

CITY OF NORTONVILLE, KENTUCKY
PRINCIPAL OFFICIALS
JUNE 30, 2016

MAYOR - COUNCIL MEMBERS

Carolynn Sturt.....Mayor
James Braden.....Council Member
James Noel.....Council Member
James Harrison.....Council Member
Kevin Barnes.....Council Member
Lucille Putty.....Council Member
Rebecca Mosby.....Council Member

PERSONNEL

Vickie Gilkey.....City Clerk

CITY OF NORTONVILLE, KENTUCKY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor Scotty Harvey
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, 2016, 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, 2016, 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*

Accounting principles generally accepted in the United States of America require that the schedule of changes in net pension liability and related ratios, schedule of contributions, schedule of investment returns and schedule of proportionate share of net pension liability on pages 35 - 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 June 30, 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.


Madisonville, Kentucky
February 28, 2019

CITY OF NORTONVILLE, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2016

	Primary Government		
	Governmental Activities	Business-type Activities	Totals
<u>Assets</u>			
Cash equivalents	\$ 420,802	\$ 91,681	\$ 512,483
Accounts receivable (net of allowance)	56,884	67,650	124,534
Unbilled revenue	-	26,939	26,939
Inventory	-	10,232	10,232
Prepayments	2,654	4,016	6,670
Restricted assets:			
Cash equivalents	-	330,701	330,701
Grant receivable	-	229,194	229,194
Capital assets (net of accumulated depreciation)	<u>802,179</u>	<u>6,118,342</u>	<u>6,920,521</u>
Total Assets	<u>1,282,519</u>	<u>6,878,755</u>	<u>8,161,274</u>
<u>Deferred Outflows of Resources</u>			
Related to pensions	<u>9,664</u>	<u>28,811</u>	<u>38,475</u>
Total Assets and Deferred Outflows	<u>1,292,183</u>	<u>6,907,566</u>	<u>8,199,749</u>
<u>Liabilities</u>			
Accounts payable	36,521	723,753	760,274
Accrued payroll and related expenses	1,652	5,442	7,094
Accrued interest payable	-	68,984	68,984
Customer deposits	195	30,250	30,445
Current portion of long-term debt	8,195	913,267	921,462
Noncurrent liabilities:			
Notes and bonds payable (net of discount)	17,017	3,101,988	3,119,005
Net pension liability	<u>53,185</u>	<u>166,655</u>	<u>219,840</u>
Total Liabilities	<u>116,765</u>	<u>5,010,339</u>	<u>5,127,104</u>
<u>Deferred Inflows of Resources</u>			
Deferred property tax revenue	<u>12,165</u>	<u>-</u>	<u>12,165</u>
Total Deferred Inflows of Resources	<u>12,165</u>	<u>-</u>	<u>12,165</u>
<u>Net Position</u>			
Net investment in capital assets	1,579,146	2,103,087	3,682,233
Restricted for:			
Debt service	-	(651,550)	(651,550)
Municipal aid and Cemetery	165,738	-	165,738
Customer deposits	195	-	195
Capital projects	-	229,194	229,194
Perpetual care cemetery	4,373	-	4,373
Unrestricted	<u>(586,199)</u>	<u>216,496</u>	<u>(369,703)</u>
Total Net Position	<u>\$ 1,163,253</u>	<u>\$ 1,897,227</u>	<u>\$ 3,060,480</u>

See accompanying notes to financial statements.

CITY OF NORTONVILLE, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

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		Total
					Governmental Activities	Business-type Activities	
<u>Primary Government</u>							
Governmental activities							
General government	\$ 152,820	\$ -	\$ -	\$ -	\$ (152,820)	\$ -	\$ (152,820)
Public safety	25,791	-	43,245	-	17,454	-	17,454
Public streets	49,144	-	27,522	-	(21,622)	-	(21,622)
Library	12,173	-	-	-	(12,173)	-	(12,173)
Cemetery maintenance	2,571	-	-	-	(2,571)	-	(2,571)
Interest on long-term debt	840	-	-	-	(840)	-	(840)
Depreciation	51,965	-	-	-	(51,965)	-	(51,965)
Total governmental activities	<u>295,304</u>	<u>-</u>	<u>70,767</u>	<u>-</u>	<u>(224,537)</u>	<u>-</u>	<u>(224,537)</u>
Business-type activities							
Water distribution	307,780	238,624	-	229,194	-	160,038	160,038
Sewer distribution	646,516	527,710	-	-	-	(118,806)	(118,806)
Total business-type activities	<u>954,296</u>	<u>766,334</u>	<u>-</u>	<u>229,194</u>	<u>-</u>	<u>41,232</u>	<u>41,232</u>
Total Primary Government	<u>\$ 1,249,600</u>	<u>\$ 766,334</u>	<u>\$ 70,767</u>	<u>\$ 229,194</u>	<u>(224,537)</u>	<u>41,232</u>	<u>(183,305)</u>
<u>General Revenues and Transfers</u>							
Taxes							
Insurance premium taxes					122,916	-	122,916
Property taxes					81,538	-	81,538
Occupational taxes					28,983	-	28,983
Franchise taxes					32,212	-	32,212
Other taxes					3,706	-	3,706
Transfers					25,296	(25,296)	-
Investment income					406	131	537
Miscellaneous					30,976	12,265	43,241
Gain (loss) on equipment disposal					(1,875)	-	(1,875)
Total general revenues and transfers					<u>324,158</u>	<u>(12,900)</u>	<u>311,258</u>
<u>Change in Net Position</u>					99,621	28,332	127,953
<u>Net Position - Beginning</u>					<u>1,063,632</u>	<u>1,868,895</u>	<u>2,932,527</u>
<u>Net Position - Ending</u>					<u>\$ 1,163,253</u>	<u>\$ 1,897,227</u>	<u>\$ 3,060,480</u>

See accompanying notes to financial statements.

CITY OF NORTONVILLE, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>			
Cash equivalents	\$ 250,692	\$ 170,111	\$ 420,803
Taxpayer assessed revenues receivable	56,884	-	56,884
Prepaid insurance	<u>2,654</u>	<u>-</u>	<u>2,654</u>
<u>Total Assets</u>	<u>\$ 310,230</u>	<u>\$ 170,111</u>	<u>\$ 480,341</u>
 <u>Liabilities and Fund Balance</u>			
<u>Liabilities</u>			
Accounts payable	\$ 36,521	\$ -	\$ 36,521
Accrued payroll and related expenses	1,652	-	1,652
Customer deposits	195	-	195
Deferred property tax revenue	<u>12,165</u>	<u>-</u>	<u>12,165</u>
Total Liabilities	<u>50,533</u>	<u>-</u>	<u>50,533</u>
 <u>Fund Balance</u>			
Nonspendable-Perpetual care	-	4,373	4,373
Restricted-Municipal aid and Cemetery	-	165,738	165,738
Unassigned	<u>259,697</u>	<u>-</u>	<u>259,697</u>
Total Fund Balance	<u>259,697</u>	<u>170,111</u>	<u>429,808</u>
<u>Total Liabilities and Fund Balance</u>	<u>\$ 310,230</u>	<u>\$ 170,111</u>	<u>\$ 480,341</u>

See accompanying notes to financial statements.

CITY OF NORTONVILLE, KENTUCKY
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET POSITION
JUNE 30, 2016

<u>Fund Balance - Total Governmental Funds</u>		\$ 429,808
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	\$ 1,746,366	
Less accumulated depreciation	<u>(944,187)</u>	802,179
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		(25,212)
Net pension liability and related deferred outflows and inflows of resources		<u>(43,522)</u>
<u>Net Position of Governmental Activities</u>		<u>\$ 1,163,253</u>

See accompanying notes to financial statements.

CITY OF NORTONVILLE, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	<u>General</u> <u>Fund</u>	<u>Other</u> <u>Governmental</u> <u>Funds</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
<u>Revenues</u>			
Taxes			
Insurance premium taxes	\$ 122,916	\$ -	\$ 122,916
Property taxes	81,538	-	81,538
Occupational taxes	28,983	-	28,983
Franchise taxes	32,212	-	32,212
Other	3,706	-	3,706
Intergovernmental	26,272	-	26,272
Public safety	43,245	-	43,245
Operating grants	1,250	-	1,250
Miscellaneous	23,357	7,617	30,974
Interest	317	89	406
Total Revenues	<u>363,796</u>	<u>7,706</u>	<u>371,502</u>
<u>Expenditures</u>			
Current			
General government	149,230	-	149,230
Public safety	25,791	-	25,791
Public streets	49,144	-	49,144
Library	12,173	-	12,173
Cemetery	-	2,571	2,571
Debt service	8,832	-	8,832
Capital outlay	78,046	-	78,046
Total Expenditures	<u>323,216</u>	<u>2,571</u>	<u>325,787</u>
<u>Excess (Deficiency) of Revenues Over Expenditures</u>	<u>40,580</u>	<u>5,135</u>	<u>45,715</u>
<u>Other Financing Sources (Uses)</u>			
Transfers in	77,989	8,265	86,254
Transfers out	<u>(24,949)</u>	<u>(36,008)</u>	<u>(60,957)</u>
Total other financing sources (uses)	<u>53,040</u>	<u>(27,743)</u>	<u>25,297</u>
<u>Net Change in Fund Balance</u>	93,620	(22,608)	71,012
<u>Fund Balance - Beginning</u>	<u>166,077</u>	<u>192,719</u>	<u>358,796</u>
<u>Fund Balance - Ending</u>	<u>\$ 259,697</u>	<u>\$ 170,111</u>	<u>\$ 429,808</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, 2016

Net Change in Fund Balance - Total Governmental Funds \$ 71,012

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

The net pension liability and related deferred outflows and inflows of resources are an obligation of the City not payable from current year resources and not reported as an expenditure of the current year. In the Statement of Activities, these costs represent (expenses)/recovery in the current year.

(3,590)

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	\$ 78,046	
Less net book value of asset disposal	(1,877)	
Less current year depreciation	<u>(51,965)</u>	24,204

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.

7,995

Changes in Net Position of Governmental Activities **\$ 99,621**

CITY OF NORTONVILLE, KENTUCKY
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Taxes				
Insurance premium taxes	\$ -	\$ -	\$ 122,916	\$ 122,916
Property taxes	222,895	354,200	81,538	(272,662)
Occupational taxes	-	-	28,983	28,983
Franchise taxes	-	-	32,212	32,212
Other	-	-	3,706	3,706
Intergovernmental	-	-	26,272	26,272
Public safety	-	-	43,245	43,245
Operating grants	-	-	1,250	1,250
Miscellaneous	-	-	23,357	23,357
Interest	-	-	317	317
Total Revenues	<u>222,895</u>	<u>354,200</u>	<u>363,796</u>	<u>9,596</u>
<u>Expenditures</u>				
Current				
General government	209,960	209,960	149,230	60,730
Public safety	75,517	75,517	25,791	49,726
Public streets	93,970	93,970	49,144	44,826
Library	5,990	5,990	12,173	(6,183)
Debt service	-	-	8,832	(8,832)
Capital outlay	-	-	78,046	(78,046)
Total Expenditures	<u>385,437</u>	<u>385,437</u>	<u>323,216</u>	<u>62,221</u>
<u>Excess (Deficiency) of Revenues Over Expenditures</u>	(162,542)	(31,237)	40,580	71,817
<u>Other Financing Sources (Uses)</u>				
Transfers out	-	-	(24,949)	(24,949)
Transfers in	-	-	77,989	77,989
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>53,040</u>	<u>53,040</u>
<u>Net Change in Fund Balance</u>	<u>\$ (162,542)</u>	<u>\$ (31,237)</u>	93,620	<u>\$ 124,857</u>
<u>Fund Balance - Beginning</u>			<u>166,077</u>	
<u>Fund Balance - Ending</u>			<u>\$ 259,697</u>	

See accompanying notes to financial statements.

CITY OF NORTONVILLE, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2016

<u>ASSETS</u>	<u>Business-type Activities</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<u>Current Assets</u>			
Cash equivalents	\$ 38,995	\$ 52,686	\$ 91,681
Accounts receivable (net of allowance)	22,278	45,372	67,650
Unbilled revenue	12,545	14,394	26,939
Inventory	10,232	-	10,232
Prepayments	1,554	2,462	4,016
Restricted assets:			
Cash equivalents	49,170	281,531	330,701
Grant receivable	229,194	-	229,194
Total Current Assets	<u>363,968</u>	<u>396,445</u>	<u>760,413</u>
<u>Non-current Assets</u>			
Capital assets, net of depreciation	<u>1,933,699</u>	<u>4,184,643</u>	<u>6,118,342</u>
Total Assets	<u>2,297,667</u>	<u>4,581,088</u>	<u>6,878,755</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Related to pensions	<u>16,864</u>	<u>11,947</u>	<u>28,811</u>
<u>LIABILITIES</u>			
<u>Current Liabilities</u>			
Accounts payable	710,850	12,903	723,753
Accrued interest payable	16,165	52,819	68,984
Accrued payroll and payroll taxes	3,094	2,348	5,442
Customer deposits	30,250	-	30,250
Long-term debt due in one year	<u>786,267</u>	<u>127,000</u>	<u>913,267</u>
Total Current Liabilities	<u>1,546,626</u>	<u>195,070</u>	<u>1,741,696</u>
<u>Non-current Liabilities</u>			
Long-term debt due after one year (net of bond discount)	287,500	2,814,488	3,101,988
Net pension liability	<u>98,236</u>	<u>68,419</u>	<u>166,655</u>
Total Non-current Liabilities	<u>385,736</u>	<u>2,882,907</u>	<u>3,268,643</u>
Total Liabilities	<u>1,932,362</u>	<u>3,077,977</u>	<u>5,010,339</u>
<u>NET POSITION</u>			
Net investment in capital assets	859,932	1,243,155	2,103,087
Restricted for debt retirement	(753,262)	101,712	(651,550)
Restricted for capital projects	229,194	-	229,194
Unrestricted	<u>46,305</u>	<u>170,191</u>	<u>216,496</u>
Total Net Position	<u>\$ 382,169</u>	<u>\$ 1,515,058</u>	<u>\$ 1,897,227</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, 2016

	<u>Business-type Activities</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<u>Operating Revenues</u>			
Charges for service	\$ 231,354	\$ 334,696	\$ 566,050
Late fees	7,270	193,014	200,284
Miscellaneous	12,265	-	12,265
Total Operating Revenues	<u>250,889</u>	<u>527,710</u>	<u>778,599</u>
<u>Operating Expenses</u>			
Depreciation	35,938	160,001	195,939
Salaries and wages	70,328	53,435	123,763
Contract service	42,186	81,052	123,238
Utilities	39,006	53,406	92,412
Repairs and maintenance	29,465	42,876	72,341
Insurance	15,925	32,127	48,052
Chemicals	5,499	23,744	29,243
Retirement	12,821	9,424	22,245
Testing	2,554	19,002	21,556
Health benefits	10,825	8,555	19,380
Miscellaneous	6,744	8,461	15,205
Office supplies	5,757	3,795	9,552
Payroll taxes	4,375	3,440	7,815
Fuel and oil	2,576	3,468	6,044
Postage	2,482	2,256	4,738
Vehicle maintenance	1,339	2,320	3,659
Telephone	2,165	1,411	3,576
Professional	1,558	1,558	3,116
Advertising	1,702	562	2,264
Dues and subscriptions	171	461	632
Bank charges	270	241	511
Supplies	132	-	132
Training	33	5	38
Total Operating Expenses	<u>293,851</u>	<u>511,600</u>	<u>805,451</u>
<u>Income (Loss) from Operations</u>	<u>(42,962)</u>	<u>16,110</u>	<u>(26,852)</u>
<u>Nonoperating Revenues (Expenses)</u>			
Investment income	53	78	131
Interest expense and fees	(13,588)	(134,630)	(148,218)
Bad debts	(341)	(286)	(627)
Total Nonoperating Revenues (Expenses)	<u>(13,876)</u>	<u>(134,838)</u>	<u>(148,714)</u>
<u>Income (Loss) Before Contributions and Transfers</u>	<u>(56,838)</u>	<u>(118,728)</u>	<u>(175,566)</u>
Capital contributions	229,194	-	229,194
Transfers in	85,766	107,595	193,361
Transfers out	<u>(120,399)</u>	<u>(98,258)</u>	<u>(218,657)</u>
<u>Change in Net Position</u>	137,723	(109,391)	28,332
<u>Net Position - Beginning</u>	<u>244,446</u>	<u>1,624,449</u>	<u>1,868,895</u>
<u>Net Position - Ending</u>	<u>\$ 382,169</u>	<u>\$ 1,515,058</u>	<u>\$ 1,897,227</u>

See accompanying notes to financial statements.

CITY OF NORTONVILLE, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Business-type Activities</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<u>Cash Flows From Operating Activities</u>			
Cash received from customers	\$ 238,420	\$ 522,053	\$ 760,473
Cash payments to suppliers for goods and services	523,478	(291,387)	232,091
Cash payments to employees for services	<u>(70,027)</u>	<u>(53,239)</u>	<u>(123,266)</u>
Net Cash Provided (Used) By Operating Activities	<u>691,871</u>	<u>177,427</u>	<u>869,298</u>
<u>Cash Flows From Noncapital Financing Activities</u>			
Transfers in	85,766	107,595	193,361
Transfers out	<u>(120,399)</u>	<u>(98,258)</u>	<u>(218,657)</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(34,633)</u>	<u>9,337</u>	<u>(25,296)</u>
<u>Cash Flows from Capital and Related Financing Activities</u>			
Proceeds from issuance of debt	776,267	-	776,267
Principal paid on debt	(10,000)	(121,656)	(131,656)
Acquisition of property, plant and equipment	(1,497,638)	(25,524)	(1,523,162)
Interest paid on debt	<u>(4,342)</u>	<u>(136,480)</u>	<u>(140,822)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(735,713)</u>	<u>(283,660)</u>	<u>(1,019,373)</u>
<u>Cash Flows from Investing Activities</u>			
Income received on investments	<u>53</u>	<u>78</u>	<u>131</u>
Net Cash Provided (Used) By Investing Activities	<u>53</u>	<u>78</u>	<u>131</u>
<u>Net Increase (Decrease) in Cash Equivalents</u>	(78,422)	(96,818)	(175,240)
<u>Cash Equivalents at Beginning of Year</u>	<u>166,587</u>	<u>431,035</u>	<u>597,622</u>
<u>Cash Equivalents at End of Year</u>	<u>\$ 88,165</u>	<u>\$ 334,217</u>	<u>\$ 422,382</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) By Operating Activities</u>			
Operating income (loss)	\$ (42,962)	\$ 16,110	\$ (26,852)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	35,938	160,001	195,939
Change in assets and liabilities:			
Decrease (increase) in receivables	(9,744)	(5,657)	(15,401)
Decrease (increase) in inventory	(896)	-	(896)
Decrease (increase) in prepayments	(986)	(619)	(1,605)
Decrease (increase) in deferred outflows	(10,091)	(7,186)	(17,277)
Increase (decrease) in accounts payable	706,585	2,718	709,303
Increase (decrease) in accrued payroll and other expenses	301	196	497
Increase (decrease) in customer deposits	(2,725)	-	(2,725)
Increase (decrease) in pension liabilities	24,540	17,457	41,997
Increase (decrease) in deferred inflows	<u>(8,089)</u>	<u>(5,593)</u>	<u>(13,682)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 691,871</u>	<u>\$ 177,427</u>	<u>\$ 869,298</u>
<u>Reconciliation of Total Cash</u>			
Current Assets - Cash	\$ 38,995	\$ 52,686	\$ 91,681
Restricted Assets - Cash	<u>49,170</u>	<u>281,531</u>	<u>330,701</u>
Total Cash	<u>\$ 88,165</u>	<u>\$ 334,217</u>	<u>\$ 422,382</u>

See accompanying notes to financial statements.

CITY OF NORTONVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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 GASB Statement No. 14 as amended by GASB 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.

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

CITY OF NORTONVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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.

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

CITY OF NORTONVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

days after year end. Franchise and insurance premium 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.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include: (1) timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, (2) matching requirements, in which the City must provide local resources to be used for a specified purpose, and (3) expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

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. Any revisions that alter the total expenditures of any fund must be approved by a majority vote of the City Council.

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.

CITY OF NORTONVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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. In accordance with GASB Statement 31, quoted market price was used to determine the fair value of investments.

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. Accounts Receivable and Allowance for Uncollectible Accounts

Accounts receivable are recorded in the Governmental and Business-type funds net of appropriate allowance for uncollectible accounts. An allowance for uncollectible accounts has been provided based on prior years' loss experiences as percentage of revenues billed. Based on past experience, management considers the allowance adequate to provide for any losses on collection of the June 30, 2016 accounts receivable.

H. Inventory

Inventory consists of materials and supplies. Inventory is valued at average cost. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

I. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2016 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. Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has one item

CITY OF NORTONVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

that qualify for reporting in this category.

Deferred outflows related to pensions are reported in the government-wide and proprietary statement of net position. A deferred outflow from pensions results from City contributions made subsequent to the measurement date. This amount is deferred and will be recognized as a reduction of net pension liability in the year ending June 30, 2017.

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 in inflow of resources (revenue) until that time. The City has one item that qualifies in this category.

Deferred inflows related to pensions are reported in the government-wide statement and proprietary statement of net position. A deferred inflow from pensions results from net differences between expected and actual earnings on pension plan investments. This amount is deferred and will be recognized as a reduction of pension expense over future periods.

L. 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
Utility plant, mains and lines	40-50 years
Vehicles	5-10 years
Furniture, fixtures, and equipment	5-10 years

M. Postemployment Benefits

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

N. Compensated Absences

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

CITY OF NORTONVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

O. 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 proprietary funds (and for the governmental activities in the government-wide statements), unearned revenue is reported regardless of its availability.

P. Bond Premiums, Discounts, and Issuance Costs

In the government-wide financial statements and proprietary fund financial statements, bond premiums and discounts are deferred and amortized over the life of the bonds using the effective-interest method and are reported as deferred amounts from refunding debt. Issuance costs are reported as expenses.

Q. 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.

R. 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.

S. 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

CITY OF NORTONVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as interfund transfers and are included in the results of operations of both governmental and proprietary funds. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

T. 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.

U. 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

CITY OF NORTONVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

level action to remove or change the constraint.

- **Assigned fund balance** - amounts the City intends to use for a specific purpose. Intent can be expressed by the City or by an official or body to which the City delegates the authority.
- **Unassigned fund balance** - amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation. Assigned fund balance is established by the City Council through adoption or amendment of the budget as intended for a specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

The City would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

V. Adoption of New Accounting Pronouncements

Governmental Accounting Standards Board Statement No. 72

GASB Statement No. 72, *Fair Value Measurement and Application*, was issued in February 2015. The provisions of this Statement are effective for periods beginning after June 15, 2015. This Statement addresses accounting and financial reporting issues related to fair value measurements.

Governmental Accounting Standards Board Statement No. 73

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and Amendments to Certain Provisions of GASB Statements 67 and 68, was issued in June 2015. The provisions of this Statement are effective for periods beginning after June 15, 2015.

Governmental Accounting Standards Board Statement No. 76

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, was issued on June 2015. The provisions of this Statement are effective for periods beginning after June 15, 2015. This Statement supersedes Statement No. 55.

Recent Accounting Pronouncements

As of June 30, 2016, the GASB has issued the following statements not yet required to be adopted by the City.

Governmental Accounting Standards Board Statement No. 74

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, was issued in June 2015. The provisions of this statement are effective for periods beginning after June 15, 2016. This Statement replaces Statements No. 43 and 57, and modifies No. 25 and No. 50. The City's management has not yet determined the effect this

CITY OF NORTONVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

statement will have on the financial statements.

Governmental Accounting Standards Board Statement No. 75

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, was issued in June 2015. The provisions of this Statement are effective for periods beginning after June 15, 2017. This Statement replaces Statements No. 45 and 57. The City's management has not yet determined the effect this statement will have on the financial statements. The unfunded liability has not yet been determined, but the City anticipates it will be material.

Governmental Accounting Standards Board Statement No. 77

GASB Statement No. 77, Tax Abatement Disclosures, was issued in August 2015. The provisions of this Statement are effective for periods beginning after December 15, 2015. This statement requires disclosure of information necessary to assess how tax abatements affect financial position and results of operations. The City's management has not yet determined the effect this statement will have on the financial statements.

Governmental Accounting Standards Board Statement No. 78

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, was issued in December 2015. The provisions of this Statement are effective for periods beginning after December 15, 2015. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. The City's management does not believe this statement will have an effect on the financial statements.

Governmental Accounting Standards Board Statement No. 79

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, was issued in December 2015. The provisions of this Statement are effective for periods beginning after December 15, 2015. This statement establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The City's management has not yet determined the effect this statement will have on the financial statements.

Governmental Accounting Standards Board Statement No. 80

GASB Statement No. 80, *Blending Requirements for Certain Component Units-an amendment of GASB Statement No. 14*, was issued in January 2016. The provisions of this Statement are effective for periods beginning after June 15, 2016. This statement requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. 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
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Governmental Accounting Standards Board Statement No. 81

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, was issued in March 2016. The provisions of this Statement are effective for periods beginning after December 15, 2016. This statement provides recognition and measurement guidance for situations in which a government is a beneficiary of a split interest agreement. The City's management has not yet determined the effect this statement will have on the financial statements.

Governmental Accounting Standards Board Statement No. 82

GASB Statement No. 82, *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73*, was issued in March 2016. The provisions of this Statement are effective for periods beginning after June 15, 2016. This statement clarifies certain issues that have been raised with previous pronouncements. The City's management has not yet determined the effect this statement will have on the financial statements.

W. Subsequent Events

The City has evaluated subsequent events through February 28, 2019, the date which the financial statements were available to be issued.

On July 18, 2016, the City completed the sale of \$1,250,000 Water System Revenue Bonds, Series 2016.

2. LEGAL COMPLIANCE – BUDGETS

The City did not adopt a new budget for the fiscal year ending June 30, 2016, per K.R.S. 91A.030 the prior year budget remains in effect. Therefore the City operated under the last adopted budget which was dated June 30, 2013 until the Council voted to amend the budget. The Council amended the entire budget under Ordinance 2016-01 on March 17, 2016.

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, 2016:

General Fund	\$	(37,272)
Water Fund	\$	212,714
Sewer Fund	\$	310,342

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.

Operating Deficit

The following funds had operations that resulted in a current year deficit of revenue under expenditures and other financing uses resulting in a corresponding reduction of fund balance. These deficits were funded by available resources at the beginning of the year.

Sewer Fund	\$	(109,391)
Municipal Aid Fund	\$	(29,552)

CITY OF NORTONVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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	\$ 512,483	\$ 512,483
Restricted assets:		
Cash equivalents	<u>330,701</u>	<u>330,701</u>
Total	<u>\$ 843,184</u>	<u>\$ 843,184</u>

A. Deposits

At year-end, the carrying amount of the City's cash equivalents was \$843,184 and the bank balance was \$848,887. Of the bank balances, \$498,836 was covered by federal depository insurance and \$344,348 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.

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.

Identification

At June 30, 2016 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, 2016, taxes were levied on October 1, 2015 and payable on December 31, 2015. The tax rate was 23.5 cents per \$100 of assessed valuation of real property; 22.9 cents per \$100 of

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assessed valuation of vehicles and watercraft, and 34.0 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, 2016 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	622,871	2,940	-	625,811
Machinery and equipment	274,729	29,259	(4,031)	299,957
Vehicles	249,300	-	(52,000)	197,300
Police and fire equipment	400,915	45,847	(9,784)	436,978
Infrastructure	42,557	-	-	42,557
Total capital assets, being depreciated	<u>1,689,135</u>	<u>78,046</u>	<u>(65,815)</u>	<u>1,701,366</u>
Less accumulated depreciation for:				
Buildings	(46,742)	(2,484)	-	(49,226)
Improvements	(152,001)	(19,110)	-	(171,111)
Machinery and equipment	(272,193)	(2,221)	4,031	(270,383)
Vehicles	(181,163)	(9,833)	50,125	(140,871)
Police and fire equipment	(289,704)	(16,898)	9,784	(296,818)
Infrastructure	(14,359)	(1,419)	-	(15,778)
Total accumulated depreciation	<u>(956,162)</u>	<u>(51,965)</u>	<u>63,940</u>	<u>(944,187)</u>
Total capital assets, being depreciated, net	<u>732,973</u>	<u>26,081</u>	<u>(1,875)</u>	<u>757,179</u>
Governmental activities capital assets, net	<u>\$ 777,973</u>	<u>\$ 26,081</u>	<u>\$ (1,875)</u>	<u>\$ 802,179</u>

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Business-type Activities

A summary of capital assets for business-type activities at June 30, 2016 follows:

<u>Business-type Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Construction in progress	\$ 7,975	\$ 1,491,426	\$ -	\$ 1,499,401
Total capital assets, not being depreciated	<u>7,975</u>	<u>1,491,426</u>	<u>-</u>	<u>1,499,401</u>
Capital assets, being depreciated:				
Water plant	\$ 922,860	\$ -	\$ (6,754)	\$ 916,106
Buildings, tanks, etc.	160,563	-	-	160,563
Vehicles	21,210	-	-	21,210
Water equipment	62,261	6,212	-	68,473
Sewer plant	3,156,095	-	-	3,156,095
Sewer equipment	245,844	18,749	-	264,593
Regional sewer project	<u>5,193,592</u>	<u>6,775</u>	<u>-</u>	<u>5,200,367</u>
Total capital assets, being depreciated	<u>9,762,425</u>	<u>31,736</u>	<u>(6,754)</u>	<u>9,787,407</u>
Less accumulated depreciation for:				
Water plant	(508,289)	(26,607)	6,754	(528,142)
Buildings, tanks, etc.	(142,279)	(3,873)	-	(146,152)
Vehicles	(21,210)	-	-	(21,210)
Water equipment	(31,093)	(5,458)	-	(36,551)
Sewer plant	(2,989,205)	(14,187)	-	(3,003,392)
Sewer equipment	(130,248)	(15,852)	-	(146,100)
Regional sewer project	<u>(1,156,957)</u>	<u>(129,962)</u>	<u>-</u>	<u>(1,286,919)</u>
Total accumulated depreciation	<u>(4,979,281)</u>	<u>(195,939)</u>	<u>6,754</u>	<u>(5,168,466)</u>
Total capital assets, being depreciated, net	<u>4,783,144</u>	<u>(164,203)</u>	<u>-</u>	<u>4,618,941</u>
Business-type activities capital assets, net	<u>\$ 4,791,119</u>	<u>\$ 1,327,223</u>	<u>\$ -</u>	<u>\$ 6,118,342</u>

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

6. RESTRICTED NET POSITION

Certain assets relating to long term debt, which are restricted as described in Note 8 are as follows at June 30, 2016:

Bond and Interest Redemption Accounts:

<u>Debt Requirement Restricted Assets</u>	<u>Water</u>	<u>Sewer</u>
Bond Sinking Reserve	\$ 49,170	\$ 157,441
Ky Bond Debt Service Fund	<u>-</u>	<u>124,090</u>
Total	<u>\$ 49,170</u>	<u>\$ 281,531</u>
 <u>Current portion of Debt Requirements</u>		
Revenue bonds and debt payable	\$ 786,267	\$ 127,000
Accrued interest payable	<u>16,165</u>	<u>52,819</u>
Total	<u>802,432</u>	<u>179,819</u>
<u>Net Position Restricted for Debt Service</u>	<u>\$ (753,262)</u>	<u>\$ 101,712</u>

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7. **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, 2016, 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.

8. **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 \$11,250, respectively as of June, 30, 2016.

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.

Water Fund - Bond Anticipation Loan

In July 2016, the City issued a bond anticipation loan in the amount of \$1,250,000 with United States Department of Agriculture (USDA) to finance additions to the water system. As of June 30, 2016, the City had drawn \$776,267 of the funds available on this loan. The remaining \$473,733 of available funds were held by the trustee, Regions Bank, and were invested in AAA rated money market funds. The stated interest rate of the loan was 2.60%. The loan is expected to be paid with bond sale proceeds during the fiscal year ending June 30, 2017.

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The following is a summary of the changes in long-term debt for the year ended June 30, 2016:

	<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	\$ 33,204	\$ -	\$ 7,992	\$ 25,212	\$ 8,194
Total Governmental Activities	<u>33,204</u>	<u>-</u>	<u>7,992</u>	<u>25,212</u>	<u>8,194</u>
<u>Business-type Activities:</u>					
1980 Revenue Bonds Payable	273,000	-	49,000	224,000	52,000
1995 Revenue Bonds Payable	307,500	-	10,000	297,500	10,000
2013 Revenue Bonds Payable	2,848,750	-	75,000	2,773,750	75,000
Less Unamortized Bond Discount	(58,606)	-	2,344	(56,262)	-
Bond Anticipation Loan	-	<u>776,267</u>	-	<u>776,267</u>	<u>776,267</u>
Total Business-type Activities	<u>3,370,644</u>	<u>776,267</u>	<u>136,344</u>	<u>4,015,255</u>	<u>913,267</u>
 Total Primary Government	 <u>\$ 3,403,848</u>	 <u>\$ 776,267</u>	 <u>\$ 144,336</u>	 <u>\$ 4,040,467</u>	 <u>\$ 921,461</u>

Maturities of the lease obligation as of June 30, 2016 are:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 8,194	\$ 638	\$ 8,832
2018	8,402	430	8,832
2019	8,616	218	8,834
Total	<u>\$ 25,212</u>	<u>\$ 1,286</u>	<u>\$ 26,498</u>

Annual principal and interest requirements of the revenue bonds payable as of June 30, 2016 are:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 913,267	\$ 136,975	\$ 1,050,242
2018	143,083	131,675	274,758
2019	150,083	126,118	276,201
2020	157,000	120,310	277,310
2021	99,083	114,220	213,303
2022-26	551,750	516,452	1,068,202
2027-31	672,417	396,210	1,068,627
2032-36	823,583	238,695	1,062,278
2037-40	561,251	56,536	617,787
Total	<u>\$ 4,071,517</u>	<u>\$ 1,837,191</u>	<u>\$ 5,908,708</u>

9. LITIGATION, CONTINGENCIES AND COMMITMENTS

Litigation

The City initiated *City of Nortonville vs City of White Plains* in early 2017 relating to the City of White Plains' failure to pay the new wholesale sanitary sewer rate enacted by the Nortonville City Council on June 30, 2016. The litigation has been referred to binding arbitration, and the parties are currently securing the services of an arbitrator to determine the rights of the parties. The likelihood of an unfavorable outcome is low.

The City is unaware of any other pending or threatened litigation, or claims.

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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, 2016 may not yet have been conducted.

Commitments

At June 30, 2016 the City had did not have any committed funds.

10. 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, 2016, were \$98,751.

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, 2016, were \$27,151.

11. EMPLOYEE'S RETIREMENT PLAN

County Employees' Retirement System

General Information about the Pension Plan

Plan Description

The City of Nortonville, Kentucky is a participant in the County Employees Retirement System (CERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement Systems Board of Trustees (KRS Board) established pursuant to Kentucky Revised Statutes (KRS) Section 78.630. KRS Section 61.645 grants the authority to establish and amend the benefit terms to the KRS Board. All City employees participating in the CERS are classified as having either a hazardous or nonhazardous position for the purpose of KRS 61.592. Kentucky Retirement Systems issues a publicly available comprehensive annual financial report containing CERS information that can be obtained at <https://kyret.ky.gov>.

Benefits Provided

Nonhazardous position employees who have attained age 65 and have acquired at least 4 years of credited service of which 1 year must be current service are eligible for an annual retirement benefit, payable monthly for life. The benefit is computed by the number of years of service multiplied by 1.85% then multiplied by the average annual salary during the member's five highest paid fiscal years. Benefits fully vest upon reaching 5 years of credited service, one of which must be current service. Vested members may retire at or after age 55 with 5 years of credited service, of which 1 year must be current service, and receive reduced retirement benefits. CERS also provides death and disability benefits. Benefits are established by the Kentucky Statutes.

Contributions

Covered employees who began participation before September 1, 2008 are required by state statute to contribute 5 percent of their salary to CERS. Members occupying hazardous positions, as defined by state statute, contribute 8 percent of their salary to CERS. Covered employees who began participation on or after September 1, 2008 are required by state statute to contribute 6 percent of their salary to CERS. Members occupying hazardous positions, as defined by state statute,

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contribute 9 percent of their salary to CERS. The additional 1 percent is deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund.

Covered employees who began participation on or after January 1, 2014 are required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Covered employees in the plan contribute a set percentage of their salary each month to their own account. Employee contribution rates are 5 percent for those classified as nonhazardous and 8 percent for those classified as hazardous and 1 percent to the health insurance fund which is not credited to the employee's account and is not refundable. The employer contribution rate is set annually by the KRS Board based on an actuarial valuation. The employer contributes a set percentage of the employee's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the employee's account equal to 4 percent for those classified as nonhazardous and 7.5 percent for those classified as hazardous. The employer pay credit represents a portion of the total employer contribution.

Employers are required by state statute (KRS 78.545) to contribute the remaining amounts necessary to pay benefits when due. These contribution rates are determined by the KRS Board annually based upon actuarial valuations.. For the year ended June 30, 2016, the employer contribution rate was 17.06% of members' nonhazardous salaries. The employer contribution when combined with employee contributions are expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City's employer CERS contributions for the year ended June 30, 2016 were \$15,222.

Refunds of Contributions

Employees who have terminated service as a contributing member of CERS may file an application for a refund of their contributions. Employee accounts have been credited with interest on July 1 of each year at 3 percent compounded annually through June 30, 1981; 6 percent thereafter through June 30, 1986; 4 percent thereafter through June 30, 2003, and 2.5 percent thereafter. For employees participating prior to September 1, 2008, the interest paid is set by the KRS Board and will not be less than 2 percent, for employees participating on or after September 1, 2008 but before January 1, 2014, interest will be credited at a rate of 2.5 percent. For employees participating on or after January 1, 2014, interest will be credited at a minimum rate of 4 percent.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the City reported a net pension liability of \$219,840 for its proportionate share of the CERS net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to CERS relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2015, the City's proportion was .00511 percent for nonhazardous classified employees.

For the year ended June 30, 2016, the City recognized pension expense of \$29,689. At June, 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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	Non-hazardous Employees	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between expected and actual experience	\$ 1,971	\$ -
Net difference between projected and actual investment earnings	1,827	-
Change of assumptions	22,170	-
Changes in proportion and differences between employer contributions and share of contributions	1,183	-
City contributions subsequent to the measurement date	11,082	-
Total	\$ 38,233	\$ -

Deferred Outflows of Resources

The \$11,082 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Contributions made subsequent to the measurement date have a zero years amortization period.

As of June 30, 2016, \$27,151 was recognized as deferred outflows of resources resulting from a) difference between projected and actual earnings on pension plan investments, b) changes of assumptions, c) differences between expected and actual experience (actuarial gains and losses), and d) contributions subsequent to the measurement date. These amounts are being amortized as follows:

Amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending	Amortization
June 30, 2017	\$ 4,690
June 30, 2018	9,320
June 30, 2019	9,176
June 30, 2020	3,965
Total	\$ 27,151

Actuarial Assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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Actual cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	28 years
Asset valuation method	5 year smoothed market
Inflation	3.25 percent
Salary increases	4.00 percent, average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense including inflation

The mortality table used for active employees in RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). The rates of mortality for the period after service retirement are according to the RP-2000 Combined Mortality Table for all healthy retired employees and beneficiaries projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the System. The most recent analysis, performed for the period covering fiscal years 2008 through 2013 is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target allocation and best estimates of arithmetic real rates of return for each major class are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Nominal Return
Combined Equity	44 %	5.40 %
Combined Fixed Income	19 %	1.50 %
Real Return (Diversified Inflation Strategies)	10 %	3.50 %
Real Estate	5 %	4.50 %
Absolute Return (Diversified Hedge Funds)	10 %	4.25 %
Private Equity	10 %	8.50 %
Cash Equivalent	2 %	(0.25)%
Total	100 %	

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Discount Rate

The discount rate used to measure the total pension liability for the plan was 7.50 percent for both nonhazardous and hazardous. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 28 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability calculated using the discount rate of 7.50 percent, as well as what the plan's net position liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent) or one percentage point higher (8.50 percent) than the current rate (7.50 percent):

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
<i>Nonhazardous</i>			
City's proportionate share of the net pension liability	\$ 69,554	\$ 53,185	\$ 41,576
Water & Sewer System's proportionate share of the net pension liability	\$ 211,122	\$ 166,655	\$ 126,197

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued comprehensive annual financial report issued by the Kentucky Retirement Systems and can be found at <https://kyret.ky.gov>.

Payables to the Pension Plan

At June, 30, 2016, the City owed \$958 in contractually required employee and employer contributions primarily for the month ended June 30, 2016. The obligation was paid within prescribed time limits.

Postretirement Healthcare Benefits

In addition to the pension benefits described above, the KRS provides postretirement healthcare benefits through the Kentucky Retirement Systems Insurance Fund (Insurance Fund). The Insurance Fund was established to provide hospital and medical insurance for those receiving benefits from the Kentucky Employees Retirement System (KERS), the County Employees Retirement System (CERS), and the State Police Retirement System (SPRS). The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. For the year ended June 30, 2015 (the date of the latest available information), insurance premiums withheld from benefit payments for those receiving benefits from CERS were approximately \$22,600,000 and \$1,700,000 for nonhazardous and hazardous, respectively. The Insurance Fund pays the same proportion of hospital and medical insurance premiums for the spouse and dependents of retired hazardous employees killed in the line of duty. As of June 30, 2015, the Insurance Fund had 108,952 retirees and beneficiaries for whom benefits were available.

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The amount of contributions paid by the Insurance Fund is based on years of service. For employees participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are shown below:

<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 those who began participating on or after July 1, 2003. Once employees reach a minimum vesting period of ten years, nonhazardous employees whose participation began on, or after, July 1, 2003 earn \$15 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees whose participation began on or after July 1, 2003 earn \$15 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon death of a hazardous employee, the employee's spouse receives \$10 per month for insurance benefits for each year of the deceased employee's earned hazardous service. 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 (CPI) for all urban consumers. This benefit is not protected under the inviolable contract provisions of Kentucky Revised Statutes 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 employer's 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 method within a 20 year period measured from 1987. In November 1992, the Board adopted a fixed percentage rate and suspended future increases under the current medical premium funding policy until the next experience study could be performed. In May 1996, the KRS Board 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 20 years.

On August 6, 2012, the KRS Board voted to cease self-funding of healthcare benefits for most Medicare eligible retirees. The Board elected to contract with Humana Insurance Company to provide healthcare benefits to retirees through a fully insured Medicare Advantage Plan. The Humana Medicare Advantage Plan became effective January 1, 2013.

12. 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

CITY OF NORTONVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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, 2016.

Primary government transfers at June 30, 2016 were:

	<u>Transfers In</u>	<u>Transfers Out</u>
<u>Governmental Funds</u>		
General Fund	\$ 77,988	\$ 24,949
<u>Special Revenue Funds</u>		
Municipal Road Aid	5,740	35,378
Cemetery Maintenance Fund	2,085	440
Cemetery Perpetual Care Fund	440	190
<u>Proprietary Funds</u>		
Sewer Enterprise Fund	107,595	98,258
Water Enterprise Fund	<u>85,766</u>	<u>120,399</u>
Total	<u>\$ 279,614</u>	<u>\$ 279,614</u>

Required Supplementary Information

CITY OF NORTONVILLE, KENTUCKY
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2016

County Employees Retirement System

Last Ten Fiscal Years (1)

<u>Nonhazardous</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>June 30, 2013</u>
City's proportion of the net pension liability (asset)	0.005113 %	0.005068 %	0.005068 %
City's proportion of the net pension liability (asset)	\$ 219,858	\$ 164,000	\$ 186,050
City's covered employee payroll	\$ 89,228	\$ 143,373	\$ 98,116
City's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	246.40 %	114.39 %	189.62 %
Plan fiduciary net position as a percentage of the total pension liability (2)	59.97 %	66.80 %	61.22 %

(1) The amounts presented for the fiscal year were determined as of the prior fiscal year ending June 30.

(2) This will be the same percentage for all participant employers in the CERS plan.

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a 10 year trend is compiled, the City will present information for those years for which information is available.

CITY OF NORTONVILLE, KENTUCKY
SCHEDULE OF PENSION CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2016

County Employees Retirement System

Last Ten Fiscal Years

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>June 30, 2013</u>
<i><u>Nonhazardous</u></i>				
Contractually required contributions	\$ 11,082	\$ 15,160	\$ 19,699	\$ 12,382
Contributions in relation to the contractually required contributions	<u>11,082</u>	<u>15,160</u>	<u>19,699</u>	<u>12,382</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	\$ 89,228	\$ 118,906	\$ 143,373	\$ 98,116
Contributions as a percentage of covered employee payroll	12.42 %	12.75 %	13.74 %	12.62 %

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a 10 year trend is compiled, the City will present information for those years for which information is available.

CITY OF NORTONVILLE, KENTUCKY
SCHEDULE OF CHANGES IN BENEFITS AND ASSUMPTIONS
FOR THE YEAR ENDED JUNE 30, 2016

Changes of Benefit Terms:

2015: None

Changes of Assumptions:

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, listed below:

2015:

The assumed investment rate of return was decreased from 7.75% to 7.50%.

The assumed rate of inflation was reduced from 3.50% to 3.25%.

The assumed rate of wage inflation was reduced from 1.00% to 0.75%.

Payroll growth assumption was reduced from 4.50% to 4.00%.

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).

For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted. The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

Method and assumptions used in calculations of actuarially determined contributions. The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal years ended 2016 and 2017, determined as of July 1, 2015. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

Actual cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	28 years
Asset valuation method	5 year smoothed market
Inflation	3.25 percent
Salary increases	4.00 percent, average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense including inflation

Supplementary Information

CITY OF NORTONVILLE, KENTUCKY
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2016

	2016			
	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
<u>General Government Expenditures</u>				
Salaries and wages	\$ 182,240	\$ 144,600	\$ 37,436	\$ 107,164
Utilities	-	-	32,421	(32,421)
Insurance	-	-	14,464	(14,464)
Repairs and maintenance	27,720	5,700	17,352	(11,652)
Miscellaneous	-	-	10,510	(10,510)
Employee benefits	-	-	3,584	(3,584)
Office supplies	-	-	5,952	(5,952)
Retirement	-	-	3,854	(3,854)
Telephone	-	-	1,158	(1,158)
Payroll taxes	-	-	6,495	(6,495)
Professional fees	-	-	2,323	(2,323)
Fuel	-	-	3,108	(3,108)
Uniforms	-	-	2,326	(2,326)
Advertising	-	-	1,925	(1,925)
Bank Charges	-	-	901	(901)
Printing	-	-	2,094	(2,094)
Postage	-	-	534	(534)
Cemetery expense	-	-	2,350	(2,350)
Dues and subscriptions	-	-	213	(213)
Training	-	-	230	(230)
Total General Government	<u>\$ 209,960</u>	<u>\$ 150,300</u>	<u>\$ 149,230</u>	<u>\$ 1,070</u>
<u>Public Safety Expenditures</u>				
Fire Department				
Insurance	-	-	9,208	(9,208)
Utilities	-	-	3,384	(3,384)
Contracted services	-	-	4,082	(4,082)
Repairs and maintenance	-	-	1,907	(1,907)
Office supplies	-	-	1,162	(1,162)
Salaries and wages	25,857	42,800	-	42,800
Dues and subscriptions	-	-	-	-
Miscellaneous	-	-	2,422	(2,422)
Vehicle Repairs	-	-	3,389	(3,389)
Fuel and oil	-	-	237	(237)
Total Fire Department	<u>25,857</u>	<u>42,800</u>	<u>25,791</u>	<u>17,009</u>
Police Department				
Salaries and wages	49,660	-	-	-
Total Police Department	<u>49,660</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Public Safety	<u>\$ 75,517</u>	<u>\$ 42,800</u>	<u>\$ 25,791</u>	<u>\$ 17,009</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, 2016

	2016			
	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<u>Public Streets Expenditures</u>				
Utilities	\$ -	\$ -	\$ 10,407	\$ (10,407)
Repairs and maintenance	93,970	50,000	33,308	16,692
Vehicle Repairs	-	-	3,505	(3,505)
Miscellaneous	-	-	1,646	(1,646)
Uniforms	-	-	238	(238)
Supplies	-	-	30	(30)
Fuel and oil	-	-	10	(10)
Total Public Streets	<u>\$ 93,970</u>	<u>\$ 50,000</u>	<u>\$ 49,144</u>	<u>\$ 856</u>
<u>Library Expenditures</u>				
Contract labor	\$ 5,990	\$ 5,700	\$ 4,183	\$ 1,517
Utilities	-	-	539	(539)
Repairs and maintenance	-	-	2,819	(2,819)
Miscellaneous	-	-	452	(452)
Office supplies	-	-	4,180	(4,180)
Total Library	<u>\$ 5,990</u>	<u>\$ 5,700</u>	<u>\$ 12,173</u>	<u>\$ (6,473)</u>
<u>Debt Service</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,832</u>	<u>\$ (8,832)</u>
<u>Capital Outlay</u>				
General government	\$ -	\$ -	\$ 32,199	\$ (32,199)
Fire department	-	-	45,847	(45,847)
Total Capital Outlay	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 78,046</u>	<u>\$ (78,046)</u>
<u>Total General Fund Expenditures</u>	<u>\$ 385,437</u>	<u>\$ 248,800</u>	<u>\$ 323,216</u>	<u>\$ (83,248)</u>

See accompanying notes to financial statements.

CITY OF NORTONVILLE, KENTUCKY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2016

	Special Revenue Funds		Permanent Fund	Total Other Governmental Funds
	Municipal Aid	Cemetery Maintenance	Cemetery Perpetual Care	
<u>Assets</u>				
Cash equivalents	\$ <u>153,401</u>	\$ <u>12,337</u>	\$ <u>4,373</u>	\$ <u>170,111</u>
<u>Total Assets</u>	<u>\$ 153,401</u>	<u>\$ 12,337</u>	<u>\$ 4,373</u>	<u>\$ 170,111</u>
<u>Liabilities and Fund Balance</u>				
<u>Fund Balance</u>				
Nonspendable-Perpetual Care	\$ -	\$ -	\$ 4,373	\$ 4,373
Restricted-Special Revenue Funds	<u>153,401</u>	<u>12,337</u>	<u>-</u>	<u>165,738</u>
Total Fund Balance	<u>153,401</u>	<u>12,337</u>	<u>4,373</u>	<u>170,111</u>
<u>Total Liabilities and Fund Balance</u>	<u>\$ 153,401</u>	<u>\$ 12,337</u>	<u>\$ 4,373</u>	<u>\$ 170,111</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, 2016

	<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>				
Miscellaneous	-	-	17	17
Cemetery lots	-	7,600	-	7,600
Interest	<u>86</u>	<u>2</u>	<u>1</u>	<u>89</u>
Total Revenues	<u>86</u>	<u>7,602</u>	<u>18</u>	<u>7,706</u>
<u>Expenditures</u>				
Current				
Cemetery Maintenance	<u>-</u>	<u>2,560</u>	<u>11</u>	<u>2,571</u>
Total Expenditures	<u>-</u>	<u>2,560</u>	<u>11</u>	<u>2,571</u>
<u>Excess (Deficiency) of Revenues</u>				
<u>Over Expenditures</u>	<u>86</u>	<u>5,042</u>	<u>7</u>	<u>5,135</u>
<u>Other Financing Sources (Uses)</u>				
Transfers In	5,740	2,085	440	8,265
Transfers Out	<u>(35,378)</u>	<u>(440)</u>	<u>(190)</u>	<u>(36,008)</u>
Total Other Financing Sources(Uses)	<u>(29,638)</u>	<u>1,645</u>	<u>250</u>	<u>(27,743)</u>
<u>Net Change in Fund Balance</u>	<u>(29,552)</u>	<u>6,687</u>	<u>257</u>	<u>(22,608)</u>
<u>Fund Balance - Beginning</u>	<u>182,953</u>	<u>5,650</u>	<u>4,116</u>	<u>192,719</u>
<u>Fund Balance - Ending</u>	<u>\$ 153,401</u>	<u>\$ 12,337</u>	<u>\$ 4,373</u>	<u>\$ 170,111</u>

See accompanying notes to financial statements.



INDEPENDENT AUDITORS' 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 Scotty Harvey
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, and the aggregate remaining fund information of the City of Nortonville, Kentucky, as of and for the year ended June 30, 2016, 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 February 28, 2019.

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. (2016-1 through 2016-6)

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

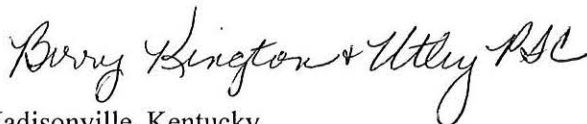
provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, 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.



Madisonville, Kentucky
February 28, 2019

CITY OF NORTONVILLE, KENTUCKY
CURRENT YEAR SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2016

2016-1 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.

2016-2 No Written Standard Operating Policy

Condition

There is an absence of appropriate written statements of procedure. These 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.

CITY OF NORTONVILLE, KENTUCKY
CURRENT YEAR SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2016

2016-3 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.

2016-4 Budget Lacks Detail

Condition

There is an absence of a detailed line item budget and failure to adopt a current budget.

Criteria

A prudent control environment requires that a detailed line item budget be present to inform the citizens 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 informative 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 detailed budgets for all future years and making them accessible to the public.

Response

We concur with the finding.

CITY OF NORTONVILLE, KENTUCKY
CURRENT YEAR SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2016

2016-5 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.

CITY OF NORTONVILLE, KENTUCKY
PRIOR YEAR SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2016

2015-1 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.

2015-2 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.

2015-3 No Written Standard Operating Policy

Condition

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

CITY OF NORTONVILLE, KENTUCKY
PRIOR YEAR SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2016

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.

2015-4 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.

2015-5 Budget Lacks Detail

Condition

There is an absence of a detailed line item budget and failure to adopt a current budget.

Criteria

A prudent control environment requires that a detailed line item budget be present to inform the citizens 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

CITY OF NORTONVILLE, KENTUCKY
PRIOR YEAR SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2016

will be spent. This is both informative 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 detailed budgets for all future years and making them accessible to the public.

Response

We concur with the finding.

2015-6 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.