes	3,816	4,068	7,884
Retirement	4,391	4,280	8,671
Health insurance	4,505	15,610	20,115
Utilities	50,975	42,553	93,528
Telephone	2,495	1,855	4,350
Vehicle repair	213	844	1,057
Office supplies	3,466	4,109	7,575
Expendable supplies	842	1,175	2,017
Repairs and maintenance	18,348	18,240	36,588
Legal and audit	4,082	3,857	7,939
Fuel and oil	4,833	4,618	9,451
Insurance - liability	14,728	16,034	30,762
Advertising	55	284	339
Contracted service	31,650	19,500	51,150
Sludge disposal	8,764	-	8,764
Testing	7,951	6,134	14,085
Chemicals	7,005	5,797	12,802
Postage	1,635	2,065	3,700
Uniforms	481	1,266	1,747
Dues & subscriptions	189	595	784
Supplies	-	-	-
Miscellaneous	-	-	-
Travel	154	543	697
Bank charges	250	121	371
Total operating and maintenance expenses	<u>221,990</u>	<u>208,172</u>	<u>430,162</u>
Operating income (loss) before depreciation and amortization	300,528	46,012	346,540
Depreciation and amortization	148,129	27,510	175,639
Operating income (loss)	<u>152,399</u>	<u>18,502</u>	<u>170,901</u>
Nonoperating revenues (expenses):			
Interest revenue	-	3	3
Insurance claim	-	6,250	6,250
Sale of scrap	-	719	719
Interest expense and fiscal charges	(101,027)	(18,822)	(119,849)
Loan service fee KIA	(4,204)	-	(4,204)
Total net nonoperating revenues (expenses)	<u>(105,231)</u>	<u>(11,850)</u>	<u>(117,081)</u>
Income (loss) before contributions and transfers	47,168	6,652	53,820
Capital contributions	31,978	15,695	47,673
Transfers - debt service	48,322	31,289	79,611
Change in net assets	127,468	53,636	181,104
Total net assets, July 1, 2010	<u>1,489,283</u>	<u>6,660</u>	<u>1,495,943</u>
Total net assets, June 30, 2011	<u>\$ 1,616,751</u>	<u>\$ 60,296</u>	<u>\$ 1,677,047</u>

See accompanying notes to the financial statements.

CITY OF NORTONVILLE, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the year ended June 30, 2011

	Business-type Activities--Enterprise funds		
	Sewer System	Water System	Totals
Cash flows from operating activities:			
Cash received from customers	\$ 519,017	\$ 254,184	\$ 773,201
Cash payments to suppliers for goods and services	(213,690)	(190,264)	(403,954)
Cash payments to employees for services	(54,978)	(58,692)	(113,670)
Other operating receipts	-	6,253	6,253
Net cash provided (used) by operating activities	<u>250,349</u>	<u>11,481</u>	<u>261,830</u>
Cash flow from noncash financing activities:			
Transfer	48,322	31,289	79,611
Net cash provided (used) by noncapital financing activities	<u>48,322</u>	<u>31,289</u>	<u>79,611</u>
Cash flows from capital and related financing activities:			
Principal paid on long term debt	(39,000)	(19,000)	(58,000)
Interest and fees paid on long term-term debt	(53,210)	(16,059)	(69,269)
Capital contributions	-	-	-
Net cash used in capital and related financing activities	<u>(92,210)</u>	<u>(35,059)</u>	<u>(127,269)</u>
Cash flows from investing activities:			
Proceeds from the sale of assets	-	719	719
Net cash provided (used) by investing activities	<u>-</u>	<u>719</u>	<u>719</u>
Net increase (decrease) in cash and cash equivalents	206,461	8,430	214,891
Cash and cash equivalents, July 1, 2010	9,477	17,574	27,051
Cash and cash equivalents, June 30, 2011	<u>\$ 215,938</u>	<u>\$ 26,004</u>	<u>\$ 241,942</u>
	215,938	26,004	241,942
Classified As:			
Current Assets	\$ 75,861	\$ 4,504	80,365
Restricted Assets	140,077	21,500	161,577
Noncurrent assets, restricted	-	-	-
Total	<u>\$ 215,938</u>	<u>\$ 26,004</u>	<u>\$ 241,942</u>

	Business-type Activities--Enterprise funds		
	Sewer System	Water System	Totals
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	<u>\$ 152,399</u>	<u>\$ 18,502</u>	<u>\$ 170,901</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	148,129	27,563	175,692
Decrease (increase) in asset:			
Accounts receivable	(12,525)	(10,799)	(23,324)
Increase (decrease) in liabilities:			
Accounts payable and accrued liabilities	137	(24,514)	(24,377)
Due to other funds	48,322	31,289	79,611
Accrued interest payable	(91,001)	(18,861)	(109,862)
Revenue bonds payable	(39,000)	(19,000)	(58,000)
Customer deposits	-	4,250	4,250
Total adjustments	<u>54,062</u>	<u>(10,072)</u>	<u>43,990</u>
Net cash provided (used) in operating activities	<u>\$ 206,461</u>	<u>\$ 8,430</u>	<u>\$ 214,891</u>

See accompanying notes to the financial statements.

NORTONVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Reporting Entity

The City of Nortonville, Kentucky (the City) operates under a Mayor-Councilmembers form of government and provides the following services: general government, public safety, public service, community service, debt service and maintenance, and utility services (water and sewer).

The criteria for including organizations as component units within the City's reporting entity are as follows: legally separate organization (can sue and be sued), the City holds the corporate powers of the organization, the City appoints a voting majority of the organization's board, the City is able to impose its will on the organization, the organization has the potential to impose a financial benefit/burden on the City, and there is fiscal dependency by the organization on the City. Based on the afore-mentioned criteria, the City has no component units.

The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant of such policies.

Basis of Presentation

The accounts of the City are organized on the basis of funds. Each fund is considered a separate accounting entity – each with a separate set of self-balancing accounts including assets, liabilities, fund balance or net assets, revenue, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Basis of Accounting/Measurement Focus

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the City, the primary government, as a whole. These statements distinguish between activities that are governmental in nature and those that are considered to be business-type activities.

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

NORTONVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting/Measurement Focus (continued)

Government-Wide Financial Statements (continued)

The government-wide statement of activities presents a comparison between expenses and program revenues for each segment of the business-type activities of the City and for each program of the governmental activities. Program revenues include charges paid by the recipients for the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the City.

In the government-wide financial statements as well as the proprietary fund financial statements, net assets should be reported in one of three categories as “invested in capital assets, net of related debt,” “restricted,” or “unrestricted.”

Net assets reported as “invested in capital assets, net of related debt” represent total capital assets (including infrastructure and restricted capital assets), net of accumulated depreciation, and net of long-term borrowings attributable to acquisition, construction, or improvement of capital assets. Unspent proceeds of borrowings made for capital investment should not be considered in calculating the amount of investment in capital assets. Such unspent proceeds and the related debt would be included in calculating restricted net assets.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by laws through constitutional provisions or enabling legislation. Debt covenants are an example of an external restriction. An example of an internal restriction could be a charter provision that gasoline tax proceeds be spent only for road construction and maintenance. The net assets restricted for other purposes result from special revenue funds and the restrictions on their net asset use.

Unrestricted net assets are those net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted,” as described above. Management’s designation of unrestricted net assets (typically, designations of fund balances) should not be reported on the face of the statements of net assets; however, these designations can be disclosed in the notes to the financial statements.

Fund Financial Statements

Fund financial statements report detailed information about the City. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column.

NORTONVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GOVERNMENTAL FUNDS

All governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Revenue Recognition

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available (i.e. collectible within the current year or within two months of year-end and available to pay obligations of the current period). These include insurance premium taxes, franchise taxes, special assessments, charges for services, intergovernmental revenues, and investment income. Other governmental revenues, including licenses and permits, certain charges for services, and miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received.

Property taxes, though measurable, are not available soon enough in the subsequent year to finance current period obligations.

Expense Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on long-term debt, which has not matured, are recognized when paid. Allocation of costs, such as depreciation, is not recognized in the governmental funds.

Fund financial statements

The fund financial statements report information about the City's funds. Separate columns are presented for each major governmental fund and for each major enterprise fund.

The City reports the following major governmental funds:

- *General fund* – This is the City's primary operating fund; it accounts for all financial transactions not required to be accounted for in another fund.

- *Capital projects fund* – The city had a state grant HB 410 Project 247 for renovations and repairs to the City Hall, Library, and Museum. All the work and expense was finished before fiscal year 2011. The final payment of \$200,000 was received during fiscal year 2011 leaving a \$0 balance in the fund.

NORTONVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)
GOVERNMENTAL FUNDS (continued)

Fund Balances

In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balances can be spent.

The governmental fund types classify fund balances as follows:

Nonspendable Fund Balance – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted Fund Balance – This classification includes amounts that are restricted to specific purposes externally imposed by creditors or imposed by law.

Committed Fund Balance – This classification is the portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of the City Council of the City of Nortonville, Kentucky. Any changes or removal of specific purposes requires majority action by the governing body. The ending fund balances for the City's Municipal Road Aid, Local Government Economic Assistance (LGEA), and Community Block Grant Discretionary (CBGD) funds are all committed fund balances.

Committed to Municipal Road Aid – Portion of fund balance committed to the construction and maintenance of the City's streets and roads.

Committed to LGEA – Portion of fund balance committed to the City's severance funds.

Committed to CBGD – Portion of fund balance committed to the City's community development.

Assigned Fund Balance – Portion of fund balance that the City intends to use for specific purposes.

Subsequent year's expenditures – Portion of fund balance that is appropriated in the next year's budget that is not already classified as restricted or committed. The governing body approves the appropriation.

Unassigned Fund Balance – Portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds. The General Fund is the only governmental fund that is allowed to have any amount classified as unassigned fund balance.

PROPRIETARY FUNDS

All proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource measurement focus concerns determining costs as a means of maintaining the capital investment and management control. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred. Allocation of costs, such as depreciation, is recorded in proprietary funds.

The proprietary fund maintained by the City consists of the Water and Sewer Fund.

NORTONVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)
PROPRIETARY FUNDS (continued)

Cash and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Kentucky Revised Statute 66.480 permits the City to invest in U.S. Treasury obligations, U.S. Agency Obligations, certain Federal instruments, repurchase agreements, commercial banks' certificates of deposit, savings and loan deposits, and the Commonwealth of Kentucky investment pool.

As security for deposits of the City, any bank doing such business is required to pledge securities in an amount to exceed funds on deposit by the City. In addition, the City is insured under FDIC for up to \$250,000 with their bank.

Restricted Assets

Certain proceeds of proprietary fund revenue bonds and grants, as well as certain resources set aside for bond repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable covenants. Restricted assets consist of cash and certificates of deposit.

Statement of Cash Flows

For purposes of the Statement of Cash Flows, the City considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Capital Assets

The City's assets are capitalized at historical cost or estimated historical cost. Donated assets are valued at their fair market value on the date received. Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

Buildings and Improvements	40 years
Vehicles	5 years
Office Furniture and Fixtures	7 years
Equipment	5-10 years
Office Equipment	5-7 years
Computer Equipment	5 years
Infrastructure	30-50 years

Capital Assets (continued)

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, which requires the inclusion of infrastructure capital assets in a local government's basic financial statements. In accordance with Statement No. 34, the City has elected to report infrastructure prospectively. Infrastructure is included in the fiscal year 2011 Basic Financial Statements.

NORTONVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)
PROPRIETARY FUNDS (continued)

Capital Assets (continued)

The City defines infrastructure as the basic physical assets that allow the City to function. The assets include the street system; water purification and distribution system; sewer collection and treatment system; park and recreation lands; and buildings combined with site amenities such as parking and landscaped areas used by the City in the conduct of its business. Each major infrastructure system can be divided into subsystems. For example, the street system can be divided into concrete and asphalt pavements, concrete curbing, sidewalks, streetlights, traffic control devices, landscaping, and land. Subsystem detail is not presented in these basic financial statements; however, the City maintains detailed information on these subsystems.

For all other capital assets: buildings, vehicles, and equipment, the City elects to use the Basic Approach as defined by GASB Statement No. 34 for reporting.

Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due. In the fund financial statements, for other long-term obligations, only that portion expected to be financed from expendable, available financial resources is reported as a fund liability of a governmental fund.

Fund Equity

Reserves represent those portions of fund equity not appropriable for expenditure, or are legally segregated for a specific future use.

Interfund Receivables and Payables

Short-term amounts owed between funds are classified as "Due to/from other funds." Interfund loans are classified as "Advance to/from other funds" and are offset by a fund balance reserve account.

Operating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City enterprise funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Other Financing Sources (Uses)

Other financing sources (uses) are transfers of funds between the governmental funds and the proprietary funds or among the governmental funds themselves. On occasion, other financing sources (uses) can also consist of gains and/or losses on the sale of assets.

NORTONVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)
PROPRIETARY FUNDS (continued)

Non-exchange Transactions

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, entitlements, and donations. Property taxes levied to finance fiscal year 2011 are recorded when there is an enforceable legal claim and when the revenue is measurable and available.

Non-exchange Transactions (continued)

Revenue from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, and, matching requirements, in which the City must provide local resources to be used for a specified purpose. On a modified accrual basis, revenue from non-exchange transactions must be available before it can be recognized.

Significant Transactions Within Primary Government

Within the primary government, the governmental funds and proprietary fund transfer funds between each other. The dollar amounts of those transfers are presented in the financial statements.

NOTE 2 – DEPOSITS AND INVESTMENTS

At June 30, 2011, the City had cash deposits at *multiple* banking institution of \$477,601. Federal Deposit Insurance Company insurance amounted to \$250,000 at *each* institution.

State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or its agencies and instrumentalities or direct obligations of Kentucky or its agencies and instrumentalities that have a market value of not less than the principal amount of deposits. The City's deposits, including money market mutual funds, were insured and collateralized as required by State statutes at June 30, 2011.

The City's deposits are categorized to give an indication of the level of risk assumed by the City on the highest daily balance during the fiscal year.

- | | |
|------------|--|
| Category 1 | Deposits which are insured or collateralized with securities held by the City or its agent in the City's name. |
| Category 2 | Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the City's name. |
| Category 3 | Deposits which are not collateralized or insured. |

Based on these three levels of risk, all of the City's cash deposits are classified as Category 2.

NORTONVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 3 – PROPERTY TAXES

The City's ad Valorem property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real estate, tangible personal property, and motor vehicles and/or watercraft located in the City.

The tax rate assessed for the year ended June 30, 2011 was \$0.237 per \$100 valuation on all real estate. Tangible personal property is assessed at \$.393 per \$100 valuation. The assessed tax on motor vehicles and/or watercraft shall be \$.229 per each \$100 of assessed value. The monies collected from these ad

Valorem taxes are used by the Administrative Department of the City to maintain and oversee the functions of the Government, public safety, public service and community service.

A 2% discount is given to all property tax bills paid by November 30 following the October 1 levy date. The face amount of the property tax bill is due by December 31 and they become delinquent by February 1 following the October 1 levy date. A 5% penalty is added to all property tax bills not paid by January 31 following the October 1 levy date. A 21% penalty is added to all property tax bills paid after January 31 following the October 1 levy date.

NOTE 4 – CAPITAL ASSETS

In accordance with GASB Statement No. 34, the City has reported all capital assets including infrastructure in the Government-Wide Statement of Net Assets. The City elected to use the depreciation method for reporting all capital assets whereby accumulated depreciation and depreciation expense have been recorded. The City qualifies as a small government, having revenues less than \$10 million, and has elected to report infrastructure prospectively from point of implementation of GASB Statement No. 34. Capital assets of the City for the year ended June 30, 2011, consisted of the following:

	Balance 7/1/2010	Additions/ Reclassifications	Deletions/ Reclassifications	Balance 6/30/2011
Governmental-Type Activities				
Buildings	\$ 98,763	\$ -	\$ -	\$ 98,763
Fire	276,916	13,673	-	290,589
Improvements	543,173	8,008	-	551,181
Machinery & equipment	272,563	-	-	272,563
Police	8,629	-	6,103	2,526
Vehicles	174,925	45,000	20,625	199,300
Infrastructure	42,557	-	-	42,557
Land	45,000	-	-	45,000
Total	1,462,526	66,681	26,728	1,502,479
Less Accumulated Depreciation	(716,802)	(56,336)	-	(773,138)
Total Governmental-Type Activities	\$ 745,724	\$ 10,345	26,728	\$ 729,341

NORTONVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 4 – CAPITAL ASSETS (continued)

For the year ended June 30, 2011, depreciation on capital assets was charged to the government functions as follows:

General Fund	\$ 1,654
Public safety	34,805
Public service	3,693
Community service	<u>16,184</u>
Total	<u>\$ 56,336</u>

A summary of the Proprietary Fund capital asset transactions for the year ended June 30, 2011, is shown below:

	Balance 7/1/2010	Additions/ Reclassifications	Deletions/ Reclassifications	Balance 6/30/2011
Business-Type Activities				
Water lines and extensions	\$ 150,747	\$ -	\$ -	\$ 150,747
Water meters and boxes	6,754	-	-	6,754
Pumps and motors	27,864	15,695	10,452	33,107
Fire hydrants	26,117	-	-	26,117
Buildings, tanks, etc.,	160,563	-	-	160,563
Vehicles	21,210	-	-	21,210
Equipment	22,191	-	-	22,191
1995 Waterline replacement	675,652	-	-	675,652
Sewer system equipment	132,466	-	-	132,466
Sewer system property	3,033,626	31,978	54,843	3,010,761
Regional sewer project	5,127,413	-	-	5,127,413
Total	<u>9,384,603</u>	<u>47,673</u>	<u>65,295</u>	<u>9,366,981</u>
Less Accumulated Depreciation	(4,144,444)	(175,639)	65,541	(4,255,542)
Total Business-Type Activities	<u>\$ 5,240,159</u>	<u>\$ (127,966)</u>	<u>\$ 754</u>	<u>\$ 5,111,439</u>

NORTONVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 4 – CAPITAL ASSETS (continued)

	Balance 7/1/2010	Additions/ Reclassifications	Deletions/ Reclassifications	Balance 6/30/2011
Sewer system				
Business-Type Activities				
Sewer system equipment	\$ 132,466	\$ -	\$ -	\$ 132,466
Sewer system property	3,033,626	31,978	54,843	3,010,761
Regional sewer project	5,127,413	-	-	5,127,413
Total	8,293,505	31,978	54,843	8,270,640
Less Accumulated Depreciation	(3,578,581)	(148,129)	54,843	(3,671,867)
Total Business-Type Activities	<u>\$ 4,714,924</u>	<u>\$ (116,151)</u>	<u>-</u>	<u>\$ 4,598,773</u>

	Balance 7/1/2010	Additions/ Reclassifications	Deletions/ Reclassifications	Balance 6/30/2011
Water system				
Business-Type Activities				
Water lines and extensions	\$ 150,747	\$ -	\$ -	\$ 150,747
Water meters and boxes	6,754	-	-	6,754
Pumps and motors	27,864	15,695	10,452	33,107
Fire hydrants	26,117	-	-	26,117
Buildings, tanks, etc.,	160,563	-	-	160,563
Vehicles	21,210	-	-	21,210
Equipment	22,191	-	-	22,191
1995 Waterline replacement	675,652	-	-	675,652
Total	1,091,098	15,695	10,452	1,096,341
Less Accumulated Depreciation	(565,863)	(27,510)	9,698	(583,675)
Total Business-Type Activities	<u>\$ 525,235</u>	<u>\$ (11,815)</u>	<u>754</u>	<u>\$ 512,666</u>

NOTE 6 – RETIREMENT BENEFITS

The CERS plan is a cost-sharing multiple-employer defined benefit plan administered by the Board of Trustees of Kentucky Retirement (KRS). The non-hazardous members are required to contribute at 5% of their annual creditable compensation and the City matched at 16.93%. The hazardous members are required to contribute 8% of their annual creditable compensation and the City matched at 33.25%. Contributions required to CERS for the year ended June 30, 2011, was \$14,274 for non-hazardous employees and \$12,728. Any member of the retirement plan can call 502-696-5095 for account information.

NORTONVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 7 – CAPITAL LEASE

The City of Nortonville paid off two capital lease agreements during fiscal year 2011. The leases were for a police vehicle and the other sewer equipment.

	Balance 7/1/2010	Transfers, Issues, or Additions	Transfers, Payments, or Deletions	Balance 6/30/2011
Governmental Activities				
Integra Bank	\$ 2,316	\$ -	\$ 2,316	\$ -
Total Governmental Activities	\$ 2,316	\$ -	\$ 2,316	\$ -
Proprietary Activities				
Sewer System				
Ford W Hall Company	5,338	-	5,338	-
Total Proprietary Activities	5,338	-	5,338	-
Total Capital Lease	\$ 7,654	\$ -	\$ 7,654	\$ -

NOTE 8 – LONG-TERM DEBT

The following is a summary of long-term debt transactions for the City for the year ended June 30, 2011:

	Balance 7/1/2010	Transfers, Issues, or Additions	Transfers, Payments, or Deletions	Balance 6/30/2011
Governmental Activities				
Note Payable - Fire truck	\$ -	\$ 35,350	\$ -	\$ 35,350
Total Governmental Activities	-	35,350	-	35,350
Proprietary Activities				
Water system				
Revenue Bonds Series 1975 @ 5%	61,000	-	11,000	50,000
Revenue Bonds Series 1995 @ 4.5%	35,500	-	8,000	27,500
Sewer system				
Revenue Bonds Series 1980 @ 5%	488,000	-	39,000	449,000
KY Infrastructure Authority @ 3%	2,554,230	-	-	2,554,230
Total Proprietary Activities	3,138,730	-	58,000	3,080,730
Total Long-Term Debt	\$ 3,138,730	\$ 35,350	\$ 58,000	\$ 3,116,080

NORTONVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 8 – LONG-TERM DEBT
(continued)

<u>Governmental Activities</u>					<u>Principal</u>
Note payable - Fire truck		<u>Annual</u>			<u>Balance</u>
	<u>Date</u>	<u>Payment</u>	<u>Principal</u>	<u>Interest</u>	35,350.00
Integra Bank	10/27/11	8,067.22	6,476.47	1,590.75	28,873.53
Interest 4.5%	10/27/12	8,067.22	6,767.91	1,299.31	22,105.62
Loan Date 10/27/2010	10/27/13	8,067.22	7,072.47	994.75	15,033.15
Maturity 10/27/2015	10/27/14	8,067.22	7,390.73	676.49	7,642.42
Principal \$35,350.00	10/27/15	8,067.22	7,642.42	343.91	0.00
		40,336.10	35,350.00		

<u>Proprietary Activities</u>	
<u>Sewer system</u>	
<u>Revenue Bonds 1980 - 5%</u>	
<u>Year</u>	<u>Amount</u>
2011	39,000.00
2012	41,000.00
2013	43,000.00
2014	45,000.00
2015	47,000.00
2016-2020	273,000.00
	<u>488,000.00</u>

NORTONVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 8 – LONG-TERM DEBT (continued)

KY Infrastructure Authority @ 3% Principal \$2,554,230, Accrued Interest \$185,042

Water System			
<u>Revenue Bonds</u>		<u>Revenue Bonds</u>	
Series 1975 - 5%		Series 1995 - 4.5%	
<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2012	11,000.00	2012	8,000.00
2013	12,000.00	2013	8,500.00
2014	13,000.00	2014	9,000.00
2015	14,000.00	2015	9,500.00
Total	<u>50,000.00</u>	2016	10,000.00
		2017-2021	56,000.00
		2022-2026	70,500.00
		2027-2031	107,000.00
		2032-2035	64,000.00
		Total	<u>342,500.00</u>

NOTE 9 – DEFERRED REVENUE

The deferred revenue of the Governmental Fund of \$51,459 represents delinquent taxes that have not been collected from 2010 to all prior years. The property taxes receivable – delinquent of \$51,708 is offset to the deferred revenue. The amounts if collected will be adjusted from deferred to delinquent tax revenues in the year collected and the property tax receivable reduced by the amount of collections. As the years go on the likelihood of collection becomes less in the past years. The schedule below shows the relationship of amounts to be collected with the past years:

<u>Year/years Due</u>	<u>Amount</u>
2010	6,008
2009	1,736
2008	2,785
2007	2,007
2006	2,139
2005-2000	10,964
1999-1990	4,787
1989-1980	822
Prior to 1980	20,211
Total	<u>51,459</u>

NORTONVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2011

NOTE 10 – RISK MANAGEMENT

The City 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. The City carries commercial insurance for these types of risk through Kentucky League of Cities Insurance Services.

The insurance covers claims on losses up to the following limits:

<u>Coverage</u>	<u>Limit per Occurrence</u>
General Liability	\$3,000,000
Public Officials Liability	\$3,000,000
Law Enforcement Liability	\$3,000,000
Automobile Liability	\$3,000,000
Automobile Physical Damage	Actual Cash Value

NOTE 11 – TRANSFERS TO/FROM OTHER FUNDS

The Governmental funds supported the Enterprise activities in payments of their debt. The proprietary funds are business-type activities self-supporting separate from the Governmental funds.

	PROPRIETARY FUNDS			
	<u>TRANSFERS FROM</u>	<u>Due from</u>	<u>Due from</u>	<u>Total</u>
	<u>General Fund</u>	<u>Sewer System</u>	<u>Water System</u>	<u>Due From</u>
Governmental Fund	\$ 79,611	\$ 48,322	\$ 31,289	\$ 79,611
Total	\$ -	\$ 48,322	\$ 31,289	\$ 79,611

NOTE 12 – SIGNIFICANT FINANCIAL INFLUENCE

The City is reliant on taxes from several sources to operate. If there is a significant change in any of these taxes, there could be a significant effect on the City's ability to operate.

NOTE 13 – BUDGETARY INFORMATION

Through the budget, the City Council sets the direction of the City, allocates its resources, and establishes its priorities. The Annual Budget ensures the efficient and effective use of the City's economic resources, as well as establishes that the highest priority objectives are accomplished.

The City Charter establishes the fiscal year as the twelve-month period beginning July 1. The departments submit to the Mayor a budget of estimated expenditures for the ensuing fiscal year after which the Mayor subsequently submits a budget of estimated expenditures and revenues to the City Council June 1.

NORTONVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

NOTE 13 – BUDGETARY INFORMATION (continued)

Upon receipt of the budget estimates, the Commission holds a first reading on the Budget Ordinance and Tax Roll Ordinance. Information about the Budget Ordinance is then published in the official City's newspaper. The Council is precluded from passing the Budget Ordinance (second reading) until ten days have passed after the Ordinance publication and becomes effective upon approval by the Council.

Budgeted amounts are as originally adopted or as amended by the City Council. The comparison of actual to budget shows a surplus for both the Governmental funds and Proprietary funds.

NOTE 14 – ADVERTISING

Total advertising costs for the fiscal year ended June 30, 2011 for Nortonville was \$1,621, of which \$1,282 and \$339 were for the City of Nortonville and Nortonville Water & Sewer System respectively.

REQUIRED
SUPPLEMENTARY
INFORMATION

CITY OF NORTONVILLE, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		<u>Positive (Negative)</u>
Budgeted fund balance, July 1, 2010	\$ 14,097	\$ 14,097	\$ 13,939	\$ (158)
Revenues:				
Taxes real and personal	82,000	82,000	88,700	6,700
Licenses & permit	105,800	105,800	157,824	52,024
Intergovernmental	30,322	30,322	305,400	275,078
Miscellaneous	9,290	9,290	15,560	6,270
Gordon Park	50	50	-	(50)
Total	<u>227,462</u>	<u>227,462</u>	<u>567,484</u>	<u>340,022</u>
Expenditures:				
General government	106,980	106,980	97,777	(9,203)
Library	22,750	22,750	9,641	(13,109)
Fire	22,360	22,360	86,408	64,048
Police	69,590	69,590	69,580	(10)
Public officials	23,220	23,220	24,824	1,604
Public safety	42,405	42,405	39,819	(2,586)
Parks and recreation	3,325	3,325	11,420	8,095
Reserve for contingencies	13,939	13,939	-	(13,939)
	<u>304,569</u>	<u>304,569</u>	<u>339,469</u>	<u>34,900</u>
Budgeted fund balance, June 30, 2011	<u>\$ (63,010)</u>	<u>\$ (63,010)</u>	<u>\$ 241,954</u>	<u>\$ 305,122</u>

CITY OF NORTONVILLE, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2011

	Budgeted Amounts	Actual	Variance Positive (Negative)
Budgeted fund balance, July 1, 2010	\$ 14,097	\$ 13,939	
Revenues:			
Taxes real and personal	82,000	88,700	6,700
Licenses & permit			
Occupational license	4,500	1,275	(3,225)
Franchise fees	15,000	4,561	(10,439)
Cable TV franchise fee	10,000	0	(10,000)
KY utilities franchise fee	25,000	25,631	631
ATMOS gas franchise fee	1,300	131	(1,169)
Insurance tax premium taxes	50,000	124,584	74,584
Telecommunications tax	0	1,642	1,642
Intergovernmental			
State local aid	0	215,255	215,255
Municipal road aid	10,000	70,405	60,405
Local government economic aid	3,000	5,610	2,610
Fire - state and county aid	13,200	10,000	(3,200)
KY law enforcement foundation program fund (KLEFPF)	4,122	4,130	8
Miscellaneous			
General fund interest	60	4	(56)
Penalties and lien fees	1,500	0	(1,500)
Municipal aid interest	50	14	(36)
LGEA interest	50	0	(50)
Miscellaneous police court revenue	100	150	50
Miscellaneous	0	5,376	5,376
Library/museum donations	500	318	(182)
Cemetery accounts interest	30	0	(30)
Cemetery plots sold	2,300	1,880	(420)
Cafeteria rental	1,200	1,695	495
Gym rentals	3,500	6,123	2,623
Gordon Park			
Gordon Park & Nortonville Ballpark	20	0	(20)
Gordon Park interest	20	0	(20)
Nortonville Ballpark interest	10	0	(10)
Total	227,462	567,484	340,022
Expenditures:			
General government			
Salaries and wages	36,640	40,251	3,611
Payroll taxes	2,735	3,147	412
Health insurance	2,690	5,142	2,452
CERS (Retirement)	0	2,916	2,916
Utilities - electric	12,500	9,016	(3,484)
Utilities - gas	1,850	1,644	(206)
Telephone/internet	2,900	2,779	(121)
Insurance - general liability	6,465	9,446	2,981
Legal advertisement	1,400	1,282	(118)
Attorney fees	2,000	0	(2,000)
Audit fees	29,000	11,064	(17,936)
Office equipment & supplies	1,600	5,208	3,608
Expendable supplies	2,000	829	(1,171)
Repairs & maintenance	1,000	1,888	888
Tax bills preparation	600	1,610	1,010
Postage	1,000	761	(239)
Publishing fees - Annual Water Report	600	0	(600)
Travel & training	2,000	394	(1,606)
Library			
Salary and wages	9,270	1,783	(7,487)
Payroll taxes	675	130	(545)
Health insurance	7,395	0	(7,395)
CERS (Retirement)	1,500	302	(1,198)
Contract labor	0	3,400	3,400
Telephone/internet	1,800	1,436	(364)

Office supplies	50	0	(50)
Expendable supplies	50	580	530
Utilities - electricity	1,780	1,780	0
Utilities - gas	230	230	0
Cemetery			
Cemetery expense	0	400	400
Fire			
Salary and wages	5,360	5,356	(4)
Payroll taxes	410	410	0
Volunteer firemen	0	5,840	5,840
Health insurance	0	0	0
CERS (Retirement)	0	0	0
Fire fighters training and runs	2,400	255	(2,145)
Insurance	0	1,049	1,049
Utilities - electricity	3,305	2,980	(325)
Utilities - gas	1,465	1,179	(286)
Vehicle repair	1,000	954	(46)
Gas and oil	1,300	459	(841)
Contracted labor	600	0	(600)
Office supplies	50	379	329
Postage	50	0	(50)
Telephone/internet	1,270	1,166	(104)
Repairs & maintenance	0	1,253	1,253
Expendable supplies	50	1,460	1,410
Dues & supplies	100	4,995	4,895
Equipment purchases	5,000	58,673	53,673
Miscellaneous	0	0	0
Police			
Salaries and wages	34,820	35,179	359
Payroll taxes	2,455	2,476	21
Health insurance	10,755	8,616	(2,139)
CERS (Retirement)	11,480	12,728	1,248
KLEFPF	4,130	3,100	(1,030)
Telephone/internet	880	834	(46)
Office supplies	300	446	146
Gas and oil	1,500	2,034	534
Vehicle repair	400	500	100
Insurance - law enforcement	1,750	1,750	0
Travel & training	0	861	861
Narcotics task force	420	411	(9)
Expendable supplies	150	49	(101)
Dues & subscriptions	50	0	(50)
Legal publications	100	0	(100)
Uniform allowance	400	596	196
Public officials			
Salaries and wages	16,800	16,500	(300)
Payroll taxes	1,290	1,097	(193)
Insurance for public officials	5,130	7,227	2,097
Public safety			
Utilities/electricity - sirens	260	268	8
Utilities/electricity - street lights	16,950	14,756	(2,194)
Utilities/electricity - traffic lights	195	195	0
Street improvements	25,000	24,600	(400)
Parks and recreation			
Utilities - electricity	1,325	1,544	219
Repairs and maintenance	2,000	1,868	(132)
Capital outlay	0	8,008	8,008
Reserve for contingencies	13,939	0	(13,939)
	304,569	339,469	34,900
Budgeted fund balance, June 30, 2011	(63,010)	241,954	305,122

CITY OF NORTONVILLE, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN PROPRIETARY FUND BALANCES
BUDGET AND ACTUAL - PROPRIETARY FUND
For the Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Positive (Negative)
Revenues:				
Charges for service	\$ 730,000	\$ 730,000	\$ 776,601	\$ 46,601
Total	<u>730,000</u>	<u>730,000</u>	<u>776,601</u>	<u>46,601</u>
Expenditures:				
Waste water treatment plant	191,560	191,560	164,579	(26,981)
Water & sewer departments	334,830	334,830	265,583	(69,247)
Capital outlay	0	0	35,342	(35,342)
Debt service	140,600	140,600	182,053	41,453
	<u>666,990</u>	<u>666,990</u>	<u>647,557</u>	<u>(90,117)</u>
Ending fund balance	<u>\$ 63,010</u>	<u>\$ 63,010</u>	<u>\$ 129,044</u>	<u>\$ 66,034</u>

CITY OF NORTONVILLE, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN PROPRIETARY FUND BALANCES
BUDGET AND ACTUAL - PROPRIETARY FUND
For the Year Ended June 30, 2011

	Budgeted	Actual	Variance
	<u>Amounts</u>	<u>Actual</u>	<u>Positive</u> <u>(Negative)</u>
Revenues:			
Charges for services			
Water/sewer department	\$ 713,000	\$ 743,906	\$ 30,906
Leachate treatment	17,000	32,695	15,695
Total	730,000	776,601	46,601
Expenditures:			
Waste water treatment plant			
Contract with Clearwater Environment	36,000	36,000	-
Chemicals	10,000	10,000	-
Testing	7,000	7,951	951
Repairs and maintenance	60,000	37,304	(22,696)
Capital outlay	-	35,342	35,342
Sludge disposal	14,000	8,764	(5,236)
Utilities - electricity	61,400	61,400	-
Telephone	3,160	3,160	-
Water and sewer department			
Salary and wages	139,730	105,786	(33,944)
Payroll taxes	10,270	7,884	(2,386)
Health insurance	51,510	20,115	(31,395)
CERS (retirement)	21,460	8,671	(12,789)
Contracted services	-	-	-
Telephone	1,650	1,190	(460)
Travel and training	500	697	197
Postage	4,000	3,700	(300)
Office supplies	1,000	8,014	7,014
Legal & accounting	-	7,939	7,939
Advertising	-	339	339
Expendable supplies	2,000	2,017	17
Chemicals	4,000	2,802	(1,198)
Water testing expense	1,270	6,134	4,864
Insurance - Vehicle/equipment	9,430	30,762	21,332
Vehicle loan payment	3,480	-	(3,480)
Vehicle/equipment gas & oil	14,580	9,451	(5,129)
Vehicle/equipment repair	3,000	1,057	(1,943)
Vehicle/equipment motor maintenance	1,700	-	(1,700)
Expendable equipment supplies	500	-	(500)
Uniform allowance	300	1,747	1,447
Repairs/maintenance Water/Sewer lines	25,000	15,150	(9,850)
Utilities - electricity	37,600	30,254	(7,346)
Utilities - gas	1,850	1,874	24
Miscellaneous	-	-	-
Debt service			
Principal and interest	140,600	182,053	41,453
Total	666,990	647,557	(19,433)
Ending fund balance	\$ 63,010	\$ 129,044	\$ 66,034

**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 AUDIT STANDARDS**

To the City Council
City of Nortonville, Kentucky

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Nortonville, Kentucky (i.e. the City), as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements and have issued my report thereon dated March 20, 2012. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States except for failure to meet the peer review requirements. A peer review is scheduled to be conducted in May 2012.

Internal Control Over Financial Reporting

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

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

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, I did identify deficiencies 2011-1, 2011-2, 2011-3, and 2011-4, and reviewed the status of prior findings 07-1, 07-2, 07-3 07-4 07-5, 07-6, 07-7, and 07-8. The internal control over financial reporting, described in the accompanying schedule of findings, that I consider to be significant deficiencies in internal control over financial reporting. 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.

Report
City of Nortonville, Kentucky
Page 2

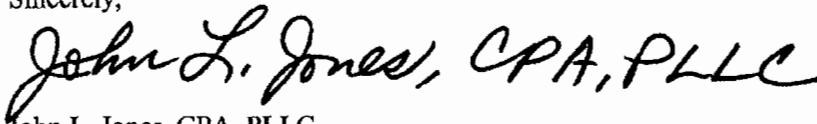
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City's responses to the findings identified in my audit are described in the accompanying schedule of findings. I did not audit the City's responses and, accordingly, I do not express any opinions on them.

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

Sincerely,



John L. Jones, CPA, PLLC
Hopkinsville, Kentucky
March 20, 2012

NORTONVILLE, KENTUCKY
SCHEDULE OF FINDINGS AND PRIOR FINDINGS
For the Year Ended June 30, 2011

A. FINDINGS – Internal control

2011-1 No Fiscal Year Ending Physical Inventory

Statement of Condition: In the review of internal controls it was discovered that no physical year ending physical inventory was made for accounting and safeguarding assets.

Criteria: Internal controls should be in place to provide assurance that assets are safeguarded and that proper accounting is maintained.

Effect: Due to the failure to have annual physical inventories assets it would easier to misuse or abuse assets.

Recommendation: The City have annual physical inventories to safeguard assets and to reconcile to the accounting records.

Management's Response: We concur with the audit's recommendation.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

2011-2 Deposits were found not recorded

Statement of condition: Deposits were found for telecommunications revenue that were not recorded in the accounting records.

Criteria: Financial records would show the exact amount of cash and revenues to keep the accounting records in order.

Effect: The accounting records would shoe excess cash and understated revenues.

Recommendations: All monies deposited should be properly record in the accounting records.

Management's Response: We concur with the auditor's recommendation.

2011-3 Comingling accounts

Statement of condition: The disbursements should not be split out between Proprietary expenditures and water system and sewer system but separate transactions. Payroll is split out between water system, sewer system and governmental activities.

Criteria: A separate accounting for each entity without the disbursements being split out.

Effect: The general fund was making payment for the debt service of water and sewer systems. The Proprietary funds are separate Enterprise-type business activities. Each is to be self-supporting.

NORTONVILLE, KENTUCKY
SCHEDULE OF FINDINGS AND PRIOR FINDINGS
For the Year Ended June 30, 2011

2011-3 Comingling accounts (continued)

Recommendations: The water system and sewer system should be separate or combined as one entity. The Proprietary funds are not to be intermingled with the governmental activities to support the debt service. These entities should be separate in all aspects of accounting records.

Management's Response: We concur with the auditor's findings.

2011-4 Not reporting all deferred wages on the federal 941 forms

Condition: Not all deferred wages were reported on the quarterly federal 941 payroll forms for withholding, social security tax, and medicare tax.

Criteria: All deferred wages are to be reported on the federal 941 so correct social security tax and medicare tax can be paid.

Effect: The fiscal year 2011 an underreporting of deferred wages on the federal payroll 941 resulted in an estimated underpayment of \$300 for payroll taxes.

Recommendations: The federal 941 payroll forms should be amended to include the deferred wages and payment of the payroll taxes. All deferred wages should be reported on the federal 941 payroll forms.

Management's response: We concur with the auditor's findings.

Prior audit findings

07-01 Payroll reporting

Finding: 'In connection with our audit in the area of payroll, we noted an excessive number of the time cards prepared by employees were prepared manually instead of using the City time clock machines. This provides opportunities for employees to record and be paid for time not actually worked.'

Current status: Resolved

07-02 Budgets/interfund activity

Finding: 'KRS 91A.030(13) and City ordinance prohibits any commitment, obligation or expenditures exceeding the appropriation for that purpose. During the year ended June 30, 2007, the expenditures in the general and street departments exceeded the budgeted amounts. The absence of appropriate accounting for interfund activity (transfers and reimbursements) reduces the ability to monitor and compare actual expenses with budgeted amounts.'

Current status: Resolved

NORTONVILLE, KENTUCKY
SCHEDULE OF FINDINGS AND PRIOR FINDINGS
For the Year Ended June 30, 2011

Prior audit findings (continued)

07-3 Cash management/operating loss

Finding: 'Significant operating losses have occurred in the General, Water, and Sewer Funds during the past seven years (although the Water and Sewer Fund did incur a net operating income during the year ended June 30, 2006). These losses have been funded by available cash reserves and interfund transfers. The General Fund has a deficit of (\$9,911) as of June 30, 2007. Cash reserves have been depleted. The General Fund will continue to have to borrow from the utility funds unless revenues are increased and/or expenditures are reduced.'

Current status: Resolved

07-4 Bank account reconciliation/recording transactions

Finding: 'The City maintains sixteen bank accounts. These bank accounts are not being reconciled to the general ledger on a timely basis. This has resulted in excessive year-end accounting adjustments. All bank accounts should be reconciled to the general ledger each month. This is imperative for accuracy of the financial statements and as an effective internal control. We further recommend consideration be given to consolidating certain bank accounts.'

Current status: Resolved

07-5 Segregation of duties

Finding: 'The internal control structure relating to receipts and disbursements is inadequate due to a lack of segregation of duties. Proper segregation of duties is essential to an adequate internal control structure. The lack of proper segregation of duties may permit errors or irregularities to go undetected.'

Current status: Even though the administration has a small number of administrative staff, we believe this a this finding is resolved.

07-6 Audit and publication

Finding: 'The City is required, per KRS 91A040, to cause each fund of the City to be audited. The audit shall be completed by February 1, immediately following the fiscal year being audited. The financial records must be auditable before the audit may commence. At a minimum, these records must consist of a general ledger with all cash transactions for the year recorded and the cash accounts reconciled. Such records were not presented to the audit firm until December, 2008. Consequently, the City is not in compliance with the publication requirements of KRS 91A.040.'

Current status: Resolved

NORTONVILLE, KENTUCKY
SCHEDULE OF FINDINGS AND PRIOR FINDINGS
For the Year Ended June 30, 2011

07-7 bond sinking/depreciation reserve fund

Finding: 'The Revenue Bond Issues of 1975, 1980 and 1995 requires monthly deposits of funds sufficient to provide for the payments of principal and interest on said binds. As well as, a monthly deposits of funds sufficient to provide for the payments of principal and interest on said bonds, as well as, monthly deposits into the depreciation reserve to provide for future extraordinary repairs and improvements to the funded water and sewer system. Although bond payments were timely made, not all of the required deposits all the required deposits were transferred into the restricted accounts. Due to the commingling of the water and sewer sinking and depreciation reserve accounts, in essence, funds were transferred from the depreciation reserve accounts to supplement the sinking fund accounts.'

Current status: Monthly deposits are still not made for the bonds. The general fund is supporting the debt service a current finding.

07-8 Uniform Financial Information Report

Current status: Resolved