

**CITY OF GREENUP**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTAL INFORMATION**

**FOR THE YEAR ENDED JUNE 30, 2012**

**TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS**

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## INDEPENDENT AUDITOR'S REPORT

The Honorable Lundie Meadows, Mayor  
Members of the City Council  
City of Greenup  
Greenup, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Greenup, Kentucky (the "City") as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the City of Greenup's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 18, 2015 on our consideration of the City of Greenup's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis information on pages 4 through 9 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 the appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in the 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 any assurance.

*Kolley Holloway Smith Aurbach, PSC*

June 18, 2015  
Ashland, Kentucky

# CITY OF GREENUP MANAGEMENT DISCUSSION AND ANALYSIS

The management discussion and analysis (MD&A) gives readers an overview and analysis of the financial position and activities of the City of Greenup (“Government”) for the fiscal year ended June 30, 2012. This information should be read in conjunction with the financial statements immediately following the analysis.

## FINANCIAL HIGHLIGHTS

- ⇒ The assets of the Government exceeded its liabilities at the end of the fiscal year by \$7,745,443 (net assets). Governmental activities’ unrestricted net assets were \$(227,436) and business type activities unrestricted net assets were \$116,810.
- ⇒ The Government’s total net assets decreased by \$209,848. Net assets of governmental activities decreased by \$21,365 and net assets of business-type activities decreased by \$188,483.
- ⇒ At June 30, 2012, the governmental activities had \$259,578 in total assets and \$256,447 in total liabilities. Business type activities had \$12,873,638 in total assets and \$5,131,326 in total liabilities.

## OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the city’s basic financial statements, which consist of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements.

## REPORTING THE GOVERNMENT AS A WHOLE

This report is prepared under the standards for government financial reporting prescribed by the Governmental Accounting Standards Board, Statement Number 34 (GASB 34). This reporting format consists of a series of financial statements that provide an overview of all services provided by or supported by the Government (the Government-wide Statements) and provides more detailed information about major programs of the Government (“the fund statements”).

These statements present a financial picture of the Government as a whole through the use of a consolidated statement of all funds and eliminating interfund transfers. The value of fixed assets of governmental type operations is presented.

Government-wide financial statements include the Statement of Net Assets and the Statement of Activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector business. All revenues earned and expenses incurred in the fiscal year are taken into account regardless of when cash is received or paid.

The Statement of Net Assets presents information on all the Government’s assets and liabilities as of June 30, 2012. The net assets are the difference between assets and liabilities. Over time, increase or decrease in net assets is one indicator of whether financial health is improving or deteriorating. Information on other factors such as changes in the revenue structure and the condition of the Government’s assets is also needed to assess the overall financial position of the Government.

The Statement of Activities presents the Government’s annual revenues and expenses, as well as any other transactions that increase or reduce net assets. Program revenues are offset by program

expenses to provide better information as to program costs financed by general government revenues.

The government-wide statements divide the Government's activities into two kinds of activities:

**Governmental activities** - Most of the Government's basic services are reported here, including general (city) government, police, fire and street repair/improvement. Property taxes, insurance taxes and miscellaneous revenues finance most of these activities.

**Business-type activities** - Activities primarily paid for from charges and fees to cover the cost of services are reported here. This includes water production, sanitary sewer services and solid waste management.

### REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

Fund financial statements report the Government's operations in more detail than the government-wide statements by providing information about the Government's most significant funds. Some funds are required to be established by local law or by bond covenants. However, many other funds are established to help control and manage money for a particular purpose. Two types of funds are presented in the fund financial statements: governmental funds and proprietary funds.

**Governmental funds** - Most of the Government's basic services are reported in the government funds. These statements provide a short-term view of general government operations and how these services are financed as well as the balances left at year end that are available for future spending. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can be readily converted to cash.

**Proprietary funds** - The Government charges fees for Business-type services which are intended to cover the cost of providing those services. The governing body decides that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The subcategories of the funds include enterprise funds, which are business-type activities. The proprietary funds are reported in the same way that all activities are reported in the government-wide statements but the fund statements provide more detail. The City considers the Utility fund (water/sewer) to be its major proprietary fund.

### ANALYSIS OF THE GOVERNMENT AS A WHOLE

#### NET ASSETS

As of June 30, 2012, the Government as a whole had net assets greater than its liabilities by \$7,745,443. Net assets of governmental activities were \$3,131 and decreased by \$21,365 over the prior year. Of these net assets \$230,567 is invested in capital assets (net of related debt), and \$(227,436) is unrestricted.

The net assets of the Government's business-type activities are \$7,742,312 and decreased by \$188,483 over the prior year. Of these net assets \$7,624,712 or 98% are invested in capital assets (net of related debt), \$790 is restricted and \$116,810 is unrestricted. The largest portion of the City's net assets (98%) reflects its investment in capital assets (i.e., land, buildings, machinery and equipment) less outstanding related debt used to acquire those assets. The city uses these capital assets to provide services to citizens and as a result, these assets are not available for future spending. The city's capital assets investment is reported net of related debt, but the resources needed to pay this debt must be provided from other sources since the capital assets cannot be used to liquidate the liabilities.

The City has no remaining balance in unrestricted net assets. Current unrestricted net assets are \$(110,626). No unrestricted net assets are available to be used to meet the City's ongoing obligations to citizens and creditors.

At the end of this fiscal year June 30, 2012 the City is able to report positive balances in all categories of total net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

ANALYSIS OF THE CITY'S NET ASSETS

	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ (193,377)	\$ (219,008)	\$ 856,941	\$ 779,074	\$ 663,564	\$ 560,066
Capital assets	<u>452,955</u>	<u>530,304</u>	<u>12,016,697</u>	<u>12,103,742</u>	<u>12,469,652</u>	<u>12,634,046</u>
Total assets	<u>259,578</u>	<u>311,296</u>	<u>12,873,638</u>	<u>12,882,816</u>	<u>13,133,216</u>	<u>13,194,112</u>
Current liabilities	52,960	55,862	1,087,113	1,341,997	1,140,073	1,397,859
Long-term liabilities	<u>203,487</u>	<u>230,938</u>	<u>4,044,213</u>	<u>3,610,024</u>	<u>4,247,700</u>	<u>3,840,962</u>
Total liabilities	<u>256,447</u>	<u>286,800</u>	<u>5,131,326</u>	<u>4,952,021</u>	<u>5,387,773</u>	<u>5,238,821</u>
Net assets						
Invested in capital assets net of related debt	230,567	285,422	7,624,712	8,139,800	7,855,279	8,425,222
Restricted	-	-	790	134,034	790	134,034
Unrestricted	<u>(227,436)</u>	<u>(260,926)</u>	<u>116,810</u>	<u>(343,039)</u>	<u>(110,626)</u>	<u>(603,965)</u>
Total net assets	<u>\$ 3,131</u>	<u>\$ 24,496</u>	<u>\$ 7,742,312</u>	<u>\$ 7,930,795</u>	<u>\$ 7,745,443</u>	<u>\$ 7,955,291</u>

## ANALYSIS OF THE CITY'S OPERATIONS

Revenues	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Taxes	\$ 203,478	\$ 214,489	\$ -	\$ -	\$ 203,478	\$ 214,489
Licenses and permits	16,167	9,239	-	-	16,167	9,239
Fees and fines	71,863	74,428	-	-	71,863	74,428
Rental income	39,600	34,500	-	-	39,600	34,500
Charges for services	34,758	40,745	2,593,775	2,514,848	2,628,533	2,555,593
Grant/other income	77,081	69,555	254,224	1,626,013	331,305	1,695,568
<b>Total</b>	<b>\$ 442,947</b>	<b>\$ 442,956</b>	<b>\$ 2,847,999</b>	<b>\$ 4,140,861</b>	<b>\$ 3,290,946</b>	<b>\$ 4,583,817</b>
Expenses	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
General government	\$ 176,463	\$ 218,642	\$ -	\$ -	\$ 176,463	\$ 218,642
Police	174,854	238,350	-	-	174,854	238,350
Fire	73,625	69,171	-	-	73,625	69,171
Streets	28,646	25,035	-	-	28,646	25,035
Capital outlay	-	-	-	-	-	-
Debt services/Depreciation	10,724	12,293	-	-	10,724	12,293
<b>Total governmental activities</b>	<b>\$ 464,312</b>	<b>\$ 563,491</b>	<b>-</b>	<b>-</b>	<b>\$ 464,312</b>	<b>\$ 563,491</b>
Utility fund			\$ 3,036,482	\$ 2,863,139	3,036,482	2,863,139
<b>Total primary government</b>					<b>\$ 3,500,794</b>	<b>\$ 3,426,630</b>
Change in net assets	(21,365)	(120,535)	(188,483)	1,277,722	(209,848)	1,157,187
Net assets beginning of year, June 30, 2011	24,496	145,031	7,930,795	6,653,073	7,955,291	6,798,104
Net assets, June 30, 2012	<b>\$ 3,131</b>	<b>\$ 24,496</b>	<b>\$ 7,742,312</b>	<b>\$ 7,930,795</b>	<b>\$ 7,745,443</b>	<b>\$ 7,955,291</b>



## FINANCIAL ANALYSIS OF THE CITY'S FUNDS

- A. The focus of the City's governmental funds is to provide information on near-term inflows or outflows and balances of spendable resources, which are useful in determining the City's financing requirements. Unreserved fund balance serves as a useful measure of the City's net resources available for spending at the end of the fiscal year. At the end of the fiscal year, the City governmental funds reported combined ending fund balances of \$(253,870). The General fund has a negative fund balance of \$(288,283) and a positive fund balance of \$34,413 for the Street fund.

The General Fund at June 30, 2012 had revenues of \$412,913 and expenditures of \$414,414 and a fund balance of \$(288,283).

The Municipal Aid Road Fund (Street Fund) at June 30, 2012 had revenues of \$7 and expenditures of \$0 and a fund balance of \$34,413.

## PROPRIETARY FUNDS

The City's proprietary fund (Utility fund) or business-type activities had total assets of \$12,895,954 and total liabilities of \$5,153,642 leaving net assets of \$7,742,312. The Utility fund had \$2,593,775 in operating revenues, \$340 in interest income and \$253,884 in capital contributions. Operating expense totaled \$2,812,257 and interest expense on debt service totaled \$224,225. The Utility fund's total expenses exceeded its revenues by \$(442,367).

## BUDGETARY HIGHLIGHTS

The City adopted a balanced budget as required by Kentucky Revised Statutes (KRS) for fiscal year 2012. The general fund revenues fell short of projections by \$38,619 and operating expenditures exceeded the budget by \$20,370.

## ASSET AND DEBT ADMINISTRATION

The City's investment in assets for governmental and business-type activities as of June 30, 2012 is \$2,750,460 for non-depreciable assets and \$9,719,192 for depreciable capital assets (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, machinery and equipment, park facilities, roads and construction in progress.

### CITY OF GREENUP-CAPITAL ASSETS

Asset	Governmental Activities	Business-type Activities	Total 2012
Land	\$ 36,000	\$ 16,970	\$ 52,970
Construction In Progress	-	2,697,490	2,697,490
Buildings and improvements	130,820	180,000	310,820
Automotive equipment	603,435	219,486	822,921
Operating equipment	-	1,272,806	1,272,806
Office equipment	-	8,067	8,067
Infrastructure	286,456	-	286,456
Utility plant	-	14,676,532	14,676,532
	<u>1,056,711</u>	<u>19,071,351</u>	<u>20,128,062</u>
Less depreciation	<u>(603,756)</u>	<u>(7,054,654)</u>	<u>(7,658,410)</u>
Total	<u>\$ 452,955</u>	<u>\$ 12,016,697</u>	<u>\$ 12,469,652</u>

## DEBT

At the end of fiscal year 2012 the City had governmental activities debt of \$225,981 compared to \$253,432 at June 30, 2011, which represents a decrease of \$27,451. Business-type activities had debt of \$4,391,985 compared to \$3,963,942 at June 30, 2011, which represents an increase of \$428,043. The following chart summarizes governmental debt and business-type debt.

<u>Government Activities Debt</u>	<u>Amount</u>
General fund lease payable at 4.69%	\$ 222,388
Compensated absences obligation	3,593
Total	<u>\$ 225,981</u>
<u>Business-Type Activities Debt</u>	<u>Amount</u>
Revenue bonds	\$ 2,883,100
Loans payable	925,588
Lease at 5.04%	583,297
Total	<u>\$ 4,391,985</u>

## DESCRIPTION OF MUNICIPAL DEBT

- ⇒ A lease for a new ladder truck. Balance at June 30, 2012 = \$222,388.
- ⇒ Utility revenue bonds payable for utility construction and maintenance. Various issues totaling \$2,883,100 at June 30, 2012. See audit notes for additional detail.
- ⇒ Bank and infrastructure loans for utility construction and maintenance. Loans total \$925,588 at June 30, 2012. See audit notes for additional detail.
- ⇒ Employee compensated absences payable after 60 days = \$3,593.
- ⇒ Radio read metering system, lease purchase at 5.04% Balance at June 30, 2012 is \$583,297

## ECONOMIC FACTORS AND NEXT YEARS BUDGET

Unemployment rate for the City of Greenup for 2012 is 7.3%. This rate is below the State of Kentucky rate at 8.2% and the national rate of 7.9%.

Inflationary trends in the City compares favorably to the state and national trend.

The following table summarizes the 2013 fiscal year budgeted expenses.

- ⇒ General Fund - \$493,787
- ⇒ Municipal Aid Program - \$26,495
- ⇒ Utility Fund - \$2,960,775
- ⇒ Total Budget - \$3,481,057

## REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of financial data for the City of Greenup. Requests for additional information should be addressed to:

City of Greenup  
1005 Walnut St  
Greenup, KY 41144

**CITY OF GREENUP  
STATEMENT OF NET ASSETS  
JUNE 30, 2012**

	Governmental Activities	Business-Type Activities	Total
<b>Assets:</b>			
Cash and cash equivalents	\$ 22,760	\$ 196,764	\$ 219,524
Accounts receivable	33,094	319,128	352,222
Allowance for uncollectible accounts	-	(2,239)	(2,239)
Internal balances, net	(255,237)	255,237	-
Other receivables	6,006	-	6,006
Restricted assets -			
Cash and cash equivalents	-	790	790
Materials and supplies inventory	-	87,261	87,261
Nondepreciable capital assets	36,000	2,714,460	2,750,460
Depreciable capital assets	1,020,711	16,356,891	17,377,602
Accumulated depreciation	(603,756)	(7,054,654)	(7,658,410)
Total assets	<u>259,578</u>	<u>12,873,638</u>	<u>13,133,216</u>
<b>Liabilities:</b>			
Accounts payable	24,355	391,672	416,027
Accrued wages	467	3,235	3,702
Other accrued liabilities	4,937	106,839	111,776
Customer deposits	-	227,960	227,960
Accrued compensated absences, current	707	9,635	10,342
Current portion of long-term debt	23,548	347,772	370,266
Accrued compensated absences, non-current	3,593	-	3,593
Capital lease obligation, non-current	198,840	497,841	697,735
Notes payable, non-current	-	830,072	830,072
Revenue bonds, non-current	-	2,716,300	2,716,300
Total liabilities	<u>256,447</u>	<u>5,131,326</u>	<u>5,387,773</u>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	230,567	7,624,712	7,855,279
Restricted	-	790	790
Unrestricted	(227,436)	116,810	(110,626)
Total net assets	<u>\$ 3,131</u>	<u>\$ 7,742,312</u>	<u>\$ 7,745,443</u>

The accompanying notes to the financial statements  
are an integral part of this statement.

**CITY OF GREENUP  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2012**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Governmental Activities:</b>							
General government	\$ 176,463	\$ 34,758	\$ -	\$ -	\$ (141,705)	\$ -	\$ (141,705)
Police department	174,854	-	5,512	-	(169,342)	-	(169,342)
Street department	28,646	-	30,027	-	1,381	-	1,381
Fire department	73,625	-	8,250	-	(65,375)	-	(65,375)
Debt service	10,724	-	-	-	(10,724)	-	(10,724)
Total governmental activities	<u>464,312</u>	<u>34,758</u>	<u>43,789</u>	<u>-</u>	<u>(385,765)</u>	<u>-</u>	<u>(385,765)</u>
<b>Business-Type Activities:</b>							
Utilities	3,036,482	2,593,775	-	253,884	-	(188,823)	(188,823)
Total business-type activities	<u>3,036,482</u>	<u>2,593,775</u>	<u>-</u>	<u>253,884</u>	<u>-</u>	<u>(188,823)</u>	<u>(188,823)</u>
Total primary government	<u>\$ 3,500,794</u>	<u>\$ 2,628,533</u>	<u>\$ 43,789</u>	<u>\$ 253,884</u>	<u>\$ (385,765)</u>	<u>\$ (188,823)</u>	<u>\$ (574,588)</u>
<b>General Revenues:</b>							
Property and other local taxes					\$ 203,478	\$ -	\$ 203,478
Franchise fees					71,863	-	71,863
Rental income					39,600	-	39,600
Occupational license fees					16,167	-	16,167
Interest income					38	340	378
Other income					33,254	-	33,254
Total general revenues					<u>364,400</u>	<u>340</u>	<u>364,740</u>
Change in net assets					(21,365)	(188,483)	(209,848)
Net assets, June 30, 2011					<u>24,496</u>	<u>7,930,795</u>	<u>7,955,291</u>
Net assets, June 30, 2012					<u>\$ 3,131</u>	<u>\$ 7,742,312</u>	<u>\$ 7,745,443</u>

The accompanying notes to financial statements are an integral part of this statement.

**CITY OF GREENUP  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2012**

	<u>General Fund</u>	<u>Special Revenue Street Fund</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Cash	\$ 10,663	\$ 12,097	\$ 22,760
Garbage fees receivable	3,067	-	3,067
Other receivables	6,006	-	6,006
Due from other funds	-	22,316	22,316
	<u>19,736</u>	<u>22,316</u>	<u>42,052</u>
Total assets	<u>\$ 19,736</u>	<u>\$ 34,413</u>	<u>\$ 54,149</u>
<b>Liabilities and fund balances</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 24,355	\$ -	\$ 24,355
Accrued wages	467	-	467
Due to other funds	277,553	-	277,553
Accrued expenses	4,937	-	4,937
Accrued compensated absences	707	-	707
	<u>308,019</u>	<u>-</u>	<u>308,019</u>
Total liabilities	<u>308,019</u>	<u>-</u>	<u>308,019</u>
<b>Fund balances</b>			
Unassigned	(288,283)	-	(288,283)
Assigned for special revenue funds	-	34,413	34,413
	<u>(288,283)</u>	<u>34,413</u>	<u>(253,870)</u>
Total fund balances	<u>(288,283)</u>	<u>34,413</u>	<u>(253,870)</u>
Total liabilities and fund balances	<u>\$ 19,736</u>	<u>\$ 34,413</u>	<u>\$ 54,149</u>

The accompanying notes to financial statements are  
an integral part of this statement.

**CITY OF GREENUP  
RECONCILIATION OF THE BALANCE SHEET -  
GOVERNMENTAL FUNDS TO THE  
STATEMENT OF NET ASSETS  
JUNE 30, 2012**

Total fund balances - Governmental Funds		\$ (253,870)
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets of \$1,056,711 net of accumulated depreciation of \$603,756 used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		452,955
Municipal Road Aid accounts receivable was not collected within the current period and therefore are not reported in the governmental funds.		30,027
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.		
Capital lease obligation	(222,388)	
Accrued compensated absences	(3,593)	(225,981)
Net assets - Governmental Activities		\$ 3,131

The accompanying notes to the financial statements  
are an integral part of this statement.

**CITY OF GREENUP**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Special Revenue</u>		<u>Total</u>
	<u>General</u>	<u>Street</u>	<u>Governmental</u>
	<u>Fund</u>	<u>Fund</u>	<u>Funds</u>
<b>Revenues</b>			
Property taxes	\$ 70,945	\$ -	\$ 70,945
Vehicle taxes	16,430	-	16,430
Occupational license fees	3,593	-	3,593
Business license fees	12,574	-	12,574
Franchise taxes	71,863	-	71,863
Insurance taxes	116,103	-	116,103
Garbage fees	24,758	-	24,758
Intergovernmental revenues	13,762	-	13,762
Interest	31	7	38
Rent	39,600	-	39,600
Other income	33,254	-	33,254
	<u>412,913</u>	<u>7</u>	<u>412,920</u>
<b>Expenditures</b>			
General government	177,632	-	177,632
Police department	157,899	-	157,899
Street department	-	-	-
Fire department	45,655	-	45,655
Debt service:			
Principal retirement	22,494	-	22,494
Interest	10,724	-	10,724
	<u>414,414</u>	<u>-</u>	<u>414,414</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,501)</u>	<u>7</u>	<u>(1,494)</u>
<b>Other financing sources (uses)</b>			
Transfers - in	-	-	-
Transfers - out	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	(1,501)	7	(1,494)
Fund balances beginning year	<u>(286,782)</u>	<u>34,406</u>	<u>(252,376)</u>
Fund balances end of year	<u>\$ (288,283)</u>	<u>\$ 34,413</u>	<u>\$ (253,870)</u>

The accompanying notes to financial statements are  
an integral part of this statement.

**CITY OF GREENUP  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2012**

Net change in fund balances - Governmental Funds \$ (1,494)

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.

Capital outlay	-	
Depreciation	(77,349)	
Excess of depreciation expense over capital outlay	(77,349)	(77,349)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 22,494

Municipal Road Aid funds were not collected within the current period and therefore are not reported in the governmental funds. 30,027

Generally, expenditures recognized in the fund financial statements are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred for the following:

Long-term portion of accrued compensated absences	4,957	
---	-------	--

Change in net assets Governmental Activities \$ (21,365)

The accompanying notes to the financial statements  
are an integral part of this statement.



**CITY OF GREENUP**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE-BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues</b>				
Property and other local taxes	\$ 302,027	\$ 302,027	\$ 275,341	\$ (26,866)
Intergovernmental revenues	16,000	16,000	13,762	(2,238)
Charges for service	35,795	35,795	34,758	(1,037)
Rent	34,500	34,500	39,600	5,100
Licenses and permits	11,065	11,065	16,167	5,102
Other income	51,965	51,965	33,285	(18,680)
	<u>451,532</u>	<u>451,532</u>	<u>412,913</u>	<u>(38,619)</u>
<b>Expenditures</b>				
General government	151,841	151,841	177,632	(25,791)
Police department	161,204	161,204	157,899	3,305
Fire department	47,020	47,020	45,665	1,355
Debt service	33,979	33,979	33,218	761
	<u>394,044</u>	<u>394,044</u>	<u>414,414</u>	<u>(20,370)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>57,488</u>	<u>57,488</u>	<u>(1,501)</u>	<u>(58,989)</u>
<b>Other financing sources (uses)</b>				
Issuance of debt	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	57,488	57,488	(1,501)	(58,989)
Fund balance, beginning of year	<u>(286,782)</u>	<u>(286,782)</u>	<u>(286,782)</u>	<u>-</u>
Fund balance, end of year	<u>\$ (229,294)</u>	<u>\$ (229,294)</u>	<u>\$ (288,283)</u>	<u>\$ (58,989)</u>

The accompanying notes to the financial statements  
are an integral part of this statement.

**CITY OF GREENUP**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE-BUDGET AND ACTUAL**  
**SPECIAL REVENUE - STREET FUND**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues</b>				
Intergovernmental revenues	\$ 23,250	\$ 23,250	\$ -	\$ (23,250)
Other income	<u>25</u>	<u>25</u>	<u>7</u>	<u>(18)</u>
Total revenues	<u>23,275</u>	<u>23,275</u>	<u>7</u>	<u>(23,268)</u>
<b>Expenditures</b>				
Street department	33,275	33,275	-	33,275
Capital outlay	-	-	-	-
Debt service	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>33,275</u>	<u>33,275</u>	<u>-</u>	<u>33,275</u>
Excess of revenues over (under) expenditures	<u>(10,000)</u>	<u>(10,000)</u>	<u>7</u>	<u>10,007</u>
Net change in fund balance	(10,000)	(10,000)	7	10,007
Fund balance, beginning of year	<u>34,406</u>	<u>34,406</u>	<u>34,406</u>	<u>-</u>
Fund balance, end of year	<u>\$ 24,406</u>	<u>\$ 24,406</u>	<u>\$ 34,413</u>	<u>\$ 10,007</u>

The accompanying notes to the financial statements  
are an integral part of this statement.

**CITY OF GREENUP**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2012**

	Utility Fund
<b>ASSETS:</b>	
Current assets:	
Cash and cash equivalents	\$ 196,764
Accounts receivable	319,128
Allowance for doubtful accounts	(2,239)
Due from other funds	277,553
Materials and supplies inventory	87,261
Total current assets	878,467
Restricted assets:	
Cash and cash equivalents	790
Total restricted assets	790
Capital assets:	
Property, plant and equipment	19,071,351
Less: accumulated depreciation	(7,054,654)
Total capital assets - net	12,016,697
Total assets	\$ 12,895,954
<b>LIABILITIES:</b>	
Current liabilities (payable from current assets):	
Accounts payable	\$ 391,672
Due to other funds	22,316
Accrued wages	3,235
Accrued expenses -	7,492
Accrued compensated absences	9,635
Accrued interest payable	99,347
Customer deposits	227,960
Current portion of capital lease obligation	85,456
Current portion of bonds payable	166,800
Current portion of notes payable	95,516
Total current liabilities	1,109,429
Long-term liabilities:	
Capital lease obligation	497,841
Revenue bonds payable	2,716,300
Notes payable	830,072
Total long-term liabilities	4,044,213
Total liabilities	5,153,642
<b>NET ASSETS:</b>	
Invested in capital assets, net of related debt	7,624,712
Restricted for debt payment and capital outlay	790
Unrestricted	116,810
Total net assets	\$ 7,742,312

The accompanying notes to the financial statements  
are an integral part of this statement.

**CITY OF GREENUP  
STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012**

	Utility Fund
OPERATING REVENUES:	
Water sales	\$ 2,377,401
Sewer service	166,027
Miscellaneous	50,347
Total operating revenues	2,593,775
OPERATING EXPENSES:	
Salaries, wages and related expenses	577,160
Health insurance	119,854
Contractual services	132,186
Materials and supplies	486,829
Repairs and maintenance	252,821
Fuel and oil	44,283
Utilities	424,509
Insurance	37,537
Office supplies	37,078
Rent	39,000
Depreciation	541,200
Miscellaneous	119,800
Total operating expenses	2,812,257
OPERATING LOSS	(218,482)
NON-OPERATING REVENUES (EXPENSES):	
Interest income	340
Interest expense	(224,225)
Total non-operating revenues (expenses)	(223,885)
LOSS BEFORE OPERATING TRANSFERS AND CAPITAL CONTRIBUTIONS	(442,367)
CAPITAL CONTRIBUTIONS	253,884
DECREASE IN NET ASSETS	(188,483)
NET ASSETS, June 30, 2011	7,930,795
NET ASSETS, June 30, 2012	\$ 7,742,312

The accompanying notes to the financial statements  
are an integral part of this statement.

**CITY OF GREENUP  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012**

	Utility Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash received from customers	\$ 2,492,153
Cash payments to suppliers for goods and services	(2,035,313)
Cash payments to employees	(594,808)
Other operating revenues	50,347
Net cash used for operating activities	<u>(87,621)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Acquisition and construction of capital assets	(454,155)
Proceeds from issuance of notes payable	669,222
Principal paid on long-term debt	(241,179)
Interest paid on long-term debt	(152,879)
Capital contributions	253,884
Net cash provided by capital and related financing activities	<u>74,893</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Interest income	340
Net cash provided by investing activities	<u>340</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(12,388)
CASH AND CASH EQUIVALENTS, June 30, 2011	<u>209,942</u>
CASH AND CASH EQUIVALENTS, June 30, 2012	<u>\$ 197,554</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES</b>	
Operating loss	\$ (218,482)
Adjustments:	
Depreciation	541,200
Changes in assets and liabilities:	
Increase in accounts receivable	(88,759)
Increase in inventories	(3,644)
Decrease in accounts payable	(344,826)
Decrease in accrued wages	(6,094)
Decrease in accrued compensated absences	(11,554)
Increase in due from other funds	2,148
Increase in other accrued liabilities	4,906
Increase in customer deposits	37,484
Net cash used for operating activities	<u>\$ (87,621)</u>

The accompanying notes to the financial statements  
are an integral part of this statement.

# CITY OF GREENUP

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Greenup, Kentucky ("the City") was incorporated in the year of 1818 and is considered a city of the fifth (5<sup>th</sup>) class under the laws of the State of Kentucky. The City operates under a Mayor-Council form of government and provides the following services: public safety (police and fire), street maintenance, water, solid waste management, wastewater treatment, recreation, public improvements and general administrative services.

The accounting policies of the City of Greenup, Kentucky conform to generally accepted accounting principles (GAAP), as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies:

#### Reporting Entity

In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic--but not the only--criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility including, but not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities.

#### Government-Wide and Fund Financial Statements

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

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

Separate financial statements are provided for governmental funds and proprietary funds. The City considers all governmental and proprietary funds to be major funds, due to their belief that all of these funds present financial information which is important to the financial statement users. Thus, individual governmental funds and individual proprietary funds are reported as separate columns in the fund financial statements.

## Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

The City reports the following major Governmental Funds:

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund - The Special Revenue Fund is used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. The City's only special revenue fund is the Street Fund.

The City reports the following Proprietary Fund:

Utility Fund - The Utility Fund is used to account for water and wastewater (sewer) services for the City and surrounding communities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City Utility Fund and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* 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. The principal operating revenue of the City's Enterprise Funds, are charges to customers for sales and services. The City also recognizes as operating revenue tap fees intended to recover the costs of connecting new customers to the utility system. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

### Budgeting

The City follows the procedures established by the Department for Local Government pursuant to Section 91A.050 of the Kentucky Revised Statutes in establishing budgetary data.

### Cash and Cash Equivalents

For purposes of the statement of cash flows, cash includes amounts held in checking accounts and certificates of deposit (including those held as restricted assets).

### Property Tax

Property taxes are generally levied on November 30 of each year based upon the assessed value as of February 1. The lien date for assessed taxes is March 1 of each fiscal year. Taxes are payable on or before March 1 of the following year. All unpaid taxes become delinquent after that date. An allowance is established for delinquent taxes to the extent that their collectibility is improbable. The assessed value of property upon which the levy for the 2012 fiscal year was based was \$40,698,337. The tax rate assessed for the year ended June 30, 2012 to finance general fund operations was \$.1430 per \$100 of valuation on real and tangible property.

The City has enacted an ordinance providing for eight percent tax on all insurance premiums covering property within the City limits. The tax is paid to the Kentucky Department of Insurance who in turn forwards the tax collections to the City.

### Inventories

Inventories are valued at cost (first-in, first-out method). Inventory in the Utility Fund consist of chemicals, repair parts, and other supplies.

### Capital Assets and Depreciation

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of five thousand dollars. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

All reported capital assets are depreciated with the exception of land and construction in progress.

The City provides for depreciation and obsolescence of such assets by annual charges to expense. These charges are calculated to depreciate, on a straight-line basis, the gross carrying amounts of depreciable assets over the following expected useful lives:

Buildings and improvements	7-40 years
Infrastructure	10 years
Vehicles and equipment	3-10 years
Office equipment	5 years
Other equipment	5-10 years
Sewer system	5-40 years
Water system	5-40 years



The City has elected not to report major general infrastructure assets retroactively; and therefore, infrastructure assets constructed prior to July 1, 2003 are not included in the City's financial statements.

#### Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect any such transactions as transfers.

#### Interfund Receivables and Payable

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

#### Compensated Absences

The City's accrued liabilities for future compensated absences are recorded to the extent the future leave (1) relates to rights attributable to employee services already rendered, (2) relates to rights that vest or accumulate, (3) where payment is probable, and (4) where amounts can be reasonably estimated. Amounts that normally would be paid with expendable available financial resources are recorded in the Governmental Fund Financial Statements. Amounts paid or payable within 60 days are deemed to be payable from expendable available resources. Liabilities for compensated absences are recorded in full in the Government-wide and Proprietary Fund financial statements.

#### Fund Balances

Beginning with fiscal year 2011, the City implemented GASB Statement 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance-amounts that are not in a spendable form (such as inventory) 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 decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the City takes the action to remove or change the constraint;
- Assigned fund balance-amounts the City intends to use for a specific purpose (such as encumbrances); intent can be expressed by the City Council or by an official or body to which the City delegates the authority;
- Unassigned fund balance-amounts that are available for any purpose; unassigned amounts are reported only in the General Fund.

When committed, assigned and unassigned resources are available for use, it is the City's policy to use committed and assigned resources first, then unassigned resources as they are needed.

#### Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or

improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of governments.

#### Use of Estimates

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

#### Reclassifications

Certain reclassifications have been made to June 30, 2011 information to conform with the 2012 presentation.

#### Recent Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has recently issued GASB No. 62, *Codification of Accounting and Financial Reporting Guidance*, that incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The requirements of GASB No. 62 are effective for fiscal year 2013 and thereafter. The City has not completed the process of the evaluation of GASB No. 62, but does not expect it to have an impact on its financial statements.

The Governmental Accounting Standards Board (GASB) has recently issued GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, that provides financial reporting guidance for deferred outflows and inflows of resources. While these elements were introduced and defined by Concepts Statement No. 4, *Elements of Financial Statements*, as a consumption and acquisition of net assets by the government that is applicable to a future reporting period, respectively, these elements have not been included in previous reporting guidance. The requirements of GASB No. 63 are effective for fiscal year 2013 and thereafter. The City has not completed the process of evaluating GASB No. 63, but it is expected to change only the formatting and naming of its statement of position and components thereof, with no overall financial impact.

The Governmental Accounting Standards Board (GASB) has recently issued GASB No. 65, *Items Previously Reported as Assets and Liabilities* which clarifies the use of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. This statement requires certain items which were previously reported as assets and liabilities to be reported as deferred outflows of resources, deferred inflows of resources and as revenues or expenses. The City has not completed the process of the evaluation of GASB No. 65; however, the City does expect it to have an impact on its future financial statements.

## **(2) DEPOSITS WITH FINANCIAL INSTITUTIONS**

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. This requires deposits to be 100% secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance (FDIC). The City does not have a formal policy regarding custodial credit risk.

At June 30, 2012, the carrying amount of the City's deposits (including amounts in restricted asset accounts) was \$220,314 and the bank balances totaled \$251,898. The difference between the carrying amounts and the bank balances was due to items in transit. The total of the bank balances were insured or collateralized with securities held by the City's agents in the City's name.

**(3) CAPITAL ASSETS**

A summary of changes in the City's capital assets is as follows:

	June 30, 2011	Increases	Decreases	June 30, 2012
<b><i>Governmental Activities</i></b>				
<b>Capital Assets, Not Depreciated:</b>				
Land	\$ 36,000	\$ -	\$ -	\$ 36,000
<b>Capital Assets, Depreciated:</b>				
Buildings	130,820	-	-	130,820
Automobiles and equipment	603,435	-	-	603,435
Infrastructure	286,456	-	-	286,456
Totals	<u>1,056,711</u>	<u>-</u>	<u>-</u>	<u>1,056,711</u>
Accumulated Depreciation:				
Buildings	123,177	3,106	-	126,283
Automobiles and equipment	310,967	45,597	-	356,564
Infrastructure	92,263	28,646	-	120,909
Totals	<u>526,407</u>	<u>77,349</u>	<u>-</u>	<u>603,756</u>
<b>Governmental Activities</b>				
<b>Capital Assets, Net</b>	<u>\$ 530,304</u>	<u>\$ (77,349)</u>	<u>\$ -</u>	<u>\$ 452,955</u>
<b><i>Business-type Activities</i></b>				
<b>Capital Assets, Not Depreciated:</b>				
Land	\$ 16,970	\$ -	\$ -	\$ 16,970
Construction in process	2,308,585	388,905	-	2,697,490
<b>Capital Assets, Depreciated:</b>				
Buildings	180,000	-	-	180,000
Building improvements	20,014	-	-	20,014
Office equipment	8,067	-	-	8,067
Automobiles and trucks	184,874	34,612	-	219,486
Other equipment	1,252,792	-	-	1,252,792
Operating plant and distribution system	14,645,894	30,638	-	14,676,532
Totals	<u>18,617,196</u>	<u>454,155</u>	<u>-</u>	<u>19,071,351</u>
Less accumulated depreciation	<u>6,513,454</u>	<u>541,200</u>	<u>-</u>	<u>7,054,654</u>
<b>Business-type Activities</b>				
<b>Capital Assets, Net</b>	<u>\$ 12,103,742</u>	<u>\$ (87,045)</u>	<u>\$ -</u>	<u>\$ 12,016,697</u>

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

Governmental activities:	
General government	\$ 3,788
Police	16,955
Streets	28,646
Fire	27,960
	<u>\$ 77,349</u>
Business-type activities:	
Utilities	\$ 541,200
	<u>\$ 618,549</u>

**(4) LONG-TERM LIABILITIES**

A summary of changes in the City's long-term liabilities is as follows:

<b><u>Governmental Activities</u></b>	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Due within one year
Other liabilities:					
Lease payable, 4.69% due January 6, 2020	\$ 244,882	\$ -	\$ 22,494	\$ 222,388	\$ 23,548
Compensated absences	8,550	-	4,957	3,593	-
Total Governmental Activities	<u>\$ 253,432</u>	<u>\$ -</u>	<u>\$ 27,451</u>	<u>\$ 225,981</u>	<u>\$ 23,548</u>
<b><u>Business-type Activities</u></b>	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Due within one year
Bonds payable:					
1975 W & S revenue bonds, 5.0%, due 2015	\$ 392,000	\$ -	\$ 90,000	\$ 302,000	\$ 95,000
1978 W & S revenue bonds, 5.0%, due 2018	142,000	-	18,000	124,000	18,000
1987 W & S revenue bonds, 7.5%, due 2027	311,000	-	11,000	300,000	11,000
1993 W & S revenue bonds, 5.25%, due 2033	308,000	-	6,500	301,500	7,000
1997 W & S revenue bonds, 4.75%, due 2038	792,000	-	15,500	776,500	16,000
1996 W & S revenue bonds, 4.875%, due 2035	338,500	-	7,500	331,000	7,500
1996 W & S revenue bonds, 4.875%, due 2035	24,400	-	600	23,800	600
2001 W & S revenue bonds, 4.75%, due 2041	300,000	-	4,700	295,300	4,700
2004 W & S revenue bonds, 4.50%, due 2044	435,000	-	6,000	429,000	7,000
Loans payable:					
Kentucky infrastructure loan payable, 4.0%, due 2013	76,762	-	29,796	46,966	30,999
Kentucky infrastructure loan payable, 2.0%	-	592,060	9,802	582,258	24,147
Loan payable, 5.25%, due January 10, 2022*	107,670	-	11,419	96,251	11,623
Bank loan payable, 5.83% due July 28, 2011*	71,934	-	71,934	-	-
Bank loan payable, 5.25% due July 29, 2018	-	225,000	24,887	200,113	28,747
Other liabilities:					
Lease payable, 5.04% due August 1, 2017	664,676	-	81,379	583,297	85,456
Total Business-type Activities	<u>\$ 3,963,942</u>	<u>\$ 817,060</u>	<u>\$ 389,017</u>	<u>\$ 4,391,985</u>	<u>\$ 347,772</u>

\* Unsecured loans.

#### Government Activities

Capital Lease - On January 6, 2006 the City entered into a lease agreement with the option to purchase a Fire Truck. The payment schedule calls for 15 annual installments of \$33,979 and is due on January 6, 2020. The interest rate on the lease is 4.69%. At June 30, 2012, \$390,000 has been capitalized under the capital lease with \$177,667 in related accumulated depreciation.

The minimum principal and interest repayment requirement on the capital lease obligation at June 30, 2012 is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 23,548	\$ 10,431	\$ 33,979
2014	24,653	9,326	33,979
2015	25,809	8,170	33,979
2016	27,020	6,959	33,979
2017	28,287	5,692	33,979
2018-2020	93,071	8,863	101,934
	<u>\$ 222,388</u>	<u>\$ 49,441</u>	<u>\$ 271,829</u>

#### Business-type Activities

The water and sewer revenue bonds are secured by an exclusive pledge of the gross revenues derived from operations of the City's water and sewer systems. In order to retire the bonds, the City is required to make monthly deposits to a sinking fund equal to one-sixth of the next succeeding semi-annual interest payment plus one-twelfth of the next annual principal payment.

The loans payable to the Kentucky Infrastructure Authority are secured by a pledge of the gross revenues derived from the operations of the City's sewer system. The security interest and source of payment is subordinate to the revenue bonds.

The minimum principal and interest repayment requirements on the City's debt for business-type activities at June 30, 2012 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 262,316	\$ 177,037	\$ 439,353
2014	262,036	166,046	428,082
2015	259,480	153,754	413,234
2016	160,910	141,119	302,029
2017	167,605	133,376	300,981
2018-2022	656,317	561,817	1,218,134
2023-2027	706,208	412,561	1,118,769
2028-2032	640,816	251,701	892,517
2033-2037	491,600	112,622	604,222
2038-2042	177,400	28,843	206,243
2043	24,000	1,080	25,080
	<u>\$ 3,808,688</u>	<u>\$ 2,139,956</u>	<u>\$ 5,948,644</u>

During 2010, the City secured a construction loan of \$1,381,963 from the Kentucky Infrastructure Authority to finance a waterline extension project to provide water services to approximately 300 residential users. During the course of the project, \$747,642 of the principal will be forgiven under the American Recovery and Reinvestment Act of 2009. Full principal and interest payments on the remaining amount of \$634,321 will commence within one year of project completion. At June 30, 2012 the City had draws under the loan totaling \$1,339,702, of which \$747,642 was forgiven and included in capital contributions. The remaining amount of \$592,060 was included in notes payable and as of June 30, 2012, had a balance of \$582,258.

Capital Lease - on September 5, 2007, the City entered into a lease agreement with the option to purchase water metering equipment. The payment schedule calls for 10 annual installments of \$115,344 and is due on August 1, 2017. The interest rate on the lease is 5.04%. At June 30, 2012, \$887,609 has been capitalized under the capital lease with \$361,208 in related accumulated depreciation.

The minimum principal and interest repayment requirement on the capital lease obligation at June 30, 2012 is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 85,456	\$ 29,888	\$ 115,344
2014	89,905	25,439	115,344
2015	94,499	20,845	115,344
2016	99,328	16,016	115,344
2017	104,373	10,971	115,344
2018	109,736	5,608	115,344
	<u>\$ 583,297</u>	<u>\$ 108,767</u>	<u>\$ 692,064</u>

**(5) INTERFUND RECEIVABLES AND PAYABLES**

The composition of interfund balances as of June 30, 2012 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Purpose</u>	<u>Amount</u>
Utility Fund	General Fund	Operations	\$ 277,553
Street Fund	Utility Fund	Operations	22,316
Total			<u>\$ 299,869</u>

**(6) RESTRICTED ASSETS**

Depreciation Fund

The water and sewer revenue bond ordinance requires the establishment and maintenance of a depreciation reserve fund. Monthly deposits of \$10,140 must be made to the depreciation reserve account. Currently, a balance of \$196,551 must be maintained in the account to provide for payment of the costs of extensions, improvements, renewals and replacements to the water and sewer system. Also, after payment of operating expenses and debt service deposits, any excess revenue must be transferred to the depreciation reserve account. At June 30, 2012, the City had such funds totaling \$790.

KIA Replacement and Debt Service Reserve

Under the KIA loan agreement, the City is required to set aside \$4,000 annually to provide payment of the costs of extensions, improvements, renewals and replacements to the sewer system, until the reserve account attains the required level of \$40,000. The balance of these replacement reserve accounts at June 30, 2012 was \$-0-, due to the first deposit not being required until December 1, 2012.

**(7) RISK MANAGEMENT**

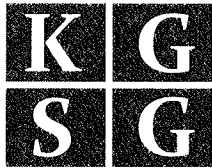
The City is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The City of Greenup has purchased certain policies which are retrospectively rated which include workers compensation.

**(8) PENSION PLAN**

During 2002, the City began making contributions to a simplified employee plan (SEP) on behalf of its employees. All employees are immediately eligible to participate and are 100% vested. The City contributes 5% of each employee's gross wages to the plan. Pension expense for the year ended June 30, 2012, was \$15,457.

**(9) CONTINGENCIES**

The City is subject to certain legal proceedings arising from normal business activities. Management believes that these actions are without merit or that the ultimate liability, if any, resulting from them will not materially affect the accompanying financial statements.



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS***

The Honorable Lundie Meadows, Mayor  
Members of the City Council  
City of Greenup  
Greenup, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Greenup, Kentucky (the "City") as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 18, 2015. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness. [2012-04].

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. We consider the deficiencies described in the accompany schedule of findings and questioned costs to be significant deficiencies. [2012-01, 2012-02 and 2012-03].

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying schedule of findings and responses as item 2012-04.

The City of Greenup's responses to the findings identified in are audit are described in the accompanying schedule of findings and responses. We did not audit the City of Greenup's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of City Council and management of the City of Greenup and is not intended to be and should not be used by anyone other than these specified users.

*Kelley Dalloway Smith Gumpel, P.C.*

June 18, 2015  
Ashland, Kentucky



## CITY OF GREENUP

### SCHEDULE OF FINDINGS AND RESPONSES

JUNE 30, 2012

#### **Finding 2012-01 Segregation of Duties:**

*Condition:* Review of internal control over accounting procedures indicates that there is a lack of segregation of duties. Specifically, the city clerk has duties relating to cash receipts, cash disbursements, payroll and all other accounting and recording activities and is also an authorized check signer.

*Criteria:* Proper internal control over accounting procedures cannot be maintained without adequate segregation of duties.

*Effect:* Lack of proper internal control over accounting procedures could subject the City's assets to risk.

*Recommendation:* We recommend that these duties be separated by utilizing existing personnel where possible.

*Management Response:* Accountant records payroll, reviews accounts payable, reconciles all cash and utility clerks enter majority of cash receipts. With small staff, duties have been segregated as much as possible.

#### **Finding 2012-02 Cash Disbursements:**

*Condition:* During our testing of cash disbursements, we noted that purchase orders are not being properly utilized. Additionally, we noted an employee travel reimbursement that was not signed by the employee and did not contain proper documentation of the travel purpose. Also, we noted that a signature stamp is utilized, but access to the stamp is not restricted.

*Criteria:* All disbursements should be supported by paid receipts and/or complete vendor provided invoices, along with any approved purchase orders, to ensure the obligation was actually incurred and the disbursement was an appropriate use of public funds. Additionally, signature stamp access should be restricted to the individual whose name is on the stamp.

*Effect:* Disbursements were not properly documented and dual signature controls could potentially be overridden.

*Recommendation:* We recommend that all disbursements be supported by the appropriate documentation to ensure the obligation was actually incurred and the disbursement was an appropriate use of public funds. Additionally, we recommend that signature stamp access be limited to the individual whose name is on the stamp.

*Management Response:* Clerk has been trained to adequately document travel / training expenses and employee signatures will be obtained. Signature stamp is no longer used.

**Finding 2012-03 Utility Adjustments:**

*Condition:* During our testing of utility adjustments, we noted that several adjustment forms were not properly completed. This included missing signatures of the person completing the adjustment form and the person approving the adjustment form. Also, utility adjustments were not reconciled to the general ledger.

*Criteria:* All utility adjustments should be properly documented with the signature of the person initiating and the person approving the adjustment, as well as documentation supporting the purpose of the adjustment, to ensure that all adjustments are allowable. Also, utility adjustments should be reconciled to the general ledger to ensure that an adjustment form has been completed for each adjustment.

*Effect:* Utility adjustments were not properly documented and inappropriate adjustments could potentially be recorded.

*Recommendation:* We recommend that all utility adjustments include proper documentation and be reconciled to the general ledger on a monthly basis.

*Management Response:* Utility staff has been trained on how to properly document adjustments. Form was created where signatures need to be obtained. Utility adjustments are recorded to the general ledger on a monthly basis. Form has section for adequate description of why adjustment is being completed.

**Finding 2012-04 Budget:**

*Condition:* During the year ended June 30, 2012, expenditures exceeded appropriated amounts as follow:

<u>Fund</u>	<u>Department</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General	General Government	\$ 151,841	\$ 177,632	\$ 25,791

Additionally, the General Fund had a deficit fund balance of \$288,283 at June 30, 2012.

*Effect:* Noncompliance with KRS 91A.030.

*Recommendation:* We recommend that the City implement a process whereby they monitor the budget versus actual financial results monthly in order to identify the need for budgetary amendments prior to the end of the fiscal year.

*Management Response:* Deficit Fund balance is being addressed since the adoption of the Occupational License Fee. City budgets are presented to Council with excess revenues over expenditures to reduce deficit fund balance. Budget is being monitored closely.