

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

comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The City's management has not yet determined the effect this statement will have on the financial statements.

GASB Statement No. 68

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, was issued June 2012. The provisions of this Statement are effective for periods beginning after June 15, 2014. This Statement is intended to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The City is currently evaluating the effects of this statement on its financial statements. The Kentucky League of Cities (KLC) prepared estimates of the financial statement impact for all cities participating in CERS. KLC estimated that the City of Nortonville unfunded liability would be approximately \$348,321, based on the 2011 actuarial analysis. The actual liability could be considerably different due to changes in system assumptions and liabilities.

GASB Statement No. 69

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, was issued January 2013. The provisions of this Statement are effective for periods beginning after December 15, 2013. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The City's management has not yet determined the effect this statement will have on the financial statements.

GASB Statement No. 70

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, was issued April 2013. The provisions of this Statement are effective for periods beginning after June 15, 2013. This Statement will enhance comparability of financial statements among governments by requiring consistent reporting by those governments that extend nonexchange guarantees and by those governments that receive nonexchange guarantees. The City's management has not yet determined the effect this statement will have on the financial statements.

GASB Statement No. 71

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68*, was issued November 2013. The provisions of this Statement are effective for periods beginning after June 15, 2014 and should be implemented in conjunction with GASB Statement No. 68. This Statement will improve accounting and financial reporting by addressing an issue in Statement No. 68, concerning the transition provision related to certain pension contributions made to defined benefit pension plans prior to implementation of Statement No. 68 by employers and nonemployer contributing entities. The City's management has not yet determined the effect this statement will have on the financial statements.

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

R. Subsequent Events

The City has evaluated subsequent events through December 19, 2014, the date which the financial statements were available to be issued.

2. LEGAL COMPLIANCE – BUDGETS

Budgets and budgeting procedures require that prior to June 1 of each year, the Mayor submits a proposed budget to the Council for the year commencing the following July 1. The budget is prepared by fund, function and activity, and includes information on the past year, current year estimates and requested appropriations for the next fiscal year. The City Council holds public hearings to obtain taxpayer comments. Prior to June 30 of each year, the City Council approves the budget by majority vote.

As required by Kentucky Revised Statutes (K.R.S.) 91A.030 (1), formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, and Enterprise Funds. Total expenditures for a fund legally may not exceed the total appropriations as required by K.R.S. 91A.030 (13). All appropriations lapse at year-end.

Budget amendments, as allowed by ordinance, require majority approval by the City Council. The Mayor is authorized to transfer budgeted amounts between accounts within any fund. However, any revisions that alter the total expenditures of any fund must be approved by a majority vote of the City Council.

3. DEPOSITS AND INVESTMENTS

Statement of Net Position Cash Presentation

The captions on the statement of net position for cash, investments, and restricted assets enumerated as to deposits and investments and the amounts in total are as follows:

	<u>Deposits</u>	<u>Primary Government Total</u>
Cash equivalents	\$ 786,679	\$ 786,679
Restricted assets:		
Cash equivalents	<u>92,729</u>	<u>92,729</u>
Total	<u>\$ 879,408</u>	<u>\$ 879,408</u>

A. Deposits

At year-end, the carrying amount of the City's cash equivalents was \$879,408 and the bank balance was \$883,156. Of the bank balances, \$355,992 was covered by federal depository insurance and \$527,164 was covered by collateral held by the pledging financial institution's agent or trust department in the City's name.

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

B. Investments

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of and investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The custodial credit risk for investments is the risk that a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party if the counterparty to the transaction fails. The investments of the primary government are federally sponsored investments or in mutual funds that are invested in direct obligations of the US Government, its agencies, or organizations it has sponsored.

Consideration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. The City does not place any limits on the amount that may be invested with one issuer. At June 30, 2013 the City had no funds invested.

4. PROPERTY TAXES

The City bills and collects its own property taxes. The City elects to use the annual property assessment prepared by Hopkins County as its base to apply the property tax rate. According to Kentucky Revised Statutes, the assessment date for the City must conform to the assessment date of Hopkins County, and the annual increase in the property tax levy cannot exceed 4%. For the year ending June 30, 2013, taxes were levied on October 1, 2012 and payable on December 31, 2012. The tax rate was 23.7 cents per \$100 of assessed valuation of real property; 23.6 cents per \$100 of assessed valuation of vehicles and watercraft, and 35.98 cents per \$100 of assessed valuation of tangible property. Enforceable liens on delinquent property tax bills attach to the property when filed by the City by August 31 of each year. City property tax revenues are recognized when levied to the extent that they result in current receivables in accordance with GASB Statement 1, "Revenue Recognition - Property Taxes."

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

5. CAPITAL ASSETS

Governmental Activities

A summary of capital assets for governmental activities at June 30, 2013 follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 45,000	\$ -	\$ -	\$ 45,000
Total capital assets, not being depreciated	<u>45,000</u>	<u>-</u>	<u>-</u>	<u>45,000</u>
Capital assets, being depreciated:				
Buildings	98,763	-	-	98,763
Improvements	551,181	11,400	-	562,581
Machinery and equipment	272,563	4,636	-	277,199
Vehicles	199,300	-	-	199,300
Police and fire equipment	293,115	1,545	-	294,660
Infrastructure	42,557	-	-	42,557
Total capital assets, being depreciated	<u>1,457,479</u>	<u>17,581</u>	<u>-</u>	<u>1,475,060</u>
Less accumulated depreciation for:				
Buildings	(39,289)	(2,484)	-	(41,773)
Improvements	(99,134)	(16,312)	-	(115,446)
Machinery and equipment	(272,563)	(169)	-	(272,732)
Vehicles	(159,913)	(5,000)	-	(164,913)
Police and fire equipment	(242,346)	(18,658)	-	(261,004)
Infrastructure	(10,104)	(1,418)	-	(11,522)
Total accumulated depreciation	<u>(823,349)</u>	<u>(44,041)</u>	<u>-</u>	<u>(867,390)</u>
Total capital assets, being depreciated, net	<u>634,130</u>	<u>(26,460)</u>	<u>-</u>	<u>607,670</u>
Governmental activities capital assets, net	<u>\$ 679,130</u>	<u>\$ (26,460)</u>	<u>\$ -</u>	<u>\$ 652,670</u>

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

Business-type Activities

A summary of capital assets for business-type activities at June 30, 2013 follows:

<u>Business-type Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated:				
Water plant	\$ 892,376	\$ 15,446	\$ (15,695)	\$ 892,127
Buildings, tanks, etc.	160,563	-	-	160,563
Vehicles	21,210	-	-	21,210
Water equipment	22,191	8,162	-	30,353
Sewer plant	3,021,932	10,636	-	3,032,568
Sewer equipment	132,467	9,820	-	142,287
Regional sewer project	<u>5,127,413</u>	<u>65,679</u>	<u>-</u>	<u>5,193,092</u>
Total capital assets, being depreciated	<u>9,378,152</u>	<u>109,743</u>	<u>(15,695)</u>	<u>9,472,200</u>
Less accumulated depreciation for:				
Water plant	(437,390)	(23,390)	3,737	(457,043)
Buildings, tanks, etc.	(130,659)	(3,873)	-	(134,532)
Vehicles	(21,210)	-	-	(21,210)
Water equipment	(22,191)	(909)	-	(23,100)
Sewer plant	(2,959,186)	(7,855)	-	(2,967,041)
Sewer equipment	(92,810)	(13,558)	-	(106,368)
Regional sewer project	<u>(768,648)</u>	<u>(128,596)</u>	<u>-</u>	<u>(897,244)</u>
Total accumulated depreciation	<u>(4,432,094)</u>	<u>(178,181)</u>	<u>3,737</u>	<u>(4,606,538)</u>
Total capital assets, being depreciated, net	<u>4,946,058</u>	<u>(68,438)</u>	<u>(11,958)</u>	<u>4,865,662</u>
Business-type activities capital assets, net	<u>\$ 4,946,058</u>	<u>\$ (68,438)</u>	<u>\$ (11,958)</u>	<u>\$ 4,865,662</u>

Depreciation expense was not allocated to governmental functions. It appears on the Statement of Activities as depreciation on a separate line.

6. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2013, the City contracted with commercial insurance carriers for coverage of all the risks mentioned above. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past 3 years. There were no significant reductions in coverages during the past 3 years.

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

7. GOVERNMENT WIDE ACTIVITIES DEBT

1975 Revenue Bond Payable

On January 16, 1976, the City authorized and provided for the issuance and sale of \$230,000 principal amount of City of Nortonville, Kentucky Waterworks Revenue Bonds, Series 1975. The purpose of the issuance was for financing the cost of the construction of extensions, additions and improvements to the existing municipal waterworks system. The bonds bear interest at 5.00% per annum. Annual principal payments on January 1 and semi-annual interest payments on January 1 and July 1.

1980 Revenue Bond Payable

On November 6, 1981, the City authorized and provided for issuance and sale of \$1,058,000 principal amount of City of Nortonville, Kentucky Waterworks and Sewer Revenue Bonds, Series 1980. The purpose of the issuance was for financing the cost of the construction of a project consisting of the acquisition and construction of a new sewer system for the City. The bonds bear interest at 5% per annum. Annual principal payment are due on January 1 and semi-annual interest payments on January 1 and July 1.

1995 Revenue Bond Payable

On February 29, 1996, the City authorized and provided for the issuance and sale of \$427,000 principal amount of City of Nortonville, Kentucky water and Sewer Revenue Bonds, Series 1995. The purpose of the issuance was for financing the cost of the construction of extensions, additions and improvements to the existing combined and consolidated waterworks and sewer system. The bonds bear interest at 4.5% per annum. Annual principal payments are due on January 1 and semi-annual interest payments on January 1 and July 1.

Kentucky Infrastructure Authority Note Payable

On January 5, 2005, the City borrowed from the Kentucky Infrastructure Authority receiving several distributions through August 15, 2007, totaling \$2,768,556. The purpose of the note was to finance the cost of sewer system improvements. The note bears interest at 3% per annum with monthly interest payments due. Currently, there are no principal payments being made.

The following is a summary of the changes in long-term debt for the year ended June 30, 2013:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due in One Year</u>
Governmental Activities					
Note Payable - bank	\$ 14,500	\$ -	\$ 14,500	\$ -	\$ -
Note Payable - fire truck	<u>12,990</u>	<u>-</u>	<u>12,990</u>	<u>-</u>	<u>-</u>
Total Governmental Activities	<u><u>27,490</u></u>	<u><u>-</u></u>	<u><u>27,490</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
Business-type Activities					
1975 Revenue Bonds Payable	\$ 39,000	\$ -	\$ 12,000	\$ 27,000	\$ 13,000
1980 Revenue Bonds Payable	408,000	-	43,000	365,000	45,000
1995 Revenue Bonds Payable	334,500	-	8,500	326,000	9,000
KIA Note Payable	<u>2,554,230</u>	<u>-</u>	<u>-</u>	<u>2,554,230</u>	<u>-</u>
Total Business-type Activities	<u><u>3,335,730</u></u>	<u><u>-</u></u>	<u><u>63,500</u></u>	<u><u>3,272,230</u></u>	<u><u>67,000</u></u>
Total Primary Government	<u><u>\$3,363,220</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 90,990</u></u>	<u><u>\$3,272,230</u></u>	<u><u>\$ 67,000</u></u>

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

Annual principal and interest requirements of the revenue bonds payable as of June 30, 2013 are:

Fiscal Year	Principal	Interest	Total
2014	\$ 67,000	\$ 34,270	\$ 101,270
2015	70,500	30,965	101,465
2016	59,000	27,488	86,488
2017	62,000	24,588	86,588
2018	66,000	21,538	87,538
2019-23	178,500	65,798	244,298
2024-28	76,500	41,783	118,283
2029-33	95,000	22,973	117,973
2034-38	43,500	2,925	46,425
Total	<u>\$ 718,000</u>	<u>\$ 272,328</u>	<u>\$ 990,328</u>

The KIA loan has been left out of the future debt payments schedule due to the City only covering current portions of interest and not principal.

8. LITIGATION, CONTINGENCIES AND COMMITMENTS

Litigation

The City is not aware of any pending or threatened litigation in which it is involved which would have a material effect of these primary government financial statements.

Contingencies

The City participates in a number of federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The audits of these programs for or including the year ended June 30, 2013 may not yet have been conducted.

Commitments

At June 30, 2013 the City had did not have any committed funds.

9. MAJOR CUSTOMER

Sewer Treatment Services

In November, 1994, the City entered into a long-term contract to provide sewer treatment services to the City of Mortons Gap. The term of the agreement is for 45 years, with amendments possible upon the consent of both parties. The City bills the City of Mortons Gap monthly for the sewer treatment. Total sales to the City of Mortons Gap for the year ended June 30, 2013 were \$106,143.

In December, 1996, the City entered into a long-term contract to provide sewer treatment services to the City of White Plains. The term of the agreement is for 45 years, with amendments possible upon the consent of both parties. The City bills the City of White Plains monthly for the sewer treatment. Total sales to the City of White Plains for the year ended June 30, 2013 were \$55,752.

10. EMPLOYEE'S RETIREMENT PLAN

Plan Description and Provisions

The City is a participant in the Commonwealth of Kentucky's County Employees' Retirement System (CERS). CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in non-hazardous duty positions of each

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

participating county, city and school board and any additional eligible local agencies electing to participate in the CERS. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Prior to July 1, 2009, cost of living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than twelve months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the twelve months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce cost-of-living adjustments if in its judgment the welfare of the Commonwealth so demands. CERS is administered by Kentucky Retirement Systems Board of Trustees pursuant to KRS 78.510-78.852.

Contributions

Covered employees are required by state statute to contribute 5 percent of their annual creditable compensation to CERS. Participating employers are required by state statute (KRS 61.565) to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board of Trustees of the Kentucky Retirement Systems on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 2013, the employer contribution rate was 19.55% of members compensation. Administrative costs of KRS are financed through employer contributions and investment earnings. Contributions required and made to CERS for the year ended June 30, 2013 were \$24,088. The requirement consisted of \$19,182 (19.55% of covered payroll for nonhazardous positions) from the City and \$4,906 (5.00% of covered payroll for nonhazardous positions) from employees. Total covered payroll for the year end June 30, 2013 was \$98,116.

Post-retirement Healthcare Benefits

In addition to the pension benefits described above, the Kentucky Retirement Systems (KRS) provides post-retirement healthcare benefits, in accordance with Kentucky Revised Statutes. The Kentucky Retirement Systems Insurance Fund (Fund) was established to provide hospital and medical insurance for members receiving benefits from the Kentucky Employees Retirement System (KERS), the County Employees Retirement System (CERS), and the State Police Retirement System (SPRS). The Fund and members receiving benefits pay prescribed portions of the aggregate premiums paid by the Fund. For the fiscal year ended June 30, 2013, (the date of the latest available information), insurance premiums withheld from benefit payments to members of the CERS approximated \$27,804,392. As of June 30, 2013, the Fund had 100,708 retirees and beneficiaries for whom benefits were available. The allocation of insurance premiums paid by the Fund and amounts withheld from member benefits is based on years of service. For members participating prior to July 1, 2003, years of service and respective percentage of the maximum contribution are as follows:

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

Years of Service	% Paid by Insurance Fund
20 or more	100%
15 - 19	75%
10 - 14	50%
4 - 9	25%
Less than 4	0%

As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003 earn ten dollars (\$10) per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment (COLA), which is updated annually due to changes in the Consumer Price Index for all urban consumers. This benefit is not protected under the inviolable contract provision of Kentucky Revised Statute 16.652, 61.692 and 78.852. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

In prior years, the employers' required medical insurance contribution rate was being increased annually by a percentage that would result in advance-funding the medical liability on an actuarially determined basis using the entry age normal cost method within a 20 year period measured from 1987. In November 1992, the Board of Trustees adopted a fixed percentage contribution rate and suspended future increases under the current medical premium funding policy until the next experience study could be performed. In May 1996, the Board of Trustees adopted a policy to increase the insurance contribution rate by the amount needed to achieve the target rate for full entry age normal funding within twenty years.

11. TRANSFERS AND INTERFUND RECEIVABLE/PAYABLE BALANCES

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital projects and asset acquisitions, or maintaining debt service on a routine basis. Resources are accumulated in a fund or component unit to support and simplify the administration of various projects or programs.

Generally, outstanding balances between funds reported as "due to/from other funds" include outstanding charges by one fund to another for services or goods and other miscellaneous receivables/payables between funds. Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are described as "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans).

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Similar activities in which a component unit is a party are captioned as "receivables/payables" for both the current and non-current portions between a component unit and the primary government. Balances to which a fiduciary fund is a party are treated as "external" receivables and payables.

There were no primary government interfund receivable/payable balances for operating expenses at June 30, 2013.

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

Primary government transfers at June 30, 2013 were:

	Transfers In	Transfers Out
<u>General Fund</u>	\$ -	\$ 74,595
<u>Proprietary Funds</u>		
Sewer Enterprise Fund	42,687	-
Water Enterprise Fund	31,908	-
Total	\$ 74,595	\$ 74,595

12. LEGAL COMPLIANCE

Excess of Expenditures Over Appropriations in Individual Funds

The City did not have any funds with an excess of actual expenditures and other financing uses over budget for the year ended June 30, 2013:

13. PRIOR PERIOD ADJUSTMENTS

Prior period adjustments were made during the current year to correct beginning fund balances in the special revenue funds. Beginning fund balances in the special revenue funds were increased to remove them from their prior location in the General Fund. The Municipal Road Aid Fund was increased \$96,178, the Cemetery Maintenance Fund was increased \$1,662, and the Cemetery Perpetual Care Fund was increased \$3,368.

Prior period adjustments were made during the current year to correct beginning fund balance in the Sewer Fund. Beginning fund balance in the Sewer Fund was decreased \$6,699 to account for an interest payment on the KIA loan not reported previously in the City's books.

CITY OF NORTONVILLE, KENTUCKY
SCHEDULE OF EXPENDITURES
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2013
WITH COMPARATIVE TOTALS FOR JUNE 30, 2012

	2013			Variance Favorable (Unfavorable)	2012
	Budgeted Amounts		Actual		Actual
	Original	Final			GAAP Basis
<u>General Government Expenditures</u>					
Salaries and wages	\$ 36,960	\$ 36,960	\$ 27,146	\$ 9,814	\$ 33,175
Utilities	13,303	13,303	24,876	(11,573)	11,034
Insurance	51,316	51,316	9,487	41,829	12,279
Repairs and maintenance	28,500	28,500	6,555	21,945	15,785
Professional fees	11,800	11,800	6,371	5,429	5,193
Employee benefits	14,848	14,848	4,931	9,917	19,069
Office supplies	3,862	3,862	3,757	105	3,509
Retirement	3,446	3,446	2,220	1,226	3,541
Payroll taxes	3,883	3,883	2,801	1,082	1,261
Printing	3,567	3,567	2,502	1,065	-
Advertising	-	-	2,373	(2,373)	-
Telephone	600	600	1,992	(1,392)	3,281
Training	300	300	1,407	(1,107)	-
Dues and subscriptions	550	550	776	(226)	771
Postage	5,000	5,000	742	4,258	498
Supplies	-	-	631	(631)	719
Miscellaneous	-	-	400	(400)	8,042
Travel	1,500	1,500	237	1,263	(8)
Tax bill preparation	1,750	1,750	-	1,750	2,088
Total General Government	\$ 181,185	\$ 181,185	\$ 99,204	\$ 81,981	\$ 120,237

See accompanying notes to financial statements.

CITY OF NORTONVILLE, KENTUCKY
SCHEDULE OF EXPENDITURES
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2013
WITH COMPARATIVE TOTALS FOR JUNE 30, 2012

	2013			Variance Favorable (Unfavorable)	2012
	Budgeted Amounts		Actual		Actual GAAP Basis
	Original	Final			
<u>Public Safety Expenditures</u>					
Fire Department					
Salaries and wages	\$ 5,356	\$ 5,356	\$ 4,012	\$ 1,344	\$ 7,132
Repairs and maintenance	300	300	2,716	(2,416)	632
Training	3,500	3,500	2,268	1,232	(84)
Utilities	2,541	2,541	1,917	624	3,787
Uniforms	-	-	940	(940)	1,692
Telephone	375	375	767	(392)	1,020
Fuel and oil	850	850	751	99	1,967
Miscellaneous	400	400	228	172	200
Payroll taxes	410	410	219	191	410
Advertising	100	100	100	-	-
Office supplies	1,245	1,245	90	1,155	400
Dues and subscriptions	85	85	60	25	-
Insurance	2,428	2,428	-	2,428	823
Contracted services	-	-	-	-	84
Vehicle Repairs	200	200	-	200	128
Total Fire Department	<u>17,790</u>	<u>17,790</u>	<u>14,068</u>	<u>3,722</u>	<u>18,191</u>
Police Department					
Salaries and wages	\$ 44,738	\$ 44,738	\$ -	\$ 44,738	\$ 4,078
Payroll taxes	3,800	3,800	-	3,800	305
Retirement	-	-	-	-	1,809
Employee benefits	-	-	-	-	752
Telephone	650	650	-	650	222
Fuel and oil	-	-	-	-	595
Supplies	-	-	-	-	5
Insurance	-	-	-	-	823
Narcotics talk force	472	472	-	472	493
Miscellaneous	-	-	-	-	148
Total Police Department	<u>49,660</u>	<u>49,660</u>	<u>-</u>	<u>49,660</u>	<u>9,230</u>
Total Public Safety	<u>\$ 67,450</u>	<u>\$ 67,450</u>	<u>\$ 14,068</u>	<u>\$ 53,382</u>	<u>\$ 27,421</u>

See accompanying notes to financial statements.

CITY OF NORTONVILLE, KENTUCKY
SCHEDULE OF EXPENDITURES
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2013
WITH COMPARATIVE TOTALS FOR JUNE 30, 2012

	2013			Variance Favorable (Unfavorable)	2012
	Budgeted Amounts		Actual		Actual GAAP Basis
	Original	Final			
<u>Public Streets Expenditures</u>					
Salaries and wages	\$ 23,685	\$ 23,685	\$ 24,836	\$ (1,151)	\$ 20,175
Utilities	16,375	16,375	18,379	(2,004)	18,146
Employee benefits	7,393	7,393	8,780	(1,387)	2,611
Repairs and maintenance	10,450	10,450	7,452	2,998	25,328
Fuel and oil	3,016	3,016	4,623	(1,607)	3,002
Retirement	4,576	4,576	2,971	1,605	1,510
Uniforms	1,000	1,000	2,947	(1,947)	-
Payroll taxes	2,900	2,900	1,147	1,753	1,982
Office supplies	1,000	1,000	347	653	2,762
Training	200	200	140	60	-
Telephone	375	375	90	285	-
Advertising	-	-	58	(58)	-
Contract Services	250	250	50	200	1,979
Bank Charges	-	-	50	(50)	-
Insurance	1,350	1,350	24	1,326	823
License/Certifications	-	-	10	(10)	-
Miscellaneous	-	-	-	-	2,241
Vehicle Repairs	1,000	1,000	-	1,000	931
Total Public Streets	\$ 73,570	\$ 73,570	\$ 71,904	\$ 1,666	\$ 81,490

See accompanying notes to financial statements.

CITY OF NORTONVILLE, KENTUCKY
SCHEDULE OF EXPENDITURES
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2013
WITH COMPARATIVE TOTALS FOR JUNE 30, 2012

	2013			Variance Favorable (Unfavorable)	2012
	Budgeted Amounts		Actual		Actual
	Original	Final			GAAP Basis
<u>Library Expenditures</u>					
Contract labor	\$ 4,800	\$ 4,800	\$ 4,800	\$ -	\$ 4,100
Telephone	650	650	1,037	(387)	1,198
Repairs and maintenance	540	540	425	115	445
Office supplies	-	-	200	(200)	-
Salaries and wages	-	-	-	-	68
Total Library	<u>\$ 5,990</u>	<u>\$ 5,990</u>	<u>\$ 6,462</u>	<u>\$ (472)</u>	<u>\$ 5,811</u>
<u>Debt Service</u>	<u>29,122</u>	<u>29,122</u>	<u>28,122</u>	<u>1,000</u>	<u>2,111</u>
<u>Capital Outlay</u>					
General government	\$ -	\$ -	\$ 12,086	\$ (12,086)	\$ -
Fire department	-	-	1,545	(1,545)	-
Library	-	-	3,950	(3,950)	-
Total Capital Outlay	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,581</u>	<u>\$ (17,581)</u>	<u>\$ -</u>
<u>Total General Fund Expenditures</u>	<u>\$ 386,439</u>	<u>\$ 386,439</u>	<u>\$ 265,463</u>	<u>\$ 120,976</u>	<u>\$ 239,181</u>

See accompanying notes to financial statements.

CITY OF NORTONVILLE, KENTUCKY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2013

	Special Revenue Funds		Permanent Fund	Total Other Governmental Funds
	Municipal Aid	Cemetery Maintenance	Cemetery Perpetual Care	
<u>Assets</u>				
Cash equivalents	\$ 127,006	\$ 1,662	\$ 3,368	\$ 132,036
<u>Total Assets</u>	<u>\$ 127,006</u>	<u>\$ 1,662</u>	<u>\$ 3,368</u>	<u>\$ 132,036</u>
 <u>Liabilities and Fund Balance</u>				
<u>Fund Balance</u>				
Nonspendable-Perpetual Care	-	-	3,368	3,368
Restricted-Special Revenue Funds	127,006	-	-	127,006
Committed-Cemetery Fund	-	1,662	-	1,662
Total Fund Balance	<u>127,006</u>	<u>1,662</u>	<u>3,368</u>	<u>132,036</u>
<u>Total Liabilities and Fund Balance</u>	<u>\$ 127,006</u>	<u>\$ 1,662</u>	<u>\$ 3,368</u>	<u>\$ 132,036</u>

See accompanying notes to financial statements.

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

	<u>Special Revenue Funds</u>		<u>Permanent Fund</u>	<u>Total Other Governmental Funds</u>
	<u>Municipal Aid</u>	<u>Cemetery Maintenance</u>	<u>Cemetery Perpetual Care</u>	
<u>Revenues</u>				
Intergovernmental - State	\$ 31,687	\$ -	\$ -	\$ 31,687
Interest	<u>280</u>	<u>-</u>	<u>-</u>	<u>280</u>
Total Revenues	<u>31,967</u>	<u>-</u>	<u>-</u>	<u>31,967</u>
<u>Expenditures</u>				
Current				
Public streets	<u>1,139</u>	<u>-</u>	<u>-</u>	<u>1,139</u>
Total Expenditures	<u>1,139</u>	<u>-</u>	<u>-</u>	<u>1,139</u>
<u>Excess (Deficiency) of Revenues</u>				
<u>Over Expenditures</u>	30,828	-	-	30,828
<u>Fund Balance at Beginning of Year (as restated)</u>				
	<u>96,178</u>	<u>1,662</u>	<u>3,368</u>	<u>101,208</u>
<u>Fund Balance at End of Year</u>	<u>\$ 127,006</u>	<u>\$ 1,662</u>	<u>\$ 3,368</u>	<u>\$ 132,036</u>

See accompanying notes to financial statements.



INDEPENDENT AUDITOR'S 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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of 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 City of Nortonville, Kentucky's basic financial statements, and have issued our report thereon dated December 19, 2014.

Internal Control Over Financial Reporting

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

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. *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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies. (2013-1 thru 2013-5)

Compliance and Other Matters


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

City of Nortonville, Kentucky's Response to Findings

City of Nortonville, Kentucky response to the finding identified in our audit is described in the accompanying schedule of findings and responses. City of Nortonville, Kentucky's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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


Madisonville, Kentucky
December 19, 2014

CITY OF NORTONVILLE, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2013

2013-1 Segregation of Duties

Condition

There is an absence of appropriate segregation of duties consistent with appropriate control objectives.

Criteria

A prudent control environment requires various functions of internal control be allocated among various employees.

Effect

Although no instances were noted, lack of segregation of duties can create situations where assets are not properly safeguarded.

Cause

Lack of personnel.

Recommendation

We recommend that management review its financial operation for opportunities to separate incompatible functions. Where segregation of duties cannot be achieved due to the size of the staff, management should maintain its awareness of the weakness and compensate with other controls.

Response

We concur with the finding but it is not economically feasible to hire additional employees.

2013-2 Documentation Archival

Condition

There is an absence of appropriate archival process for various documents consistent with appropriate control objectives.

Criteria

A prudent control environment requires all documents relating to the financial process be archived in a proper manner.

Effect

Several instances of missing payroll returns were noted. Most notably, the third and fourth quarter returns for 2012.

Cause

Lack of oversight concerning file storage and archival.

Recommendation

We recommend that management review its financial operation for opportunities to improve the document storage and archival process.

Response

We concur with the finding.

CITY OF NORTONVILLE, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2013

2013-3 Bank Accounts Not Reconciled

Condition

There is an absence of appropriate reconciliation of bank accounts.

Criteria

A prudent control environment requires all bank accounts to be reconciled on a monthly basis.

Effect

None of the bank reconciliations were able to be provided for any of the months in the year of audit. Most notably, one account was showing a significant balance per the accounting records but actually had a very small balance.

Cause

Lack of oversight concerning account balances and activity.

Recommendation

We recommend that management review its financial operation for opportunities to improve the bank reconciliation's by someone who does not prepare checks or make deposits.

Response

We concur with the finding.

2013-4 No Written Standard Operating Policy

Condition

There is an absence of appropriate written policy. This issue crosses many lines. The need to address job function details and cross training as well as purchase policies.

Criteria

A prudent control environment requires that a standard operating procedure be in place.

Effect

Many unanswered questions or long waits due to only one person having knowledge of the City Clerks' functions. When the Clerk was out, the other personnel were unable to locate information due to a lack of cross training. Also, this would address who is able to purchase products for the City. Most notably, one instance was brought to our attention where a fairly new employee purchased a bush hog from Rural King without a purchase order.

Cause

Lack of oversight concerning job descriptions and general control policies.

Recommendation

We recommend that management create a standard operating procedure and cross train its' employees and review its purchase policies. Employee's should not be able to purchase products over a certain dollar amount without management being made aware of the purchase from the retailer.

Response

We concur with the finding.

CITY OF NORTONVILLE, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2013

2013-5 Accounting Software Not Utilized Properly

Condition

There is an absence of appropriate utilization of accounting software.

Criteria

A prudent control environment requires that the accounting software be setup correctly so that proper reports can be generated.

Effect

Many of the accounts were set up incorrectly or classified wrong. This would cause the trial balance to be incorrect and decisions based on bad information would not utilize tax payer money efficiently. Most notably, assets were set up as expense accounts, bank accounts were set up as liabilities, and liabilities were set up as expense accounts. Also, transactions were not posting correctly. The accounts receivable for property taxes had not changed from the prior year. Many revenue items were being posted to the same account instead of posting to different revenue accounts.

Cause

Improper setup and lack of accounting knowledge and training on the software.

Recommendation

We recommend that management review its accounting software to ensure it is setup correctly and posting transactions correctly and then have United Systems provide some training.

Response

We concur with the finding.

