

CITY OF GREENUP

**FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

FOR THE YEAR ENDED JUNE 30, 2016

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS

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INDEPENDENT AUDITOR'S REPORT

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

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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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, 2016, 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 August 29, 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.

Kelley Holloway Smith, CPA, PSC

Ashland, Kentucky
August 29, 2018

City of Greenup
Management's 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, 2016. 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 \$7,237,564 (net position). Governmental activities' unrestricted net position is \$(49,242) and business type activities unrestricted net position is \$201,122.
- ⇒ The Government's total net position decreased by \$11,783. Net position of governmental activities decreased by \$5,094 and net position of business-type activities decreased by \$6,689.
- ⇒ At June 30, 2016, the governmental activities had \$797,835 in total assets and \$598,452 in total liabilities. Business type activities had \$11,010,665 in total assets and \$3,972,484 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, 2016. 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 Government's assets is also needed to assess the overall financial position of the Government.

The Statement of Activities presents the Government's annual revenues and expenses, as well as any other transactions that increase or reduce net assets. Program revenues are offset by program expenses to provide better information as to program costs financed by general government revenues.

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

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

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

Reporting the City's Most Significant Funds

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

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

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

Analysis of the Government as a Whole

Net Position

As of June 30, 2016, the Government as a whole had a net position greater than its liabilities by \$7,237,564. Net position of governmental activities is \$199,383 and decreased by \$5,094 over the prior year. Of these net assets \$248,625 is invested in capital assets (net of related debt), and \$(49,242) is unrestricted.

The net position of the Government's business-type activities is \$7,038,181 and decreased by \$6,689 over the prior year. Of this net position \$6,633,309 or 94% is invested in capital assets (net of related debt), \$203,750 is restricted and \$201,122 is unrestricted. The largest portion of the City's net position (94%) 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 government as a whole, total unrestricted net position is \$151,880. No governmental activities 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, 2016 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	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 37,817	\$ (32,298)	\$ 887,431	\$ 707,880	\$ 925,248	\$ 675,582
Capital assets	<u>760,018</u>	<u>458,891</u>	<u>10,114,189</u>	<u>10,662,489</u>	<u>10,874,207</u>	<u>11,121,380</u>
Total assets	<u>797,835</u>	<u>426,593</u>	<u>11,001,620</u>	<u>11,370,369</u>	<u>11,799,455</u>	<u>11,796,962</u>
Current liabilities	139,365	68,689	849,839	860,124	989,204	928,813
Long-term liabilities	<u>459,087</u>	<u>153,427</u>	<u>3,122,645</u>	<u>3,489,925</u>	<u>3,581,732</u>	<u>3,643,352</u>
Total liabilities	<u>598,452</u>	<u>222,116</u>	<u>3,972,484</u>	<u>4,350,049</u>	<u>4,570,936</u>	<u>4,572,165</u>
Net assets						
Invested in capital assets net of related debt	248,625	271,257	6,633,309	6,841,132	6,881,934	7,112,389
Restricted	-	-	203,750	103,832	203,750	103,832
Unrestricted	<u>(49,242)</u>	<u>(66,780)</u>	<u>201,122</u>	<u>99,906</u>	<u>151,880</u>	<u>33,126</u>
Total net assets	<u>\$ 199,383</u>	<u>\$ 204,477</u>	<u>\$ 7,038,181</u>	<u>\$ 7,044,870</u>	<u>\$ 7,237,564</u>	<u>\$ 7,249,347</u>

Analysis of the City's Operations

Revenues	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Taxes	\$ 238,240	\$ 204,781	\$ -	\$ -	\$ 238,240	\$ 204,781
Licenses and permits	204,203	199,286	-	-	204,203	199,286
Fees and fines	75,592	72,493	-	-	75,592	72,493
Rental income	45,710	45,500	-	-	45,710	45,500
Charges for services	34,287	35,001	2,925,458	2,815,984	2,959,745	2,850,985
Grant/other income	82,133	108,184	63,634	124	145,767	108,308
Total	\$ 680,165	\$ 665,245	\$ 2,989,092	\$ 2,816,108	\$ 3,669,257	\$ 3,481,353

Expenses	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
General government	\$ 189,061	\$ 209,678	-	-	\$ 189,061	\$ 209,678
Police	276,247	258,702	-	-	276,247	258,702
Fire	181,497	82,995	-	-	181,497	82,995
Streets	32,585	32,705	-	-	32,585	32,705
Capital outlay	-	-	-	-	-	-
Debt services/Depreciation	5,869	9,857	-	-	5,869	9,857
Total governmental activities	\$ 685,259	\$ 593,937	-	-	\$ 685,259	\$ 593,937
Utility fund			\$ 2,995,781	\$ 3,038,541	2,995,781	3,038,541
Total primary government					\$ 3,681,040	\$ 3,632,478
Change in net assets	(5,094)	71,308	(6,689)	(222,433)	(11,783)	(151,125)
Net assets beginning of year, June 30, 2015	204,477	133,169	7,044,870	7,267,303	7,249,347	7,400,472
Net assets beginning of year, June 30, 2016	\$ 199,383	\$ 204,477	\$ 7,038,181	\$ 7,044,870	\$ 7,237,564	\$ 7,249,347

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 \$(125,830). The General fund has a negative fund balance of \$(107,332) and a negative fund balance of \$(18,498) in the Street fund.

The General Fund at June 30, 2016 had revenues of \$656,515 and capital lease proceeds of \$360,000 with expenditures of \$981,362 and a fund balance of \$(107,332).

The Municipal Aid Road Fund (Street Fund) at June 30, 2016 had revenues of \$1 and expenditures of \$40,286 and a fund balance of \$(18,498).

Proprietary Funds

The City's proprietary fund (Utility fund) or business-type activities had total assets of \$11,039,936 and total liabilities of \$4,010,800 leaving net assets of \$7,038,181. The Utility fund had \$2,925,458 in operating revenues, \$63,303 in capital contributions and \$331 in interest income. Operating expense totaled \$2,879,805 and interest expense on debt service totaled \$115,976. The utility fund total expenses exceeded its revenues by \$(69,992).

Budgetary Highlights

The City adopted a balanced budget as required by Kentucky Revised Statutes (KRS) for fiscal year 2016. The general fund revenues exceeded projections by \$14,955 and operating expenditures came in under budget by \$20,198.

Asset and Debt Administration

The City's investment in assets for governmental and business-type activities as of June 30, 2016 is \$52,970 for non-depreciable assets and \$10,821,237 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 2016</u>
Land	\$ 36,000	\$ 16,970	\$ 52,970
Construction In Progress	-	-	-
Buildings and improvements	207,961	200,014	407,975
Automotive equipment	1,021,753	221,633	1,243,386
Operating equipment	-	1,347,742	1,347,742
Office equipment	-	25,648	25,648
Infrastructure	403,741	-	403,741
Utility plant	-	17,685,229	17,685,229
	<u>1,669,455</u>	<u>19,497,236</u>	<u>21,166,691</u>
Less depreciation	<u>(909,437)</u>	<u>(9,383,047)</u>	<u>(10,292,484)</u>
Total	<u>\$ 760,018</u>	<u>\$ 10,114,189</u>	<u>\$ 10,874,207</u>

Debt

At the end of fiscal year 2016 the City had governmental activities debt of \$514,402 compared to \$189,663 at June 30, 2015, which represents an increase of \$324,739. Business-type activities has debt of \$3,489,925 compared to \$3,845,907 at June 30, 2015, which represents a decrease of \$355,982. 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%	\$ 121,359
General fund lease payable at 3.90%	30,034
General fund lease payable at 4.33%	360,000
Compensated absences obligation	3,009
Total	<u>\$ 514,402</u>

<u>Business-Type Activities Debt</u>	<u>Amount</u>
Revenue bonds	\$ 2,926,667
Loans payable	563,258
Total	<u>\$ 3,489,925</u>

Description of Municipal Debt

- ⇒ A lease for ladder truck. Balance at June 30, 2016 = \$121,359.
- ⇒ A lease for the purchase police car(s) at June 30, 2016 = \$30,034.
- ⇒ A lease for a fire truck. Balance at June 30, 2016 = \$360,000
- ⇒ Utility revenue bonds payable for utility construction and maintenance. Various issues totaling \$2,926,667 at June 30, 2016. See audit notes for additional detail.
- ⇒ Bank and infrastructure loans for utility construction and maintenance. Loans total \$563,258 at June 30, 2016. See audit notes for additional detail.
- ⇒ Employee compensated absences payable after 60 days = \$3,009.

Economic Factors and Next Year's Budget

Unemployment rate for the City of Greenup for 2016 is 8.4 %. This rate is above the State of Kentucky rate at 5.2% and the national rate of 4.7%.

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

The following table summarizes the 2017 fiscal year budgeted expenses.

- ⇒ General Fund - \$634,825
- ⇒ Municipal Aid Program - \$22,205
- ⇒ Utility Fund - \$2,779,640
- ⇒ Total Budget - \$3,436,670

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, 2016

	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and cash equivalents	\$ 50,469	\$ 208,484	\$ 258,953
Accounts receivable	82,401	416,970	499,371
Allowance for uncollectible accounts	-	(113,408)	(113,408)
Internal balances, net	(106,208)	106,208	-
Other receivables	11,155	-	11,155
Restricted assets -			
Cash and cash equivalents	-	203,750	203,750
Materials and supplies inventory	-	65,427	65,427
Nondepreciable capital assets	36,000	16,970	52,970
Depreciable capital assets	1,633,455	19,480,266	21,113,721
Accumulated depreciation	(909,437)	(9,383,047)	(10,292,484)
Total assets	<u>797,835</u>	<u>11,001,620</u>	<u>11,799,455</u>
Deferred outflows of resources:			
Deferred savings from refunding bonds	-	9,045	9,045
Total deferred outflows of resources	<u>-</u>	<u>9,045</u>	<u>9,045</u>
Liabilities:			
Cash overdraft	18,824	-	18,824
Accounts payable	61,906	105,996	167,902
Other accrued liabilities	2,728	29,725	32,453
Customer deposits	-	330,933	330,933
Accrued compensated absences, current	592	15,905	16,497
Current portion of long-term debt	55,315	367,280	422,595
Accrued compensated absences, non-current	3,009	-	3,009
Capital lease obligations, non-current	456,078	-	456,078
Notes payable, non-current	-	520,145	520,145
Revenue bonds, non-current	-	2,602,500	2,602,500
Total liabilities	<u>598,452</u>	<u>3,972,484</u>	<u>4,570,936</u>
Net Position:			
Invested in capital assets, net of related debt	248,625	6,633,309	6,881,934
Restricted	-	203,750	203,750
Unrestricted	(49,242)	201,122	151,880
Total net position	<u>\$ 199,383</u>	<u>\$ 7,038,181</u>	<u>\$ 7,237,564</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, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General government	\$ 189,061	\$ 34,287	\$ -	\$ -	\$ (154,774)	\$ -	\$ (154,774)
Police department	276,247	-	9,300	-	(266,947)	-	(266,947)
Street department	32,585	-	23,650	-	(8,935)	-	(8,935)
Fire department	181,497	-	8,250	-	(173,247)	-	(173,247)
Interest expense	5,869	-	-	-	(5,869)	-	(5,869)
Total governmental activities	<u>685,259</u>	<u>34,287</u>	<u>41,200</u>	<u>-</u>	<u>(609,772)</u>	<u>-</u>	<u>(609,772)</u>
Business-Type Activities:							
Utilities	2,995,781	2,925,458	-	63,303	-	(7,020)	(7,020)
Total business-type activities	<u>2,995,781</u>	<u>2,925,458</u>	<u>-</u>	<u>63,303</u>	<u>-</u>	<u>(7,020)</u>	<u>(7,020)</u>
Total primary government	<u>\$ 3,681,040</u>	<u>\$ 2,959,745</u>	<u>\$ 41,200</u>	<u>\$ 63,303</u>	<u>\$ (609,772)</u>	<u>\$ (7,020)</u>	<u>\$ (616,792)</u>
General Revenues:							
Property and other local taxes					\$ 238,240	\$ -	\$ 238,240
Franchise fees					75,592	-	75,592
Rental income					45,710	-	45,710
Occupational license fees					204,203	-	204,203
Interest income					130	331	461
Other income					40,803	-	40,803
Total general revenues					<u>604,678</u>	<u>331</u>	<u>605,009</u>
Change in net position					(5,094)	(6,689)	(11,783)
Net position, June 30, 2015					<u>204,477</u>	<u>7,044,870</u>	<u>7,249,347</u>
Net position, June 30, 2016					<u>\$ 199,383</u>	<u>\$ 7,038,181</u>	<u>\$ 7,237,564</u>

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

**CITY OF GREENUP
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016**

	General	Special Revenue Fund Street Fund	Total Governmental Funds
Assets			
Cash	\$ 27,109	\$ 23,360	\$ 50,469
Garbage fees receivable	2,804	-	2,804
Other receivables	11,155	-	11,155
Due from other funds	39,888	38,316	78,204
Total assets	\$ 80,956	\$ 61,676	\$ 142,632
Liabilities and fund balances			
Liabilities:			
Cash overdraft	\$ 18,824	\$ -	\$ 18,824
Accounts payable	21,620	40,286	61,906
Accrued wages	-	-	-
Due to other funds	144,524	39,888	184,412
Accrued expenses	2,728	-	2,728
Accrued compensated absences	592	-	592
Total liabilities	188,288	80,174	268,462
Fund balances			
Unassigned	(107,332)	-	(107,332)
Assigned for special revenue funds	-	(18,498)	(18,498)
Total fund balances	(107,332)	(18,498)	(125,830)
Total liabilities and fund balances	\$ 80,956	\$ 61,676	\$ 142,632

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, 2016

Total fund balances - Governmental Funds		\$ (125,830)
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets of \$1,669,455 net of accumulated depreciation of \$909,437 used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		760,018
Municipal Road Aid funds were not collected within current period and therefore are not reported in the governmental funds.		79,597
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.		
Capital lease obligation	(511,393)	
Accrued compensated absences	(3,009)	(514,402)
Net position - Governmental Activities		\$ 199,383

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, 2016

	General	Special Revenue Fund Street Fund	Total Governmental Funds
Revenues			
Property taxes	\$ 73,419	\$ -	\$ 73,419
Vehicle taxes	17,400	-	17,400
Occupational license fees	194,483	-	194,483
Business license fees	9,720	-	9,720
Franchise taxes	75,592	-	75,592
Insurance taxes	147,421	-	147,421
Garbage fees	34,287	-	34,287
Intergovernmental revenues	17,551	-	17,551
Interest	129	1	130
Rent	45,710	-	45,710
Other income	40,803	-	40,803
Total revenues	656,515	1	656,516
Expenditures			
General government	190,808	-	190,808
Police department	257,677	-	257,677
Street department	-	40,286	40,286
Fire department	490,767	-	490,767
Debt service:			
Principal retirement	36,241	-	36,241
Interest	5,869	-	5,869
Total expenditures	981,362	40,286	1,021,648
Excess (deficiency) of revenues over (under) expenditures	(324,847)	(40,285)	(365,132)
Other financing sources (uses)			
Capital lease proceeds	360,000	-	360,000
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	360,000	-	360,000
Net change in fund balance	35,153	(40,285)	(5,132)
Fund balances, beginning of year	(142,485)	21,787	(120,698)
Fund balances, end of year	\$ (107,332)	\$ (18,498)	\$ (125,830)

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, 2016

Net change in fund balances - Governmental Funds \$ (5,132)

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	408,748	
Depreciation	(107,621)	
Excess of capital outlays over depreciation expense	301,127	301,127

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. (323,759)

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. 23,650

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	(980)
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Change in net position of Governmental Activities \$ (5,094)

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, 2016

	Budget	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Property and other local taxes	\$ 305,400	\$ 305,400	\$ 313,832	\$ 8,432
Intergovernmental revenues	17,550	17,550	17,551	1
Charges for service	34,350	34,350	34,287	(63)
Rental income	45,000	45,000	45,710	710
Licenses and permits	195,250	195,250	204,203	8,953
Other income	44,010	44,010	40,932	(3,078)
	<u>641,560</u>	<u>641,560</u>	<u>656,515</u>	<u>14,955</u>
Expenditures				
General government	262,781	262,781	190,808	71,973
Police	227,149	227,149	257,677	(30,528)
Fire	107,150	467,150	490,767	(23,617)
Debt service	44,480	44,480	42,110	2,370
	<u>641,560</u>	<u>1,001,560</u>	<u>981,362</u>	<u>20,198</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>(360,000)</u>	<u>(324,847)</u>	<u>35,153</u>
Other Financing Sources (Uses)				
Capital lease proceeds	<u>-</u>	<u>360,000</u>	<u>360,000</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>360,000</u>	<u>360,000</u>	<u>-</u>
Net change in fund balance	-	-	35,153	35,153
Fund balance, beginning of year	<u>(142,485)</u>	<u>(142,485)</u>	<u>(142,485)</u>	<u>-</u>
Fund balance, end of year	<u>\$ (142,485)</u>	<u>\$ (142,485)</u>	<u>\$ (107,332)</u>	<u>\$ 35,153</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, 2016

	Original Budget	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Intergovernmental revenues	\$ 27,150	\$ 27,150	\$ -	\$ (27,150)
Other income	15	15	1	(14)
Total revenues	<u>27,165</u>	<u>27,165</u>	<u>1</u>	<u>(27,164)</u>
Expenditures				
Street department	81,465	81,465	40,286	41,179
Total expenditures	<u>81,465</u>	<u>81,465</u>	<u>40,286</u>	<u>41,179</u>
Excess of revenues over (under) expenditures	<u>(54,300)</u>	<u>(54,300)</u>	<u>(40,285)</u>	<u>14,015</u>
Net change in fund balance	(54,300)	(54,300)	(40,285)	14,015
Fund balance, beginning of year	<u>54,300</u>	<u>54,300</u>	<u>21,787</u>	<u>(32,513)</u>
Fund balance, end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (18,498)</u></u>	<u><u>\$ (18,498)</u></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, 2016**

	<u>Utility Fund</u>
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 208,484
Accounts receivable	416,970
Allowance for doubtful accounts	(113,408)
Due from other funds	144,524
Materials and supplies inventory	65,427
Total current assets	<u>721,997</u>
Restricted Assets:	
Cash and cash equivalents	<u>203,750</u>
Total restricted assets	<u>203,750</u>
Capital Assets:	
Property, plant and equipment	19,497,236
Less: Accumulated depreciation	<u>(9,383,047)</u>
Total capital assets - net	<u>10,114,189</u>
Total assets	11,039,936
DEFERRED OUTFLOWS OF RESOURCES	
Deferred savings from refunding bonds	<u>9,045</u>
Total assets and deferred outflows of resources	<u>11,048,981</u>
LIABILITIES	
Current liabilities (payable from current assets):	
Accounts payable	105,996
Due to other funds	38,316
Accrued expenses	20,445
Accrued compensated absences	15,905
Accrued interest payable	9,280
Customer deposits	330,933
Current portion of bonds payable	324,167
Current portion of notes payable	43,113
Total current liabilities	<u>888,155</u>
Long-term liabilities:	
Revenue bonds payable	2,602,500
Notes payable	<u>520,145</u>
Total long-term liabilities	<u>3,122,645</u>
Total liabilities	<u>4,010,800</u>
NET POSITION:	
Invested in capital assets, net of related debt	6,633,309
Restricted for debt payment and capital outlay	203,750
Unrestricted	201,122
Total net position	<u>\$ 7,038,181</u>

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, 2016**

	Utility Fund
OPERATING REVENUES:	
Water sales	\$ 2,664,430
Sewer service	195,515
Miscellaneous	65,513
Total operating revenues	2,925,458
OPERATING EXPENSES:	
Salaries, wages and related expenses	704,625
Health insurance	194,041
Contractual services	245,671
Materials and supplies	396,842
Repairs and maintenance	191,515
Fuel and oil	34,927
Utilities	255,006
Insurance	43,596
Office supplies	52,204
Rent	45,000
Depreciation	594,398
Sewer treatment costs	51,013
Miscellaneous	70,967
Total operating expenses	2,879,805
OPERATING INCOME	45,653
NON-OPERATING REVENUES (EXPENSES):	
Interest income	331
Interest expense	(115,976)
Total non-operating revenues (expenses)	(115,645)
LOSS BEFORE CAPITAL CONTRIBUTIONS	(69,992)
CAPITAL CONTRIBUTIONS	63,303
DECREASE IN NET POSITION	(6,689)
NET POSITION, JUNE 30, 2015	7,044,870
NET POSITION, JUNE 30, 2016	\$ 7,038,181

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, 2016**

	<u>Utility Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 2,913,462
Cash payments to suppliers for goods and services	(1,595,873)
Cash payments to employees	(703,564)
Other operating revenues	65,513
Net cash provided by operating activities	<u>679,538</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition and construction of capital assets	(46,098)
Principal paid on long-term debt	(355,982)
Interest paid on long-term debt	(100,471)
Capital contributions	63,303
Net cash used for capital and related financing activities	<u>(439,248)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	331
Net cash provided by investing activities	<u>331</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	240,621
CASH AND CASH EQUIVALENTS, June 30, 2015	<u>171,613</u>
CASH AND CASH EQUIVALENTS, June 30, 2016	<u>\$ 412,234</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 45,653
Adjustments:	
Depreciation	594,398
Changes in assets and liabilities:	
Increase in accounts receivable	17,753
Decrease in inventories	18,657
Decrease in accounts payable	(66,703)
Decrease in accrued wages	(6,913)
Increase in accrued compensated absences	7,974
Increase in due from other funds	24,660
Increase in due to other funds	-
Increase in other accrued liabilities	8,295
Increase in customer deposits	35,764
Net cash provided by operating activities	<u>\$ 679,538</u>

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

CITY OF GREENUP

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Greenup, Kentucky ("the City") was incorporated in the year of 1818 and 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 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 2016 fiscal year was based was \$40,843,048. The tax rate assessed for the year ended June 30, 2016 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, 2015 information to conform with the 2016 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.

Recent Accounting Pronouncements

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* ("GASB 76"). GASB 76 supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* and reduces the GAAP hierarchy to two categories of authoritative GAAP. The adoption of this standard did not have a material effect on the City's financial statements.

(2) DEPOSITS WITH FINANCIAL INSTITUTIONS

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

At June 30, 2016, the carrying amount of the City's deposits (including amounts in restricted asset accounts) was \$443,879 and the bank balances totaled \$500,851. The difference between the carrying amounts and the bank balances was due to items in transit. The total of the bank balances were insured or collateralized with securities held by the City's agents in the City's name.

(3) CAPITAL ASSETS

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

	June 30, 2015	Increases	Decreases	June 30, 2016
<u>Governmental Activities</u>				
Capital Assets, Not Depreciated:				
Land	\$ 36,000	\$ -	\$ -	\$ 36,000
Capital Assets, Depreciated:				
Buildings	207,961	-	-	207,961
Automobiles and equipment	653,291	368,462	-	1,021,753
Infrastructure	363,455	40,286	-	403,741
Totals	<u>1,260,707</u>	<u>408,748</u>	<u>-</u>	<u>1,669,455</u>
Accumulated Depreciation:				
Buildings	138,922	8,127	-	147,049
Automobiles and equipment	454,831	66,909	-	521,740
Infrastructure	208,063	32,585	-	240,648
Totals	<u>801,816</u>	<u>107,621</u>	<u>-</u>	<u>909,437</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 458,891</u>	<u>\$ 301,127</u>	<u>\$ -</u>	<u>\$ 760,018</u>

Business-type Activities

Capital Assets, Not Depreciated:

Land	\$ 16,970	\$ -	\$ -	\$ 16,970
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Capital Assets, Depreciated:

Buildings	180,000	-	-	180,000
Building improvements	20,014	-	-	20,014
Office equipment	13,367	12,281	-	25,648
Automobiles and trucks	221,633	-	-	221,633
Other equipment	1,347,742	-	-	1,347,742
Operating plant and distribution system	<u>17,651,412</u>	<u>33,817</u>	<u>-</u>	<u>17,685,229</u>
Totals	<u>19,451,138</u>	<u>46,098</u>	<u>-</u>	<u>19,497,236</u>

Less accumulated depreciation	<u>8,788,649</u>	<u>594,398</u>	<u>-</u>	<u>9,383,047</u>
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Business-type Activities

Capital Assets, Net	<u>\$ 10,662,489</u>	<u>\$ (548,300)</u>	<u>\$ -</u>	<u>\$ 10,114,189</u>
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Depreciation expense was allocated to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 5,736
Police	18,570
Streets	32,585
Fire	50,730
	<u>\$ 107,621</u>
Business-type activities:	
Utilities	\$ 594,398
	<u>\$ 594,398</u>

(4) LONG-TERM LIABILITIES

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

	Balance June 30, 2015	Additions	Reductions	Balance June 30, 2016	Due within one year
<u>Governmental Activities</u>					
Other liabilities:					
Lease payable, 4.33% due August 12, 2030	\$ -	\$ 360,000	\$ -	\$ 360,000	\$ 17,425
Lease payable, 4.69% due January 6, 2020	148,378	-	27,019	121,359	28,287
Lease payable, 3.90% due September 18, 2018	39,256	-	9,222	30,034	9,603
Compensated absences	<u>2,029</u>	<u>980</u>	<u>-</u>	<u>3,009</u>	<u>-</u>
Total Governmental Activities	<u>\$ 189,663</u>	<u>\$ 360,980</u>	<u>\$ 36,241</u>	<u>\$ 514,402</u>	<u>\$ 55,315</u>
<u>Business-type Activities</u>					
Bonds payable:					
2012F revenue bonds 2%-3%, due 2038	\$ 3,240,833	\$ -	\$ 314,166	\$ 2,926,667	\$ 324,167
Loans payable:					
Kentucky infrastructure loan payable, 2.0%, due 2032	545,601	-	28,215	517,386	28,781
Loan payable, 5.25%, due January 10, 2022*	<u>59,473</u>	<u>-</u>	<u>13,601</u>	<u>45,872</u>	<u>14,332</u>
Total Business-type Activities	<u>\$ 3,845,907</u>	<u>\$ -</u>	<u>\$ 355,982</u>	<u>\$ 3,489,925</u>	<u>\$ 367,280</u>

* Unsecured loan.

Government Activities

Capital Lease - On August 12, 2015, the City entered into a lease agreement with the option to purchase a fire truck. The payment schedule calls for 15 annual installments of \$33,337 and is due on August 12, 2030. The interest rate on the lease is 4.33%. At June 30, 2016, \$360,000 has been capitalized under the capital lease with \$22,000 in related accumulated depreciation.

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, 2016, \$390,000 has been capitalized under the capital lease with \$281,667 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, 2016, \$57,330 has been capitalized under the capital lease with \$31,532 in related accumulated depreciation.

The minimum principal and interest repayment requirements on the capital lease obligations at June 30, 2016 is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 55,315	\$ 22,534	\$ 77,849
2018	57,814	20,034	77,848
2019	60,426	17,422	77,848
2020	52,296	15,020	67,316
2021	20,716	12,621	33,337
2022-2026	118,152	48,533	166,685
2027-2031	146,674	20,011	166,685
	<u>\$ 511,393</u>	<u>\$ 156,175</u>	<u>\$ 667,568</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, 2016 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 367,280	\$ 92,389	\$ 459,669
2018	284,278	83,703	367,981
2019	162,314	76,850	239,164
2020	152,310	72,723	225,033
2021	153,249	69,029	222,278
2022-2026	828,814	290,768	1,119,582
2027-2031	789,462	186,850	976,312
2032-2036	576,800	79,249	656,049
2037-2038	175,418	7,654	183,072
	<u>\$ 3,489,925</u>	<u>\$ 959,215</u>	<u>\$ 4,449,140</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, 2016 \$517,386 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.

(5) INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of June 30, 2016 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Purpose</u>	<u>Amount</u>
Utility Fund	General Fund	Operations	\$ 144,524
General Fund	Street Fund	Operations	39,888
Street Fund	Utility Fund	Operations	38,316
Total			<u>\$ 222,728</u>

(6) RESTRICTED ASSETS

Debt Service Reserve Fund

At June 30, 2016, the city was required to have \$103,750 for the 2012F revenue bonds in a debt service reserve fund. As of June 30, 2016, 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, 2016 was \$100,000, which exceeds the required amount of \$16,000.

(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, 2016, was \$38,151.

(9) CONTINGENCIES

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



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

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

We have audited, 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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 29, 2018.

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 (2016-04) 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 (2016-01, 2016-02, 2016-03, 2016-05 and 2016-06).

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 2016-04.

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.



Ashland, Kentucky
August 29, 2018

CITY OF GREENUP

SCHEDULE OF FINDINGS AND RESPONSES

JUNE 30, 2016

Finding 2016-01 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 2016-02 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 2016-03 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 (CONTINUED)

JUNE 30, 2016

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 2016-04 Budget:

Condition: During the year ended June 30, 2016, expenditures exceeded appropriated amounts as follows:

<u>Fund</u>	<u>Department</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General	Police	\$ 241,363	\$ 267,562	\$ 26,199

Additionally, the General Fund had a deficit fund balance of \$142,485 at June 30, 2016.

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 2016-05 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.

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.

CITY OF GREENUP

SCHEDULE OF FINDINGS AND RESPONSES (CONCLUDED)

JUNE 30, 2016

Finding 2016-06 Timesheet Approval:

Condition: During our testing of payroll disbursements, several instances were noted in which timesheet approval was not documented.

Effect: Lack of review of timesheets increases the potential risk of errors or irregularities in ensuring that employees are properly paid for the hours worked.

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 have been reviewed.