

CITY OF GREENUP

**FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

FOR THE YEAR ENDED JUNE 30, 2015

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT.....	2-3
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	4-9
BASIC FINANCIAL STATEMENTS:	
Government-wide Financial Statements -	
Statement of Net Position.....	10
Statement of Activities.....	11
Fund Financial Statements -	
Balance Sheet - Governmental Funds.....	12
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position.....	13
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	15
Statements of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund.....	16
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Special Revenue - Street Fund.....	17
Statement of Net Position - Proprietary Funds.....	18
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds.....	19
Statement of Cash Flows - Proprietary Funds.....	20
Notes to Financial Statements.....	21-28
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 <i>GOVERNMENT AUDITING STANDARDS</i>.....	29-30
SCHEDULE OF FINDINGS AND RESPONSES.....	31-33



**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.ksgcpcpa.com Member of **Allinial** 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, 2015, 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, 2015, 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 June 11, 2018, 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.

Katley Salloway Smith Brooksby, PSC

Ashland, Kentucky
June 11, 2018

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, 2015. 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 \$7,249,347 (net position). Governmental activities’ unrestricted net position is \$(66,780) and business type activities unrestricted net position is \$99,906.
- ⇒ The Government’s total net position decreased by \$151,125. Net position of governmental activities increased by \$71,308 and net position of business-type activities decreased by \$222,433.
- ⇒ At June 30, 2015, the governmental activities had \$426,593 in total assets and \$222,116 in total liabilities. Business type activities had \$11,394,919 in total assets and deferred outflows, and \$4,350,049 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, 2015. 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, 2015, the Government as a whole had a net position greater than its liabilities by \$7,249,347. Net position of governmental activities is \$204,477 and increased by \$71,308 over the prior year. Of these net assets \$271,257 is invested in capital assets (net of related debt), and \$(66,780) is unrestricted.

The net position of the Government's business-type activities is \$7,044,870 and decreased by \$222,433 over the prior year. Of this net position \$6,841,132 or 97% is invested in capital assets (net of related debt), \$103,832 is restricted and \$99,906 is unrestricted. The largest portion of the City's net position (97%) 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.

Currently the unrestricted net position is \$33,126. Unrestricted net position is available to be used to meet the City's ongoing obligations to citizens and creditors.

At the end of this fiscal year June 30, 2015 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 Position

	Governmental Activities		Business-type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ (32,298)	\$ (59,558)	\$ 707,880	\$ 752,877	\$ 675,582	\$ 693,319
Capital assets	<u>458,891</u>	<u>496,052</u>	<u>10,662,489</u>	<u>11,248,144</u>	<u>11,121,380</u>	<u>11,744,196</u>
Total assets	<u>426,593</u>	<u>436,494</u>	<u>11,370,369</u>	<u>12,001,021</u>	<u>11,796,962</u>	<u>12,473,515</u>
Current liabilities	68,689	113,777	860,124	947,868	928,813	1,061,645
Long-term liabilities	<u>153,427</u>	<u>189,548</u>	<u>3,489,925</u>	<u>3,825,906</u>	<u>3,643,352</u>	<u>4,015,454</u>
Total liabilities	<u>222,116</u>	<u>303,325</u>	<u>4,350,049</u>	<u>4,773,774</u>	<u>4,572,165</u>	<u>5,077,099</u>
Net assets						
Invested in capital assets net of related debt	271,257	273,764	6,841,132	7,056,312	7,112,389	7,330,076
Restricted	-	-	103,832	126,517	103,832	126,517
Unrestricted	<u>(66,780)</u>	<u>(140,595)</u>	<u>99,906</u>	<u>84,474</u>	<u>33,126</u>	<u>(56,121)</u>
Total net assets	<u>\$ 204,477</u>	<u>\$ 133,169</u>	<u>\$ 7,044,870</u>	<u>\$ 7,267,303</u>	<u>\$ 7,249,347</u>	<u>\$ 7,400,472</u>

Analysis of the City's Operations

	Governmental Activities		Business-type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Revenues						
Taxes	\$ 204,781	\$ 213,114	\$ -	\$ -	\$ 204,781	\$ 213,114
Licenses and permits	199,286	188,399	-	-	199,286	188,399
Fees and fines	72,493	79,190	-	-	72,493	79,190
Rental income	45,500	39,850	-	-	45,500	39,850
Charges for services	35,001	35,384	2,815,984	2,834,936	2,850,985	2,870,320
Grant/other income	108,184	118,128	124	151	108,308	118,279
Total	\$ 665,245	\$ 674,065	\$ 2,816,108	\$ 2,835,087	\$ 3,481,353	\$ 3,509,152
Expenses						
General government	\$ 209,678	\$ 223,197	-	-	\$ 209,678	\$ 223,197
Police	258,702	293,795	-	-	258,702	293,795
Fire	82,995	87,035	-	-	82,995	87,035
Streets	32,705	26,070	-	-	32,705	26,070
Capital outlay	-	-	-	-	-	-
Debt services/ Depreciation	9,857	10,072	-	-	9,857	10,072
Total governmental activities	\$ 593,937	\$ 640,169	-	-	\$ 593,937	\$ 640,169
Utility fund			\$ 3,038,541	\$ 3,018,136	3,038,541	3,018,136
Total primary government					\$ 3,632,478	\$ 3,658,305
Change in net assets	71,308	33,896	(222,433)	(183,049)	(151,125)	(149,153)
Net assets beginning of year, June 30, 2014	133,169	99,273	7,267,303	7,450,352	7,400,472	7,549,625
Net assets, June 30, 2015	\$ 204,477	\$ 133,169	\$ 7,044,870	\$ 7,267,303	\$ 7,249,347	\$ 7,400,472

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 \$(120,698). The General fund has a negative fund balance of \$(142,485) and a positive fund balance of \$21,787 for the Street fund.

The General Fund at June 30, 2015 had revenues of \$636,888 and expenditures of \$591,200 and a fund balance of \$(142,485).

The Municipal Aid Road Fund (Street Fund) at June 30, 2015 had revenues of \$1,027 and expenditures of \$120 and a fund balance of \$21,787.

Proprietary Funds

The City's proprietary fund (Utility fund) or business-type activities had total assets of \$11,408,685 and total liabilities of \$4,388,365 leaving net assets of \$7,044,870. The Utility fund had \$2,815,984 in operating revenues and \$124 in interest income. Operating expense totaled \$2,915,830 and interest expense on debt service totaled \$122,711. The utility fund total expenses exceeded its revenues by \$(222,433).

Budgetary Highlights

The City adopted a balanced budget as required by Kentucky Revised Statutes (KRS) for fiscal year 2015. The general fund revenues fell short of projections by \$3,652 and operating expenditures exceeded projections by \$49,340.

Asset and Debt Administration

The City's investment in capital assets for governmental and business-type activities as of June 30, 2015 is \$52,970 for non-depreciable assets and \$11,068,410 for depreciable capital assets (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, machinery and equipment, park facilities and roads.

CITY OF GREENUP-CAPITAL ASSETS

<u>Asset</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total 2015</u>
Land	\$ 36,000	\$ 16,970	\$ 52,970
Buildings and improvements	207,961	200,014	407,975
Automotive equipment	653,291	221,633	874,924
Operating equipment	-	1,347,742	1,347,742
Office equipment	-	13,367	13,367
Infrastructure	363,455	-	363,455
Utility plant	-	17,651,412	17,651,412
	<u>1,260,707</u>	<u>19,451,138</u>	<u>20,711,845</u>
Less depreciation	<u>(801,816)</u>	<u>(8,788,649)</u>	<u>(9,590,465)</u>
Total	<u>\$ 458,891</u>	<u>\$ 10,662,489</u>	<u>\$ 11,121,380</u>

Debt

At the end of fiscal year 2015 the City had governmental activities debt of \$189,663 compared to \$224,207 at June 30, 2014, which represents an decrease of \$34,544. Business-type activities had debt of \$3,845,907 compared to \$4,231,888 at June 30, 2014, which represents a decrease of \$385,981. 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%	\$ 148,378
General fund lease payable at 3.90%	39,256
Compensated absences obligation	2,029
Total	<u>\$ 189,663</u>

<u>Business-Type Activities Debt</u>	<u>Amount</u>
Revenue bonds	\$ 3,240,833
Loans payable	605,074
Total	<u>\$ 3,845,907</u>

Description of Municipal Debt

- ⇒ A lease for ladder truck. Balance at June 30, 2015 = \$148,378.
- ⇒ A lease for the purchase police car(s) at June 30, 2015 = \$39,256.
- ⇒ Utility revenue bonds payable for utility construction and maintenance. Various issues totaling \$3,240,833 at June 30, 2015. See audit notes for additional detail.
- ⇒ Bank and infrastructure loans for utility construction and maintenance. Loans total \$605,074 at June 30, 2015. See audit notes for additional detail.
- ⇒ Employee compensated absences payable after 60 days = \$2,029.

Economic Factors and Next Year's Budget

Unemployment rate for the City of Greenup for 2015 is 6.8 %. This rate is above the State of Kentucky rate at 5.3% and the national rate of 5.3%.

Inflationary trends in the City are consistent with the state and national trend.

The following table summarizes the 2016 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, 2015

	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and cash equivalents	\$ 27,450	\$ 67,781	\$ 95,231
Accounts receivable	58,784	433,477	492,261
Allowance for uncollectible accounts	-	(112,162)	(112,162)
Internal balances, net	(130,868)	130,868	-
Other receivables	12,336	-	12,336
Restricted assets -			
Cash and cash equivalents	-	103,832	103,832
Materials and supplies inventory	-	84,084	84,084
Nondepreciable capital assets	36,000	16,970	52,970
Depreciable capital assets	1,224,707	19,434,168	20,658,875
Accumulated depreciation	(801,816)	(8,788,649)	(9,590,465)
Total assets	<u>426,593</u>	<u>11,370,369</u>	<u>11,796,962</u>
Deferred outflows of resources:			
Deferred savings from refunding bonds	-	24,550	24,550
Total deferred outflows of resources	<u>-</u>	<u>24,550</u>	<u>24,550</u>
Liabilities:			
Accounts payable	24,897	172,699	197,596
Accrued wages	1,722	6,913	8,635
Other accrued liabilities	5,435	21,430	26,865
Customer deposits	-	295,169	295,169
Accrued compensated absences, current	399	7,931	8,330
Current portion of long-term debt	36,236	355,982	392,218
Accrued compensated absences, non-current	2,029	-	2,029
Capital lease obligations, non-current	151,398	-	151,398
Notes payable, non-current	-	563,258	563,258
Revenue bonds, non-current	-	2,926,667	2,926,667
Total liabilities	<u>222,116</u>	<u>4,350,049</u>	<u>4,572,165</u>
Net Position:			
Invested in capital assets, net of related debt	271,257	6,841,132	7,112,389
Restricted	-	103,832	103,832
Unrestricted	(66,780)	99,906	33,126
Total net position	<u>\$ 204,477</u>	<u>\$ 7,044,870</u>	<u>\$ 7,249,347</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, 2015**

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
Governmental Activities:							
General government	\$ 209,678	\$ 35,001	\$ -	\$ -	\$ (174,677)	\$ -	\$ (174,677)
Police department	258,702	-	10,075	-	(248,627)	-	(248,627)
Street department	32,705	-	28,356	-	(4,349)	-	(4,349)
Fire department	82,995	-	8,250	-	(74,745)	-	(74,745)
Interest expense	9,857	-	-	-	(9,857)	-	(9,857)
Total governmental activities	<u>593,937</u>	<u>35,001</u>	<u>46,681</u>	<u>-</u>	<u>(512,255)</u>	<u>-</u>	<u>(512,255)</u>
Business-Type Activities:							
Utilities	<u>3,038,541</u>	<u>2,815,984</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(222,557)</u>	<u>(222,557)</u>
Total business-type activities	<u>3,038,541</u>	<u>2,815,984</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(222,557)</u>	<u>(222,557)</u>
Total primary government	<u>\$ 3,632,478</u>	<u>\$ 2,850,985</u>	<u>\$ 46,681</u>	<u>\$ -</u>	<u>\$ (512,255)</u>	<u>\$ (222,557)</u>	<u>\$ (734,812)</u>
General Revenues:							
Property and other local taxes					\$ 204,781	\$ -	\$ 204,781
Franchise fees					72,493	-	72,493
Rental income					45,500	-	45,500
Occupational license fees					199,286	-	199,286
Interest income					65	124	189
Other income					61,438	-	61,438
Total general revenues					<u>583,563</u>	<u>124</u>	<u>583,687</u>
Change in net position					71,308	(222,433)	(151,125)
Net position, June 30, 2014					<u>133,169</u>	<u>7,267,303</u>	<u>7,400,472</u>
Net position, June 30, 2015					<u>\$ 204,477</u>	<u>\$ 7,044,870</u>	<u>\$ 7,249,347</u>

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

**CITY OF GREENUP
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015**

	General	Special Revenue Fund Street Fund	Total Governmental Funds
Assets			
Cash	\$ 26,407	\$ 1,043	\$ 27,450
Garbage fees receivable	2,837	-	2,837
Other receivables	12,336	-	12,336
Due from other funds	17,572	38,316	55,888
Total assets	\$ 59,152	\$ 39,359	\$ 98,511
Liabilities and fund balances			
Liabilities:			
Accounts payable	\$ 24,897	\$ -	\$ 24,897
Accrued wages	1,722	-	1,722
Due to other funds	169,184	17,572	186,756
Accrued expenses	5,435	-	5,435
Accrued compensated absences	399	-	399
Total liabilities	201,637	17,572	219,209
Fund balances			
Unassigned	(142,485)	-	(142,485)
Assigned for special revenue funds	-	21,787	21,787
Total fund balances	(142,485)	21,787	(120,698)
Total liabilities and fund balances	\$ 59,152	\$ 39,359	\$ 98,511

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, 2015

Total fund balances - Governmental Funds		\$	(120,698)
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets of \$1,260,707 net of accumulated depreciation of \$801,816 used in governmental activities are not financial resources and therefore are not reported in the governmental funds.			458,891
Municipal Road Aid funds were not collected within current period and therefore are not reported in the governmental funds.			55,947
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.			
Capital lease obligation	(187,634)		
Accrued compensated absences	(2,029)		(189,663)
Net position - Governmental Activities		\$	204,477

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, 2015

	General	Special Revenue Fund Street Fund	Total Governmental Funds
Revenues			
Property taxes	\$ 74,151	\$ -	\$ 74,151
Vehicle taxes	17,437	-	17,437
Occupational License Fees	189,590	-	189,590
Business license fees	9,696	-	9,696
Franchise taxes	72,493	-	72,493
Insurance taxes	113,193	-	113,193
Garbage fees	35,001	-	35,001
Intergovernmental revenues	18,325	1,026	19,351
Interest	64	1	65
Rent	45,500	-	45,500
Other income	61,438	-	61,438
Total revenues	636,888	1,027	637,915
Expenditures			
General government	204,255	-	204,255
Police department	267,562	-	267,562
Street department	-	120	120
Fire department	74,872	-	74,872
Debt service:			
Principal retirement	34,654	-	34,654
Interest	9,857	-	9,857
Total expenditures	591,200	120	591,320
Excess (deficiency) of revenues over (under) expenditures	45,688	907	46,595
Other financing sources (uses)			
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	-	-	-
Net change in fund balance	45,688	907	46,595
Fund balances, beginning of year	(188,173)	20,880	(167,293)
Fund balances, end of year	<u>\$ (142,485)</u>	<u>\$ 21,787</u>	<u>\$ (120,698)</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, 2015

Net change in fund balances - Governmental Funds \$ 46,595

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	49,402	
Depreciation	(86,563)	
	(37,161)	(37,161)

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. 34,654

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. 27,330

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	(110)	
	(110)	

Change in net position of Governmental Activities \$ 71,308

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, 2015

	Budget	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Property and other local taxes	\$ 309,215	\$ 309,215	\$ 277,274	\$ (31,941)
Intergovernmental revenues	17,550	17,550	18,325	775
Charges for service	35,500	35,500	35,001	(499)
Rental income	41,110	41,110	45,500	4,390
Licenses and permits	195,550	195,550	199,286	3,736
Other income	41,615	41,615	61,502	19,887
	<u>640,540</u>	<u>640,540</u>	<u>636,888</u>	<u>(3,652)</u>
Expenditures				
General government	218,122	218,122	204,255	13,867
Police	241,363	241,363	267,562	(26,199)
Fire	102,575	102,575	74,872	27,703
Debt service	78,480	78,480	44,511	33,969
	<u>640,540</u>	<u>640,540</u>	<u>591,200</u>	<u>49,340</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>45,688</u>	<u>45,688</u>
Other Financing Sources (Uses)				
Transfers	<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	-	-	45,688	45,688
Fund balance, beginning of year	<u>(188,173)</u>	<u>(188,173)</u>	<u>(188,173)</u>	<u>-</u>
Fund balance, end of year	<u>\$ (188,173)</u>	<u>\$ (188,173)</u>	<u>\$ (142,485)</u>	<u>\$ 45,688</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, 2015

	Original Budget	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Intergovernmental revenues	\$ 28,560	\$ 28,560	\$ 1,026	\$ (27,534)
Other income	40	40	1	(39)
Total revenues	<u>28,600</u>	<u>28,600</u>	<u>1,027</u>	<u>(27,573)</u>
Expenditures				
Street department	78,850	78,850	120	78,730
Capital outlay	-	-	-	-
Debt service	-	-	-	-
Total expenditures	<u>78,850</u>	<u>78,850</u>	<u>120</u>	<u>78,730</u>
Excess of revenues over (under) expenditures	<u>(50,250)</u>	<u>(50,250)</u>	<u>907</u>	<u>51,157</u>
Net change in fund balance	(50,250)	(50,250)	907	51,157
Fund balance, beginning of year	<u>50,250</u>	<u>50,250</u>	<u>20,880</u>	<u>(29,370)</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,787</u>	<u>\$ 21,787</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, 2015

	Utility Fund
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 67,781
Accounts receivable	433,477
Allowance for doubtful accounts	(112,162)
Due from other funds	169,184
Materials and supplies inventory	84,084
Total current assets	642,364
Restricted Assets:	
Cash and cash equivalents	103,832
Total restricted assets	103,832
Capital Assets:	
Property, plant and equipment	19,451,138
Less: Accumulated depreciation	(8,788,649)
Total capital assets - net	10,662,489
Total assets	11,408,685
DEFERRED OUTFLOWS OF RESOURCES	
Deferred savings from refunding bonds	24,550
Total assets and deferred outflows of resources	11,433,235
LIABILITIES	
Current liabilities (payable from current assets):	
Accounts payable	172,699
Due to other funds	38,316
Accrued wages	6,913
Accrued expenses	12,150
Accrued compensated absences	7,931
Accrued interest payable	9,280
Customer deposits	295,169
Current portion of bonds payable	314,167
Current portion of notes payable	41,815
Total current liabilities	898,440
Long-term liabilities:	
Revenue bonds payable	2,926,667
Notes payable	563,258
Total long-term liabilities	3,489,925
Total liabilities	4,388,365
NET POSITION:	
Invested in capital assets, net of related debt	6,841,132
Restricted for debt payment and capital outlay	103,832
Unrestricted	99,906
Total net position	\$ 7,044,870

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, 2015**

	<u>Utility Fund</u>
OPERATING REVENUES:	
Water sales	\$ 2,539,127
Sewer service	163,097
Miscellaneous	113,760
Total operating revenues	<u>2,815,984</u>
OPERATING EXPENSES:	
Salaries, wages and related expenses	717,974
Health insurance	194,778
Contractual services	245,143
Materials and supplies	424,728
Repairs and maintenance	231,940
Fuel and oil	31,002
Utilities	217,786
Insurance	65,473
Office supplies	47,740
Rent	45,000
Depreciation	609,550
Miscellaneous	84,716
Total operating expenses	<u>2,915,830</u>
OPERATING LOSS	<u>(99,846)</u>
NON-OPERATING REVENUES (EXPENSES):	
Interest income	124
Interest expense	(122,711)
Total non-operating revenues (expenses)	<u>(122,587)</u>
LOSS BEFORE CAPITAL CONTRIBUTIONS	<u>(222,433)</u>
CAPITAL CONTRIBUTIONS	<u>-</u>
DECREASE IN NET POSITION	(222,433)
NET POSITION, JUNE 30, 2014	<u>7,267,303</u>
NET POSITION, JUNE 30, 2015	<u>\$ 7,044,870</u>

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, 2015

	Utility Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 2,700,944
Cash payments to suppliers for goods and services	(1,600,674)
Cash payments to employees	(718,425)
Other operating revenues	113,760
Net cash provided by operating activities	495,605
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition and construction of capital assets	(23,895)
Principal paid on long-term debt	(385,981)
Interest paid on long-term debt	(107,205)
Net cash used for capital and related financing activities	(517,081)
 CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	124
Net cash provided by investing activities	124
 NET DECREASE IN CASH AND CASH EQUIVALENTS	
	(21,352)
 CASH AND CASH EQUIVALENTS, June 30, 2014	192,965
 CASH AND CASH EQUIVALENTS, June 30, 2015	\$ 171,613
 RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating loss	\$ (99,846)
Adjustments:	
Depreciation	609,550
Changes in assets and liabilities:	
Increase in accounts receivable	(30,538)
Decrease in inventories	46,872
Decrease in accounts payable	(60,142)
Increase in accrued wages	1,075
Decrease in accrued compensated absences	(1,526)
Increase in due from other funds	(8,689)
Increase in due to other funds	16,000
Decrease in other accrued liabilities	(6,409)
Increase in customer deposits	29,258
Net cash provided by operating activities	\$ 495,605

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

CITY OF GREENUP

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

(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 (5th) 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.

Based upon these criteria, the City has no component units to be reported in these financial statements.

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 Major 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.

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

Business-type Activities

Capital Assets, Not Depreciated:

Land	\$ 16,970	\$ -	\$ -	\$ 16,970
------	-----------	------	------	-----------

Capital Assets, Depreciated:

Buildings	180,000	-	-	180,000
Building improvements	20,014	-	-	20,014
Office equipment	13,367	-	-	13,367
Automobiles and trucks	221,633	-	-	221,633
Other equipment	1,347,742	-	-	1,347,742
Operating plant and distribution system	<u>17,627,517</u>	<u>23,895</u>	<u>-</u>	<u>17,651,412</u>
Totals	<u>19,427,243</u>	<u>23,895</u>	<u>-</u>	<u>19,451,138</u>

Less accumulated depreciation	<u>8,179,099</u>	<u>609,550</u>	<u>-</u>	<u>8,788,649</u>
-------------------------------	------------------	----------------	----------	------------------

Business-type Activities

Capital Assets, Net	<u>\$ 11,248,144</u>	<u>\$ (585,655)</u>	<u>\$ -</u>	<u>\$ 10,662,489</u>
---------------------	----------------------	---------------------	-------------	----------------------

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

Governmental activities:

General government	\$ 5,313
Police	21,665
Streets	32,585
Fire	<u>27,000</u>
	<u>\$ 86,563</u>

Business-type activities:

Utilities	<u>\$ 609,550</u>
	<u>\$ 609,550</u>

(4) LONG-TERM LIABILITIES

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

	Balance June 30, 2014	Additions	Reductions	Balance June 30, 2015	Due within one year
<i>Governmental Activities</i>					
Other liabilities:					
Lease payable, 4.69% due January 6, 2020	\$ 174,187	\$ -	\$ 25,809	\$ 148,378	\$ 27,019
Lease payable, 3.90% due September 18, 2018	48,101	-	8,845	39,256	9,217
Compensated absences	<u>1,919</u>	<u>110</u>	<u>-</u>	<u>2,029</u>	<u>-</u>
Total Governmental Activities	<u>\$ 224,207</u>	<u>\$ 110</u>	<u>\$ 34,654</u>	<u>\$ 189,663</u>	<u>\$ 36,236</u>
<i>Business-type Activities</i>					
Bonds payable:					
2012F revenue bonds 2%-3%, due 2038	\$ 3,586,250	\$ -	\$ 345,417	\$ 3,240,833	\$ 314,167
Loans payable:					
Kentucky infrastructure loan payable, 2.0%, due 2032	573,259	-	27,658	545,601	28,214
Loan payable, 5.25%, due January 10, 2022*	<u>72,379</u>	<u>-</u>	<u>12,906</u>	<u>59,473</u>	<u>13,601</u>
Total Business-type Activities	<u>\$ 4,231,888</u>	<u>\$ -</u>	<u>\$ 385,981</u>	<u>\$ 3,845,907</u>	<u>\$ 355,982</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, 2015, \$390,000 has been capitalized under the capital lease with \$255,667 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, 2015, \$57,330 has been capitalized under the capital lease with \$20,066 in related accumulated depreciation.

The minimum principal and interest repayment requirements on the capital lease obligations at June 30, 2015 is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 36,236	\$ 8,276	\$ 44,512
2017	37,890	6,622	44,512
2018	39,619	4,893	44,512
2019	41,433	3,079	44,512
2020	32,456	1,522	33,978
	<u>\$ 187,634</u>	<u>\$ 24,392</u>	<u>\$ 212,026</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, 2015 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 355,982	\$ 100,802	\$ 456,784
2017	366,709	92,389	459,098
2018	284,278	83,703	367,981
2019	162,314	76,850	239,164
2020	152,881	72,723	225,604
2021-2025	808,469	309,457	1,117,926
2026-2030	800,028	208,431	1,008,459
2031-2035	647,746	99,514	747,260
2036-2039	267,500	16,148	283,648
	<u>\$ 3,845,907</u>	<u>\$ 1,060,017</u>	<u>\$ 4,905,924</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, 2015 \$545,601 was included in notes payable.

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 (2015-01, 2015-02, 2015-03, 2015-05, 2015-06 and 2015-07).

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 2015-04.

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.

Kathleen Holloway Smith Beakley, CPA

Ashland, Kentucky
June 11, 2018

CITY OF GREENUP

SCHEDULE OF FINDINGS AND RESPONSES

JUNE 30, 2015

Finding 2015-01 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 2015-02 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 2015-03 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.

CITY OF GREENUP

SCHEDULE OF FINDINGS AND RESPONSES (CONCLUDED)

JUNE 30, 2015

Recommendation: We recommend that the City implement procedures to ensure that approval of all timesheets is documented on the timesheet.

Management Response: Accountant has told the clerk that all timesheet approvals need to be made in the future. They need to be signed, so she knows that they reviewed.

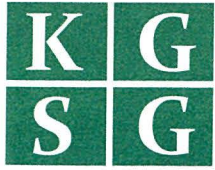
Finding 2015-07:

Condition: As of June 30, 2015, no funds were reserved as required by the F209-17 Kentucky Infrastructure Authority assistance agreement.

Effect: Noncompliance with assistance agreement provisions.

Recommendation: We recommend that the City immediately deposit funds into a replacement reserve account in accordance with the terms of the assistance agreement.

Management Response: Funds were set aside in the Depreciation account for this purpose. Clerk has been told to maintain these funds for this purpose.



**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.kgsgcpa.com Member of  **Allnia** GLOBAL.

To the 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”) for the year ended June 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated November 16, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management’s estimate of depreciation is based on historical trends and industry standards. We evaluated the key factors and assumptions used to develop the estimate of depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

Management’s estimate of the allowance for doubtful accounts is based on historical loss levels and an analysis of the collectibility of individual accounts. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 11, 2018.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.


Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the management's discussion and analysis information, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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



Ashland, Kentucky

June 11, 2018