

CITY OF GREENUP

**FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

FOR THE YEAR ENDED JUNE 30, 2010

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS



**Kelley,
Galloway &
Company, PSC**

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Greenup, Kentucky (the "City") as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the City of Greenup's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Greenup, Kentucky, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund and Street Fund for the year then ended, in conformity with accounting principles generally accepted the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 12, 2011 on our consideration of the City of Greenup's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis information on pages 4 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in the appropriate operational,

economic, or historical context. We have applied certain limited procedures, which consisted principally of inquiries of management about the methods of preparing the information and comparing the information for consistency in management's responses to our inquiries, the basic financial statements, and knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Greenup, Kentucky's basic financial statements. The accompanying schedule of expenditures of federal awards contained on pages 29 and 30 is presented for purposes of additional analysis as required by *U. S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Kelley, Gallenberry & Company, P.C.

April 12, 2011

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, 2010. 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 \$6,798,104 (net assets). Governmental activities' unrestricted net assets were \$(136,646) and business type activities unrestricted net assets were \$89,434.
- ⇒ The Government's total net assets increased by \$213,599. Net assets of governmental activities decreased by \$71,627 and net assets of business-type activities increased by \$285,226.
- ⇒ At June 30, 2010, the governmental activities had \$449,835 in total assets and \$304,804 in total liabilities. Business type activities had \$11,553,308 in total assets and \$4,900,235 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. The infrastructure assets for governmental type funds, including roads, bridges, storm sewers, etc., were not reported or depreciated under the prior reporting standards.

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

The Statement of Net Assets presents information on all the Government's assets and liabilities as of June 30, 2010. The net assets are the difference between assets and liabilities. Over time, increase or decrease in net assets is one indicator of whether financial health is improving or deteriorating. Information on other factors such as changes in the revenue structure and the condition of the Government's assets is also needed to assess the overall financial position of the Government.

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

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

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

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

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

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

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

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

ANALYSIS OF THE GOVERNMENT AS A WHOLE

NET ASSETS

As of June 30, 2010, the Government as a whole had net assets greater than its liabilities by \$6,798,104. Net assets of governmental activities were \$145,031 and decreased by \$71,627 over the prior year. Of these net assets \$281,677 is invested in capital assets (net of related debt), and \$(136,646) is unrestricted.

The net assets of the Government's business-type activities are \$6,653,073 and increased by \$285,226 over the prior year. Of these net assets \$6,293,531 or 95% are invested in capital assets (net of related debt), \$270,108 or 4% is restricted and \$89,434 is unrestricted. The largest portion of the City's net assets (95%) reflects its investment in capital assets (i.e., land, buildings, machinery and equipment) less outstanding related debt used to acquire those assets. The city uses these capital assets to provide services to citizens and as a result, these assets are not available for future spending. The city's capital assets investment is reported net of related debt, but the resources needed to pay this debt must be provided from other sources since the capital assets cannot be used to liquidate the liabilities.

At the end of this fiscal year June 30, 2010 the City is able to report positive balances in all categories of total net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

ANALYSIS OF THE CITY'S NET ASSETS

	Governmental Activities		Business-type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ (98,210)	\$ (47,388)	\$ 856,094	\$ 751,422	\$ 757,884	\$ 704,034
Capital assets	548,045	584,047	10,697,214	10,467,574	11,245,259	11,051,621
Total assets	449,835	536,659	11,553,308	11,218,996	12,003,143	11,755,655
Current liabilities	50,371	41,866	775,254	593,078	825,625	634,944
Long-term liabilities	254,433	278,135	4,124,981	4,258,071	4,379,414	4,536,206
Total liabilities	304,804	320,001	4,900,235	4,851,149	5,205,039	5,171,150
Net assets						
Invested in capital assets net of related debt	281,677	297,156	6,293,531	5,937,547	6,575,208	6,234,703
Restricted	-	-	270,108	272,051	270,108	272,051
Unrestricted	(136,646)	(80,498)	89,434	158,249	(47,212)	77,751
Total net assets	\$ 145,031	\$ 216,658	\$ 6,653,073	\$ 6,367,847	\$ 6,798,104	\$ 6,584,505

	Governmental Activities		Business-type Activities		Total Primary Government	
Revenues	2010	2009	2010	2009	2010	2009
Taxes	\$ 211,583	\$ 232,601	\$ -	\$ -	\$ 211,583	\$ 232,601
Licenses and permits	10,158	11,969	-	-	10,158	11,969
Fees and fines	68,584	76,573	-	-	68,584	76,573
Rental income	35,230	38,411	-	-	35,230	38,411
Charges for services	40,369	42,651	2,456,499	2,368,425	2,496,868	2,411,076
Grant/other income	107,094	84,786	445,207	43,468	552,301	128,254
Total	\$ 473,018	\$ 486,991	\$ 2,901,706	\$ 2,411,893	\$ 3,374,724	\$ 2,898,884
	Governmental Activities		Business-type Activities		Total Primary Government	
Expenses	2010	2009	2010	2009	2010	2009
General government	\$ 188,058	\$ 197,711	-	-	\$ 188,058	\$ 197,711
Police	250,466	257,623	-	-	250,466	257,623
Fire	66,685	102,305	-	-	66,685	102,305
Streets	26,441	25,048	-	-	26,441	25,048
Capital outlay	-	-	-	-	-	-
Debt services	12,995	13,933	-	-	12,995	13,933
Total governmental activities	\$ 544,645	\$ 596,620	-	-	\$ 544,645	\$ 596,620
Utility fund			\$ 2,616,480	\$ 2,462,485	2,616,480	2,462,485
Total primary government					\$ 3,161,125	\$ 3,059,105
Change in net assets	(71,627)	(109,629)	285,226	(50,592)	213,599	(160,221)
Net assets beginning of year, June 30, 2009	216,658	326,287	6,367,847	6,418,439	6,584,505	6,744,726
Net assets, June 30, 2010	\$ 145,031	\$ 216,658	\$ 6,653,073	\$ 6,367,847	\$ 6,798,104	\$ 6,584,505

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 \$(127,095). The General fund has a negative fund balance of \$(186,047) and a positive fund balance of \$58,952 for the Street fund.

The General Fund at June 30, 2010 had revenues of \$454,137 and expenditures of \$528,591 and a fund balance of \$(186,047).

The Municipal Aid Road Fund (Street Fund) at June 30, 2010 had revenues of \$18,881 and expenditures of \$2,791 and a fund balance of \$58,952.

PROPRIETARY FUNDS

The City's proprietary fund (Utility fund) or business-type activities had total assets of \$11,575,624 and total liabilities of \$4,922,551 leaving net assets of \$6,653,073. The Utility fund had \$2,456,499 in operating revenues, \$7,154 in interest income and \$438,053 in capital contributions. Operating expense totaled \$2,392,764 and interest expense on debt service totaled \$223,716. The utility funds total expenses exceeded it's revenues by \$(152,827).

BUDGETARY HIGHLIGHTS

No budget ordinance was adopted for Fiscal Year 2010 or Fiscal Year 2009. Kentucky Revised Statutes (KRS 91A.030) requires the city to adopt a budget ordinance to cover one fiscal year. If a budget is not adopted the previous years budget becomes effective, therefore fiscal year 2008 budget was in effect.

ASSET AND DEBT ADMINISTRATION

The City's investment in assets for governmental and business-type activities as of June 30, 2010 is \$632,363 for non-depreciable assets and \$10,612,896 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 2010</u>
Land	\$ 36,000	\$ 5,000	\$ 41,000
Construction In Progress	-	591,363	591,363
Buildings and improvements	130,820	200,014	330,834
Automotive equipment	598,860	151,697	750,557
Operating equipment	-	1,178,051	1,178,051
Office equipment	-	8,067	8,067
Infrastructure	236,501	-	236,501
Utility plant	-	14,585,354	14,585,354
	<u>1,002,181</u>	<u>16,719,546</u>	<u>17,721,727</u>
Less depreciation	<u>(454,136)</u>	<u>(6,022,332)</u>	<u>(6,476,468)</u>
Total	<u>\$ 548,045</u>	<u>\$ 10,697,214</u>	<u>\$ 11,245,259</u>

DEBT

At the end of fiscal year 2010 the City had governmental activities debt of \$275,919 compared to \$298,658 at June 30, 2009, which represents a decrease of \$22,739. Business-type activities had debt of \$4,403,683 compared to \$4,530,027 at June 30, 2009, which represents a decrease of \$126,344. 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%	\$ 266,368
Compensated absences obligation	9,551
Total	<u>\$ 275,919</u>
 <u>Business-Type Activities Debt</u>	 <u>Amount</u>
Revenue bonds	\$ 3,193,600
Loans payable	467,984
Lease at 5.04%	742,099
Total	<u>\$ 4,403,683</u>

DESCRIPTION OF MUNICIPAL DEBT

- ⇒ A lease for a new ladder truck. Balance at June 30, 2010 = \$266,368.
- ⇒ Utility revenue bonds payable for utility construction and maintenance. Various issues totaling \$3,193,600 at June 30, 2010. See audit notes for additional detail.
- ⇒ Bank and infrastructure loans for utility construction and maintenance. Loans total \$467,984 at June 30, 2010. See audit notes for additional detail.
- ⇒ Employee compensated absences payable after 60 days = \$9,551.
- ⇒ Radio read metering system, lease purchase at 5.04% Balance at June 30, 2010 is \$742,099

ECONOMIC FACTORS AND NEXT YEARS BUDGET

Unemployment rate for the City of Greenup for 2010 is 8.7 %. This rate is below the State of Kentucky rate of 10.3% and the national rate of 9.4%.

Inflationary trends in the City compares favorably to the state and national trend of 2.60%.

The following table summarizes the 2011 fiscal year budgeted expenses.

- ⇒ General Fund - \$662,583
- ⇒ Municipal Aid Program - \$56,750
- ⇒ Utility Fund - \$5,175,453
- ⇒ Total Budget - \$5,894,786

REQUEST FOR INFORMATION

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

City of Greenup
1005 Walnut St
Greenup, KY 41144

CITY OF GREENUP
STATEMENT OF NET ASSETS
JUNE 30, 2010

	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and cash equivalents	\$ 53,719	\$ 25,836	\$ 79,555
Accounts receivable	1,597	244,498	246,095
Allowance for uncollectible accounts	-	(8,793)	(8,793)
Internal balances, net	(166,354)	166,354	-
Prepaid items	5,843	20,967	26,810
Other receivables	6,985	-	6,985
Restricted assets -			
Cash and cash equivalents	-	305,696	305,696
Materials and supplies inventory	-	101,536	101,536
Nondepreciable capital assets	36,000	596,363	632,363
Depreciable capital assets-net	966,181	16,123,183	17,089,364
Accumulated depreciation	(454,136)	(6,022,332)	(6,476,468)
Total assets	<u>449,835</u>	<u>11,553,308</u>	<u>12,003,143</u>
Liabilities:			
Cash overdraft	7,585	52,090	59,675
Accounts payable	8,802	188,083	196,885
Accrued wages	3,443	9,514	12,957
Other accrued liabilities	6,717	38,557	45,274
Customer deposits	-	187,634	187,634
Accrued compensated absences, current	2,338	20,674	23,012
Current portion of long-term debt	21,486	278,702	300,188
Accrued compensated absences, non-current	9,551	-	9,551
Capital lease obligation, non-current	244,882	664,676	909,558
Notes payable, non-current	-	417,405	417,405
Revenue bonds, non-current	-	3,042,900	3,042,900
Total liabilities	<u>304,804</u>	<u>4,900,235</u>	<u>5,205,039</u>
Net Assets:			
Invested in capital assets, net of related debt	281,677	6,293,531	6,575,208
Restricted	-	270,108	270,108
Unrestricted	(136,646)	89,434	(47,212)
Total net assets	<u>\$ 145,031</u>	<u>\$ 6,653,073</u>	<u>\$ 6,798,104</u>

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

CITY OF GREENUP
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities
Governmental Activities:						
General government	\$ 188,058	\$ 31,454	\$ -	\$ -	\$ (156,604)	\$ -
Police department	250,466	-	-	30,814	(219,652)	-
Street department	26,441	-	18,845	-	(7,596)	-
Fire department	66,685	8,915	-	8,250	(49,520)	-
Debt service	12,995	-	-	-	(12,995)	-
Total governmental activities	<u>544,645</u>	<u>40,369</u>	<u>18,845</u>	<u>39,064</u>	<u>(446,367)</u>	<u>-</u>
Business-Type Activities:						
Utilities	2,616,480	2,456,499	-	438,053	-	278,072
Total business-type activities	<u>2,616,480</u>	<u>2,456,499</u>	<u>-</u>	<u>438,053</u>	<u>-</u>	<u>278,072</u>
Total primary government	<u>\$ 3,161,125</u>	<u>\$ 2,496,868</u>	<u>\$ 18,845</u>	<u>\$ 477,117</u>	<u>\$ (446,367)</u>	<u>\$ 278,072</u>
General Revenues:						
Property and other local taxes					\$ 211,583	\$ -
Franchise fees					68,584	-
Rental income					35,230	-
Occupational license fees					10,158	-
Interest income					159	7,154
Other income					49,026	-
Total general revenues					<u>374,740</u>	<u>7,154</u>
Change in net assets					(71,627)	285,226
Net assets, June 30, 2009					216,658	6,367,847
Net assets, June 30, 2010					<u>\$ 145,031</u>	<u>\$ 6,653,073</u>
						<u>\$ 6,798,104</u>

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

**CITY OF GREENUP
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010**

	<u>General Fund</u>	<u>Special Revenue Street Fund</u>	<u>Total Governmental Funds</u>
Assets:			
Cash	\$ 21,805	\$ 31,914	\$ 53,719
Garbage fees receivable	1,597	-	1,597
Other receivables	6,985	-	6,985
Prepaid items	5,843	-	5,843
Due from other funds	-	27,038	27,038
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 36,230</u>	<u>\$ 58,952</u>	<u>\$ 95,182</u>
Liabilities and fund balances			
Liabilities:			
Cash overdraft	\$ 7,585	\$ -	\$ 7,585
Accounts payable	8,802	-	8,802
Accrued wages	3,443	-	3,443
Due to other funds	193,392	-	193,392
Accrued expenses	6,717	-	6,717
Accrued compensated absences	2,338	-	2,338
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>222,277</u>	<u>-</u>	<u>222,277</u>
Fund balances:			
Unreserved/undesignated, reported in:			
General fund	(186,047)	-	(186,047)
Special revenue funds	-	58,952	58,952
	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>(186,047)</u>	<u>58,952</u>	<u>(127,095)</u>
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 36,230</u>	<u>\$ 58,952</u>	<u>\$ 95,182</u>

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

**CITY OF GREENUP
RECONCILIATION OF THE BALANCE SHEET -
GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET ASSETS
JUNE 30, 2010**

Total fund balances - Governmental Funds		\$ (127,095)
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets of \$1,002,181 net of accumulated depreciation of \$454,136 used in government activities are not financial resources and therefore are not reported in the governmental funds.		548,045
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.		
Capital lease obligation	(266,368)	
Accrued compensated absences	<u>(9,551)</u>	<u>(275,919)</u>
Net assets - Governmental Activities		<u>\$ 145,031</u>

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

CITY OF GREENUP
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Special Revenue</u>		<u>Total</u>
	<u>General</u>	<u>Street</u>	<u>Governmental</u>
	<u>Fund</u>	<u>Fund</u>	<u>Funds</u>
Revenues:			
Property taxes	\$ 64,246	\$ -	\$ 64,246
Vehicle taxes	16,979	-	16,979
Business license fees	10,158	-	10,158
Franchise taxes	68,584	-	68,584
Insurance taxes	130,358	-	130,358
Garbage fees	31,454	-	31,454
Intergovernmental revenues	47,979	18,845	66,824
Interest	123	36	159
Rent	35,230	-	35,230
Other income	49,026	-	49,026
Total revenues	<u>454,137</u>	<u>18,881</u>	<u>473,018</u>
Expenditures:			
General government	187,401	-	187,401
Police department	270,597	-	270,597
Street department	-	2,791	2,791
Fire department	37,075	-	37,075
Debt service:			
Principal retirement	20,523	-	20,523
Interest	12,995	-	12,995
Total expenditures	<u>528,591</u>	<u>2,791</u>	<u>531,382</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(74,454)</u>	<u>16,090</u>	<u>(58,364)</u>
Other financing sources (uses):			
Transfers - in	-	-	-
Transfers - out	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	(74,454)	16,090	(58,364)
Fund balances beginning year	<u>(111,593)</u>	<u>42,862</u>	<u>(68,731)</u>
Fund balances end of year	<u>\$ (186,047)</u>	<u>\$ 58,952</u>	<u>\$ (127,095)</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, 2010

Net change in fund balances - Governmental Funds \$ (58,364)

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

Capital outlay	30,814	
Depreciation	(66,816)	
Excess of depreciation expense over capital outlay		(36,002)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 20,523

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	<u>2,216</u>
---------------------------------------------------	--------------

Change in net assets Governmental Activities	<u>\$ (71,627)</u>
----------------------------------------------	--------------------

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

CITY OF GREENUP
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE-BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Property and other local taxes	\$ 358,535	\$ 358,535	\$ 280,167	\$ (78,368)
Intergovernmental revenues	178,300	178,300	47,979	(130,321)
Charges for service	42,000	42,000	31,454	(10,546)
Rent	38,600	38,600	35,230	(3,370)
Licenses and permits	11,250	11,250	10,158	(1,092)
Other income	23,775	23,775	49,149	25,374
	<u>652,460</u>	<u>652,460</u>	<u>454,137</u>	<u>(198,323)</u>
Expenditures				
General government	334,045	334,045	187,401	146,644
Police department	204,887	204,887	270,597	(65,710)
Fire department	62,468	62,468	37,075	25,393
Capital outlay	60,109	60,109	-	60,109
Debt service	33,979	33,979	33,518	461
	<u>695,488</u>	<u>695,488</u>	<u>528,591</u>	<u>166,897</u>
Net change in fund balance	(43,028)	(43,028)	(74,454)	(31,426)
Fund balance, beginning of year	<u>(111,593)</u>	<u>(111,593)</u>	<u>(111,593)</u>	<u>-</u>
Fund balance, end of year	<u>\$ (154,621)</u>	<u>\$ (154,621)</u>	<u>\$ (186,047)</u>	<u>\$ (31,426)</u>

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

CITY OF GREENUP
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE-BUDGET AND ACTUAL
SPECIAL REVENUE - STREET FUND
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Intergovernmental revenues	\$ 20,275	\$ 20,275	\$ 18,845	\$ (1,430)
Other income	<u>40</u>	<u>40</u>	<u>36</u>	<u>(4)</u>
Total revenues	<u>20,315</u>	<u>20,315</u>	<u>18,881</u>	<u>(1,434)</u>
Expenditures				
Street department	20,315	20,315	2,791	17,524
Capital outlay	-	-	-	-
Debt service	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>20,315</u>	<u>20,315</u>	<u>2,791</u>	<u>17,524</u>
Excess of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>16,090</u>	<u>16,090</u>
Net change in fund balance	-	-	16,090	16,090
Fund balance, beginning of year	<u>42,862</u>	<u>42,862</u>	<u>42,862</u>	<u>-</u>
Fund balance, end of year	<u>\$ 42,862</u>	<u>\$ 42,862</u>	<u>\$ 58,952</u>	<u>\$ 16,090</u>

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

CITY OF GREENUP
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2010

ASSETS:	
Current assets:	
Cash and cash equivalents	\$ 25,836
Accounts receivable	244,498
Allowance for doubtful accounts	(8,793)
Accrued interest receivable	20,967
Due from other funds	188,670
Materials and supplies inventory	101,536
Total current assets	<u>572,714</u>
Restricted assets:	
Cash and cash equivalents	305,696
Total restricted assets	<u>305,696</u>
Capital assets:	
Property, plant and equipment	16,719,546
Less: accumulated depreciation	(6,022,332)
Total capital assets - net	<u>10,697,214</u>
Total assets	<u>\$ 11,575,624</u>
LIABILITIES:	
Current liabilities (payable from current assets):	
Cash overdraft	\$ 52,090
Accounts payable	188,083
Due to other funds	22,316
Accrued wages	9,514
Accrued expenses	2,969
Accrued compensated absences	20,674
Accrued interest payable	35,588
Customer deposits	187,634
Current portion of capital lease obligation	77,423
Current portion of bonds payable	150,700
Current portion of notes payable	50,579
Total current liabilities	<u>797,570</u>
Long-term liabilities:	
Capital lease obligation	664,676
Revenue bonds payable	3,042,900
Notes payable	417,405
Total long-term liabilities	<u>4,124,981</u>
Total liabilities	<u>4,922,551</u>
NET ASSETS:	
Invested in capital assets, net of related debt	6,293,531
Restricted for debt payment and capital outlay	270,108
Unrestricted	89,434
Total net assets	<u>\$ 6,653,073</u>

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

**CITY OF GREENUP
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2010**

	Utility Fund
OPERATING REVENUES:	
Water sales	\$ 2,203,382
Sewer service	158,364
Miscellaneous	94,753
Total operating revenues	<u>2,456,499</u>
OPERATING EXPENSES:	
Salaries, wages and related expenses	609,836
Health insurance	246,266
Contractual services	56,908
Materials and supplies	315,382
Repairs and maintenance	244,263
Fuel and oil	25,552
Utilities	242,415
Insurance	26,832
Office supplies	28,991
Rent	30,000
Depreciation	490,620
Miscellaneous	75,699
Total operating expenses	<u>2,392,764</u>
OPERATING INCOME	<u>63,735</u>
NON-OPERATING REVENUES (EXPENSES):	
Interest income	7,154
Interest expense	<u>(223,716)</u>
Total non-operating revenues (expenses)	<u>(216,562)</u>
LOSS BEFORE OPERATING TRANSFERS AND CAPITAL CONTRIBUTIONS	(152,827)
CAPITAL CONTRIBUTIONS	<u>438,053</u>
INCREASE IN NET ASSETS	285,226
NET ASSETS, June 30, 2009	<u>6,367,847</u>
NET ASSETS, June 30, 2010	<u>\$ 6,653,073</u>

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

**CITY OF GREENUP
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2010**

CASH FLOWS FROM OPERATING ACTIVITIES:	Utility Fund
Cash received from customers	\$ 2,330,953
Cash payments to suppliers for goods and services	(1,278,536)
Cash payments to employees	(627,766)
Other operating revenues	94,753
Net cash provided by operating activities	<u>519,404</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition and construction of capital assets	(720,260)
Principal paid on long-term debt	(126,344)
Interest paid on long-term debt	(226,960)
Capital contributions	<u>438,053</u>
Net cash used for capital and related financing activities	<u>(635,511)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest income	<u>7,459</u>
Net cash provided by investing activities	<u>7,459</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(108,648)
CASH AND CASH EQUIVALENTS, June 30, 2009	<u>388,090</u>
CASH AND CASH EQUIVALENTS, June 30, 2010	<u>\$ 279,442</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 63,735
Adjustments:	
Depreciation	490,620
Changes in assets and liabilities:	
Increase in accounts receivable	(25,864)
Increase in prepaid expenses	(20,967)
Increase in inventories	(42,049)
Increase in accounts payable	151,181
Increase in accrued wages	1,266
Decrease in accrued compensated absences	(19,196)
Increase in due from other funds	(72,655)
Decrease in other accrued liabilities	(1,738)
Decrease in customer deposits	(4,929)
Net cash provided by operating activities	<u>\$ 519,404</u>

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

CITY OF GREENUP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

(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.

Government-Wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

The City reports the following major Governmental Funds:

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

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

The City reports the following major Proprietary Funds:

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

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

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's Enterprise Funds, are charges to customers for sales and services. The City also recognizes as operating revenue tap fees intended to recover the costs of connecting new customers to the utility system. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Budgeting

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

Cash and Cash Equivalents

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

Property Tax

Property taxes are generally levied on November 30 of each year based upon the assessed value as of February 1. The lien date for assessed taxes is March 1 of each fiscal year. Taxes are payable on or before March 1 of the following year. All unpaid taxes become delinquent after that date. An allowance is established for delinquent taxes to the extent that their collectibility is improbable. The assessed value of property upon which the levy for the 2010 fiscal year was based was \$43,625,231. The tax rate assessed for the year ended June 30, 2010 to finance general fund operations was \$.1459 per \$100 of valuation on real and tangible property.

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

Inventories

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

Capital Assets and Depreciation

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

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

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

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

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

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

Interfund Transactions

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

Interfund Receivables and Payable

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

Compensated Absences

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

Fund Balances

The portion of the City's fund balance classified as reserved reflects the portion that is legally restricted to a specific future use or is not available for appropriation or expenditure.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of governments.

Use of Estimates

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

Reclassifications

Certain reclassifications have been made to June 30, 2009 information to conform with the 2010 presentation.

(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, 2010, the carrying amount of the City's deposits (including amounts in restricted asset accounts) was \$325,576 and the bank balances totaled \$536,838. 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, 2009	Increases	Decreases	June 30, 2010
<u>Governmental Activities</u>				
Capital Assets, Not Depreciated:				
Land	\$ 36,000	\$ -	\$ -	\$ 36,000
Capital Assets, Depreciated:				
Buildings	130,820	-	-	130,820
Automobiles and equipment	568,046	30,814	-	598,860
Infrastructure	236,501	-	-	236,501
Totals	971,367	30,814	-	1,002,181
Accumulated Depreciation:				
Buildings	116,965	3,106	-	120,071
Automobiles and equipment	226,225	40,060	-	266,285
Infrastructure	44,130	23,650	-	67,780
Totals	387,320	66,816	-	454,136
Governmental Activities Capital Assets, Net	\$ 584,047	\$ 36,002	\$ -	\$ 548,045
<u>Business-type Activities</u>				
Capital Assets, Not Depreciated:				
Land	\$ 5,000	\$ -	\$ -	\$ 5,000
Construction in process	-	591,363	-	591,363
Capital Assets, Depreciated:				
Buildings	180,000	-	-	180,000
Building improvements	-	20,014	-	20,014
Office equipment	8,067	-	-	8,067
Automobiles and trucks	151,697	-	-	151,697
Other equipment	1,170,257	7,794	-	1,178,051
Operating plant and distribution system	14,484,265	101,089	-	14,585,354
Totals	15,999,286	720,260	-	16,719,546
Less accumulated depreciation	5,531,712	490,620	-	6,022,332
Business-type Activities Capital Assets, Net	\$ 10,467,574	\$ 229,640	\$ -	\$ 10,697,214

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

Governmental activities:	
General government	\$ 2,870
Police	10,683
Streets	23,650
Fire	29,610
	<u>\$ 66,816</u>
Business-type activities:	
Utilities	\$ 490,620
	<u>\$ 490,620</u>

(4) **LONG-TERM LIABILITIES**

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

<u>Governmental Activities</u>	<u>Balance June 30, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2010</u>	<u>Due within one year</u>
Other liabilities:					
Lease payable, 4.69% due January 6, 2020	\$ 286,891	\$ -	\$ 20,523	\$ 266,368	\$ 21,486
Compensated absences	11,767	-	2,216	9,551	-
Total Governmental Activities	<u>\$ 298,658</u>	<u>\$ -</u>	<u>\$ 22,739</u>	<u>\$ 275,919</u>	<u>\$ 21,486</u>
<u>Business-type Activities</u>	<u>Balance June 30, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2010</u>	<u>Due within one year</u>
Bonds payable:					
1975 W & S revenue bonds, 5.0%, due 2015	\$ 557,000	\$ -	\$ 80,000	\$ 477,000	\$ 85,000
1978 W & S revenue bonds, 5.0%, due 2018	175,000	-	16,000	159,000	17,000
1987 W & S revenue bonds, 7.5%, due 2027	330,000	-	9,000	321,000	10,000
1993 W & S revenue bonds, 5.25%, due 2033	320,000	-	6,000	314,000	6,000
1997 W & S revenue bonds, 4.75%, due 2038	820,500	-	14,000	806,500	14,500
1996 W & S revenue bonds, 4.875%, due 2035	352,000	-	6,500	345,500	7,000
1996 W & S revenue bonds, 4.875%, due 2035	25,400	-	500	24,900	500
2001 W & S revenue bonds, 4.75%, due 2041	308,800	-	4,100	304,700	4,700
2004 W & S revenue bonds, 4.50%, due 2044	447,000	-	6,000	441,000	6,000
Loans payable:					
Kentucky infrastructure loan payable, 4.0% due 2013	132,928	-	27,527	105,401	28,639
Kentucky infrastructure loan payable, 2.0% due	-	153,325	-	153,325	-
Loan payable, 5.25%, due January 10, 2022*	142,432	-	16,926	125,506	10,050
Bank loan payable, 5.00% due December 21, 2010 *	8,312	-	8,312	-	-
Bank loan payable, 5.83% due July 28, 2011 *	94,897	-	11,145	83,752	11,890
Other liabilities:					
Lease payable, 5.04% due August 1, 2017	815,758	-	73,659	742,099	77,423
Total Business-type Activities	<u>\$ 4,530,027</u>	<u>\$ 153,325</u>	<u>\$ 279,669</u>	<u>\$ 4,403,683</u>	<u>\$ 278,702</u>

* Unsecured loans.

Government Activities

Capital Lease - On January 6, 2006 the City entered into a lease agreement with the option to purchase a Fire Truck. The payment schedule calls for 15 annual installments of \$33,979 and is due

on January 6, 2020. The interest rate on the lease is 4.69%. At June 30, 2010, \$390,000 has been capitalized under the capital lease with \$125,667 in related accumulated depreciation.

The minimum principal and interest repayment requirement on the capital lease obligation at June 30, 2010 is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 21,486	\$ 12,493	\$ 33,979
2012	22,494	11,485	33,979
2013	23,548	10,430	33,978
2014	24,653	9,326	33,979
2015	25,809	8,169	33,978
2016-2020	148,378	21,514	169,892
	<u>\$ 266,368</u>	<u>\$ 73,417</u>	<u>\$ 339,785</u>

Business-type Activities

The water and sewer revenue bonds are secured by an exclusive pledge of the gross revenues derived from operations of the City's water and sewer systems. In order to retire the 1975, 1978, 1987, 1993, 1996 and 1997 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, 2010 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 201,279	\$ 178,744	\$ 380,023
2012	272,049	165,117	437,166
2013	208,959	154,792	363,751
2014	204,627	144,386	349,013
2015	199,892	134,356	334,248
2016-2020	498,953	565,638	1,064,591
2021-2025	480,300	437,833	918,133
2026-2030	526,200	296,051	822,251
2031-2035	546,100	164,157	710,257
2036-2040	281,200	53,225	334,425
2041-2045	88,700	7,276	95,976
	<u>\$ 3,508,259</u>	<u>\$ 2,301,575</u>	<u>\$ 5,809,834</u>

During 2010, the City secured a construction loan of \$1,590,604 from the Kentucky Infrastructure Authority to finance a waterline extension project to provide water services to approximately 300 residential users. Upon the completion of the project, \$860,517 of the principal will be forgiven under the American Recovery and Reinvestment Act of 2009. Full principal and interest payments on the remaining amount of \$730,087 will commence within one year of project completion. At June 30, 2010 the City had draws under the loan totaling \$153,325 included in long-term liabilities.

Capital Lease - on September 5, 2007, the City entered into a lease agreement with the option to purchase water metering equipment. The payment schedule calls for 10 annual installments of \$115,344 and is due on August 1, 2017. The interest rate on the lease is 5.04%. At June 30, 2010, \$887,609 has been capitalized under the capital lease with \$183,686 in related accumulated depreciation.

The minimum principal and interest repayment requirement on the capital lease obligation at June 30, 2010 is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 77,423	\$ 37,921	\$ 115,344
2012	81,379	33,965	115,344
2013	85,456	29,888	115,344
2014	89,905	25,440	115,345
2015	94,499	20,846	115,345
2016-2018	313,437	32,596	346,033
	<u>\$ 742,099</u>	<u>\$ 180,656</u>	<u>\$ 922,755</u>

(5) INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of June 30, 2010 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Purpose</u>	<u>Amount</u>
Utility Fund	General Fund	Operations	\$ 188,670
Street Fund	General Fund	Operations	4,722
Street Fund	Utility Fund	Operations	22,316
Total			<u>\$ 215,708</u>

(6) RESTRICTED ASSETS

Depreciation Fund

The water and sewer revenue bond ordinance requires the establishment and maintenance of a depreciation reserve fund. Monthly deposits of \$10,140 must be made to the depreciation reserve account. A balance of \$187,431 must be maintained in the account to provide for payment of the costs of extensions, improvements, renewals and replacements to the water and sewer system. Also, after payment of operating expenses and debt service deposits, any excess revenue must be transferred to the depreciation reserve account. At June 30, 2010, the City had such funds totaling \$232,799.

KIA Replacement and Debt Service Reserve

Under the KIA loan agreement, the City is required to set aside \$1,629 annually to provide payment of the costs of extensions, improvements, renewals and replacements to the sewer system. The balance of these replacement reserve accounts at June 30, 2010 was \$81.

(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, 2010, was \$702,022.

(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.

SUPPLEMENTAL INFORMATION

CITY OF GREENUP

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2010

	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of HUD</u>			
Passed through Kentucky Department for Local Government			
CDBG State-Administered Small			
Cities Program	14.228	09-028	333,672
Total U.S. Department of HUD			333,672
<u>U.S. Department of Transportation</u>			
Passed through Kentucky Transportation Cabinet -			
Highway Planning and Construction	20.205	BRO 5240 (018)	77,760
Highway Planning and Construction	20.205	BRO 5240 (019)	26,605
			104,365
Total U.S. Department of Transportation			104,365
<u>U.S. Department of Homeland Security</u>			
Passed through Kentucky Homeland Security			
Homeland Security Grant Program	97.067	10-033	30,814
Hazard Mitigation Grant	97.039	FEMA-DR-KY	8,824
Total U.S. Department of Homeland Security			39,638
<u>U.S. Environmental Protection Agency</u>			
Passed through Kentucky Infrastructure Authority			
ARRA - Capitalization Grants for Clean Water	66.468	F2 09-17	153,325
Total U.S. Environmental Protection Agency			153,325
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 631,000

CITY OF GREENUP

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONCLUDED)

FOR THE YEAR ENDED JUNE 30, 2010

Notes to Schedule of Expenditures of Federal Awards

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Greenup's programs of the federal government for the year ended June 30, 2010. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Government, and Non-Profit Organizations. Because the schedule presents only a selected portion of operations of the City, it is not and does not present the financial position, changes in net assets or cash flows of the City.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, Cost Principles for State and Local Governments, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity indentifying numbers are presented where available.

NOTE C - LOANS OUTSTANDING

At June 30, 2010, the City of Greenup has loan balances outstanding of \$153,325 under the ARRA, Capitalization Grants for Clean Water Program (CFDA number 66.468).



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

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

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Greenup, Kentucky (the "City") as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 12, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of 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 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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in the internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting [2010-01 to 2010-04]. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material

effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying schedule of findings and responses as item 2010-02.

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

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

Kelley, Gallaway + Company, PSC

April 12, 2011



Kelley,
Galloway &
Company, PSC

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**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the City of Greenup's (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2010. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB

Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, others within the entity, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Kelley, Hubbard & Company, P.C.
April 12, 2011

CITY OF GREENUP

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2010

A. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- ☐ Material weakness(es) identified? _____ Yes X No
- ☐ Significant deficiency(ies) identified that are not considered to be material weaknesses? X Yes _____ No

Noncompliance material to the financial statements noted? X Yes _____ No

Federal Awards

Internal control over major programs:

- ☐ Material weakness(es) identified? _____ Yes X No
- ☐ Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X No

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 501(a) of OMB Circular A-133? _____ Yes X No

Identification of Major Programs CFDA No.
CDBG State Administered Small Cities Program 14.228

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low risk auditee? _____ Yes X No

CITY OF GREENUP

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2010

**B. FINDINGS RELATED TO THE FINANCIAL STATEMENTS IN ACCORDANCE
WITH GENERALLY ACCEPTED GOVERNMENTAL AUDITING STANDARDS**

Finding 2010-01 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. The utility clerk is responsible for preparing utility billings, maintaining the detail accounts receivable records, and depositing cash receipts.

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

Effect: 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's Response and Corrective Action Plan: We are continually looking for ways to segregate duties and tighten controls but are limited by having two office personnel. Mayor or Accountant will approve any adjustments before posting to Utility Billing and Tax Account.

Finding 2010-02 Budget

Condition: A budget ordinance for fiscal year 2010 was not adopted and the budget for fiscal year 2008 was utilized for operations.

Criteria: KRS 91A.030 requires that a city adopt a budget ordinance to cover one fiscal year. If a budget ordinance is not adopted, the ordinance of the previous year shall have full force and effect as if readopted. Additionally, the KRS states that actual expenditures can exceed appropriated expenditures at the legal level of budgetary control.

Condition: During the year ended June 30, 2010, expenditures exceeded appropriated amounts as follows:

<u>Fund</u>	<u>Department</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General	Police	\$ 204,887	\$ 270,597	\$ (65,710)

Additionally, the General Fund had a deficit fund balance of \$186,047 at June 30, 2010.

Effect: Non-compliance 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's Response and Corrective Action Plan: Budgets will be adopted and any budget amendments will be made to reflect actual spending. Deficit fund balance is being addressed by expenditure cuts.

CITY OF GREENUP

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONCLUDED)

FOR THE YEAR ENDED JUNE 30, 2010

Finding 2010-03 Payroll Procedures

Condition: During our review of payroll processing procedures, we noted on several occasions that the time worked by an employee was changed without documenting the purpose for the change. The city clerk stated the changes were for lunch breaks and employees clocking-in before the start of their shift.

Criteria: Proper internal control over payroll is not being maintained.

Effect: Employees were not paid for the appropriate hours.

Recommendation: We recommend that all changes to employee time be approved by the mayor and the reason for the change be properly documented.

Management's Response and Corrective Action Plan: The Mayor has personnel clock in at the start of their shift unless they have permission and instructed City Clerk to pay employees per their time card. We will look at consistent time clocks for all areas.

Finding 2010-04 Cash Disbursements

Condition: During the course of our audit, we noted several disbursements, totaling \$6,957.57, in which the City did not maintain proper supporting documentation, including \$4,250.00 disbursed as part of the City's annual "Christmas with a Cop" program.

Criteria: All disbursements should be supported by paid receipts and/or complete vendor provided invoices to ensure the obligation was actually incurred and the disbursement was an appropriate use of public funds.

Effect: Disbursements were not properly documented.

Recommendation: We recommend that all disbursements be supported by the appropriate documentation to ensure the obligation was actually incurred and the disbursement was an appropriate use of public funds.

Management's Response and Corrective Action Plan: No disbursement will be made without having proper documentation. Checks will be reviewed before filing to ensure that receipts are attached. Cash will no longer be disbursed for expenses. Checks or petty cash will be utilized.

C. FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

None noted in current year.

CITY OF GREENUP
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010

<u>Findings</u>	<u>Findings/Noncompliance</u>
2009-01	We recommend the City segregate duties relating to cash receipts, cash disbursements, payroll, utility billings, maintaining the detail accounts receivable records and check signing to the extent possible.
<u>Status</u>	Uncorrected. See 2010-01
2009-02	We recommend reminding employees to use the time clock as they come on and off duty.
<u>Status</u>	Corrected.
2009-03	We recommend that written contracts be executed for all personnel hired outside of the collective bargaining agreement to outline job duties, wages and benefits.
<u>Status</u>	Corrected.
2009-04	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.
<u>Status</u>	Uncorrected. 2010-02