

**CITY OF GREENUP**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTAL INFORMATION**

**FOR THE YEAR ENDED JUNE 30, 2014**

**TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS**

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**K**elley **G**alloway  
**S**mith **G**oolsby, PSC

Certified Public Accountants and Advisors

1200 Corporate Court • P. O. Box 990 • Ashland, Kentucky 41105

• Phone (606) 329-1811 (606) 329-1171 • Fax (606) 329-8756 (606) 325-0590

• Web [www.ksgcpa.com](http://www.ksgcpa.com) Member of **Alliant** GLOBAL

## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the City of Greenup, Kentucky as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund and the Street Fund for the year then ended in conformity 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 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 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.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2017, on our consideration of the City of Greenup'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's internal control over financial reporting and compliance.

*Kelley Holloway Smith Auksoy, PSC*

Ashland, Kentucky  
January 18, 2017

# 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, 2014. 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 \$7,400,472 (net position). Governmental activities’ unrestricted net position is \$(140,595) and business type activities unrestricted net position is \$84,474.
- ⇒ The Government’s total net position decreased by \$149,153. Net position of governmental activities increased by \$33,896 and net position of business-type activities decreased by \$183,049.
- ⇒ At June 30, 2014, the governmental activities had \$436,494 in total assets and \$303,325 in total liabilities. Business type activities had \$12,041,077 in total assets and deferred outflows of resources and \$4,773,774 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 as well.

Government-wide financial statements include the Statement of Net Position and the Statement of Activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting system 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 Position presents information on all the Government’s assets and liabilities as of June 30, 2014. The net position is the difference between assets and liabilities. Over time, an increase or decrease in net position is one indicator of whether the financial health is improving or deteriorating. Information on other factors such as changes in the revenue structure and the condition of the Governments 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 Position

As of June 30, 2014, the Government as a whole had a net position greater than its liabilities by \$7,400,472. Net position of governmental activities is \$133,169 and increased by \$33,896 over the prior year. Of this net position \$273,764 is invested in capital assets (net of related debt), and \$(140,595) is unrestricted.

The net position of the Government's business-type activities is \$7,267,303 and decreased by \$183,049 over the prior year. Of this net position \$7,056,312 or 97% is invested in capital assets (net of related debt), \$126,517 is restricted and \$84,474 is unrestricted. The largest portion of the City's net position (95%) 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 position. Currently the unrestricted net position is \$(56,121). No unrestricted net position is available be used to meet the City's ongoing obligations to citizens and creditors.

At the end of this fiscal year June 30, 2014 the City is able to report positive balances in all categories of total net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

## ANALYSIS OF THE CITY'S NET POSITION

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ (59,558)	\$ (97,927)	\$ 752,877	\$ 1,025,983	\$ 693,319	\$ 928,056
Capital assets	<u>496,052</u>	<u>417,182</u>	<u>11,248,144</u>	<u>11,702,275</u>	<u>11,744,196</u>	<u>12,119,457</u>
Total assets	<u>436,494</u>	<u>319,255</u>	<u>12,001,021</u>	<u>12,728,258</u>	<u>12,473,515</u>	<u>13,047,513</u>
Current liabilities	113,777	44,150	947,868	1,046,018	1,061,645	1,090,168
Long-term liabilities	<u>189,548</u>	<u>175,832</u>	<u>3,825,906</u>	<u>4,231,888</u>	<u>4,015,454</u>	<u>4,407,720</u>
Total liabilities	<u>303,325</u>	<u>219,982</u>	<u>4,773,774</u>	<u>5,277,906</u>	<u>5,077,099</u>	<u>5,497,888</u>
Net position						
Invested in capital assets net of related debt	273,764	218,342	7,056,312	7,071,454	7,330,076	7,289,796
Restricted	-	-	126,517	274,416	126,517	274,416
Unrestricted	<u>(140,595)</u>	<u>(119,069)</u>	<u>84,474</u>	<u>104,482</u>	<u>(56,121)</u>	<u>(14,587)</u>
Total net position	<u>\$ 133,169</u>	<u>\$ 99,273</u>	<u>\$ 7,267,303</u>	<u>\$ 7,450,352</u>	<u>\$ 7,400,472</u>	<u>\$ 7,549,625</u>

## ANALYSIS OF THE CITY'S OPERATIONS

Revenues	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Taxes	\$ 213,114	\$ 223,397	\$ -	\$ -	\$ 213,114	\$ 223,397
Licenses and permits	188,399	172,425	-	-	188,399	172,425
Fees and fines	79,190	67,879	-	-	79,190	67,879
Rental income	39,850	39,150	-	-	39,850	39,150
Charges for services	35,384	36,233	2,834,936	2,757,713	2,870,320	2,793,946
Grant/other income	<u>118,128</u>	<u>80,392</u>	<u>151</u>	<u>152,490</u>	<u>118,279</u>	<u>232,882</u>
<b>Total</b>	<b>\$ <u>674,065</u></b>	<b>\$ <u>619,476</u></b>	<b>\$ <u>2,835,087</u></b>	<b>\$ <u>2,910,203</u></b>	<b>\$ <u>3,509,152</u></b>	<b>\$ <u>3,529,679</u></b>
Expenses	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
General government	\$ 223,197	\$ 221,343	-	-	\$ 223,197	\$ 221,343
Police	293,795	203,752	-	-	293,795	203,752
Fire	87,035	65,670	-	-	87,035	65,670
Streets	26,070	22,672	-	-	26,070	22,672
Capital outlay	-	-	-	-	-	-
Debt services/Depreciation	<u>10,072</u>	<u>9,897</u>	-	-	<u>10,072</u>	<u>9,897</u>
<b>Total governmental activities</b>	<b>\$ <u>640,169</u></b>	<b>\$ <u>523,334</u></b>	<b>-</b>	<b>-</b>	<b>\$ <u>640,169</u></b>	<b>\$ <u>523,334</u></b>
Utility fund			<u>\$ 3,018,136</u>	<u>\$ 3,202,163</u>	<u>3,018,136</u>	<u>3,202,163</u>
<b>Total primary government</b>					<b>\$ <u>3,658,305</u></b>	<b>\$ <u>3,725,497</u></b>
Change in net position	33,896	96,142	(183,049)	(291,960)	(149,153)	(195,818)
Net position beginning of year, June 30, 2013	<u>99,273</u>	<u>3,131</u>	<u>7,450,352</u>	<u>7,742,312</u>	<u>7,549,625</u>	<u>7,745,443</u>
Net position, June 30, 2014	<b>\$ <u>133,169</u></b>	<b>\$ <u>99,273</u></b>	<b>\$ <u>7,267,303</u></b>	<b>\$ <u>7,450,352</u></b>	<b>\$ <u>7,400,472</u></b>	<b>\$ <u>7,549,625</u></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 \$(167,293). The General fund has a negative fund balance of \$(188,173) and a positive fund balance of \$20,880 for the Street fund.

The General Fund at June 30, 2014 had revenues of \$645,427 and expenditures of \$681,615 and other financing sources of \$57,330 and a fund balance of \$(188,173).

The Municipal Aid Road Fund (Street Fund) at June 30, 2014 had revenues of \$21 and expenditures of \$71,032 and a fund balance of \$20,880.

## PROPRIETARY FUNDS

The City's proprietary fund (Utility fund) or business-type activities had total assets of \$12,023,337 and total liabilities of \$4,796,090 leaving net position of \$7,267,303. The Utility fund had \$2,834,936 in operating revenues, \$151 in interest income. Operating expense totaled \$2,882,387 and interest expense on debt service totaled \$135,749. The utility fund total expenses exceeded its revenues by \$(183,049).

## BUDGETARY HIGHLIGHTS

The City adopted a balanced budget as required by Kentucky Revised Statutes (KRS) for fiscal year 2014. The general fund revenues exceeded projections by \$51,237 and operating expenditures exceeded the budget by \$162,425.

## ASSET AND DEBT ADMINISTRATION

The City's investment in assets for governmental and business-type activities as of June 30, 2014 is \$52,970 for non-depreciable assets and \$11,691,226 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

<u>Asset</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total 2014</u>
Land	\$ 36,000	\$ 16,970	\$ 52,970
Construction In Progress			
Buildings and improvements	189,085	200,014	389,099
Automotive equipment	622,765	221,633	844,398
Operating equipment	-	1,347,742	1,347,742
Office equipment	-	13,367	13,367
Infrastructure	363,455	-	363,455
Utility plant	-	17,627,517	17,627,517
	<u>1,211,305</u>	<u>19,427,243</u>	<u>20,387,102</u>
Less depreciation	<u>(715,253)</u>	<u>(8,179,099)</u>	<u>(8,894,352)</u>
Total	<u>\$ 496,052</u>	<u>\$ 11,248,144</u>	<u>\$ 11,744,196</u>

## DEBT

At the end of fiscal year 2014 the City had governmental activities debt of \$224,207 compared to \$200,485 at June 30, 2013, which represents an increase of \$23,722. Business-type activities had debt of \$4,231,888 compared to \$4,686,382 at June 30, 2013, which represents a decrease of \$454,494. 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%	\$ 174,187
General fund lease payable at 3.90%	48,101
Compensated absences obligation	1,919
Total	<u>\$ 224,207</u>
<u>Business-Type Activities Debt</u>	<u>Amount</u>
Revenue bonds	\$ 3,586,250
Loans payable	645,638
Total	<u>\$ 4,231,888</u>

## DESCRIPTION OF MUNICIPAL DEBT

- ⇒ A lease for a new ladder truck. Balance at June 30, 2014 = \$174,187.
- ⇒ A lease for the purchase police car(s) at June 30, 2014 = \$48,101.
- ⇒ Utility revenue bonds payable for utility construction and maintenance. Various issues totaling \$3,586,250 at June 30, 2014. See audit notes for additional detail.
- ⇒ Bank and infrastructure loans for utility construction and maintenance. Loans total \$645,638 at June 30, 2014. See audit notes for additional detail.
- ⇒ Employee compensated absences payable after 60 days = \$1,919.

## ECONOMIC FACTORS AND NEXT YEARS BUDGET

Unemployment rate for the City of Greenup for 2014 is 7.2 %. This rate is above the State of Kentucky rate at 5.4% and the national rate of 5.6%.

Inflationary trends in the City is slightly higher than the state and national trend.

The following table summarizes the 2015 fiscal year budgeted expenses.

- ⇒ General Fund - \$576,918
- ⇒ Municipal Aid Program - \$78,850
- ⇒ Utility Fund - \$2,905,900
- ⇒ Total Budget - \$3,516,668

## 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 POSITION**  
**JUNE 30, 2014**

	Governmental Activities	Business-Type Activities	Total
<b>Assets:</b>			
Cash and cash equivalents	\$ 30,399	\$ 66,448	\$ 96,847
Accounts receivable	31,524	384,291	415,815
Allowance for uncollectible accounts	-	(93,514)	(93,514)
Internal balances, net	(138,179)	138,179	-
Other receivables	16,698	-	16,698
Restricted assets -			
Cash and cash equivalents	-	126,517	126,517
Materials and supplies inventory	-	130,956	130,956
Nondepreciable capital assets	36,000	16,970	52,970
Depreciable capital assets	1,175,305	19,410,273	20,585,578
Accumulated depreciation	(715,253)	(8,179,099)	(8,894,352)
Total assets	<u>436,494</u>	<u>12,001,021</u>	<u>12,437,515</u>
<b>Deferred outflows of resources:</b>			
Deferred savings from refunding bonds	-	40,056	40,056
Total deferred outflows of resources	<u>-</u>	<u>40,056</u>	<u>40,056</u>
<b>Liabilities:</b>			
Cash overdraft	12,993	-	12,993
Accounts payable	59,368	232,841	292,209
Accrued wages	1,136	5,838	6,974
Other accrued liabilities	5,243	27,839	33,082
Customer deposits	-	265,911	265,911
Accrued compensated absences, current	378	9,457	9,835
Current portion of long-term debt	34,659	405,982	440,641
Accrued compensated absences, non-current	1,919	-	1,919
Capital lease obligations, non-current	187,629	-	187,629
Notes payable, non-current	-	605,073	605,073
Revenue bonds, non-current	-	3,220,833	3,220,833
Total liabilities	<u>303,325</u>	<u>4,773,774</u>	<u>5,077,099</u>
<b>Net Position:</b>			
Invested in capital assets, net of related debt	273,764	7,056,312	7,330,076
Restricted	-	126,517	126,517
Unrestricted	(140,595)	84,474	(56,121)
Total net position	<u>\$ 133,169</u>	<u>\$ 7,267,303</u>	<u>\$ 7,400,472</u>

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

**CITY OF GREENUP**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2014**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities:</b>							
General government	\$ 223,197	\$ 35,384	\$ -	\$ -	\$ (187,813)	\$ -	\$ (187,813)
Police department	293,795	-	8,348	-	(285,447)	-	(285,447)
Street department	26,070	-	28,617	-	2,547	-	2,547
Fire department	87,035	-	8,250	-	(78,785)	-	(78,785)
Interest expense	10,072	-	-	-	(10,072)	-	(10,072)
Total governmental activities	<u>640,169</u>	<u>35,384</u>	<u>45,215</u>	<u>-</u>	<u>(559,570)</u>	<u>-</u>	<u>(559,570)</u>
<b>Business-Type Activities:</b>							
Utilities	3,018,136	2,834,936	-	-	-	(183,200)	(183,200)
Total business-type activities	<u>3,018,136</u>	<u>2,834,936</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(183,200)</u>	<u>(183,200)</u>
Total primary government	<u>\$ 3,658,305</u>	<u>\$ 2,870,320</u>	<u>\$ 45,215</u>	<u>\$ -</u>	<u>\$ (559,570)</u>	<u>\$ (183,200)</u>	<u>\$ (742,770)</u>
<b>General Revenues:</b>							
Property and other local taxes					\$ 213,114	\$ -	\$ 213,114
Franchise fees					79,190	-	79,190
Rental income					39,850	-	39,850
Occupational license fees					188,399	-	188,399
Interest income					73	151	224
Other income					72,840	-	72,840
Total general revenues					<u>593,466</u>	<u>151</u>	<u>593,617</u>
Change in net position					33,896	(183,049)	(149,153)
Net position, June 30, 2013					<u>99,273</u>	<u>7,450,352</u>	<u>7,549,625</u>
Net position, June 30, 2014					<u>\$ 133,169</u>	<u>\$ 7,267,303</u>	<u>\$ 7,400,472</u>

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

**CITY OF GREENUP  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2014**

	General	Special Revenue Fund Street Fund	Total Governmental Funds
<b>Assets</b>			
Cash	\$ 14,263	\$ 16,136	\$ 30,399
Garbage fees receivable	2,907	-	2,907
Other receivables	16,698	-	16,698
Due from other funds	-	27,331	27,331
<b>Total assets</b>	<b>\$ 33,868</b>	<b>\$ 43,467</b>	<b>\$ 77,335</b>
<b>Liabilities and fund balances</b>			
<b>Liabilities:</b>			
Cash overdraft	\$ 12,993	\$ -	\$ 12,993
Accounts payable	36,781	22,587	59,368
Accrued wages	1,136	-	1,136
Due to other funds	165,510	-	165,510
Accrued expenses	5,243	-	5,243
Accrued compensated absences	378	-	378
<b>Total liabilities</b>	<b>222,041</b>	<b>22,587</b>	<b>244,628</b>
<b>Fund balances</b>			
Unassigned	(188,173)	-	(188,173)
Assigned for special revenue funds	-	20,880	20,880
<b>Total fund balances</b>	<b>(188,173)</b>	<b>20,880</b>	<b>(167,293)</b>
<b>Total liabilities and fund balances</b>	<b>\$ 33,868</b>	<b>\$ 43,467</b>	<b>\$ 77,335</b>

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 POSITION**  
**JUNE 30, 2014**

Total fund balances - Governmental Funds		\$ (167,293)
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets of \$1,211,305 net of accumulated depreciation of \$715,253 used in governmental activities are not financial resources and therefore are not reported in the governmental funds:		496,052
Municipal Road Aid funds were not collected within current period and therefore are not reported in the governmental funds.		28,617
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.		
Capital lease obligation	(222,288)	
Accrued compensated absences	<u>(1,919)</u>	<u>(224,207)</u>
Net position - Governmental Activities		<u><u>\$ 133,169</u></u>

The accompanying notes to 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, 2014**

	General	Special Revenue Fund Street Fund	Total Governmental Funds
<b>Revenues</b>			
Property taxes	\$ 71,008	\$ -	\$ 71,008
Vehicle taxes	17,750	-	17,750
Occupational License Fees	176,329	-	176,329
Business license fees	12,070	-	12,070
Franchise taxes	79,190	-	79,190
Insurance taxes	124,356	-	124,356
Garbage fees	35,384	-	35,384
Intergovernmental revenues	16,598	-	16,598
Interest	52	21	73
Rent	39,850	-	39,850
Other income	72,840	-	72,840
<b>Total revenues</b>	<b>645,427</b>	<b>21</b>	<b>645,448</b>
<b>Expenditures</b>			
General government	244,200	-	244,200
Police department	334,991	-	334,991
Street department	-	71,032	71,032
Fire department	58,470	-	58,470
Debt service:			
Principal retirement	33,882	-	33,882
Interest	10,072	-	10,072
<b>Total expenditures</b>	<b>681,615</b>	<b>71,032</b>	<b>752,647</b>
Excess (deficiency) of revenues over (under) expenditures	(36,188)	(71,011)	(107,199)
<b>Other financing sources (uses)</b>			
Proceeds from capital lease	57,330	-	57,330
Transfers in	-	-	-
Transfers out	-	-	-
<b>Total other financing sources (uses)</b>	<b>57,330</b>	<b>-</b>	<b>57,330</b>
Net change in fund balance	21,142	(71,011)	(49,869)
Fund balances, beginning of year	(209,315)	91,891	(117,424)
Fund balances, end of year	\$ (188,173)	\$ 20,880	\$ (167,293)

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, 2014**

Net change in fund balances - Governmental Funds \$ (49,869)

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of these assets are 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	159,337	
Depreciation	(80,467)	
Excess of capital outlays over depreciation expense	78,870	78,870

The issuance of long-term debt provides current financial resources to governmental funds, while repayment of the principal and interest consumes current financial resources of governmental funds. This amount is the net effect of these differences in the treatment of long-term debt and related items. (23,448)

Municipal Road Aid funds were not collected within the current period and therefore are not reported in governmental funds in the current period. However, these funds were recorded in the statement of activities. 28,617

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	(274)
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Change in net position of Governmental Activities \$ 33,896

The accompanying notes to 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, 2014**

	Budget	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>				
Property and other local taxes	\$ 297,830	\$ 297,830	\$ 292,304	\$ (5,526)
Intergovernmental revenues	14,450	14,450	16,598	2,148
Charges for service	36,695	36,695	35,384	(1,311)
Rental income	40,250	40,250	39,850	(400)
Licenses and permits	163,025	163,025	188,399	25,374
Other income	41,940	41,940	72,892	30,952
	<u>594,190</u>	<u>594,190</u>	<u>645,427</u>	<u>51,237</u>
<b>Expenditures</b>				
General government	213,986	213,986	244,200	(30,214)
Police	209,074	209,074	334,991	(125,917)
Fire	62,150	62,150	58,470	3,680
Debt service	33,980	33,980	43,954	(9,974)
	<u>519,190</u>	<u>519,190</u>	<u>681,615</u>	<u>(162,425)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>75,000</u>	<u>75,000</u>	<u>(36,188)</u>	<u>(111,188)</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from capital lease	-	-	57,330	57,330
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>57,330</u>	<u>57,330</u>
Net change in fund balance	75,000	75,000	21,142	(53,858)
Fund balance, beginning of year	<u>(209,315)</u>	<u>(209,315)</u>	<u>(209,315)</u>	<u>-</u>
Fund balance, end of year	<u>\$ (134,315)</u>	<u>\$ (134,315)</u>	<u>\$ (188,173)</u>	<u>\$ (53,858)</u>

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

**CITY OF GREENUP**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**STREET FUND**  
**FOR THE YEAR ENDED JUNE 30, 2014**

	Original Budget	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>				
Intergovernmental revenues	\$ 26,625	\$ 26,625	\$ -	\$ (26,625)
Other income	10	10	21	11
<b>Total revenues</b>	<u>26,635</u>	<u>26,635</u>	<u>21</u>	<u>(26,614)</u>
<b>Expenditures</b>				
Street department	26,635	26,635	71,032	(44,397)
Capital outlay	-	-	-	-
Debt service	-	-	-	-
<b>Total expenditures</b>	<u>26,635</u>	<u>26,635</u>	<u>71,032</u>	<u>(44,397)</u>
Excess of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>(71,011)</u>	<u>(71,011)</u>
Net change in fund balance	-	-	(71,011)	(71,011)
Fund balance, beginning of year	<u>91,891</u>	<u>91,891</u>	<u>91,891</u>	<u>-</u>
Fund balance, end of year	<u>\$ 91,891</u>	<u>\$ 91,891</u>	<u>\$ 20,880</u>	<u>\$ (71,011)</u>

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

**CITY OF GREENUP  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2014**

	Utility Fund
<b>ASSETS</b>	
Current Assets:	
Cash and cash equivalents	\$ 66,448
Accounts receivable	384,291
Allowance for doubtful accounts	(93,514)
Due from other funds	160,495
Materials and supplies inventory	130,956
Total current assets	648,676
Restricted Assets:	
Cash and cash equivalents	126,517
Total restricted assets	126,517
Capital Assets:	
Property, plant and equipment	19,427,243
Less: Accumulated depreciation	(8,179,099)
Total capital assets - net	11,248,144
Total assets	12,023,337
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred savings from refunding bonds	40,056
Total assets and deferred outflows of resources	12,063,393
<b>LIABILITIES</b>	
Current liabilities (payable from current assets):	
Accounts payable	232,841
Due to other funds	22,316
Accrued wages	5,838
Accrued expenses	18,559
Accrued compensated absences	9,457
Accrued interest payable	9,280
Customer deposits	265,911
Current portion of bonds payable	365,417
Current portion of notes payable	40,565
Total current liabilities	970,184
Long-term liabilities:	
Revenue bonds payable	3,220,833
Notes payable	605,073
Total long-term liabilities	3,825,906
Total liabilities	4,796,090
<b>NET POSITION:</b>	
Invested in capital assets, net of related debt	7,056,312
Restricted for debt payment and capital outlay	126,517
Unrestricted	84,474
Total net position	\$ 7,267,303

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

**CITY OF GREENUP  
STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2014**

	Utility Fund
<b>OPERATING REVENUES:</b>	
Water sales	\$ 2,576,454
Sewer service	146,914
Miscellaneous	111,568
Total operating revenues	2,834,936
<b>OPERATING EXPENSES:</b>	
Salaries, wages and related expenses	724,417
Health insurance	178,028
Contractual services	183,178
Materials and supplies	486,977
Repairs and maintenance	178,720
Fuel and oil	58,092
Utilities	250,157
Insurance	40,184
Office supplies	42,928
Rent	37,600
Depreciation	627,625
Miscellaneous	74,481
Total operating expenses	2,882,387
<b>OPERATING LOSS</b>	<b>(47,451)</b>
<b>NON-OPERATING REVENUES (EXPENSES):</b>	
Interest income	151
Interest expense	(135,749)
Total non-operating revenues (expenses)	(135,598)
<b>LOSS BEFORE CAPITAL CONTRIBUTIONS</b>	<b>(183,049)</b>
<b>CAPITAL CONTRIBUTIONS</b>	<b>-</b>
<b>DECREASE IN NET POSITION</b>	<b>(183,049)</b>
<b>NET POSITION, JUNE 30, 2013</b>	<b>7,450,352</b>
<b>NET POSITION, JUNE 30, 2014</b>	<b>\$ 7,267,303</b>

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

**CITY OF GREENUP  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Utility Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash received from customers	\$ 2,781,571
Cash payments to suppliers for goods and services	(1,575,264)
Cash payments to employees	(720,868)
Other operating revenues	111,568
Net cash provided by operating activities	<u>597,007</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Acquisition and construction of capital assets	(173,494)
Principal paid on long-term debt	(454,494)
Interest paid on long-term debt	(123,494)
Net cash used for capital and related financing activities	<u>(751,482)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest income	151
Net cash provided by investing activities	<u>151</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(154,324)
<b>CASH AND CASH EQUIVALENTS, June 30, 2013</b>	<u>347,289</u>
<b>CASH AND CASH EQUIVALENTS, June 30, 2014</b>	<u>\$ 192,965</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating loss	\$ (47,451)
Adjustments:	
Depreciation	627,625
Changes in assets and liabilities:	
Decrease in accounts receivable	40,340
Increase in inventories	(39,070)
Decrease in accounts payable	(75,085)
Increase in accrued wages	856
Increase in accrued compensated absences	2,693
Increase in due from other funds	61,951
Increase in other accrued liabilities	7,285
Increase in customer deposits	17,863
Net cash provided by operating activities	<u>\$ 597,007</u>

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

# CITY OF GREENUP

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

### (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 position 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.

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 2014 fiscal year was based was \$40,763,102. The tax rate assessed for the year ended June 30, 2014 to finance general fund operations was \$.1487 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 position 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 position 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

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 Position

Net position represents the difference between assets and liabilities. Net position 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 position is 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, 2013 information to conform with the 2014 presentation.

Deferred Outflows/Inflows of Resources

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

**(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, 2014, the carrying amount of the City's deposits (including amounts in restricted asset accounts) was \$210,371 and the bank balances totaled \$367,090. 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:

<u>Governmental Activities</u>	<u>June 30,</u> <u>2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30,</u> <u>2014</u>
<b>Capital Assets, Not Depreciated:</b>				
Land	\$ 36,000	\$ -	\$ -	\$ 36,000
<b>Capital Assets, Depreciated:</b>				
Buildings	157,860	31,225	-	189,085
Automobiles and equipment	603,435	57,330	(38,000)	622,765
Infrastructure	292,673	70,782	-	363,455
Totals	<u>1,089,968</u>	<u>159,337</u>	<u>(38,000)</u>	<u>1,211,305</u>
<b>Accumulated Depreciation:</b>				
Buildings	127,905	4,621	-	132,526
Automobiles and equipment	395,223	50,026	(38,000)	407,249
Infrastructure	149,658	25,820	-	175,478
Totals	<u>672,786</u>	<u>80,467</u>	<u>(38,000)</u>	<u>715,253</u>
<b>Governmental Activities</b>				
<b>Capital Assets, Net</b>	<u>\$ 417,182</u>	<u>\$ 78,870</u>	<u>\$ -</u>	<u>\$ 496,052</u>

**Business-type Activities**

**Capital Assets, Not Depreciated:**

Land	\$ 16,970	\$ -	\$ -	\$ 16,970
Construction in process	2,806,147	25,000	(2,831,147)	-

**Capital Assets, Depreciated:**

Buildings	180,000	-	-	180,000
Building improvements	20,014	-	-	20,014
Office equipment	13,367	-	-	13,367
Automobiles and trucks	219,486	45,532	(43,385)	221,633
Other equipment	1,307,742	40,000	-	1,347,742
Operating plant and distribution system	<u>14,733,408</u>	<u>2,894,109</u>	<u>-</u>	<u>17,627,517</u>
Totals	<u>19,297,134</u>	<u>3,004,641</u>	<u>(2,874,532)</u>	<u>19,427,243</u>

Less accumulated depreciation	<u>7,594,859</u>	<u>627,625</u>	<u>(43,385)</u>	<u>8,179,099</u>
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**Business-type Activities**

<b>Capital Assets, Net</b>	<u>\$ 11,702,275</u>	<u>\$ 2,377,016</u>	<u>\$ (2,831,147)</u>	<u>\$ 11,248,144</u>
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Depreciation expense was allocated to functions/programs of the primary government as follows:

Governmental activities:		
General government		\$ 3,848
Police		16,134
Streets		25,820
Fire		34,665
		<u>\$ 80,467</u>
Business-type activities:		
Utilities		\$ 627,625
		<u>\$ 627,625</u>

**(4) LONG-TERM LIABILITIES**

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

<u>Governmental Activities</u>	<u>Balance June 30, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2014</u>	<u>Due within one year</u>
Other liabilities:					
Lease payable, 4.69% due January 6, 2020	\$ 198,840	\$ -	\$ 24,653	\$ 174,187	\$ 25,809
Lease payable, 3.90% due September 18, 2018	-	57,330	9,229	48,101	8,850
Compensated absences	<u>1,645</u>	<u>274</u>	<u>-</u>	<u>1,919</u>	<u>-</u>
Total Governmental Activities	<u>\$ 200,485</u>	<u>\$ 57,604</u>	<u>\$ 33,882</u>	<u>\$ 224,207</u>	<u>\$ 34,659</u>
<u>Business-type Activities</u>	<u>Balance June 30, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2014</u>	<u>Due within one year</u>
Bonds payable:					
2012F revenue bonds 2%-3%, due 2038	\$ 3,985,416	\$ -	\$ 399,166	\$ 3,586,250	\$ 365,417
Loans payable:					
Kentucky infrastructure loan payable, 4.0%, due 2014	15,967	-	15,967	-	-
Kentucky infrastructure loan payable, 2.0%, due 2032	600,372	-	27,113	573,259	27,658
Loan payable, 5.25%, due January 10, 2022*	<u>84,627</u>	<u>-</u>	<u>12,248</u>	<u>72,379</u>	<u>12,907</u>
Total Business-type Activities	<u>\$ 4,686,382</u>	<u>\$ -</u>	<u>\$ 454,494</u>	<u>\$ 4,231,888</u>	<u>\$ 405,982</u>

\* Unsecured loan.

### 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, 2014, \$390,000 has been capitalized under the capital lease with \$229,667 in related accumulated depreciation.

Capital Lease - On September 17, 2013 the City entered into a lease agreement with the option to purchase two police cars. The payment schedule calls for 5 annual installments of \$10,533 and is due on September 18, 2018. The interest rate on the lease is 3.90%. At June 30, 2014, \$57,330 has been capitalized under the capital lease with \$8,600 in related accumulated depreciation.

The minimum principal and interest repayment requirements on the capital lease obligations at June 30, 2014 is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 34,659	\$ 9,853	\$ 44,512
2016	36,237	8,275	44,512
2017	37,890	6,622	44,512
2018	39,619	4,892	44,511
2019	41,427	3,084	44,511
2020-2021	32,456	1,522	33,978
	<u>\$ 222,288</u>	<u>\$ 34,248</u>	<u>\$ 256,536</u>

### Business-type Activities

The 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, 2014 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 405,982	\$ 110,312	\$ 516,294
2016	355,440	100,802	456,242
2017	366,709	92,389	459,098
2018	284,278	83,703	367,981
2019	162,314	76,850	239,164
2020-2024	793,145	327,670	1,120,815
2025-2029	809,414	229,634	1,039,048
2030-2034	702,524	120,928	823,452
2035-2039	352,082	28,041	380,123
	<u>\$ 4,231,888</u>	<u>\$ 1,170,329</u>	<u>\$ 5,402,217</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 was forgiven under the American Recovery and Reinvestment Act of 2009. Full principal and interest payments on the remaining amount of \$634,321 commenced during fiscal year 2013. At June 30, 2014 \$573,259 was included in notes payable.

On December 20, 2012, the City issued \$4,150,000 in refunding bonds with rates ranging from 2%-3% to current refund \$2,883,100 of the series of 1975-2004 bonds with rates ranging from 4.5%-7.5%, \$192,208 of the bank loan with a rate of 5.25%, and \$576,721 of the radio meter capital lease with a rate of 5.04%.

The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$55,561. This difference, reported in the accompanying financial statements as a deferred outflow of resources, is being charged to operations through the year 2017 using the straight-line method. Additionally, the City reduced its total debt service payments over the following 25 years by \$268,262 and obtained an economic gain (difference between the present values of the debt service payments of the old and new bonds) of \$166,673.

**(5) INTERFUND RECEIVABLES AND PAYABLES**

The composition of interfund balances as of June 30, 2014 is as follows:

Receivable Fund	Payable Fund	Purpose	Amount
Utility Fund	General Fund	Operations	\$ 160,495
Street Fund	General Fund	Operations	5,015
Street Fund	Utility Fund	Operations	22,316
Total			<u>\$ 187,826</u>

**(6) RESTRICTED ASSETS**

Debt Service Reserve Fund

At June 30, 2014, the city was required to have \$103,750 for the 2012F revenue bonds in a debt service reserve fund. As of June 30, 2014, the City had reserve funds equal to the required amount.

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, 2014 was \$22,675.

**(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, 2014, was \$27,542.

**(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.



**Kelley Galloway  
Smith Goolsby, PSC**  
Certified Public Accountants and Advisors

1200 Corporate Court • P. O. Box 990 • Ashland, Kentucky 41105

• Phone (606) 329-1811 (606) 329-1171 • Fax (606) 329-8756 (606) 325-0590

• Web [www.ksgcpa.com](http://www.ksgcpa.com) Member of **Allinial** GLOBAL.

**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, 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 each major fund of the City of Greenup, Kentucky (the "City") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 18, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City'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 the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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. However, as described in the accompanying Schedule of Findings and Responses, we identified a deficiency in internal control over financial reporting that we considered to be a material weakness 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 Responses (2014-04) to be a material weakness.

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 accompanying schedule of findings and responses to be significant deficiencies (2014-01, 2014-02, 2014-03 and 2014-05).

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City'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 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 2014-04.

### **City of Greenup, Kentucky's Response to Findings**

City of Greenup's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. City of Greenup'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.

*Kelley Ballouway Smith Grovesby, PSC*

Ashland, Kentucky  
January 18, 2017

CITY OF GREENUP

SCHEDULE OF FINDINGS AND RESPONSES

JUNE 30, 2014

**Finding 2014-01 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 2014-02 Cash Disbursements:**

*Condition:* During our testing of cash disbursements, we noted that purchase orders are not being properly utilized. We noted several instances in which purchase orders were either not used, or lacked an approval signature.

*Criteria:* All payments for the procurement of goods or services should be supported by approved purchase orders to ensure the obligation was an appropriate use of public funds.

*Effect:* Failure to require approval for purchases of goods or services could potentially result in inappropriate expenditures not being detected in a timely manner.

*Recommendation:* We recommend that all disbursements for goods and services be supported by approved purchase orders to ensure the obligation was actually incurred and the disbursement was an appropriate use of public funds.

*Management Response:* Purchase orders will be utilized and new purchase order process will be implemented.

**Finding 2014-03 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.

CITY OF GREENUP

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)

JUNE 30, 2014

*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. Also, staff have been trained in billing procedures and city now has more experienced staff in this area.

**Finding 2014-04 Budget:**

*Condition:* During the year ended June 30, 2014, expenditures exceeded appropriated amounts as follow:

<u>Fund</u>	<u>Department</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General	General Government	\$ 213,986	\$ 244,200	\$ 30,214
General	Police	\$ 209,074	\$ 334,991	\$ 125,917

Additionally, the General Fund had a deficit fund balance of \$188,173 at June 30, 2014.

*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. Financial statements show significant progress in addressing this issue. City budgets are presented to Council with excess revenues over expenditures to reduce deficit fund balance. Budget is being monitored closely.

**Finding 2014-05 Utility Delinquent Accounts:**

*Condition:* During our testing of utility accounts receivable, it was noted that the billing register included several large past due balances that had been past due for an extended period of time.

CITY OF GREENUP

SCHEDULE OF FINDINGS AND RESPONSES (CONCLUDED)

JUNE 30, 2014

*Effect:* Allowing a large utility balance to accumulate reduces the ability of the customer to pay the balance and, ultimately, the likelihood of collection to the City.

*Recommendation:* We recommend that the City implement procedures to reduce these large balances and prevent future balances from becoming excessive.

*Management Response:* All current customers with delinquent accounts have had service turned off and they are scheduling regular turnoffs each month. Also, Accountant is working with attorney to initiate collection procedures on any inactive accounts.

**Finding 2014-06 Federal 941 Filings:**

*Condition:* During the year ended June 30, 2014, quarterly form 941 filings were not filed with the Internal Revenue Service.

*Effect:* Noncompliance with federal payroll tax filing requirements.

*Recommendation:* We recommend that the City implement procedures to ensure that all form 941 filings are filed in a timely manner and ensure that all past due filings are brought current.

*Management Response:* The City will file all past due 941's and ensure that all filings are completed by the due date. The clerk will be trained to complete the filings timely and a reference binder of IRS regulations will be created.