

CITY OF NORTONVILLE, KENTUCKY

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014



BerryKington & Utley PSC
Certified Public Accountants

**CITY OF NORTONVILLE, KENTUCKY
PRINCIPAL OFFICIALS
JUNE 30, 2014**

MAYOR - COUNCIL MEMBERS

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

PERSONNEL

Brenda Payne.....City Clerk

CITY OF NORTONVILLE, KENTUCKY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor Carolynn Sturt
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, 2014, 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. 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 auditors' 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, 2014, 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 November 25, 2016, 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 the City of Nortonville, Kentucky's internal control over financial reporting and compliance.

Benny Highsmith & Utley PSC
Madisonville, Kentucky
November 25, 2016

CITY OF NORTONVILLE, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Totals
<u>Assets</u>			
Cash equivalents	\$ 326,053	\$ 485,232	\$ 811,285
Accounts receivable (net of allowance)	7,910	56,676	64,586
Unbilled revenue	-	23,890	23,890
Inventory	-	33,140	33,140
Prepayments	4,808	10,611	15,419
Restricted assets:			
Cash equivalents	-	146,465	146,465
Capital assets (net of accumulated depreciation)			
Non-depreciable	45,000	-	45,000
Depreciable	<u>751,541</u>	<u>4,779,028</u>	<u>5,530,569</u>
Total Assets	<u>1,135,312</u>	<u>5,535,042</u>	<u>6,670,354</u>
<u>Liabilities</u>			
Accounts payable	16,164	50,377	66,541
Accrued payroll and related expenses	9,585	-	9,585
Accrued interest payable	-	25,168	25,168
Customer deposits	245	26,425	26,670
Current portion of long-term debt	7,796	142,583	150,379
Noncurrent portion of long-term debt (net of bond discount)	<u>33,204</u>	<u>3,368,300</u>	<u>3,401,504</u>
Total Liabilities	<u>66,994</u>	<u>3,612,853</u>	<u>3,679,847</u>
<u>Deferred Inflows of Resources</u>			
Deferred property tax revenue	<u>7,578</u>	<u>-</u>	<u>7,578</u>
<u>Net Position</u>			
Net investment in capital assets	755,541	1,268,145	2,023,686
Restricted for:			
Debt service	-	146,465	146,465
Municipal aid	153,213	-	153,213
Customer deposits	245	-	245
Nonexpendable perpetual care	3,332	-	3,332
Unrestricted	<u>148,409</u>	<u>507,579</u>	<u>655,988</u>
Total Net Position	<u>\$ 1,060,740</u>	<u>\$ 1,922,189</u>	<u>\$ 2,982,929</u>

See accompanying notes to financial statements.

CITY OF NORTONVILLE, KENTUCKY

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

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
Primary Government							
Governmental activities							
General government	\$ 122,835	\$ -	\$ -	\$ 5,000	\$ (117,835)	\$ -	\$ (117,835)
Public safety	16,534	-	113,000	-	96,466	-	96,466
Public streets	15,929	-	26,807	-	10,878	-	10,878
Library	5,223	-	-	-	(5,223)	-	(5,223)
Cemetery maintenance	345	-	-	-	(345)	-	(345)
Depreciation	47,467	-	-	-	(47,467)	-	(47,467)
Total governmental activities	208,333	-	139,807	5,000	(63,526)	-	(63,526)
Business-type activities							
Water distribution	302,001	242,400	17,500	-	-	(42,101)	(42,101)
Sewer distribution	658,931	515,063	-	-	-	(143,868)	(143,868)
Total business-type activities	960,932	757,463	17,500	-	-	(185,969)	(185,969)
Total Primary Government	\$ 1,169,265	\$ 757,463	\$ 157,307	\$ 5,000	(63,526)	(185,969)	(249,495)
General Revenues and Transfers							
Taxes							
Insurance premium taxes					116,126	-	116,126
Property taxes					68,800	-	68,800
Occupational taxes					33,768	-	33,768
Franchise taxes					26,828	-	26,828
Other taxes					1,066	-	1,066
Transfers					(260,342)	260,342	-
Investment income					358	109	467
Miscellaneous					16,899	-	16,899
Total general revenues and transfers					3,503	260,451	263,954
Change in Net Position							
					(60,023)	74,482	14,459
Net Position at Beginning of Year							
					1,120,763	1,847,707	2,968,470
Net Position at End of Year							
					\$ 1,060,740	\$ 1,922,189	\$ 2,982,929

See accompanying notes to financial statements.

CITY OF NORTONVILLE, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>			
Cash equivalents	\$ 167,096	\$ 158,957	\$ 326,053
Prepaid insurance	4,808	-	4,808
Property taxes receivable	<u>7,910</u>	<u>-</u>	<u>7,910</u>
<u>Total Assets</u>	<u>\$ 179,814</u>	<u>\$ 158,957</u>	<u>\$ 338,771</u>
<u>Liabilities and Fund Balance</u>			
<u>Liabilities</u>			
Accounts payable	\$ 15,615	\$ 549	\$ 16,164
Accrued payroll and related expenses	9,585	-	9,585
Customer deposits	245	-	245
Deferred property tax revenue	<u>7,578</u>	<u>-</u>	<u>7,578</u>
Total Liabilities	<u>33,023</u>	<u>549</u>	<u>33,572</u>
<u>Fund Balance</u>			
Nonspendable-Perpetual care	-	3,332	3,332
Restricted-Municipal aid	-	153,213	153,213
Committed-Cemetery	-	1,863	1,863
Unassigned	<u>146,791</u>	<u>-</u>	<u>146,791</u>
Total Fund Balance	<u>146,791</u>	<u>158,408</u>	<u>305,199</u>
<u>Total Liabilities and Fund Balance</u>	<u>\$ 179,814</u>	<u>\$ 158,957</u>	<u>\$ 338,771</u>

CITY OF NORTONVILLE, KENTUCKY
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET POSITION
JUNE 30, 2014

Fund Balance - Total Governmental Funds

\$ 305,199

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

\$ 1,703,320

Less accumulated depreciation

(906,779)

796,541

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds balance sheet.

Capital lease obligation

(41,000)

Net Position of Governmental Activities

\$ 1,060,740

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, 2014

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Revenues</u>			
Taxes			
Insurance premium taxes	\$ 116,126	\$ -	\$ 116,126
Property taxes	68,800	-	68,800
Occupational taxes	33,768	-	33,768
Franchise taxes	26,828	-	26,828
Other	1,066	-	1,066
Intergovernmental	118,000	26,807	144,807
Miscellaneous	16,899	-	16,899
Interest	309	49	358
Total Revenues	<u>381,796</u>	<u>26,856</u>	<u>408,652</u>
<u>Expenditures</u>			
Current			
General government	122,117	718	122,835
Public safety	16,534	-	16,534
Public streets	15,929	-	15,929
Library	5,223	-	5,223
Cemetery	-	345	345
Capital outlay	191,338	-	191,338
Total Expenditures	<u>351,141</u>	<u>1,063</u>	<u>352,204</u>
<u>Excess (Deficiency) of Revenues Over Expenditures</u>	<u>30,655</u>	<u>25,793</u>	<u>56,448</u>
<u>Other Financing Sources (Uses)</u>			
Proceeds from issuance of debt	41,000	-	41,000
Transfers in	397,242	579	397,821
Transfers out	(658,163)	-	(658,163)
Total other financing sources (uses)	<u>(219,921)</u>	<u>579</u>	<u>(219,342)</u>
<u>Net Change in Fund Balance</u>	(189,266)	26,372	(162,894)
<u>Fund Balance at Beginning of Year</u>	<u>336,057</u>	<u>132,036</u>	<u>468,093</u>
<u>Fund Balance at End of Year</u>	<u>\$ 146,791</u>	<u>\$ 158,408</u>	<u>\$ 305,199</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, 2014

Net Change in Fund Balance - Total Governmental Funds

\$ (162,894)

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	\$ 191,338	
Less current year depreciation	<u>(47,467)</u>	143,871

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.

(41,000)

Changes in Net Position of Governmental Activities

\$ (60,023)

See accompanying notes to financial statements.

CITY OF NORTONVILLE, KENTUCKY
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
<u>Revenues</u>				
Taxes				
Insurance premium taxes	\$ 222,895	\$ 222,895	\$ 116,126	\$ (106,769)
Property taxes	-	-	68,798	68,798
Occupational taxes	-	-	33,768	33,768
Franchise taxes	-	-	26,827	26,827
Other	-	-	1,067	1,067
Intergovernmental	-	-	118,000	118,000
Miscellaneous	-	-	16,900	16,900
Interest	-	-	309	309
Total Revenues	<u>222,895</u>	<u>222,895</u>	<u>381,795</u>	<u>158,900</u>
<u>Expenditures</u>				
Current				
General government	385,437	385,437	122,116	263,321
Public safety	-	-	16,534	(16,534)
Public streets	-	-	15,929	(15,929)
Library	-	-	5,223	(5,223)
Capital outlay	-	-	191,338	(191,338)
Total Expenditures	<u>385,437</u>	<u>385,437</u>	<u>351,140</u>	<u>34,297</u>
<u>Excess (Deficiency) of Revenues Over Expenditures</u>	<u>(162,542)</u>	<u>(162,542)</u>	<u>30,655</u>	<u>193,197</u>
<u>Other Financing Sources (Uses)</u>				
Proceeds from issuance of debt	-	-	41,000	41,000
Transfers out	-	-	(658,163)	(658,163)
Transfers in	<u>479,662</u>	<u>479,662</u>	<u>397,242</u>	<u>(82,420)</u>
Total Other Financing Sources (Uses)	<u>479,662</u>	<u>479,662</u>	<u>(219,921)</u>	<u>(699,583)</u>
<u>Net Change in Fund Balance</u>	<u>\$ 317,120</u>	<u>\$ 317,120</u>	<u>(189,266)</u>	<u>\$ (506,386)</u>
<u>Fund Balance at Beginning of Year</u>			<u>336,057</u>	
<u>Fund Balance at End of Year</u>			<u>\$ 146,791</u>	

See accompanying notes to financial statements.

CITY OF NORTONVILLE, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014

	Business-type Activities		
	Water	Sewer	Total
<u>ASSETS</u>			
<u>Current Assets</u>			
Cash equivalents	\$ 136,433	\$ 348,799	\$ 485,232
Accounts receivable (net of allowance)	21,752	34,924	56,676
Unbilled revenue	11,393	12,497	23,890
Inventory	33,140	-	33,140
Prepayments	4,721	5,890	10,611
Restricted assets:			
Cash equivalents	55,665	90,800	146,465
Total Current Assets	<u>263,104</u>	<u>492,910</u>	<u>756,014</u>
<u>Non-current Assets</u>			
Capital assets	1,166,365	8,403,062	9,569,427
Accumulated depreciation	(667,520)	(4,122,879)	(4,790,399)
Total Non-current Assets	<u>498,845</u>	<u>4,280,183</u>	<u>4,779,028</u>
Total Assets	<u>761,949</u>	<u>4,773,093</u>	<u>5,535,042</u>
<u>LIABILITIES</u>			
<u>Current Liabilities</u>			
Accounts payable	31,254	19,123	50,377
Accrued interest payable	7,483	17,685	25,168
Customer deposits	26,425	-	26,425
Long-term debt due in one year	23,500	119,083	142,583
Total Current Liabilities	<u>88,662</u>	<u>155,891</u>	<u>244,553</u>
<u>Non-current Liabilities</u>			
Long-term debt due after one year (net of bond discount)	<u>307,500</u>	<u>3,060,800</u>	<u>3,368,300</u>
Total Liabilities	<u>396,162</u>	<u>3,216,691</u>	<u>3,612,853</u>
<u>NET POSITION</u>			
Net investment in capital assets	167,845	1,100,300	1,268,145
Restricted for debt retirement	55,665	90,800	146,465
Unrestricted	<u>142,277</u>	<u>365,302</u>	<u>507,579</u>
Total Net Position	<u>\$ 365,787</u>	<u>\$ 1,556,402</u>	<u>\$ 1,922,189</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, 2014

	Business-type Activities		
	Water	Sewer	Total
<u>Operating Revenues</u>			
Charges for service	\$ 242,400	\$ 359,525	\$ 601,925
Late fees	-	155,538	155,538
Operating grants	17,500	-	17,500
Total Operating Revenues	<u>259,900</u>	<u>515,063</u>	<u>774,963</u>
<u>Operating Expenses</u>			
Depreciation	31,635	152,225	183,860
Salaries and wages	83,560	63,399	146,959
Utilities	46,198	69,789	115,987
Bank charges	1,419	78,792	80,211
Contract service	22,550	56,314	78,864
Health benefits	24,272	17,443	41,715
Insurance	15,714	17,244	32,958
Repairs and maintenance	15,029	14,401	29,430
Retirement	10,007	7,163	17,170
Testing	3,908	11,045	14,953
Payroll taxes	7,766	5,892	13,658
Chemicals	7,245	5,616	12,861
Fuel and oil	3,573	3,574	7,147
Telephone	1,437	4,533	5,970
Miscellaneous	2,748	3,016	5,764
Postage	2,572	2,358	4,930
Professional	1,737	1,737	3,474
Office supplies	1,336	2,029	3,365
Vehicle maintenance	932	875	1,807
Advertising	682	971	1,653
Dues and subscriptions	1,566	(25)	1,541
Training	462	461	923
Uniforms	18	18	36
Total Operating Expenses	<u>286,366</u>	<u>518,870</u>	<u>805,236</u>
<u>Income (Loss) from Operations</u>	<u>(26,466)</u>	<u>(3,807)</u>	<u>(30,273)</u>
<u>Nonoperating Revenues (Expenses)</u>			
Investment income	44	65	109
Interest expense and fees	(15,493)	(140,061)	(155,554)
Bad debts	(142)	-	(142)
Total Nonoperating Revenues (Expenses)	<u>(15,591)</u>	<u>(139,996)</u>	<u>(155,587)</u>
<u>Income (Loss) Before Contributions and Transfers</u>	<u>(42,057)</u>	<u>(143,803)</u>	<u>(185,860)</u>
Transfers in	357,462	433,107	790,569
Transfers out	<u>(211,788)</u>	<u>(318,439)</u>	<u>(530,227)</u>
<u>Change in Net Position</u>	<u>103,617</u>	<u>(29,135)</u>	<u>74,482</u>
<u>Net Position at Beginning of Year</u>	<u>262,170</u>	<u>1,585,537</u>	<u>1,847,707</u>
<u>Net Position at End of Year</u>	<u>\$ 365,787</u>	<u>\$ 1,556,402</u>	<u>\$ 1,922,189</u>

See accompanying notes to financial statements.

CITY OF NORTONVILLE, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	Business-type Activities		
	Water	Sewer	Total
<u>Cash Flows From Operating Activities</u>			
Cash received from customers	\$ 257,528	\$ 519,958	\$ 777,486
Cash payments to suppliers for goods and services	(154,512)	(312,163)	(466,675)
Cash payments to employees for services	(83,560)	(63,399)	(146,959)
Net Cash Provided (Used) By Operating Activities	<u>19,456</u>	<u>144,396</u>	<u>163,852</u>
<u>Cash Flows From Noncapital Financing Activities</u>			
Transfers in	357,462	433,107	790,569
Transfers out	(211,787)	(318,439)	(530,226)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>145,675</u>	<u>114,668</u>	<u>260,343</u>
<u>Cash Flows from Capital and Related Financing Activities</u>			
Proceeds from issuance of debt	-	2,929,050	2,929,050
Principal paid on debt	(22,000)	(2,668,397)	(2,690,397)
Acquisition of property, plant and equipment	(62,112)	(35,114)	(97,226)
Interest paid on debt	(16,020)	(316,455)	(332,475)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(100,132)</u>	<u>(90,916)</u>	<u>(191,048)</u>
<u>Cash Flows from Investing Activities</u>			
Income received on investments	44	65	109
Net Cash Provided (Used) By Investing Activities	<u>44</u>	<u>65</u>	<u>109</u>
<u>Net Increase (Decrease) in Cash and Cash Equivalents</u>	<u>65,043</u>	<u>168,213</u>	<u>233,256</u>
<u>Cash Equivalents at Beginning of Year</u>	<u>127,055</u>	<u>271,386</u>	<u>398,441</u>
<u>Cash Equivalents at End of Year</u>	<u>\$ 192,098</u>	<u>\$ 439,599</u>	<u>\$ 631,697</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) By Operating Activities</u>			
Operating income (loss)	\$ (26,466)	\$ (3,807)	\$ (30,273)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	31,635	152,225	183,860
Change in assets and liabilities:			
Receivables	478	4,895	5,373
Inventory	(4,900)	-	(4,900)
Prepayments	(4,721)	(5,890)	(10,611)
Accounts payable	26,280	(3,027)	23,253
Customer deposits	(2,850)	-	(2,850)
Net Cash Provided (Used) by Operating Activities	<u>\$ 19,456</u>	<u>\$ 144,396</u>	<u>\$ 163,852</u>
<u>Reconciliation of Total Cash</u>			
Current Assets - Cash	\$ 136,433	\$ 348,799	\$ 485,232
Restricted Assets - Cash	55,665	90,800	146,465
Total Cash	<u>\$ 192,098</u>	<u>\$ 439,599</u>	<u>\$ 631,697</u>

See accompanying notes to financial statements.

CITY OF NORTONVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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. 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, 2014

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. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

G. Allowance for Uncollectible Accounts

An allowance for uncollectible accounts has been provided based on 3% of total accounts receivable. Based on past experience, management considers the allowance adequate to

CITY OF NORTONVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
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provide for any losses on collection of the June 30, 2014 accounts receivable.

H. Inventory

Inventory consists of materials and supplies. Inventory is valued at average cost.

I. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2014 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.

N. Unearned Revenue

In the governmental funds, certain revenue transactions have been reported as unearned revenue. Revenue cannot be recognized until it has been earned and is available to finance expenditures of the current fiscal period. Revenue that is earned but not available is reported as a deferred inflow of resources until such time as the revenue becomes available. In the

CITY OF NORTONVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
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proprietary funds (and for the governmental activities in the government-wide statements), unearned revenue is reported regardless of its availability.

O. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements and the proprietary fund financial statements as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net position.

In general, governmental fund payables and accrued liabilities that once incurred are paid in a timely manner and in full from current financial resources are reported as obligations of the fund. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and long-term loans are recognized as a liability on the fund financial statements when due.

P. Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Q. Revenues, Expenditures and Expenses

Substantially all governmental fund revenues (including occupational and insurance premium taxes, franchise fees, and licenses) are accrued. Property taxes are generally billed and collected within the same period in which the taxes are levied. In addition, revenue from Federal and State reimbursement type grants for which eligibility requirements have been met have been accrued and recognized as revenues of the period. All other revenue items are considered to be measurable and available only when cash is received by the City. Expenditures are recognized when the related fund liability is incurred except for the following, which are permitted by generally accepted accounting principles. General obligation long-term debt principal and interest, compensated absences, pension and other benefits, and other long-term liabilities are reported only when due.

Operating revenues for proprietary funds are those that result from providing services and producing and delivering goods and/or services. The principal operating revenue of the proprietary funds is receipts from customers. Operating expenses for these operations include all costs related to providing the service. These costs include salaries, contractual services, supplies, maintenance, depreciation, and administrative expenses. All other revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

R. 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

CITY OF NORTONVILLE, KENTUCKY
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financial statements as "internal balances."

S. 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.

T. 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.
- **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

CITY OF NORTONVILLE, KENTUCKY
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authority.

- **Unassigned fund balance** - amounts that are available for any purpose. Positive amounts are reported only in the general fund.

U. Adoption of New Accounting Pronouncements

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 adoption of this standard did impact the City's financial position and resulted in \$7,578 of property tax revenue being classified as deferred inflows for governmental activities.

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*.

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 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.

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 currently has no activity requiring such disclosures.

Recent Accounting Pronouncements

As of June 30, 2014, the GASB has issued the following statements not yet required to be adopted by the City.

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

CITY OF NORTONVILLE, KENTUCKY
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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 City's share of their pension liability for June 30, 2014 is \$164,414 and will be recognized on the June 30, 2015 financial statements. 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. 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.

V. Subsequent Events

The City has evaluated subsequent events through November 25, 2016, 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 OF NORTONVILLE, KENTUCKY
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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:

	Deposits	Primary Government Total
Cash equivalents	\$ 811,285	\$ 811,285
Restricted assets:		
Cash equivalents	146,465	146,465
Total	<u>\$ 957,750</u>	<u>\$ 957,750</u>

A. Deposits

At year-end, the carrying amount of the City's cash equivalents was \$957,750 and the bank balance was \$958,179. Of the bank balances, \$384,635 was covered by federal depository insurance and \$573,544 was covered by collateral held by the pledging financial institution's agent or trust department in the City's name.

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.

CITY OF NORTONVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
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Identification

At June 30, 2014 the City had no investments.

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, 2014, taxes were levied on October 1, 2013 and payable on December 31, 2013. The tax rate was 23.8 cents per \$100 of assessed valuation of real property; 23.0 cents per \$100 of assessed valuation of vehicles and watercraft, and 35.0 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."

5. CAPITAL ASSETS

Governmental Activities

A summary of capital assets for governmental activities at June 30, 2014 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	562,581	33,250	-	595,831
Machinery and equipment	277,199	1,408	(3,878)	274,729
Vehicles	199,300	50,000	-	249,300
Police and fire equipment	294,660	106,680	(4,200)	397,140
Infrastructure	<u>42,557</u>	<u>-</u>	<u>-</u>	<u>42,557</u>
Total capital assets, being depreciated	<u>1,475,060</u>	<u>191,338</u>	<u>(8,078)</u>	<u>1,658,320</u>
Less accumulated depreciation for:				
Buildings	(41,773)	(2,485)	-	(44,258)
Improvements	(115,446)	(17,804)	-	(133,250)
Machinery and equipment	(272,732)	(1,011)	3,878	(269,865)
Vehicles	(164,913)	(6,250)	-	(171,163)
Police and fire equipment	(261,004)	(18,499)	4,200	(275,303)
Infrastructure	<u>(11,522)</u>	<u>(1,418)</u>	<u>-</u>	<u>(12,940)</u>
Total accumulated depreciation	<u>(867,390)</u>	<u>(47,467)</u>	<u>8,078</u>	<u>(906,779)</u>
Total capital assets, being depreciated, net	<u>607,670</u>	<u>143,871</u>	<u>-</u>	<u>751,541</u>
Governmental activities capital assets, net	<u>\$ 652,670</u>	<u>\$ 143,871</u>	<u>\$ -</u>	<u>\$ 796,541</u>

CITY OF NORTONVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Business-type Activities

A summary of capital assets for business-type activities at June 30, 2014 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	\$ 892,127	\$ 30,734	\$ -	\$ 922,861
Buildings, tanks, etc.	160,563	-	-	160,563
Vehicles	21,210	-	-	21,210
Water equipment	30,353	31,378	-	61,731
Sewer plant	3,032,568	25,850	-	3,058,418
Sewer equipment	142,287	8,765	-	151,052
Regional sewer project	5,193,092	500	-	5,193,592
Total capital assets, being depreciated	<u>9,472,200</u>	<u>97,227</u>	<u>-</u>	<u>9,569,427</u>
Less accumulated depreciation for:				
Water plant	(457,043)	(24,629)	-	(481,672)
Buildings, tanks, etc.	(134,532)	(3,874)	-	(138,406)
Vehicles	(21,210)	-	-	(21,210)
Water equipment	(23,100)	(3,132)	-	(26,232)
Sewer plant	(2,967,041)	(9,931)	-	(2,976,972)
Sewer equipment	(106,368)	(12,459)	-	(118,827)
Regional sewer project	(897,244)	(129,836)	-	(1,027,080)
Total accumulated depreciation	<u>(4,606,538)</u>	<u>(183,861)</u>	<u>-</u>	<u>(4,790,399)</u>
Total capital assets, being depreciated, net	<u>4,865,662</u>	<u>(86,634)</u>	<u>-</u>	<u>4,779,028</u>
Business-type activities capital assets, net	<u>\$ 4,865,662</u>	<u>\$ (86,634)</u>	<u>\$ -</u>	<u>\$ 4,779,028</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, 2014, 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
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7. GOVERNMENT WIDE ACTIVITIES DEBT

Capital Lease Obligation

On May 9, 2014, the City entered into a lease agreement with US Bank Equipment Finance for a fire truck. The lease agreement calls for annual lease payments of \$8,832 beginning May 9, 2015 and concluding on May 9, 2019. At the conclusion of the lease, legal ownership of the fire truck vests in the City. The lease qualifies as a capital financing lease with the cost of the asset and the net present value of the capital lease obligation reflected in these financial statements. The historical cost and accumulated depreciation for the fire truck acquired was \$50,000 and \$1,250, respectively as of June 30, 2014.

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 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 Waterworks 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.

2013 Revenue Bond Payable

On July 30, 2013, the City authorized and provided for the issuance and sale of \$2,990,000 principal amount of City of Nortonville, Kentucky Sewer Revenue Bonds, Series 2013. The purpose of the issuance was for refinancing the Kentucky Infrastructure Authority Note Payable issued for prior sewer system improvements. The bonds bear interest at 2.0% - 4.625% per annum. Annual principal payments are due on February 1 and semi-annual interest payments on February 1 and August 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. This note was replaced with the issuance of the 2013 Revenue Bonds.

CITY OF NORTONVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

The following is a summary of the changes in long-term debt for the year ended June 30, 2014:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due in One Year</u>
<u>Governmental Activities:</u>					
Capital Lease Obligation	\$ -	\$ 41,000	\$ -	\$ 41,000	\$ 7,796
Total Governmental Activities	-	41,000	-	41,000	7,796
<u>Business-type Activities:</u>					
1975 Revenue Bonds Payable	27,000	-	13,000	14,000	14,000
1980 Revenue Bonds Payable	365,000	-	45,000	320,000	47,000
1995 Revenue Bonds Payable	326,000	-	9,000	317,000	9,500
2013 Revenue Bonds Payable	-	2,990,000	69,167	2,920,833	72,083
Less Unamortized Bond Discount	-	-	-	(60,950)	-
KIA Note Payable	2,554,230	-	2,554,230	-	-
Total Business-type Activities	3,272,230	2,990,000	2,690,397	3,510,883	142,583
Total Primary Government	\$3,272,230	\$3,031,000	\$2,690,397	\$3,551,883	\$ 150,379

Maturities of the lease obligation as of June 30, 2014 are:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 7,796	\$ 1,037	\$ 8,833
2016	7,993	840	8,833
2017	8,195	638	8,833
2018	8,402	431	8,833
2019	8,614	219	8,833
Total	\$ 41,000	\$ 3,165	\$ 44,165

Annual principal and interest requirements of the revenue bonds payable as of June 30, 2014 are:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 142,583	\$ 146,607	\$ 289,190
2016	134,000	141,688	275,688
2017	137,000	136,975	273,975
2018	143,083	131,675	274,758
2019	150,083	126,118	276,201
2020-24	575,750	557,078	1,132,828
2025-29	618,333	448,147	1,066,480
2030-34	772,000	307,041	1,079,041
2035-39	834,834	127,188	962,022
2040-44	64,167	2,968	67,135
Total	\$ 3,571,833	\$ 2,125,485	\$ 5,697,318

8. LITIGATION, CONTINGENCIES AND COMMITMENTS

Litigation

The City is not aware of any pending or threatened litigation in which it is involved which would

CITY OF NORTONVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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, 2014 may not yet have been conducted.

Commitments

At June 30, 2014 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, 2014 were \$88,049.

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, 2014 were \$50,913.

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 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

CITY OF NORTONVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 2014, the employer contribution rate was 18.89% 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, 2014 were \$28,411. The requirement consisted of \$22,465 (18.89% of covered payroll for nonhazardous positions) from the City and \$5,946 (5.00% of covered payroll for nonhazardous positions) from employees. Total covered payroll for the year end June 30, 2014 was \$118,926.

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, 2014, (the date of the latest available information), insurance premiums withheld from benefit payments to members of the CERS approximated \$24,206,307. As of June 30, 2014, the Fund had 104,635 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:

<u>Years of Service</u>	<u>% Paid by Insurance Fund</u>
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.

CITY OF NORTONVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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, 2014.

Primary government transfers at June 30, 2014 were:

	<u>Transfers</u> <u>In</u>	<u>Transfers</u> <u>Out</u>
<u>Governmental Funds</u>		
General Fund	\$ 397,242	\$ 658,163
Municipal Road Aid	70	-
Cemetery Maintenance Fund	429	-
Cemetery Perpetual Care Fund	80	-
<u>Proprietary Funds</u>		
Sewer Enterprise Fund	433,107	318,439
Water Enterprise Fund	<u>357,462</u>	<u>211,788</u>
Total	<u>\$ 1,188,390</u>	<u>\$ 1,188,390</u>

CITY OF NORTONVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

12. LEGAL COMPLIANCE

Excess of Expenditures Over Appropriations in Individual Funds

The following funds had an excess of actual expenditures and other financing uses over budget for the year ended June 30, 2014:

General Fund	\$ 623,866
Water Fund	\$ 271,971
Sewer Fund	\$ 524,736

The expenditures were due mainly to budgeting practices. Fund equity and other financial sources were sufficient to offset the over expenditures. Annual budgets are adopted for the General Fund, and all Proprietary Funds.

CITY OF NORTONVILLE, KENTUCKY
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2014

	2014			
	Budgeted Amounts			Variance
	Original	Final	Actual	Favorable (Unfavorable)
General Government Expenditures				
Salaries and wages	\$ 385,437	\$ 385,437	\$ 37,754	\$ 347,683
Utilities	-	-	20,262	(20,262)
Insurance	-	-	17,415	(17,415)
Employee benefits	-	-	10,539	(10,539)
Miscellaneous	-	-	6,907	(6,907)
Repairs and maintenance	-	-	6,190	(6,190)
Retirement	-	-	5,295	(5,295)
Payroll taxes	-	-	4,081	(4,081)
Uniforms	-	-	3,133	(3,133)
Office supplies	-	-	2,382	(2,382)
Printing	-	-	1,722	(1,722)
Professional fees	-	-	1,626	(1,626)
Advertising	-	-	1,381	(1,381)
Telephone	-	-	1,040	(1,040)
Travel	-	-	710	(710)
Postage	-	-	647	(647)
Bank Charges	-	-	624	(624)
Training	-	-	236	(236)
Dues and subscriptions	-	-	154	(154)
Fuel	-	-	19	(19)
Total General Government	<u>\$ 385,437</u>	<u>\$ 385,437</u>	<u>\$ 122,117</u>	<u>\$ 263,320</u>
Public Safety Expenditures				
Fire Department				
Salaries and wages	\$ -	\$ -	\$ 4,454	\$ (4,454)
Repairs and maintenance	-	-	4,227	(4,227)
Utilities	-	-	3,480	(3,480)
Contracted services	-	-	1,792	(1,792)
Vehicle Repairs	-	-	954	(954)
Travel	-	-	689	(689)
Office supplies	-	-	551	(551)
Fuel and oil	-	-	199	(199)
Miscellaneous	-	-	166	(166)
Dues and subscriptions	-	-	22	(22)
Total Public Safety	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,534</u>	<u>\$ (16,534)</u>

See accompanying notes to financial statements.

CITY OF NORTONVILLE, KENTUCKY
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2014

	2014			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
<u>Public Streets Expenditures</u>				
Utilities	\$ -	\$ -	\$ 9,393	\$ (9,393)
Repairs and maintenance	-	-	5,803	(5,803)
Office supplies	-	-	648	(648)
Training	-	-	85	(85)
Total Public Streets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,929</u>	<u>\$ (15,929)</u>
<u>Library Expenditures</u>				
Contract labor	\$ -	\$ -	\$ 4,669	\$ (4,669)
Telephone	-	-	494	(494)
Repairs and maintenance	-	-	60	(60)
Total Library	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,223</u>	<u>\$ (5,223)</u>
<u>Capital Outlay</u>				
General government	\$ -	\$ -	\$ 33,708	\$ (33,708)
Fire department	-	-	156,680	(156,680)
Public Streets department	-	-	950	(950)
Total Capital Outlay	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 191,338</u>	<u>\$ (191,338)</u>
<u>Total General Fund Expenditures</u>	<u>\$ 385,437</u>	<u>\$ 385,437</u>	<u>\$ 351,141</u>	<u>\$ 34,296</u>

See accompanying notes to financial statements.

CITY OF NORTONVILLE, KENTUCKY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2014

	<u>Special Revenue Funds</u>		<u>Permanent Fund</u>	
	<u>Municipal Aid</u>	<u>Cemetery Maintenance</u>	<u>Cemetery Perpetual Care</u>	<u>Total Other Governmental Funds</u>
<u>Assets</u>				
Cash equivalents	\$ 153,762	\$ 1,863	\$ 3,332	\$ 158,957
<u>Total Assets</u>	<u>\$ 153,762</u>	<u>\$ 1,863</u>	<u>\$ 3,332</u>	<u>\$ 158,957</u>
<u>Liabilities and Fund Balance</u>				
Accounts payable	\$ 549	\$ -	\$ -	\$ 549
Total Liabilities	<u>549</u>	<u>-</u>	<u>-</u>	<u>549</u>
<u>Fund Balance</u>				
Nonspendable-Perpetual Care	-	-	3,332	3,332
Restricted-Special Revenue Funds	153,213	-	-	153,213
Committed-Cemetery Fund	<u>-</u>	<u>1,863</u>	<u>-</u>	<u>1,863</u>
Total Fund Balance	<u>153,213</u>	<u>1,863</u>	<u>3,332</u>	<u>158,408</u>
<u>Total Liabilities and Fund Balance</u>	<u>\$ 153,762</u>	<u>\$ 1,863</u>	<u>\$ 3,332</u>	<u>\$ 158,957</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, 2014

	<u>Special Revenue Funds</u>		<u>Permanent Fund</u>	
	<u>Municipal Aid</u>	<u>Cemetery Maintenance</u>	<u>Cemetery Perpetual Care</u>	<u>Total Other Governmental Funds</u>
<u>Revenues</u>				
Intergovernmental - State	\$ 26,807	\$ -	\$ -	\$ 26,807
Interest	48	-	1	49
Total Revenues	<u>26,855</u>	<u>-</u>	<u>1</u>	<u>26,856</u>
<u>Expenditures</u>				
Current				
General Government/Other	718	-	-	718
Cemetery Maintenance	-	228	117	345
Total Expenditures	<u>718</u>	<u>228</u>	<u>117</u>	<u>1,063</u>
<u>Excess (Deficiency) of Revenues</u>				
<u>Over Expenditures</u>	26,137	(228)	(116)	25,793
Transfers In	70	429	80	579
<u>Fund Balance at Beginning of Year</u>	<u>127,006</u>	<u>1,662</u>	<u>3,368</u>	<u>132,036</u>
<u>Fund Balance at End of Year</u>	<u>\$ 153,213</u>	<u>\$ 1,863</u>	<u>\$ 3,332</u>	<u>\$ 158,408</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 Carolynn Sturt
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, 2014, 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 November 25, 2016.

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 the City of Nortonville, Kentucky'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. (2014-1 through 2014-6)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Nortonville, Kentucky'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's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. City of Nortonville, Kentucky's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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.

Bry High - Utley PSC

Madisonville, Kentucky
November 25, 2016

CITY OF NORTONVILLE, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2014

2014-1 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.

2014-2 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

Currently archives are stored in boxes and there is no organizational system in place.

Cause

Lack of oversight concerning file storage and archival.

Recommendation

We recommend that management 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, 2014

2014-3 No Written Standard Operating Policy

Condition

There is an absence of appropriate written statements of procedure. This statements should address all financial processes.

Criteria

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

Effect

Delays in operations due to a lack of cross-training could result from one or more of the office staff being absent.

Cause

Lack of oversight concerning job descriptions and general control policies.

Recommendation

We recommend that management create standard operating procedures and cross train its employees.

Response

We concur with the finding.

2014-4 Inventory Improperly Taken

Condition

There is an absence of appropriate utilization of inventory control for consumable items.

Criteria

A prudent control environment requires that consumable items be inventoried for maintenance and repair issues that arise.

Effect

Inventory was not being monitored therefore there is not a proper accounting of consumable items on hand.

Cause

Lack of attention to detail regarding monitoring items that should be inventoried.

Recommendation

We recommend a full inventory count for consumable items on hand and the establishment of a monitoring system.

Response

We concur with the finding.

2014-5 Budget Lacks Detail

Condition

There is an absence of a detailed line item budget.

CITY OF NORTONVILLE, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2014

Criteria

A prudent control environment requires that a detailed line item budget be present to inform the citizenry of managements intentions for the current year's resources.

Effect

A proper budget shows exactly where the City's resources will come from and where the City's resources will be spent. This is both informatory for the citizens and a tool to be utilized by management.

Cause

A lack of detail was given to the budget by management due to a transition in power and a lack of attention to detail.

Recommendation

We recommend completing detail budgets for all future years and making the accessible to the public.

Response

We concur with the finding.

2014-6 Management Lacks Financial Information

Condition

There is an absence of detailed reports being supplied to management to make informed decisions.

Criteria

A prudent control environment requires that detailed reports be given to management on a regular basis in order for management to make informed decisions. Also, state compliance (K.R.S 83A.150) requires city management provide counsel with operating statements including budgetary comparisons for each fund included in the annual budget at least quarterly.

Effect

Detailed reports show exactly how the City's resources are being used and how their decisions to use such resources affect the financial statements.

Cause

A lack of detail was given to management about the current position of the City. Management was only supplied with cash balances when making decisions about how to use the City's resources.

Recommendation

We recommend providing operating statements and presenting budget to actual comparison reports on at least a quarterly basis as required by K.R.S 83A.150.

Response

We concur with the finding.

