

CITY OF NORTONVILLE, KENTUCKY

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013



BerryKington & Utley PSC
Certified Public Accountants

**CITY OF NORTONVILLE, KENTUCKY
PRINCIPAL OFFICIALS
JUNE 30, 2013**

MAYOR - COUNCIL MEMBERS

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

PERSONNEL

Brenda Payne.....City Clerk

CITY OF NORTONVILLE, KENTUCKY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor Barry Merrill
and Council Members
City of Nortonville, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Nortonville, Kentucky, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Nortonville, Kentucky, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Nortonville, Kentucky's basic financial statements. The combining and individual nonmajor fund financial statements/schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2014, on our consideration of the City of Nortonville, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Nortonville, Kentucky's internal control over financial reporting and compliance.

Berry Thigpen ? Utley PSC
Madisonville, Kentucky
December 19, 2014

CITY OF NORTONVILLE, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Totals
<u>Assets</u>			
Cash equivalents	\$ 480,967	\$ 305,712	\$ 786,679
Accounts receivable	84,241	61,415	145,656
Unbilled revenue	-	24,666	24,666
Inventory	-	28,240	28,240
Restricted assets:			
Cash equivalents	-	92,729	92,729
Capital assets, not being depreciated			
Land	45,000	-	45,000
Capital assets, net of accumulated depreciation			
General capital assets	607,670	-	607,670
Utility plant in service	-	<u>4,865,662</u>	<u>4,865,662</u>
Total Assets	<u>1,217,878</u>	<u>5,378,424</u>	<u>6,596,302</u>
<u>Liabilities</u>			
Accounts payable	5,287	27,123	32,410
Accrued payroll and related expenses	7,273	-	7,273
Accrued interest payable	-	202,090	202,090
Customer deposits	525	29,275	29,800
Current portion of long-term debt	-	67,000	67,000
Noncurrent portion of long-term debt	-	<u>3,205,230</u>	<u>3,205,230</u>
Total Liabilities	<u>13,085</u>	<u>3,530,718</u>	<u>3,543,803</u>
<u>Deferred Inflows of Resources</u>			
Deferred property tax revenue	<u>84,030</u>	<u>-</u>	<u>84,030</u>
<u>Net Position</u>			
Net investment in capital assets	652,670	1,593,432	2,246,102
Restricted for:			
Debt service	-	92,729	92,729
Nonexpendable perpetual care	3,368	-	3,368
Unrestricted	<u>464,725</u>	<u>161,545</u>	<u>626,270</u>
Total Net Position	<u>\$ 1,120,763</u>	<u>\$ 1,847,706</u>	<u>\$ 2,968,469</u>

See accompanying notes to financial statements.

CITY OF NORTONVILLE, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
<u>Primary Government</u>							
Governmental activities							
General government	\$ 99,204	\$ -	\$ -	\$ 5,905	\$ (93,299)	\$ -	\$ (93,299)
Public safety	14,068	-	18,958	-	4,890	-	4,890
Public streets	73,043	-	31,687	-	(41,356)	-	(41,356)
Library	6,462	-	-	-	(6,462)	-	(6,462)
Interest on long-term debt	632	-	-	-	(632)	-	(632)
Depreciation	44,041	-	-	-	(44,041)	-	(44,041)
Total governmental activities	<u>237,450</u>	<u>-</u>	<u>50,645</u>	<u>5,905</u>	<u>(180,900)</u>	<u>-</u>	<u>(180,900)</u>
Business-type activities							
Water distribution	239,191	287,773	-	-	-	48,582	48,582
Sewer distribution	531,693	554,628	-	-	-	22,935	22,935
Total business-type activities	<u>770,884</u>	<u>842,401</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>71,517</u>	<u>71,517</u>
Total Primary Government	<u>\$ 1,008,334</u>	<u>\$ 842,401</u>	<u>\$ 50,645</u>	<u>\$ 5,905</u>	<u>(180,900)</u>	<u>71,517</u>	<u>(109,383)</u>
<u>General Revenues and Transfers</u>							
Taxes							
Insurance premium taxes					146,694	-	146,694
Property taxes					77,773	-	77,773
Utility taxes					53,307	-	53,307
Other taxes					2,932	-	2,932
Transfers					(74,595)	74,595	-
Investment income					1,165	788	1,953
Miscellaneous					32,135	-	32,135
Gain (loss) on equipment disposal					-	(11,958)	(11,958)
Total general revenues and transfers					<u>239,411</u>	<u>63,425</u>	<u>302,836</u>
<u>Change in Net Position</u>					58,511	134,942	193,453
<u>Net Position - Beginning of Year (as restated)</u>					<u>1,062,252</u>	<u>1,712,766</u>	<u>2,775,018</u>
<u>Net Position at End of Year</u>					<u>\$ 1,120,763</u>	<u>\$ 1,847,708</u>	<u>\$ 2,968,471</u>

See accompanying notes to financial statements.

CITY OF NORTONVILLE, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

	<u>General</u> <u>Fund</u>	<u>Other</u> <u>Governmental</u> <u>Funds</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
<u>Assets</u>			
Cash equivalents	\$ 348,931	\$ 132,036	\$ 480,967
Accounts receivable:			
Property taxes	<u>84,241</u>	<u>-</u>	<u>84,241</u>
<u>Total Assets</u>	<u>\$ 433,172</u>	<u>\$ 132,036</u>	<u>\$ 565,208</u>
 <u>Liabilities and Fund Balance</u>			
<u>Liabilities</u>			
Accounts payable	\$ 5,287	\$ -	\$ 5,287
Accrued payroll and related expenses	7,273	-	7,273
Customer deposits	525	-	525
Deferred property tax revenue	<u>84,030</u>	<u>-</u>	<u>84,030</u>
Total Liabilities	<u>97,115</u>	<u>-</u>	<u>97,115</u>
 <u>Fund Balance</u>			
Nonspendable-Perpetual Care	-	3,368	3,368
Restricted-Special Revenue Funds	-	127,006	127,006
Committed-Cemetery	-	1,662	1,662
Unassigned	<u>336,057</u>	<u>-</u>	<u>336,057</u>
Total Fund Balance	<u>336,057</u>	<u>132,036</u>	<u>468,093</u>
<u>Total Liabilities and Fund Balance</u>	<u>\$ 433,172</u>	<u>\$ 132,036</u>	<u>\$ 565,208</u>

See accompanying notes to financial statements.

CITY OF NORTONVILLE, KENTUCKY
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET POSITION
JUNE 30, 2013

<u>Fund Balance - Total Governmental Funds</u>	\$ 468,093
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet	
Governmental capital assets	\$ 1,520,060
Less accumulated depreciation	<u>(867,390)</u> <u>652,670</u>
<u>Net Position of Governmental Activities</u>	<u>\$ 1,120,763</u>

See accompanying notes to financial statements.

CITY OF NORTONVILLE, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	<u>General</u> <u>Fund</u>	<u>Other</u> <u>Governmental</u> <u>Funds</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
<u>Revenues</u>			
Taxes			
Insurance premiums	\$ 146,694	\$ -	\$ 146,694
Property	77,773	-	77,773
Utility franchise	53,307	-	53,307
Other	2,932	-	2,932
Intergovernmental	24,863	31,687	56,550
Miscellaneous	32,135	-	32,135
Interest	885	280	1,165
Total Revenues	<u>338,589</u>	<u>31,967</u>	<u>370,556</u>
<u>Expenditures</u>			
Current			
General government/other	99,204	-	99,204
Public safety	14,068	-	14,068
Public streets	71,904	1,139	73,043
Library	6,462	-	6,462
Debt service	28,122	-	28,122
Capital outlay	17,581	-	17,581
Total Expenditures	<u>237,341</u>	<u>1,139</u>	<u>238,480</u>
<u>Excess (Deficiency) of Revenues Over Expenditures</u>	<u>101,248</u>	<u>30,828</u>	<u>132,076</u>
<u>Other Financing Sources (Uses)</u>			
Transfers out	<u>(74,595)</u>	<u>-</u>	<u>(74,595)</u>
Total other financing sources (uses)	<u>(74,595)</u>	<u>-</u>	<u>(74,595)</u>
<u>Net Change in Fund Balance</u>	26,653	30,828	57,481
<u>Fund Balance at Beginning of Year (as restated)</u>	<u>309,404</u>	<u>101,208</u>	<u>410,612</u>
<u>Fund Balance at End of Year</u>	<u>\$ 336,057</u>	<u>\$ 132,036</u>	<u>\$ 468,093</u>

See accompanying notes to financial statements.

CITY OF NORTONVILLE, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

Net Change in Fund Balance - Total Governmental Funds \$ 57,481

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

Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is depreciated over their estimated useful lives:

Expenditures for capital assets	\$ 17,581	
Less current year depreciation	<u>(44,041)</u>	(26,460)

The issuance of long-term debt 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 position. Also, governmental funds report the effect of loan costs when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

27,490

Changes in Net Position of Governmental Activities **\$ 58,511**

CITY OF NORTONVILLE, KENTUCKY
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u> Amounts	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
<u>Revenues</u>				
Taxes				
Insurance premiums	\$ 103,661	\$ 103,661	\$ 146,694	\$ 43,033
Property	60,812	60,812	77,773	16,961
Utility franchise	41,737	41,737	53,307	11,570
Other	-	-	2,932	2,932
Intergovernmental	30,000	30,000	24,863	(5,137)
Miscellaneous	116,685	116,685	32,135	(84,550)
Interest	-	-	885	885
Total Revenues	<u>352,895</u>	<u>352,895</u>	<u>338,589</u>	<u>(14,306)</u>
<u>Expenditures</u>				
Current				
General government/other	181,185	181,185	99,204	81,981
Public safety	67,450	67,450	14,068	53,382
Public streets	73,570	73,570	71,904	1,666
Library	5,990	5,990	6,462	(472)
Debt service	29,122	29,122	28,122	1,000
Capital outlay	-	-	17,581	(17,581)
Total Expenditures	<u>357,317</u>	<u>357,317</u>	<u>237,341</u>	<u>119,976</u>
<u>Excess (Deficiency) of Revenues Over Expenditures</u>	(4,422)	(4,422)	101,248	105,670
<u>Other Financing Sources (Uses)</u>				
Transfers out	-	-	(74,595)	(74,595)
<u>Net Change in Fund Balance</u>	<u>\$ (4,422)</u>	<u>\$ (4,422)</u>	26,653	<u>\$ 31,075</u>
<u>Fund Balance at Beginning of Year (as restated)</u>			<u>309,404</u>	
<u>Fund Balance at End of Year</u>			<u>\$ 336,057</u>	

See accompanying notes to financial statements.

CITY OF NORTONVILLE, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013

	<u>Business-type Activities-Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<u>ASSETS</u>			
<u>Current Assets</u>			
Cash equivalents	\$ 98,344	\$ 207,368	\$ 305,712
Accounts receivable(net of allowance)	22,252	39,163	61,415
Unbilled revenue	11,513	13,153	24,666
Inventory	28,240	-	28,240
Restricted assets:			
Cash equivalents	<u>28,711</u>	<u>64,018</u>	<u>92,729</u>
Total Current Assets	<u>189,060</u>	<u>323,702</u>	<u>512,762</u>
<u>Non-current Assets</u>			
Capital assets	1,104,253	8,367,947	9,472,200
Accumulated depreciation	<u>(635,885)</u>	<u>(3,970,653)</u>	<u>(4,606,538)</u>
Total Non-current Assets	<u>468,368</u>	<u>4,397,294</u>	<u>4,865,662</u>
Total Assets	<u>657,428</u>	<u>4,720,996</u>	<u>5,378,424</u>
<u>LIABILITIES</u>			
<u>Current Liabilities</u>			
Accounts payable	4,973	22,150	27,123
Accrued interest payable	8,010	194,080	202,090
Customer deposits	29,275	-	29,275
Long-term debt due in one year	<u>22,000</u>	<u>45,000</u>	<u>67,000</u>
Total Current Liabilities	<u>64,258</u>	<u>261,230</u>	<u>325,488</u>
<u>Non-current Liabilities</u>			
Long-term debt due after one year	<u>331,000</u>	<u>2,874,230</u>	<u>3,205,230</u>
Total Liabilities	<u>395,258</u>	<u>3,135,460</u>	<u>3,530,718</u>
<u>NET POSITION</u>			
Net investment in capital assets	115,368	1,478,064	1,593,432
Restricted for debt retirement-expendable	28,711	64,018	92,729
Unrestricted	<u>118,091</u>	<u>43,454</u>	<u>161,545</u>
Total Net Position	<u>\$ 262,170</u>	<u>\$ 1,585,536</u>	<u>\$ 1,847,706</u>

See accompanying notes to financial statements.

CITY OF NORTONVILLE, KENTUCKY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	Business-type Activities - Enterprise		
	Funds		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<u>Operating Revenues</u>			
Charges for service	\$ 231,283	\$ 374,719	\$ 606,002
Late fees	56,490	179,909	236,399
Total Operating Revenues	<u>287,773</u>	<u>554,628</u>	<u>842,401</u>
<u>Operating Expenses</u>			
Depreciation	28,172	150,009	178,181
Salaries and wages	58,579	58,370	116,949
Utilities	24,818	64,031	88,849
Contract service	23,200	52,048	75,248
Repairs and maintenance	18,232	13,433	31,665
Health benefits	13,889	15,712	29,601
Insurance	13,275	13,275	26,550
Testing	1,888	12,643	14,531
Retirement	7,008	6,983	13,991
Miscellaneous	5,755	5,689	11,444
Professional	5,501	5,501	11,002
Payroll taxes	5,411	5,404	10,815
Sewer treatment fees	-	10,279	10,279
Fuel and oil	4,749	4,500	9,249
Chemicals	1,415	6,527	7,942
Office supplies	3,494	3,507	7,001
Telephone	2,756	3,791	6,547
Postage	1,938	1,889	3,827
Total Operating Expenses	<u>220,080</u>	<u>433,591</u>	<u>653,671</u>
<u>Income (Loss) from Operations</u>	<u>67,693</u>	<u>121,037</u>	<u>188,730</u>
<u>Nonoperating Revenues (Expenses)</u>			
Gain (loss) on disposal of assets	(11,958)	-	(11,958)
Investment income	269	519	788
Interest expense and fees	(16,511)	(94,902)	(111,413)
Bad debts	(2,600)	(3,200)	(5,800)
Total Nonoperating Revenues (Expenses)	<u>(30,800)</u>	<u>(97,583)</u>	<u>(128,383)</u>
<u>Income (Loss) Before Contributions and Transfers</u>	36,893	23,454	60,347
Transfers in	<u>31,908</u>	<u>42,687</u>	<u>74,595</u>
<u>Change in Net Position</u>	68,801	66,141	134,942
<u>Net Position at Beginning of Year (as restated)</u>	<u>193,369</u>	<u>1,519,395</u>	<u>1,712,764</u>
<u>Net Position at End of Year</u>	<u>\$ 262,170</u>	<u>\$ 1,585,536</u>	<u>\$ 1,847,706</u>

See accompanying notes to financial statements.

CITY OF NORTONVILLE, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Business-type Activities, Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<u>Cash Flows From Operating Activities</u>			
Cash received from customers	\$ 274,298	\$ 540,437	\$ 814,735
Cash payments to suppliers for goods and services	(146,139)	(204,309)	(350,448)
Cash payments to employees for services	<u>(58,589)</u>	<u>(58,370)</u>	<u>(116,959)</u>
Net Cash Provided (Used) By Operating Activities	<u>69,570</u>	<u>277,758</u>	<u>347,328</u>
<u>Cash Flows From Noncapital Financing Activities</u>			
Transfers in	<u>31,908</u>	<u>42,687</u>	<u>74,595</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>31,908</u>	<u>42,687</u>	<u>74,595</u>
<u>Cash Flows from Capital and Related Financing Activities</u>			
Principal paid on debt	(20,500)	(43,000)	(63,500)
Acquisition of property, plant and equipment	(23,608)	(86,135)	(109,743)
Interest paid on debt	<u>(17,002)</u>	<u>(95,977)</u>	<u>(112,979)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(61,110)</u>	<u>(225,112)</u>	<u>(286,222)</u>
<u>Cash Flows from Investing Activities</u>			
Income received on investments	<u>269</u>	<u>519</u>	<u>788</u>
Net Cash Provided (Used) By Investing Activities	<u>269</u>	<u>519</u>	<u>788</u>
<u>Net Increase (Decrease) in Cash and Cash Equivalents</u>	<u>40,637</u>	<u>95,852</u>	<u>136,489</u>
<u>Cash Equivalents at Beginning of Year</u>	<u>86,418</u>	<u>182,233</u>	<u>268,651</u>
<u>Prior Period Adjustment</u>	<u>-</u>	<u>(6,699)</u>	<u>(6,699)</u>
<u>Cash Equivalents at End of Year</u>	<u>\$ 127,055</u>	<u>\$ 271,386</u>	<u>\$ 398,441</u>
 <u>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) By Operating Activities</u>			
Operating income (loss)	\$ 67,693	\$ 121,037	\$ 188,730
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	28,172	150,009	178,181
Change in assets and liabilities:			
Receivables	(11,650)	(14,191)	(25,841)
Inventory	(15,652)	-	(15,652)
Accounts payable	2,842	20,903	23,745
Accrued payroll and other expenses	(10)	-	(10)
Customer deposits	<u>(1,825)</u>	<u>-</u>	<u>(1,825)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 69,570</u>	<u>\$ 277,758</u>	<u>\$ 347,328</u>
 <u>Reconciliation of Total Cash</u>			
Current Assets - Cash	\$ 98,344	\$ 207,368	\$ 305,712
Restricted Assets - Cash	<u>28,711</u>	<u>64,018</u>	<u>92,729</u>
Total Cash	<u>\$ 127,055</u>	<u>\$ 271,386</u>	<u>\$ 398,441</u>

See accompanying notes to financial statements.

CITY OF NORTONVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Nortonville, Kentucky operates under a Mayor/Council form of government and provides the following services as authorized: public safety (fire), highway and streets, water and sewer utilities, cultural and recreation, public improvements, cemetery and general and administrative services.

The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and by the Financial Accounting Standards Board (when applicable). The City follows GASB pronouncements as codified under GASB 62, which was adopted in the current year. The more significant accounting policies of the City are described below:

A. The Financial Reporting Entity

The City of Nortonville, Kentucky is a municipal corporation governed by an elected six member council and mayor. The City has adhered to the standards set forth in Statement No. 14 as amended by Statement No. 61 of the Governmental Accounting Standards Board in reporting the primary government (including blended component units), discretely presented component units, the reporting entity and related relationships with the City.

B. Basis of Presentation

The government-wide financial statements (the statement of net position and the statement of activities) report information on all activities of the City. The effect of interfund activity, within the governmental and business-type activities columns, 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 program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

CITY OF NORTONVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

GOVERNMENTAL FUNDS

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on sources, uses and balances of current financial resources. The City has presented the following major governmental funds:

General Fund

The General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in the other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

PROPRIETARY FUNDS

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Position. The City has presented the following major proprietary funds:

Water Fund

The Water Fund is used to account for the provision of water services to the residents of the City and some county residents. Activities of the fund include administration, water treatment, and distribution infrastructure additions and maintenance. All fund costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure the financial integrity of the fund.

Sewer Fund

The Sewer Fund is used to account for the provision of sewer services to the residents of the City. Activities of the fund include administration, wastewater collection, infrastructure additions and maintenance, and wastewater treatment activities. The fund accounts for the accumulation of resources for, and payment of, long-term debt principal and interest for sewer system debt. All fund costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure the financial integrity of the fund.

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. Operating expenses for the proprietary funds include the costs of personnel and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

C. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

CITY OF NORTONVILLE, KENTUCKY
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Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e. when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period (usually 45 days). The City considers property taxes as available if they are collected within 60 days after year end. Franchise taxes are considered available and are, therefore, recognized as revenues even though a portion of taxes may be collected in the subsequent year. Intergovernmental revenues received as reimbursements for specific purposes or projects are recognized based upon expenditures recorded. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures are recorded only when payment is due.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and all liabilities (whether current or non-current) are included on the statement of net position. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

D. Budgets

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general, special revenue, and proprietary funds.

E. Cash and Investments

Money market instruments and certificates of deposits are stated at cost or amortized cost, which approximates fair value. All other investment securities are stated at fair value.

City ordinances authorize the City to invest in obligations of the U.S. Government and its instrumentalities, mutual funds, and demand deposits. All investments must be purchased through local brokers/dealers or deposited with local financial institutions.

For the purpose of the statement of cash flows, the City considers all cash in banks with stated maturities of three months or less or available for withdrawal by City management to be cash and cash equivalents.

F. Short-Term Interfund Receivables/Payables

During the course of operations numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

G. Allowance for Uncollectible Accounts

An allowance for uncollectible accounts has been provided based on 4% of total accounts receivable. Based on past experience, management considers the allowance adequate to provide for any losses on collection of the June 30, 2013 accounts receivable.

CITY OF NORTONVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

H. Inventory

Inventory consists of materials and supplies. Inventory is valued at the lower of cost or market, using the first-in/first-out method. The cost is recorded as an asset when purchased and an expenditure when used (consumption method).

I. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2013 are recorded as prepaid items. Prepaid items recorded in the governmental funds are reflected as nonspendable fund balance.

J. Restricted Assets

The restricted funds have been handled in accordance with the provisions of the various enterprise fund revenue bond resolutions, loan agreements, or by state or federal laws and regulations. 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 needed.

K. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (excluding those acquired prior to June 30, 2003), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has been capitalized during the construction period on property, plant and equipment.

Assets capitalized, including infrastructure assets, have an original cost of \$500 or more and over three years of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. The estimated useful lives are as follows:

<u>Description</u>	<u>Estimated Life</u>
Buildings and infrastructure	10-40 years
Vehicles	5-10 years
Furniture, fixtures, and equipment	5-10 years

L. Postemployment Benefits

Postemployment benefits are those received by employees after termination of employment. The City provides no such benefits.

M. Compensated Absences

Employees of the City earn two weeks of paid leave per year after one year of service based on a calendar year. 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.

CITY OF NORTONVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

N. Interfund Transactions

Interfund services provided and used are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as interfund transfers and are included in the results of operations of both governmental and proprietary funds. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

O. 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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

P. Net Position

In the government-wide statements, equity is classified as net position and displayed in three components.

- **Net investment in capital assets** - Capital assets, net of accumulated depreciation and reduced by the outstanding balance of any borrowings that are attributable to the acquisition, construction, or improvement of those assets net of unspent financing proceeds.
- **Restricted net position** - Net position with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, laws, or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net position** - All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

In governmental fund financial statements, equity is classified as fund balance and is displayed in up to five components based primarily on the extent to which the City is bound to observe constraints imposed on the use of fund resources. These components are as follows:

- **Nonspendable fund balance** - amounts that are not in spendable form (such as inventory or prepaid expenses) or are required to be maintained intact.
- **Restricted fund balance** - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

CITY OF NORTONVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
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- **Committed fund balance** - amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority. To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.
- **Assigned fund balance** - amounts the City intends to use for a specific purpose. Intent can be expressed by the City or by an official or body to which the City delegates the authority.
- **Unassigned fund balance** - amounts that are available for any purpose. Positive amounts are reported only in the general fund.

Q. Adoption of New Accounting Pronouncements

GASB Statement No. 60

GASB Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements, was issued November 2010. The provisions of this Statement are effective for periods beginning after December 15, 2011. This Statement modifies financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The City currently has no service concession arrangements requiring such disclosures.

GASB Statement No. 61

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, was issued November 2010. The provisions of this Statement are effective for periods beginning after June 15, 2012. This Statement is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively.

GASB Statement No. 62

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, was issued December 2010. The provision of this Statement are effective for periods beginning after December 15, 2011. This Statement is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board and American Institute of Certified Public Accountants ("AICPA") pronouncements.

CITY OF NORTONVILLE, KENTUCKY
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GASB Statement No. 63

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, was issued June 2011. This Statement is intended to improve financial reporting by providing citizens and other users of state and local government financial reports with information about how past transactions will continue to impact a government's financial statements in the future. This Statement provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The statement of net assets is renamed the statement of net position and includes the following elements: assets, deferred outflows, liabilities, deferred inflows of resources, and net position. The City only has one item that qualifies for reporting in the deferred inflows category. It is the property taxes that will not be collected within 60 days of June 30, 2013.

GASB Statement No. 64

GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions - an amendment of GASB Statement No. 53*, was issued June 2011. This Statement is intended to improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The City currently has no activity requiring such disclosures.

Recent Accounting Pronouncements

As of June 30, 2013, the GASB has issued the following statements not yet required to be adopted by the City.

GASB Statement No. 65

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, was issued in March 2012. The provisions of this Statement are effective for periods beginning after December 15, 2012. This statement requires certain items that are currently reported as assets and liabilities to be reclassified as deferred outflows resources, deferred inflows of resources, or current-period outflows and inflows. The City's management has not yet determined the effect this statement will have on the financial statements.

GASB Statement No. 66

GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, was issued March 2012. The provisions of this Statement are effective for periods beginning after December 15, 2012. This Statement is intended to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The City's management has not yet determined the effect this statement will have on the financial statements.

GASB Statement No. 67

GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, was issued June 2012. The provisions of this Statement are effective for periods beginning after June 15, 2013. This Statement is intended to improve financial reporting by state and local governmental pension plans. This Statement results from a