

**CITY OF NORTONVILLE, KENTUCKY**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**June 30, 2012**

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## **INTRODUCTORY SECTION**

**CITY OF NORTONVILLE, KENTUCKY**  
**SCHEDULE OF OFFICIALS**  
June 30, 2012

**Council Members**

Barry Merrill, Mayor  
James Braden  
Marshall Lee  
Jesse McGary  
Carolynn Sturt  
James Harrison  
Chuck Coburn, Jr.

Trena Victory, City Clerk

## **FINANCIAL SECTION**

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## **Independent Auditor's Report**

**Mayor and Council Members**  
**City of Nortonville, Kentucky**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Nortonville, Kentucky, as of and for the year ended June 30, 2012, 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. Our responsibility is to express opinions on these financial statements based on our audit.

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

\* In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City of Nortonville, Kentucky, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2013, on our consideration of the City of Nortonville's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Mayor and Council Members  
City of Nortonville, Kentucky

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Introductory Section is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

*Alexander Thompson Arnold PLLC*

Union City, Tennessee  
March 5, 2013

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Nortonville, Kentucky, we offer 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, 2012.

### FINANCIAL HIGHLIGHTS

- The assets of the City of Nortonville exceeded its liabilities at the close of the most recent fiscal year by \$2.78 million (*net assets*).
- As of the close of the current fiscal year, the City of Nortonville's general fund reported an ending fund balance of \$411 thousand, an increase of \$101 thousand in comparison with the prior year. Current operations of the City accounted for \$88 thousand of the increase, with \$13 thousand a result of a prior period adjustment. Of the total fund balance, the amount available for spending at the City of Nortonville's discretion (*unassigned fund balance*) was \$329 thousand. The City has restricted net assets of \$78 thousand and has committed \$3 thousand to specific functions, such as cemetery maintenance.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This 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 the following components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the financial statements

### Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City of Nortonville'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 City's net assets changed during the most recent 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 related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes, etc.).

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 governmental activities of the City include general government, public safety, streets, parks and cemetery. The business-type activities of the City include water and sewer systems.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### 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. The City has one governmental fund and two 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, the focus is on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of government-wide financial statements, it is useful to compare the information presented for the governmental fund 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 City's near-term financing decisions. Both the Balance Sheet - Governmental Fund and the Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Fund provide a reconciliation to facilitate this comparison between the governmental fund and governmental activities. The City maintains one governmental fund, the General Fund, which is considered to be a major fund.

The City adopts an annual appropriated budget for its governmental fund. A budgetary comparison statement has been provided in this report to demonstrate compliance with the budget.

**Proprietary funds** - Proprietary funds are used to account for the business-type activities of the City. The measurement focus is the same as for the government-wide financial statements. The City has two proprietary funds, the Water Fund and the Sewer Fund.

### 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.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

### Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Nortonville, assets exceeded liabilities by \$2,781,717 at the close of the most recent fiscal year. The largest portion of the City's net assets (81.3%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment and infrastructure) less the related debt used to acquire those assets that is still outstanding. The City of Nortonville uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 500,828	\$ 369,002	\$ 347,279	\$ 311,642	\$ 848,107	\$ 680,644
Capital assets	679,130	729,341	4,946,058	5,111,439	5,625,188	5,840,780
Total assets	<u>1,179,958</u>	<u>1,098,343</u>	<u>5,293,337</u>	<u>5,423,081</u>	<u>6,473,295</u>	<u>6,521,424</u>
Current liabilities	90,216	59,112	207,042	165,262	297,258	224,374
Long-term liabilities	27,490	35,350	3,366,830	3,580,772	3,394,320	3,616,122
Total liabilities	<u>117,706</u>	<u>94,462</u>	<u>3,573,872</u>	<u>3,746,034</u>	<u>3,691,578</u>	<u>3,840,496</u>
Net assets:						
Invested in capital assets, net of related debt	651,640	693,991	1,610,328	1,441,949	2,261,968	2,135,940
Restricted	78,167	148,193	83,219	247,109	161,386	395,302
Unrestricted	332,445	161,697	25,918	(12,011)	358,363	149,686
Total net assets	<u>\$ 1,062,252</u>	<u>\$ 1,003,881</u>	<u>\$ 1,719,465</u>	<u>\$ 1,677,047</u>	<u>\$ 2,781,717</u>	<u>\$ 2,680,928</u>

At the end of the current fiscal year, the City as a whole is able to report positive balances in all categories of net assets. Net assets increased by \$101 thousand from the prior year. This increase was mainly attributable to prior period adjustments of \$80 thousand to correct various accounts previously reported. See the Notes to Financial Statements for a breakdown of these adjustments.

A portion of net assets (5.8%) is restricted for municipal aid expenditures and bond sinking and reserve funds. Unrestricted net assets (12.9%) may be used to meet the City's ongoing obligations to citizens and creditors. The remaining balance of net assets is attributable to the City's investment in its capital assets, net of the debt related to those assets.

### Statement of Activities

The following statement of activities summarizes the revenues and expenses of the City and compares them to the prior year's activities.

### Condensed Statement of Activities

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$ 11,222	\$ -	\$ 739,847	\$ 776,601	\$ 751,069	\$ 776,601
Operating grants and contributions	49,751	105,400	-	-	49,751	105,400
Capital grants and contributions	-	266,681	-	47,673	-	314,354
General revenues:						
Taxes	210,558	245,249	-	-	210,558	245,249
Other sources	9,799	16,835	106	7,073	9,905	23,908
Total revenues	<u>281,330</u>	<u>634,165</u>	<u>739,953</u>	<u>831,347</u>	<u>1,021,283</u>	<u>1,465,512</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<b>Expenses:</b>						
General government	\$ 140,224	\$ 122,201	\$ -	\$ -	\$ 140,224	\$ 122,201
Library	5,811	21,061	-	-	5,811	21,061
Public safety	58,907	212,324	-	-	58,907	212,324
Streets, parks, cemetery	83,939	40,219	-	-	83,939	40,219
Sewer	-	-	712,027	729,854	712,027	729,854
Total expenses	<u>288,881</u>	<u>395,805</u>	<u>712,027</u>	<u>729,854</u>	<u>1,000,908</u>	<u>1,125,659</u>
Transfers	<u>47,626</u>	<u>(79,611)</u>	<u>(47,626)</u>	<u>79,611</u>	<u>-</u>	<u>-</u>
Change in net assets	40,075	158,749	(19,700)	181,104	20,375	339,853
Net assets - beginning	1,003,881	845,132	1,677,047	1,495,943	2,680,928	2,341,075
Prior period adjustment	18,296	-	62,118	-	80,414	-
Net assets - as restated	<u>1,022,177</u>	<u>845,132</u>	<u>1,739,165</u>	<u>1,495,943</u>	<u>2,761,342</u>	<u>2,341,075</u>
Net assets - ending	<u>\$ 1,062,252</u>	<u>\$ 1,003,881</u>	<u>\$ 1,719,465</u>	<u>\$ 1,677,047</u>	<u>\$ 2,781,717</u>	<u>\$ 2,680,928</u>

**Governmental activities** – Governmental activities increased the City's net assets by \$40 thousand, while business-type activities decreased net assets by \$20 thousand during the current year. The most significant decrease in revenue was in grants and contributions, due to the receipt in the prior year of a \$200,000 Project 247 Coal Severance Grant. Public safety expenses decreased by \$153 thousand, mainly attributable to 1) a purchase in the prior year of a 1991 Pierce Rescue Pumper (\$45,000) and other fire department equipment (\$13,673), and 2) a decrease in police department salaries and related fringe benefits (\$55,155).

**Business-type activities** – Charges for services in the Water and Sewer Funds decreased due to a decrease in sewer revenues from customers, including the City of Mortons Gap. Expenses decreased by \$18 thousand, mainly in the areas of utilities (due to change in interfund allocations) and chemicals.

### FUND FINANCIAL STATEMENTS ANALYSIS

**Governmental funds** - The focus of the City's governmental fund 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, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of June 30, 2012, the General Fund had unassigned fund balance of \$329 thousand.

Significant variances in General Fund revenues are as follows: Property tax revenues decreased from \$88,700 in 2011 to \$62,871 in 2012 due to a shrinking property assessment base. Insurance premium taxes decreased from \$124,584 in 2011 to \$108,012 in 2012 due to a decline in policy premiums. State Municipal Road Aid revenue decreased from \$70,405 in 2011 to \$26,929 due to the receipt in 2011 of prior year allocations previously held by the state.

As specifically enumerated above in the Governmental Activities discussion, the most significant differences in General Fund expenses result from the prior year purchase of a fire truck and other equipment and the savings incurred due to not replacing the former police chief.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**Proprietary fund** - The City of Nortonville has two proprietary funds, the Water Fund and Sewer Fund. Due to improvements and changes in the allocation of various joint fund accounts, comparability between the water and sewer funds is diminished this year. However, revenues in the Sewer Fund were lower due to a decrease in the amount received from Mortons Gap. For expenses, utilities decreased from \$93,528 in 2011 to \$76,468 in 2012, repairs and maintenance increased from \$36,588 in 2011 to \$44,600 in 2012 and chemicals decreased from \$12,802 to \$7,555 in 2012.

**Budgetary highlights** - General government salaries and wages exceeded the budget by \$12,475 and FEMA project expenses exceeded the budget by \$12,015. The most significant under budget accounts relate to savings due to the lack of replacement of the police chief. Many other budget variances were caused by deficiencies in the budgeting process as opposed to undue costs. The budgeting process will be improved in future years.

### CAPITAL ASSET AND DEBT ADMINISTRATION

**Capital assets** - As of June 30, 2012, the City had invested approximately \$5.63 million (net of accumulated depreciation) in a variety of capital assets, including buildings, utility plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), park facilities and land. During the current year, there were capital asset additions of \$11 thousand in the Sewer Fund. In governmental activities, the change in capital assets was due to depreciation of \$50 thousand. Additional details on the City's capital assets can be found in the Notes to Financial Statements of this report.

**Long-term debt** - The City of Nortonville had long-term debt of \$27 thousand in governmental activities and \$3.34 million in business-type activities at June 30, 2012. The change in long-term debt for the current year consisted of line-of-credit proceeds of \$14,500 and principal payments of \$77 thousand made against existing debt. Additional details about the City's debt can be found in the Notes to Financial Statements.

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City continues its efforts to improve the budgeting and accounting processes. Due to a stagnate economy, budgeting will be extremely conservative for both revenues and expenses. The anticipated relinquishment of the wastewater plant to a regionally managed-owner entity will relieve the City of a considerable financial burden. The City has made significant strides toward solidifying its financial position during the past year. It looks forward to continuing this progress.

### REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Nortonville's finances for citizens, taxpayers, customers, investors, creditors and all others with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Clerk, City of Nortonville, 199 S Main Street, Nortonville, KY 42442.

**CITY OF NORTONVILLE, KENTUCKY**  
**STATEMENT OF NET ASSETS**  
June 30, 2012

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 330,150	\$ 154,332	\$ 484,482
Restricted cash	81,281	114,319	195,600
Receivables:			
Taxes	89,397	-	89,397
Accounts, customers	-	52,862	52,862
Accounts, other	-	13,178	13,178
Inventory	-	12,588	12,588
Capital assets, not being depreciated			
Land	45,000	-	45,000
Capital assets, net of accumulated depreciation:			
General capital assets	634,130	-	634,130
Utility plant in service	-	4,946,058	4,946,058
Total assets	<u>1,179,958</u>	<u>5,293,337</u>	<u>6,473,295</u>
<b>LIABILITIES</b>			
Accounts payable	1,170	3,079	4,249
Payroll taxes payable	(351)	10	(341)
Interest payable	-	203,655	203,655
Accrued sales tax	-	298	298
Deferred property tax revenue	89,397	-	89,397
Noncurrent liabilities:			
Due in one year	21,935	63,500	85,435
Due after one year	5,555	3,272,230	3,277,785
Customer deposits	-	31,100	31,100
Total liabilities	<u>117,706</u>	<u>3,573,872</u>	<u>3,691,578</u>
<b>NET ASSETS</b>			
Invested in capital assets	651,640	1,610,328	2,261,968
Restricted	78,167	83,219	161,386
Unrestricted	332,445	25,918	358,363
Total net assets	<u>\$ 1,062,252</u>	<u>\$ 1,719,465</u>	<u>\$ 2,781,717</u>

*The accompanying notes are an integral part of these financial statements.*

**CITY OF NORTONVILLE, KENTUCKY**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Primary Government</b>							
Governmental activities:							
General government	\$ 140,224	\$ 10,832	\$ 29,794	\$ -	\$ (99,598)	\$ -	\$ (99,598)
Library	5,811	-	1,085	-	(4,726)	-	(4,726)
Public safety	58,907	70	18,872	-	(39,965)	-	(39,965)
Streets, parks and cemetery	83,939	320	-	-	(83,619)	-	(83,619)
Total governmental activities	288,881	11,222	49,751	-	(227,908)	-	(227,908)
Business-type activities:							
Water department	224,233	271,296	-	-	-	47,063	47,063
Sewer department	487,794	468,551	-	-	-	(19,243)	(19,243)
Total business-type activities	712,027	739,847	-	-	-	27,820	27,820
<b>Total primary government</b>	<b>\$ 1,000,908</b>	<b>\$ 751,069</b>	<b>\$ 49,751</b>	<b>\$ -</b>	<b>(227,908)</b>	<b>27,820</b>	<b>(200,088)</b>
General revenues:							
Property taxes - levied for general government					62,871	-	62,871
Insurance premium tax					108,012	-	108,012
Franchise taxes					39,675	-	39,675
Other sources					9,667	-	9,667
Unrestricted interest income					132	106	238
Transfers					47,626	(47,626)	-
Total general revenues and transfers					267,983	(47,520)	220,463
<b>Change in net assets</b>					<b>40,075</b>	<b>(19,700)</b>	<b>20,375</b>
Net assets - July 1, 2011					1,003,881	1,677,047	2,680,928
Prior period adjustment					18,296	62,118	80,414
Net assets - July 1, 2011 - as restated					1,022,177	1,739,165	2,761,342
Net assets - June 30, 2012					\$ 1,062,252	\$ 1,719,465	\$ 2,781,717

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

**CITY OF NORTONVILLE, KENTUCKY**  
**BALANCE SHEET**  
**GOVERNMENTAL FUND**  
June 30, 2012

	<b>MAJOR</b>
	<b>General Fund</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 330,150
Restricted cash	81,281
Receivables:	
Taxes	89,397
<b>Total assets</b>	<b>\$ 500,828</b>
 <b>LIABILITIES AND FUND BALANCE</b>	
Liabilities	
Accounts payable	\$ 1,170
Payroll taxes payable	(351)
Deferred property tax revenue	89,397
Total liabilities	90,216
Fund balance	
Restricted	78,167
Committed	3,114
Unassigned	329,331
Total fund balance	410,612
<b>Total liabilities and fund balance</b>	<b>\$ 500,828</b>

*The accompanying notes are an integral part of these financial statements.*

**CITY OF NORTONVILLE, KENTUCKY**  
**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUND**  
**TO THE STATEMENT OF NET ASSETS**  
June 30, 2012

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

<b>Fund balance - governmental fund (Page 11)</b>	\$ 410,612
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in funds.	679,130
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(27,490)</u>
<b>Net assets - governmental activities (Page 9)</b>	<u><b>\$1,062,252</b></u>

*The accompanying notes are an integral part of these financial statements.*



**CITY OF NORTONVILLE, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - GOVERNMENTAL FUND**  
For the Year Ended June 30, 2012

	<b>General Fund</b>
<b>Revenues</b>	
Local taxes	\$ 170,883
Intergovernmental revenue	85,501
Charges for services	9,397
Other revenues	15,549
Total revenues	281,330
<b>Expenditures</b>	
Current	
General government	120,996
Library	5,811
Public safety	27,421
Streets, parks and cemetery	82,330
Debt service	
Principal and interest - fire truck	19,471
Total expenditures	256,029
<b>Revenues over expenditures</b>	<b>25,301</b>
<b>Other Financing Sources (Uses)</b>	
Transfers in - Sewer Fund	71,437
Transfers out - Water Fund	(23,811)
Proceeds from bank borrowing	14,500
Total other financing sources (uses)	62,126
<b>Net change in fund balance</b>	<b>87,427</b>
Fund balance - July 1, 2011	309,889
Prior period adjustment	13,296
Fund balance - July 1, 2011, as restated	323,185
Fund balance - June 30, 2012	\$ 410,612

*The accompanying notes are an integral part of these financial statements.*

**CITY OF NORTONVILLE, KENTUCKY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - GOVERNMENTAL FUND TO THE**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2012

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

<b>Net change in fund balance - governmental fund (Page 13)</b>	<b>\$ 87,427</b>
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense in the current period. This is the amount by which depreciation exceeded capital outlay in the current period.	(50,212)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of long-term debt consumes financial resources of governmental funds. Neither transaction, however, has any effect on net assets.	<u>2,860</u>
<b>Change In net assets - governmental activities (Page 10)</b>	<b><u>\$ 40,075</u></b>

*The accompanying notes are an integral part of these financial statements.*

**CITY OF NORTONVILLE, KENTUCKY**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
June 30, 2012

	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Total</b>
<b>ASSETS</b>			
Current assets			
Cash in bank	\$ 19,030	\$ 135,302	\$ 154,332
Restricted cash	67,388	46,931	114,319
Accounts receivable - customer	24,715	28,147	52,862
Accounts receivable - other	-	13,178	13,178
Inventory	12,588	-	12,588
Total current assets	<u>123,721</u>	<u>223,558</u>	<u>347,279</u>
Noncurrent assets			
Property, plant and equipment:			
Utility plant in service	892,376	8,149,344	9,041,720
Water buildings, tanks	160,563	-	160,563
Vehicles and equipment	43,402	132,467	175,869
Accumulated depreciation	(611,450)	(3,820,644)	(4,432,094)
Net property, plant and equipment	<u>484,891</u>	<u>4,461,167</u>	<u>4,946,058</u>
<b>Total assets</b>	<b><u>608,612</u></b>	<b><u>4,684,725</u></b>	<b><u>5,293,337</u></b>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	1,982	1,097	3,079
Interest payable	8,501	195,154	203,655
Accrued withholdings	10	-	10
Accrued sales tax	149	149	298
Current portion of long-term notes payable	20,500	43,000	63,500
Total current liabilities	<u>31,142</u>	<u>239,400</u>	<u>270,542</u>
Noncurrent liabilities			
Note payable	353,000	365,000	718,000
KIA loan	-	2,554,230	2,554,230
Customer deposits	31,100	-	31,100
Total noncurrent liabilities	<u>384,100</u>	<u>2,919,230</u>	<u>3,303,330</u>
<b>Total liabilities</b>	<b><u>415,242</u></b>	<b><u>3,158,630</u></b>	<b><u>3,573,872</u></b>
<b>NET ASSETS</b>			
Invested in capital assets	111,391	1,498,937	1,610,328
Restricted	36,288	46,931	83,219
Unrestricted	45,691	(19,773)	25,918
<b>Total net assets</b>	<b><u>\$ 193,370</u></b>	<b><u>\$ 1,526,095</u></b>	<b><u>\$ 1,719,465</u></b>

*The accompanying notes are an integral part of these financial statements.*

**CITY OF NORTONVILLE, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**PROPRIETARY FUNDS**  
For the Year Ended June 30, 2012

	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Total</b>
<b>Operating revenues</b>			
Charges for services	\$ 248,338	\$ 443,839	\$ 692,177
Service charges and penalties	4,134	6,494	10,628
Water machine sales	818	-	818
Maintenance fee collections	18,387	-	18,387
Sludge dump fees	-	17,343	17,343
Tap fees	-	900	900
Miscellaneous income	(381)	(25)	(406)
<b>Total operating revenues</b>	<u>271,296</u>	<u>468,551</u>	<u>739,847</u>
<b>Operating expenses</b>			
Salaries and wages	52,475	52,481	104,956
Payroll taxes	4,739	4,792	9,531
Retirement	1,687	1,687	3,374
Utilities	29,403	47,065	76,468
Telephone	2,276	3,227	5,503
Vehicle repair	862	1,173	2,035
Gasoline and oil	3,609	4,519	8,128
Office supplies	8,010	7,484	15,494
Bank charges	245	174	419
Postage	2,224	1,853	4,077
Insurance	17,065	15,550	32,615
Employee health insurance	8,174	8,174	16,348
Repairs and maintenance	12,889	31,711	44,600
Legal and audit	3,128	3,131	6,259
Advertising	787	-	787
Contracted services	27,200	20,957	48,157
Dues and subscriptions	579	128	707
Supplies	1,110	1,057	2,167
Chemicals	1,167	6,388	7,555
Sludge disposal	-	7,734	7,734
Contract labor - SHWWTP	-	26,546	26,546
Testing	(82)	-	(82)
Uniforms	511	386	897
Miscellaneous	1,585	2,369	3,954
Depreciation	27,588	148,777	176,365
<b>Total operating expenses</b>	<u>207,231</u>	<u>397,363</u>	<u>604,594</u>
<b>Income from operations</b>	<b>64,065</b>	<b>71,188</b>	<b>135,253</b>
<b>Non-operating revenues (expenses)</b>			
Interest income	82	24	106
Interest expense	(17,002)	(90,431)	(107,433)
<b>Net non-operating expenses</b>	<u>(16,920)</u>	<u>(90,407)</u>	<u>(107,327)</u>

*The accompanying notes are an integral part of these financial statements.*

**CITY OF NORTONVILLE, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**PROPRIETARY FUNDS**  
For the Year Ended June 30, 2012

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Net income (loss) before transfers	47,145	(19,219)	27,926
Operating transfers	<u>23,811</u>	<u>(71,437)</u>	<u>(47,626)</u>
<b>Change in net assets</b>	<b>70,956</b>	<b>(90,656)</b>	<b>(19,700)</b>
Net assets - July 1, 2011, as originally reported	60,296	1,616,751	1,677,047
Prior period adjustment	<u>62,118</u>	<u>-</u>	<u>62,118</u>
Net assets - July 1, 2011, as restated	<u>122,414</u>	<u>1,616,751</u>	<u>1,739,165</u>
Net assets - June 30, 2012	<u>\$ 193,370</u>	<u>\$ 1,526,095</u>	<u>\$ 1,719,465</u>

*The accompanying notes are an integral part of these financial statements.*

**CITY OF NORTONVILLE, KENTUCKY**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
For the Year Ended June 30, 2012

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
<b>Cash flows from operating activities</b>			
Cash received from consumers	\$ 267,514	\$ 466,868	\$ 734,382
Cash paid to suppliers of goods and services	(181,102)	(247,340)	(428,442)
Customer deposits received	3,490	-	3,490
Net cash provided by operating activities	<u>89,902</u>	<u>219,528</u>	<u>309,430</u>
<b>Cash flows from investing activities</b>			
Interest received from investments	<u>82</u>	<u>24</u>	<u>106</u>
<b>Cash flows from capital and related financing activities</b>			
Purchase of capital assets	-	(11,170)	(11,170)
Principal payments on note payable	(19,000)	(41,000)	(60,000)
Interest paid on note payable	<u>(16,600)</u>	<u>(81,327)</u>	<u>(97,927)</u>
Net cash used by capital and related financing activities	<u>(35,600)</u>	<u>(133,497)</u>	<u>(169,097)</u>
<b>Cash flows from non-capital financing activities</b>			
Transfers from (to) other funds	<u>6,030</u>	<u>(119,759)</u>	<u>(113,729)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>60,414</b>	<b>(33,704)</b>	<b>26,710</b>
Cash and cash equivalents - July 1, 2011	<u>26,004</u>	<u>215,937</u>	<u>241,941</u>
Cash and cash equivalents - June 30, 2012	<u>\$ 86,418</u>	<u>\$ 182,233</u>	<u>\$ 268,651</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>			
Income (loss) from operations	\$ 64,065	\$ 71,188	\$ 135,253
Adjustments to reconcile income (loss) from operations to net cash provided by operating activities:			
Depreciation	27,588	148,777	176,365
Increase in accounts receivable	(3,782)	(1,683)	(5,465)
Increase in inventory	(3,463)	-	(3,463)
Increase in accounts payable	1,982	1,097	3,079
Increase in accrued withholdings	10	-	10
Increase in sales tax payable	12	149	161
Increase in customer deposits	<u>3,490</u>	<u>-</u>	<u>3,490</u>
Net cash provided by operating activities	<u>\$ 89,902</u>	<u>\$ 219,528</u>	<u>\$ 309,430</u>

*The accompanying notes are an integral part of these financial statements.*

**CITY OF NORTONVILLE, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2012

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Nortonville, Kentucky, operates under a Mayor–Council form of government and provides the following services to its citizens: public safety (police and fire), highways and streets, public works, culture/recreation, public water and sewer utilities, and general administrative services.

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the City are described below.

**A. Reporting Entity**

The City's basic financial statements include the accounts of all City operations. There are no component units that should be included in the City's reporting entity according to the criteria for including organizations as component units as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*.

**B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flow. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**CITY OF NORTONVILLE, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

June 30, 2012

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

In general, taxes, licenses, federal and state grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental fund:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major proprietary funds:

The Water Fund accounts for the activities associated with the City's water distribution system.

The Sewer Fund accounts for the activities associated with the collection, transportation, treatment and disposal of wastewater.

The financial statements of the City are prepared in accordance with generally accepted accounting principles. The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The City's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of tax and other charges between the government's utility divisions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering



**CITY OF NORTONVILLE, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

June 30, 2012

goods in connection with a proprietary fund's principle ongoing operations. The principle operating revenues of the City's enterprise funds are charges to customers for sales and services. The water and sewer funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the systems and other related revenues. The utility funds recognize income based on cycle billings. This results in recognizing as income the usage through each respective cycle each month, which may not coincide with the last day of the fiscal year. Non-recognition of income from utility sales as a result of cycle billing is a common industry practice. Operating expenses for the proprietary 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 nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

**D. Assets, Liabilities and Net Assets or Equity**

**Deposits and Investments**

The City's cash and cash equivalents are considered to be restricted and unrestricted demand deposit accounts, petty cash funds and highly liquid investments with an original maturity of three months or less.

The City's investment policy authorizes investments in bank certificates of deposit, savings and loan deposits, obligations of the U.S. Treasury, agencies and instrumentalities, certain obligations guaranteed by the U.S. Government or its agencies, repurchase agreements and the Commonwealth of Kentucky's investment pool.

**Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans).

Accounts receivable result from unpaid billings for utility services to customers and from unpaid billings related to work performed or materials sold. The City uses the direct write-off method for uncollectible accounts.

Property taxes are levied on October 1 of each year on the assessed value of certain property listed as of the prior January 1 and are due by December 31. Unpaid taxes become delinquent on February 1 and a 5% penalty is added. A 2% discount is given to all property tax bills paid by November 30 following the October 1 levy. The City's property tax rate as of June 30, 2012, is \$.237 per \$100 of assessed valuation on all real estate, \$.393 on tangible personal property, and \$.229 on motor vehicles and watercraft. The City bills and collects its own property taxes, and tax revenues are recognized when levied to the extent that they result in current receivables. The City has not established an allowance for estimated uncollectible property tax receivables.

**Restricted Assets**

Certain cash and investment balances of the City are classified as restricted assets on the balance sheet because they are maintained in separate accounts and their use is limited by certain

**CITY OF NORTONVILLE, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
 June 30, 2012

agreements and contracts with third parties. Restricted cash accounts have been set up for municipal aid funds and cemetery perpetual trust funds in the General Fund. The utility funds have restricted cash for debt service sinking funds and reserve funds and for customer deposits.

**Capital Assets**

Capital assets, including property, plant, vehicles, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) and construction in progress are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. For the year under examination, there were no interest costs capitalized.

Capital assets of the City are depreciated using the straight line method. Capital assets are depreciated over the following useful lives:

Buildings and improvements	40 years		Vehicles	5 years
Infrastructure	30 - 50 years		Equipment	5 - 10 years
Office furniture and equipment	5 - 7 years		Utility plant	10 - 40 years

**Compensated Absences**

Employees of the City are given two weeks of paid leave per year after one year of service. Unused vacation and sick days are not allowed to be carried over. Therefore, there are no compensated absences to be accrued in the financial statements.

**Long-term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**CITY OF NORTONVILLE, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2012

**Fund Balances**

In the governmental fund financial statements, fund balances may be classified as follows:

- Nonspendable – amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.
- Restricted – amounts that can be spent only for specific purposes because of limitations imposed by creditors, grantors, or contributors or by enabling legislation or constitutional provisions.
- Committed – amounts that can be used only for specific purposes determined by a formal action of the Board by ordinance. The same formal action must be taken to remove or change the committed amounts.
- Assigned – amounts that are designated by the Board for a particular purpose.
- Unassigned – all amounts in the general fund not included in other spendable classifications.

Net assets in the government-wide statements are categorized as follows:

- Invested in capital assets, net of related debt – consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any payables that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net assets – net assets that have third party limitations on their use.
- Unrestricted net assets – all net assets that are not included in the categories identified above.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net assets), the City's policy is to first apply the expense toward restricted resources and then toward unrestricted resources. In governmental funds, the City's policy is to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications – committed and then assigned fund balances before using unassigned fund balances.

**Use of Estimates**

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

**NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

**A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Assets**

The financial statements include a reconciliation between *fund balances – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.” The details of the \$679,130 difference are as follows:

**CITY OF NORTONVILLE, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2012

Governmental funds capital assets	\$ 1,502,479
Less: accumulated depreciation	<u>(823,349)</u>
Net adjustment	<u>\$ 679,130</u>

**B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities**

The financial statements include a reconciliation between *net change in fund balances – total governmental funds* and *change in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.” The \$50,212 difference is the amount of depreciation on governmental capital assets for the year. There were no capital outlay expenditures.

Another element of that reconciliation states that “the issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.” The details of the \$2,860 difference consists of the following:

Proceeds from debt	\$ 14,500
Principal payments on debt	<u>(17,360)</u>
Net adjustment	<u>\$ (2,860)</u>

**NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

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 City 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 Council. At mid-year, unless conditions dictate an earlier need, budgets are reviewed, year-end projections are made, adjustment to the financial plan are considered, and any necessary changes are legally adopted through the passage of an amended budget. These budgets are adopted on a basis consistent with generally accepted accounting principles for governmental units. The City has set the level of control for expenditures at the fund level for governmental activities.

**NOTE 4 – DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Invested Funds**

As of June 30, 2012, the City’s only investments were certificates of deposit at local banks, which do not meet the definition of investments for the purposes of investment risk disclosures. These deposits are included in cash and restricted cash in the financial statements.

**CITY OF NORTONVILLE, KENTUCKY**  
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*Custodial Credit Risk* - The City's policies limit deposits and investments to those instruments allowed by applicable state laws as described in Note 1. State statute requires that all deposits with financial institutions must be fully insured by deposit insurance or collateralized in accordance with 12 U.S.C. sec. 1823, to the extent uninsured, by any obligations, including surety bonds permitted by KRS 41.240(4). Only the following securities and other obligations may be accepted by the State Treasurer as collateral under this section: (a) bonds, notes, letters of credit, or other obligations of or issued or guaranteed by the United States, or those for which the credit of the United States is pledged for the payment of the principal and interest thereof, and any bonds, notes, debentures, letters of credit, or any other obligations issued or guaranteed by any federal governmental agency or instrumentality, presently or in the future established by an Act of Congress, as amended or supplemented from time to time, including, without limitation, the United States government corporations listed in KRS 66.480(1)(c); (b) obligations of the Commonwealth of Kentucky including revenue bonds issued by its statutory authorities, commissions, or agencies; (c) revenue bonds issued by educational institutions of the Commonwealth of Kentucky as authorized by KRS 162.340 to 162.380; (d) obligations of any city of the first, second, and third classes of the Commonwealth of Kentucky, or any county, for the payment of principal and interest on which the full faith and credit of the issuing body is pledged; (e) school improvement bonds issued in accordance with the authority granted under KRS 162.080 to 162.100; (f) school building revenue bonds issued in accordance with the authority granted under KRS 162.120 to 162.300, provided that the issuance of such bonds is approved by the Kentucky Board of Education; and (g) surety bonds issued by sureties rated in one (1) of the three (3) highest categories by a nationally recognized rating agency. As of June 30, 2012, all deposits were insured or collateralized.

**B. Receivables**

Receivables are detailed in the statement of net assets and governmental funds balance sheet. The City uses the direct write-off method for all receivables. Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. As of June 30, 2012, deferred revenue consisted of \$89,397 in deferred property taxes receivable.

**C. Interfund receivables, payables, and transfers**

There were no interfund receivables or payables as of June 30, 2012. The General Fund transferred \$23,811 to the Water Fund during the year, and the Sewer Fund transferred \$71,437 to the General Fund. All transfers were related to long-term debt payments.

**D. Capital Assets**

Capital asset activity for the year ended June 30, 2012, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 45,000	\$ -	\$ -	\$ 45,000

**CITY OF NORTONVILLE, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2012

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated				
Buildings	98,763	-	-	98,763
Improvements	551,181	-	-	551,181
Machinery and equipment	272,563	-	-	272,563
Vehicles	199,300	-	-	199,300
Police and fire equipment	293,115	-	-	293,115
Infrastructure	42,557	-	-	42,557
Total capital assets being depreciated	<u>1,457,479</u>	<u>-</u>	<u>-</u>	<u>1,457,479</u>
Less accumulated depreciation for:				
Buildings	36,805	2,484	-	39,289
Improvements	82,917	16,217	-	99,134
Machinery and equipment	271,714	849	-	272,563
Vehicles	154,913	5,000	-	159,913
Police and fire equipment	218,103	24,243	-	242,346
Infrastructure	8,685	1,419	-	10,104
Total accumulated depreciation	<u>773,137</u>	<u>50,212</u>	<u>-</u>	<u>823,349</u>
Net capital assets being depreciated	<u>684,342</u>	<u>(50,212)</u>	<u>-</u>	<u>634,130</u>
Governmental activities, net	<u>\$ 729,342</u>	<u>\$ (50,212)</u>	<u>\$ -</u>	<u>\$ 679,130</u>
Business-type activities				
Capital assets being depreciated				
Sewer plant	\$ 3,010,762	\$ 11,170	\$ -	\$ 3,021,932
Sewer equipment	132,466	-	-	132,466
Regional sewer project	5,127,413	-	-	5,127,413
Water plant	892,377	-	-	892,377
Buildings, tanks, etc.	160,563	-	-	160,563
Vehicles	21,210	-	-	21,210
Water equipment	22,191	-	-	22,191
Total capital assets being depreciated	<u>9,366,982</u>	<u>11,170</u>	<u>-</u>	<u>9,378,152</u>
Less accumulated depreciation for:				
Sewer plant	2,951,911	7,275	-	2,959,186
Sewer equipment	79,493	13,317	-	92,810
Regional sewer project	640,463	128,185	-	768,648
Water plant	413,821	23,569	-	437,390
Buildings, tanks, etc.	126,785	3,874	-	130,659
Vehicles	21,210	-	-	21,210
Water equipment	22,046	145	-	22,191
Total accumulated depreciation	<u>4,255,729</u>	<u>176,365</u>	<u>-</u>	<u>4,432,094</u>
Net capital assets being depreciated	<u>5,111,253</u>	<u>(165,195)</u>	<u>-</u>	<u>4,946,058</u>
Business-type activities net	<u>\$ 5,111,253</u>	<u>\$ (165,195)</u>	<u>\$ -</u>	<u>\$ 4,946,058</u>

**CITY OF NORTONVILLE, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2012

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 19,228
Police	655
Fire	28,720
Parks and streets	1,609
Total depreciation expense - governmental activities	<u>\$ 50,212</u>
Business-type activities:	
Water	\$ 27,588
Sewer	148,777
Total depreciation expense - business-type activities	<u>\$ 176,365</u>

**E. Long-Term Debt**

**Governmental Activities**

Note payable – dated October 27, 2010; Old National Bank; fire truck; interest rate - 4.5%; annual payments; matures on 10/27/2015. The outstanding balance as of June 30, 2012, was \$12,990.

Note payable – dated January 17, 2012; Independence Bank; line of credit; principal amount \$14,500; interest rate - 3.5%; matures 1/16/17; annual principal payments. The outstanding balance as of June 30, 2012, was \$14,500.

**Business-type Activities**

1975 Revenue Bonds – interest rate - 5%; annual principal payments on 1/1; semi-annual interest payments on 1/1 and 7/1; matures - 2015. The balance outstanding at June 30, 2012, was \$39,000.

1980 Revenue Bonds – interest rate - 5%; annual principal payments on 1/1; semi-annual interest payments on 1/1 and 7/1; matures - 2020. The balance outstanding as of June 30, 2012, was \$408,000.

1995 Revenue Bonds – interest rate – 4.5%; annual principal payments on 1/1; semi-annual interest payments on 1/1 and 7/1; matures - 2035. The balance outstanding at June 30, 2012, was \$334,500.

Note payable – Kentucky Infrastructure Authority; interest rate - 3%; monthly interest payments only; no principal payments currently being made; matures in 2046. The balance outstanding at June 30, 2012, was \$2,554,230. The City is in the process of turning the sewer system over to KIA in payment of the note. As a result, this note is not included in the future debt service schedule.

**CITY OF NORTONVILLE, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2012

A summary of estimated debt service requirements for the City is shown below:

Year ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2013	\$ 21,935	\$ 886	\$ 63,500	\$ 37,002
2014	5,555	587	67,000	32,820
2015	-	-	70,500	29,441
2016	-	-	59,000	26,263
2017	-	-	62,000	23,288
2018-2022	-	-	231,000	72,754
2023-2027	-	-	73,500	45,092
2028-2032	-	-	91,000	27,070
2033-2037	-	-	64,000	5,806
<b>Total</b>	<b>\$ 27,490</b>	<b>\$ 1,473</b>	<b>\$ 781,500</b>	<b>\$ 299,536</b>

Changes in long-term debt for the year ended June 30, 2012, were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities:</b>					
Note payable - bank	\$ -	\$ 14,500	\$ -	\$ 14,500	\$ 14,500
Note payable - fire truck	30,350	-	17,360	12,990	7,435
	<u>\$ 30,350</u>	<u>\$ 14,500</u>	<u>\$ 17,360</u>	<u>\$ 27,490</u>	<u>\$ 21,935</u>
<b>Business-type activities:</b>					
1975 revenue bonds	\$ 50,000	\$ -	\$ 11,000	\$ 39,000	\$ 12,000
1980 revenue bonds	449,000	-	41,000	408,000	43,000
1995 revenue bonds	342,500	-	8,000	334,500	8,500
KY Infrastructure Authority note	2,554,230	-	-	2,554,230	-
<b>Totals</b>	<u>\$ 3,395,730</u>	<u>\$ -</u>	<u>\$ 60,000</u>	<u>\$ 3,335,730</u>	<u>\$ 63,500</u>

**F. Fund Balances**

The City has categorized spendable fund balance in the General Fund as follows:

Restricted:	
Municipal Aid funds	<u>\$ 78,167</u>
Committed:	
Cemetery Perpetual Trust funds	<u>\$ 3,114</u>



**CITY OF NORTONVILLE, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2012

**NOTE 5 – OTHER INFORMATION**

**A. Retirement Plan**

The City participates in the County Employees Retirement System (CERS). The CERS plan is a cost-sharing multiple-employer defined benefit plan administered by the Board of Trustees of Kentucky Retirement System (KRS). Non-hazardous members are required to contribute at 6% of their annual creditable compensation and the City's matching contribution is 18.96%. Contributions required and made to CERS for the year ended June 30, 2012, were \$13,742.

**B. Risk Management**

The City purchases commercial insurance for the risks of losses to which it is exposed through the Kentucky League of Cities Insurance Services. These risks include general liability, property and casualty, worker's compensation, and public officials and employee liability. Settled claims from losses have not exceeded commercial insurance coverage in any of the past three fiscal years.

**C. Prior Period Adjustments**

Prior period adjustments were made during the current year to correct beginning fund balance in the General Fund and Water Fund. Beginning fund balance in the General Fund was increased \$13,296 to remove a "rounding account" previously reported in the City's books. This adjustment also increased beginning net assets at the government-wide level. In addition, an adjustment to beginning net assets of governmental activities for \$5,000 was made to correct the beginning note payable balance. In the Water Fund, beginning net assets was increased by \$13,321 and interfund receivable/payable accounts were eliminated for amounts set up in error in the previous year. Also in the Water Fund, a prior period adjustment was made to bring the customer deposit account to its correct balance. Beginning net assets were increased by \$48,797 and the liability was decreased by the same amount.

**CITY OF NORTONVILLE, KENTUCKY**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND**  
For the Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
<b>REVENUES</b>				
Local taxes				
Current year property taxes	\$ -	\$ -	\$ 51,784	\$ -
Property taxes - vehicles/tangible personal property	-	-	10,173	-
Property taxes - delinquent	-	-	914	-
Insurance premium tax	-	-	108,012	-
Total local taxes	<u>-</u>	<u>-</u>	<u>170,883</u>	<u>-</u>
Intergovernmental revenue				
COPS program grant	-	-	6,407	-
State municipal aid	-	-	26,929	-
Local government economic aid	-	-	320	-
Franchise taxes	-	-	13,729	-
K.U. franchise tax	-	-	24,849	-
Atmos gas franchise tax	-	-	1,097	-
KLEPTF pay for police	-	-	351	-
Fire department state/county aid	-	-	10,000	-
State and county grants	-	-	1,819	-
Total intergovernmental revenue	<u>-</u>	<u>-</u>	<u>85,501</u>	<u>-</u>
Charges for services				
Police court revenue	-	-	70	-
Occupational licenses	-	-	4,420	-
Occupational licenses - net profit	-	-	4,907	-
Total charges for services	<u>-</u>	<u>-</u>	<u>9,397</u>	<u>-</u>
Other revenues				
Rent income	-	-	1,505	-
Sale of assets	-	-	2,500	-
Interest earnings	-	-	132	-
Library donations	-	-	1,085	-
Gym donations	-	-	2,545	-
Fire department miscellaneous	-	-	295	-
Cemetery lots sold	-	-	320	-
Miscellaneous income	-	-	7,167	-
Total other revenues	<u>-</u>	<u>-</u>	<u>15,549</u>	<u>-</u>
<b>Total revenues</b>	<u><b>334,521</b></u>	<u><b>334,521</b></u>	<u><b>281,330</b></u>	<u><b>(53,191)</b></u>

See independent auditor's report

**CITY OF NORTONVILLE, KENTUCKY**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND**

For the Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
<b>EXPENDITURES</b>				
<b>General Government</b>				
Salaries and wages	12,800	12,800	25,275	12,475
Legislative salaries	16,800	16,800	7,900	(8,900)
Payroll taxes	2,180	2,180	1,261	(919)
Utilities	15,719	15,719	11,034	(4,685)
Telephone	872	872	3,281	2,409
Bank service charges	-	-	760	760
Gasoline and oil	-	-	(8)	(8)
Office supplies	2,000	2,000	3,508	1,508
Tax bill preparation	1,600	1,600	2,088	488
Postage	400	400	498	98
Travel	1,250	1,250	-	(1,250)
Insurance	18,909	18,909	12,279	(6,630)
Employee health insurance	19,109	19,109	19,069	(40)
Retirement	1,106	1,106	3,541	2,435
Repairs and maintenance	2,000	2,000	1,770	(230)
Legal advertising	2,000	2,000	2,067	67
Audit fees	3,800	3,800	3,126	(674)
Contracted labor, other	-	-	5,566	5,566
Dues and subscriptions	550	550	771	221
Supplies	-	-	719	719
Uniforms	1,300	1,300	92	(1,208)
Improvements	1,100	1,100	2,000	900
FEMA projects	-	-	12,015	12,015
Miscellaneous	820	820	2,384	1,564
Total general government	<u>104,315</u>	<u>104,315</u>	<u>120,996</u>	<u>16,681</u>
<b>Library</b>				
Repairs and maintenance	540	540	445	(95)
Telephone	1,739	1,739	1,198	(541)
Labor	4,800	4,800	4,100	(700)
Employee christmas bonus	-	-	68	68
Total library	<u>7,079</u>	<u>7,079</u>	<u>5,811</u>	<u>(1,268)</u>

See independent auditor's report

**CITY OF NORTONVILLE, KENTUCKY**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND**  
For the Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
<b>Public Safety</b>				
Fire department				
Utilities	5,356	5,356	5,896	540
Training and travel	-	-	1,236	1,236
Fire department medical	410	410	410	-
Repairs and maintenance	5,051	5,051	3,787	(1,264)
Operating supplies	1,411	1,411	1,020	(391)
Fuel, oil, etc.	200	200	128	(72)
Fire membership admin salary	850	850	1,967	1,117
Fire membership billing expense	400	400	400	-
Fire call collection fee	3,500	3,500	(84)	(3,584)
Grant expenditures	5,100	5,100	823	(4,277)
Radio, pagers	300	300	632	332
Other purchases	400	400	84	(316)
Firefighter subscription reimbursement	85	85	-	(85)
Food/water	50	50	1,692	1,642
Capital outlay	7,500	7,500	-	(7,500)
Miscellaneous	190	190	200	10
Total fire department	<u>30,803</u>	<u>30,803</u>	<u>18,191</u>	<u>(12,612)</u>
Police department				
Salaries and wages	35,339	35,339	4,078	(31,261)
KLEFPF	4,234	4,234	258	(3,976)
Payroll taxes	1,737	1,737	305	(1,432)
Telephone	872	872	222	(650)
Vehicle repairs	100	100	-	(100)
Gasoline and oil	2,500	2,500	595	(1,905)
Supplies	550	550	5	(545)
Travel	1,500	1,500	-	(1,500)
Insurance	2,356	2,356	823	(1,533)
Employee health insurance	9,842	9,842	752	(9,090)
Retirement	12,637	12,637	1,551	(11,086)
Dues and subscriptions	150	150	-	(150)
Narcotics task force	411	411	493	82
Miscellaneous	2,007	2,007	148	(1,859)
Total police department	<u>74,235</u>	<u>74,235</u>	<u>9,230</u>	<u>(65,005)</u>

See independent auditor's report

**CITY OF NORTONVILLE, KENTUCKY**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND**  
For the Year Ended June 30, 2012

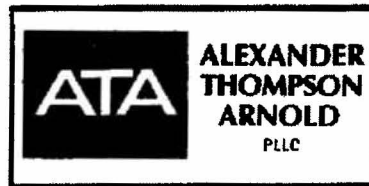
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
<b>Streets, Parks and Cemetery</b>				
Salaries and wages	23,635	23,635	20,175	(3,460)
Payroll taxes	1,593	1,593	1,982	389
Retirement	2,809	2,809	1,510	(1,299)
Utilities	21,088	21,088	18,146	(2,942)
Repairs and maintenance	9,000	9,000	9,958	958
Vehicle repair	300	300	931	631
Gasoline and oil	4,800	4,800	3,002	(1,798)
Office supplies	1,000	1,000	624	(376)
Insurance	1,310	1,310	823	(487)
Employee health insurance	5,367	5,367	2,611	(2,756)
Contracted services	872	872	800	(72)
Expendable services	2,500	2,500	1,179	(1,321)
Improvements and repairs	24,000	24,000	15,370	(8,630)
Playground expenses	600	600	2,138	1,538
Miscellaneous	400	400	2,241	1,841
Cemetery expenses	-	-	840	840
Total streets, parks and cemetery	<u>99,274</u>	<u>99,274</u>	<u>82,330</u>	<u>(16,944)</u>
<b>Debt Service</b>				
Fire truck	<u>7,920</u>	<u>7,920</u>	<u>19,471</u>	<u>11,551</u>
<b>Total expenditures</b>	<u><b>323,626</b></u>	<u><b>323,626</b></u>	<u><b>256,029</b></u>	<u><b>(67,597)</b></u>
<b>Revenues over expenditures</b>	<u><b>10,895</b></u>	<u><b>10,895</b></u>	<u><b>25,301</b></u>	<u><b>14,406</b></u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in - Sewer Fund	74,500	74,500	71,437	(3,063)
Transfers out - Water Fund	-	-	(23,811)	(23,811)
Proceeds from bank borrowing	-	-	14,500	14,500
Total other financing sources (uses)	<u>74,500</u>	<u>74,500</u>	<u>62,126</u>	<u>(12,374)</u>
<b>Net change in fund balance</b>	<u><b>\$ 85,395</b></u>	<u><b>\$ 85,395</b></u>	<u><b>87,427</b></u>	<u><b>\$ 2,032</b></u>
Fund balance - July 1, 2011			309,889	
Prior period adjustment			<u>13,296</u>	
Fund balance - July 1, 2011, as restated			<u>323,185</u>	
Fund balance - June 30, 2012			<u><b>\$ 410,612</b></u>	

See independent auditor's report

## **INTERNAL CONTROL AND COMPLIANCE SECTION**

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**Report on Internal Control over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements Performed in  
Accordance with Government Auditing Standards**

Mayor and Council Members  
City of Nortonville, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Nortonville, Kentucky, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 5, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

Management of the City of Nortonville, Kentucky, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Nortonville's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings as items 12-1, 12-2, 12-3 and 12-4, that we 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.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Nortonville's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, described in the accompanying schedule of findings as items 12-1, 12-2, and 12-3

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

This report is intended solely for the information and use of the Mayor, Council Members, management, the Kentucky Auditor of Public Accounts, 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.

*Alexander Thompson Arnold PLLC*

Union City, Tennessee  
March 5, 2013



**CITY OF NORTONVILLE, KENTUCKY**  
**SCHEDULE OF FINDINGS**  
For the Year Ended June 30, 2012

**12-1 Bank Accounts Not Reconciled**

The City of Nortonville could not provide bank reconciliations to the auditors for the City's bank accounts. The *Kentucky Cities Financial Manual* states "Monthly bank reconciliations ensure that bank records and book records reflect the same transactions. The bank reconciliation will provide important information to verify the accuracy of book entries....It is also important for the bank reconciliations to be prepared by someone who did not write checks or make deposits. Cash and investments are subject to the highest risk for misuse and misappropriation and should be closely safeguarded."

Recommendation: All bank accounts should be reconciled monthly by someone who does not write checks or make deposits.

Response: *We will increase our effort to perform timely reconciliations; however, due to limited personnel, segregating this function is not economically feasible at this time.*

**12-2 No Allowance for Uncollectible Accounts Recorded**

The City of Nortonville uses the direct write-off method of accounting for uncollectible accounts. The *Kentucky Cities Financial Manual* states that "In Kentucky, cities are required by law to follow GASB standards." The Governmental Accounting Standards Board (GASB) codification, Section P70, *Property Taxes*, states "Property taxes receivable that are susceptible to accrual should be recognized in the accounts, reduced by an allowance for uncollectible taxes receivable." In addition GASB codification, Section 1600, *Basis of Accounting*, states that proprietary fund statements should report revenues from exchange transactions "with appropriate provision for uncollectible accounts." As a result, the Water and Sewer Funds should also provide a provision for uncollectible accounts receivable.

Recommendation: The City should establish provisions for uncollectible taxes receivable in the General Fund and for uncollectible accounts receivable in the utility funds.

Response: *We will establish a provision for uncollectible accounts.*

**12-3 No Capitalization Policy**

The City does not have a formal capitalization policy for capital assets. The *Kentucky Cities Financial Manual* states that "There are several topics that every city should address in its fixed assets accounting policy." One item listed is a capitalization policy. The manual also states that "As a matter of practicality, not all fixed assets are capitalized. Each city must determine capitalization thresholds based on cost/benefit considerations and simple practicality."

Recommendation: The City should establish a capitalization policy that specifies the criteria for determining which expenditures qualify for capital asset treatment.

Response: *We will develop a formal capitalization policy with appropriate thresholds.*

**CITY OF NORTONVILLE, KENTUCKY**  
**SCHEDULE OF FINDINGS**  
For the Year Ended June 30, 2012

**12-4 Inadequate Segregation of Duties**

Proper segregation of duties involves separating the functions of collecting cash receipts, recording transactions, making bank deposits, posting the general ledger and reconciling general ledger accounts. The risk of material misstatements occurring and not being detected in a timely manner increases when accounting functions are not adequately segregated.

Recommendation: The City should initiate procedures that segregate the accounting functions as much as possible with the existing staff. The Council should be aware that this lack of segregation of duties exists. We also recommend that the City review the section of the *Kentucky Cities Financial Manual* entitled *Compensating Controls*, which contains important information for smaller cities trying to segregate duties by involving members of its legislative body, which may be prohibited by current statutory provisions.

Response: *We will review the reference cited above and consider additional segregation of duties where feasible.*