

CITY OF GREENUP

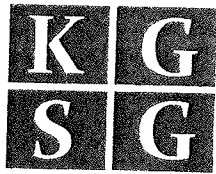
**FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

FOR THE YEAR ENDED JUNE 30, 2013

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	2-3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4-9
BASIC FINANCIAL STATEMENTS:	
Government-wide Financial Statements -	
Statement of Net Position.....	10
Statement of Activities	11
Fund Financial Statements -	
Balance Sheet - Governmental Funds.....	12
Reconciliation of the Balance Sheet - Governmental	
Funds to the Statement of Net Position.....	13
Statement of Revenues, Expenditures and Changes in	
Fund Balances - Governmental Funds.....	14
Reconciliation of the Statement of Revenues, Expenditures, and	
Changes in Fund Balances of Governmental Funds to the	
Statement of Activities	15
Statements of Revenues, Expenditures and Changes in	
Fund Balance - Budget and Actual - General Fund	16
Statement of Revenues, Expenditures and Changes in	
Fund Balance - Budget and Actual - Special Revenue - Street Fund	17
Statement of Net Position - Proprietary Funds	18
Statement of Revenues, Expenses, and Changes in	
Net Position - Proprietary Funds.....	19
Statement of Cash Flows - Proprietary Funds	20
Notes to Financial Statements	21-29
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER	
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS	
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN	
ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	30-31
SCHEDULE OF FINDINGS AND RESPONSES	32-33



Kelley Galloway
Smith Goolsby, PSC

Certified Public Accountants and Advisors

1200 Corporate Court • P. O. Box 990 • Ashland, Kentucky 41102

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

• Web www.ksgscpa.com Member of *PKF North America*

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, 2013, 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, 2013, 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 November 4, 2015, 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.

Kathery Galloway Smith, CPA, PSC

November 4, 2015
Ashland, Kentucky

CITY OF GREENUP MANAGEMENT DISCUSSION AND ANALYSIS

The management discussion and analysis (MD&A) gives readers an overview and analysis of the financial position and activities of the City of Greenup ("Government") for the fiscal year ended June 30, 2013. 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 \$7,549,625 (net position). Governmental activities' unrestricted net position is \$(119,069) and business type activities unrestricted net position is \$104,482.
- ⇒ The Government's total net position decreased by \$195,818. Net position of governmental activities increased by \$96,142 and net position of business-type activities decreased by \$291,960.
- ⇒ At June 30, 2013, the governmental activities had \$319,255 in total assets and \$219,982 in total liabilities. Business type activities had \$12,728,258 in total assets and deferred outflows and \$5,277,906 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, 2013. 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, 2013, the Government as a whole had a net position greater than its liabilities by \$7,549,625. Net position of governmental activities is \$99,273 and increased by \$96,142 over the prior year. Of these net assets \$218,342 is invested in capital assets (net of related debt), and \$(119,069) is unrestricted.

The net position of the Government's business-type activities is \$7,450,352 and decreased by \$291,960 over the prior year. Of this net position \$7,071,454 or 95% is invested in capital assets (net of related debt), \$274,416 is restricted and \$104,482 is unrestricted. The largest portion of the City's net position (95%) reflects its investment in capital assets (i.e., land, buildings, machinery and equipment) less outstanding related debt used to acquire those assets. The city uses these capital assets to provide services to citizens and as a result, these assets are not available for future spending. The city's capital assets investment is reported net of related debt, but the resources needed to pay this debt must be provided from other sources since the capital assets cannot be used to liquidate the liabilities.

The City has no remaining balance in unrestricted net position. Currently the unrestricted net position is \$(14,587). No unrestricted net position is available to be used to meet the City's ongoing obligations to citizens and creditors.

At the end of this fiscal year June 30, 2013 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	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ (97,927)	\$ (193,377)	\$ 1,025,983	\$ 856,941	\$ 928,056	\$ 663,564
Capital assets	<u>417,182</u>	<u>452,955</u>	<u>11,702,275</u>	<u>12,016,697</u>	<u>12,119,457</u>	<u>12,469,652</u>
Total assets	<u>319,255</u>	<u>259,578</u>	<u>12,728,258</u>	<u>12,873,638</u>	<u>13,047,513</u>	<u>13,133,216</u>
Current liabilities	44,150	52,960	1,046,018	1,087,113	1,090,168	1,140,073
Long-term liabilities	<u>175,832</u>	<u>203,487</u>	<u>4,231,888</u>	<u>4,044,213</u>	<u>4,407,720</u>	<u>4,247,700</u>
Total liabilities	<u>219,982</u>	<u>256,447</u>	<u>5,277,906</u>	<u>5,131,326</u>	<u>5,497,888</u>	<u>5,387,773</u>
Net assets						
Invested in capital assets net of related debt	218,342	230,567	7,071,454	7,624,712	7,289,796	7,855,279
Restricted	-	-	274,416	790	274,416	790
Unrestricted	<u>(119,069)</u>	<u>(227,436)</u>	<u>104,482</u>	<u>116,810</u>	<u>(14,587)</u>	<u>(110,626)</u>
Total net assets	<u>\$ 99,273</u>	<u>\$ 3,131</u>	<u>\$ 7,450,352</u>	<u>\$ 7,742,312</u>	<u>\$ 7,549,625</u>	<u>\$ 7,745,443</u>

ANALYSIS OF THE CITY'S OPERATIONS

	Governmental Activities		Business-type Activities		Total Primary Government	
Revenues	2013	2012	2013	2012	2013	2012
Taxes	\$ 223,397	\$ 203,478	\$ -	\$ -	\$ 223,397	\$ 203,478
Licenses and permits	172,425	16,167	-	-	172,425	16,167
Fees and fines	67,879	71,863	-	-	67,879	71,863
Rental income	39,150	39,600	-	-	39,150	39,600
Charges for services	36,233	34,758	2,757,713	2,593,775	2,793,946	2,628,533
Grant/other income	80,392	77,081	152,490	254,224	232,882	331,305
Total	\$ 619,476	\$ 442,947	\$ 2,910,203	\$ 2,847,999	\$ 3,529,679	\$ 3,290,946
Expenses	2013	2012	2013	2012	2013	2012
General government	\$ 221,343	\$ 176,463	-	-	\$ 221,343	\$ 176,463
Police	203,752	174,854	-	-	203,752	174,854
Fire	65,670	73,625	-	-	65,670	73,625
Streets	22,672	28,646	-	-	22,672	28,646
Capital outlay	-	-	-	-	-	-
Debt services/ Depreciation	9,897	10,724	-	-	9,897	10,724
Total governmental activities	\$ 523,334	\$ 464,312	-	-	\$ 523,334	\$ 464,312
Utility fund			\$ 3,202,163	\$ 3,036,482	3,202,163	3,036,482
Total primary government					\$ 3,725,497	\$ 3,500,794
Change in net assets	96,142	(21,365)	(291,960)	(188,483)	(195,818)	(209,848)
Net assets beginning of year, June 30, 2012	3,131	24,496	7,742,312	7,930,795	7,745,443	7,955,291
Net assets, June 30, 2013	\$ 99,273	\$ 3,131	\$ 7,450,352	\$ 7,742,312	\$ 7,549,625	\$ 7,745,443

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 \$(117,424). The General fund has a negative fund balance of \$(209,315) and a positive fund balance of \$91,891 for the Street fund.

The General Fund at June 30, 2013 had revenues of \$591,885 and expenditures of \$512,917 and a fund balance of \$(209,315).

The Municipal Aid Road Fund (Street Fund) at June 30, 2013 had revenues of \$57,618 and expenditures of \$140 and a fund balance of \$91,891.

PROPRIETARY FUNDS

The City's proprietary fund (Utility fund) or business-type activities had total assets of \$12,750,574 and total liabilities of \$5,300,222 leaving net assets of \$7,450,352. The Utility fund had \$2,757,713 in operating revenues, \$253 in interest income and \$152,237 in capital contributions. Operating expense totaled \$2,963,937 and interest expense on debt service totaled \$238,226. The utility fund total expenses exceeded its revenues by \$(291,960).

BUDGETARY HIGHLIGHTS

The City adopted a balanced budget as required by Kentucky Revised Statutes (KRS) for fiscal year 2013. The general fund revenues exceeded projections by \$17,845 and operating expenditures exceeded the budget by \$19,130

ASSET AND DEBT ADMINISTRATION

The City's investment in assets for governmental and business-type activities as of June 30, 2013 is \$52,970 for non-depreciable assets and \$12,066,487 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 2012</u>
Land	\$ 36,000	\$ 16,970	\$ 52,970
Construction In Progress	-	2,806,147	2,806,147
Buildings and improvements	157,860	180,000	337,860
Automotive equipment	603,435	219,486	822,921
Operating equipment	-	1,327,756	1,327,756
Office equipment	-	13,367	13,367
Infrastructure	292,673	-	292,673
Utility plant	-	14,733,408	14,733,408
	<u>1,089,968</u>	<u>19,297,134</u>	<u>20,387,102</u>
Less depreciation	<u>(672,786)</u>	<u>(7,594,859)</u>	<u>(8,267,645)</u>
Total	<u>\$ 417,182</u>	<u>\$ 11,702,275</u>	<u>\$ 12,119,457</u>

DEBT

At the end of fiscal year 2013 the City had governmental activities debt of \$200,485 compared to \$225,981 at June 30, 2012, which represents a decrease of \$25,496. Business-type activities had debt of \$4,686,382 compared to \$4,391,985 at June 30, 2012, which represents an increase of \$294,397. 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%	\$ 198,840
Compensated absences obligation	1,645
Total	<u>\$ 200,485</u>
 <u>Business-Type Activities Debt</u>	 <u>Amount</u>
Revenue bonds	\$ 3,985,416
Loans payable	700,966
Total	<u>\$ 4,686,382</u>

DESCRIPTION OF MUNICIPAL DEBT

- ⇒ A lease for a new ladder truck. Balance at June 30, 2013 = \$198,840.
- ⇒ Utility revenue bonds payable for utility construction and maintenance. Various issues totaling \$3,985,416 at June 30, 2013. See audit notes for additional detail.
- ⇒ Bank and infrastructure loans for utility construction and maintenance. Loans total \$700,966 at June 30, 2013. See audit notes for additional detail.
- ⇒ Employee compensated absences payable after 60 days = \$1,645.

ECONOMIC FACTORS AND NEXT YEARS BUDGET

Unemployment rate for the City of Greenup for 2013 is 8.9%. This rate is above the State of Kentucky rate at 8.8% and the national rate of 7.6%.

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

The following table summarizes the 2014 fiscal year budgeted expenses.

- ⇒ General Fund - \$519,190
- ⇒ Municipal Aid Program - \$26,495
- ⇒ Utility Fund - \$2,857,900
- ⇒ Total Budget - \$3,403,585

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, 2013

	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and cash equivalents	\$ 86,038	\$ 72,873	\$ 158,911
Accounts receivable	2,937	387,939	390,876
Allowance for uncollectible accounts	-	(56,822)	(56,822)
Internal balances, net	(200,130)	200,130	-
Other receivables	13,228	-	13,228
Restricted assets -			
Cash and cash equivalents	-	274,416	274,416
Materials and supplies inventory	-	91,886	91,886
Nondepreciable capital assets	36,000	2,823,117	2,859,117
Depreciable capital assets	1,053,968	16,474,017	17,527,985
Accumulated depreciation	(672,786)	(7,594,859)	(8,267,645)
Total assets	<u>319,255</u>	<u>12,672,697</u>	<u>12,991,952</u>
Deferred outflows of resources:			
Deferred savings from refunding bonds	-	55,561	55,561
Total deferred outflows of resources	<u>-</u>	<u>55,561</u>	<u>55,561</u>
Liabilities:			
Accounts payable	13,341	307,926	321,267
Accrued wages	1,041	4,982	6,023
Other accrued liabilities	4,791	23,804	28,595
Customer deposits	-	248,048	248,048
Accrued compensated absences, current	324	6,764	7,088
Current portion of long-term debt	24,653	454,494	479,147
Accrued compensated absences, non-current	1,645	-	1,645
Capital lease obligations, non-current	174,187	-	174,187
Notes payable, non-current	-	645,638	645,638
Revenue bonds, non-current	-	3,586,250	3,586,250
Total liabilities	<u>219,982</u>	<u>5,277,906</u>	<u>5,497,888</u>
Net Position:			
Invested in capital assets, net of related debt	218,342	7,071,454	7,289,796
Restricted	-	274,416	274,416
Unrestricted	(119,069)	104,482	(14,587)
Total net position	<u>\$ 99,273</u>	<u>\$ 7,450,352</u>	<u>\$ 7,549,625</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, 2013**

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	\$ 221,343	\$ 36,233	\$ -	\$ -	\$ (185,110)	\$ -	\$ (185,110)
Police department	203,752	-	4,356	-	(199,396)	-	(199,396)
Street department	22,672	-	27,586	-	4,914	-	4,914
Fire department	65,670	-	-	-	(65,670)	-	(65,670)
Interest expense	9,897	-	-	-	(9,897)	-	(9,897)
Total governmental activities	<u>523,334</u>	<u>36,233</u>	<u>31,942</u>	<u>-</u>	<u>(455,159)</u>	<u>-</u>	<u>(455,159)</u>
Business-Type Activities:							
Utilities	3,202,163	2,757,713	-	152,237	-	(292,213)	(292,213)
Total business-type activities	<u>3,202,163</u>	<u>2,757,713</u>	<u>-</u>	<u>152,237</u>	<u>-</u>	<u>(292,213)</u>	<u>(292,213)</u>
Total primary government	<u>\$ 3,725,497</u>	<u>\$ 2,793,946</u>	<u>\$ 31,942</u>	<u>\$ 152,237</u>	<u>\$ (455,159)</u>	<u>\$ (292,213)</u>	<u>\$ (747,372)</u>
General Revenues:							
Property and other local taxes					\$ 223,397	\$ -	\$ 223,397
Franchise fees					67,879	-	67,879
Rental income					39,150	-	39,150
Occupational license fees					172,425	-	172,425
Interest income					48	253	301
Other income					48,402	-	48,402
Total general revenues					<u>551,301</u>	<u>253</u>	<u>551,554</u>
Change in net position					96,142	(291,960)	(195,818)
Net position, June 30, 2012					<u>3,131</u>	<u>7,742,312</u>	<u>7,745,443</u>
Net position, June 30, 2013					<u>\$ 99,273</u>	<u>\$ 7,450,352</u>	<u>\$ 7,549,625</u>

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

**CITY OF GREENUP
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013**

	General	Special Revenue Fund Street Fund	Total Governmental Funds
Assets			
Cash	\$ 21,478	\$ 64,560	\$ 86,038
Garbage fees receivable	2,937	-	2,937
Other receivables	13,228	-	13,228
Due from other funds	-	27,331	27,331
Total assets	<u>\$ 37,643</u>	<u>\$ 91,891</u>	<u>\$ 129,534</u>
Liabilities and fund balances			
Liabilities:			
Accounts payable	\$ 13,341	\$ -	\$ 13,341
Accrued wages	1,041	-	1,041
Due to other funds	227,461	-	227,461
Accrued expenses	4,791	-	4,791
Accrued compensated absences	324	-	324
Total liabilities	<u>246,958</u>	<u>-</u>	<u>246,958</u>
Fund balances			
Unassigned	(209,315)	-	(209,315)
Assigned for special revenue funds	-	91,891	91,891
Total fund balances	<u>(209,315)</u>	<u>91,891</u>	<u>(117,424)</u>
Total liabilities and fund balances	<u>\$ 37,643</u>	<u>\$ 91,891</u>	<u>\$ 129,534</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 POSITION
JUNE 30, 2013

Total fund balances - Governmental Funds		\$ (117,424)
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets of \$1,089,968 net of accumulated depreciation of \$672,786 used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		417,182
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.		
Capital lease obligation	(198,840)	
Accrued compensated absences	<u>(1,645)</u>	<u>(200,485)</u>
Net position - Governmental Activities		<u><u>\$ 99,273</u></u>

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

CITY OF GREENUP
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	General	Special Revenue Fund Street Fund	Total Governmental Funds
Revenues			
Property taxes	\$ 69,507	\$ -	\$ 69,507
Vehicle taxes	12,469	-	12,469
Occupational License Fees	160,700	-	160,700
Business license fees	11,725	-	11,725
Franchise taxes	67,879	-	67,879
Insurance taxes	141,421	-	141,421
Garbage fees	36,233	-	36,233
Intergovernmental revenues	4,356	57,613	61,969
Interest	43	5	48
Rent	39,150	-	39,150
Other income	48,402	-	48,402
Total revenues	591,885	57,618	649,503
Expenditures			
General government	238,541	-	238,541
Police department	203,287	-	203,287
Street department	-	140	140
Fire department	37,644	-	37,644
Debt service:			
Principal retirement	23,548	-	23,548
Interest	9,897	-	9,897
Total expenditures	512,917	140	513,057
Excess (deficiency) of revenues over (under) expenditures	78,968	57,478	136,446
Other financing sources (uses)			
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	-	-	-
Net change in fund balance	78,968	57,478	136,446
Fund balances, beginning of year	(288,283)	34,413	(253,870)
Fund balances, end of year	\$ (209,315)	\$ 91,891	\$ (117,424)

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, 2013

Net change in fund balances - Governmental Funds	\$ 136,446
--	------------

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 depreciation expense exceeded capital outlays in the current period.

Capital outlay	33,257	
Depreciation	(69,030)	
Excess of depreciation expense over capital outlay		(35,773)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	23,548
--	--------

Municipal Road Aid funds were collected within the current period and therefore reported in governmental funds in the current period. However these funds were recorded in the prior period on the statement of activities.	(30,027)
---	----------

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

Long-term portion of accrued compensated absences	1,948
---	-------

Change in net position of Governmental Activities	\$ 96,142
---	-----------

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, 2013

	Budget	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Property and other local taxes	\$ 296,795	\$ 296,795	\$ 291,276	\$ (5,519)
Intergovernmental revenues	17,550	17,550	4,356	(13,194)
Charges for service	37,580	37,580	36,233	(1,347)
Rental income	40,250	40,250	39,150	(1,100)
Licenses and permits	141,750	141,750	172,425	30,675
Other income	40,115	40,115	48,445	8,330
	<u>574,040</u>	<u>574,040</u>	<u>591,885</u>	<u>17,845</u>
Expenditures				
General government	209,072	209,072	238,541	(29,469)
Police	196,485	196,485	203,287	(6,802)
Fire	54,250	54,250	37,644	16,606
Debt service	33,980	33,980	33,445	535
	<u>493,787</u>	<u>493,787</u>	<u>512,917</u>	<u>(19,130)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>80,253</u>	<u>80,253</u>	<u>78,968</u>	<u>(1,285)</u>
Other Financing Sources (Uses)				
Issuance of debt	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	80,253	80,253	78,968	(1,285)
Fund balance, beginning of year	<u>(288,283)</u>	<u>(288,283)</u>	<u>(288,283)</u>	<u>-</u>
Fund balance, end of year	<u>\$ (208,030)</u>	<u>\$ (208,030)</u>	<u>\$ (209,315)</u>	<u>\$ (1,285)</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, 2013

	Original Budget	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Intergovernmental revenues	\$ 26,485	\$ 26,485	\$ 57,613	\$ 31,128
Other income	10	10	5	(5)
Total revenues	26,495	26,495	57,618	31,123
Expenditures				
Street department	26,495	26,495	140	26,355
Capital outlay	-	-	-	-
Debt service	-	-	-	-
Total expenditures	26,495	26,495	140	26,355
Excess of revenues over (under) expenditures	-	-	57,478	57,478
Net change in fund balance	-	-	57,478	57,478
Fund balance, beginning of year	34,413	34,413	34,413	-
Fund balance, end of year	\$ 34,413	\$ 34,413	\$ 91,891	\$ 57,478

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

CITY OF GREENUP
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013

	Utility Fund
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 72,873
Accounts receivable	387,939
Allowance for doubtful accounts	(56,822)
Due from other funds	222,446
Materials and supplies inventory	91,886
Total current assets	<u>718,322</u>
Restricted Assets:	
Cash and cash equivalents	274,416
Total restricted assets	<u>274,416</u>
Capital Assets:	
Property, plant and equipment	19,297,134
Less: Accumulated depreciation	(7,594,859)
Total capital assets - net	<u>11,702,275</u>
Total assets	12,695,013
DEFERRED OUTFLOWS OF RESOURCES	
Deferred savings from refunding bonds	<u>55,561</u>
Total assets and deferred outflows of resources	<u><u>\$ 12,750,574</u></u>
LIABILITIES	
Current liabilities (payable from current assets):	
Accounts payable	\$ 307,926
Due to other funds	22,316
Accrued wages	4,982
Accrued expenses	11,274
Accrued compensated absences	6,764
Accrued interest payable	12,530
Customer deposits	248,048
Current portion of bonds payable	399,166
Current portion of notes payable	55,328
Total current liabilities	<u>1,068,334</u>
Long-term liabilities:	
Revenue bonds payable	3,586,250
Notes payable	<u>645,638</u>
Total long-term liabilities	<u>4,231,888</u>
Total liabilities	<u><u>5,300,222</u></u>
NET POSITION:	
Invested in capital assets, net of related debt	7,071,454
Restricted for debt payment and capital outlay	274,416
Unrestricted	104,482
Total net position	<u><u>\$ 7,450,352</u></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, 2013

	Utility Fund
OPERATING REVENUES:	
Water sales	\$ 2,494,018
Sewer service	145,439
Miscellaneous	118,256
Total operating revenues	<u>2,757,713</u>
OPERATING EXPENSES:	
Salaries, wages and related expenses	654,343
Health insurance	143,314
Contractual services	399,208
Materials and supplies	532,826
Repairs and maintenance	200,282
Fuel and oil	33,199
Utilities	197,721
Insurance	60,437
Office supplies	58,510
Rent	39,000
Depreciation	540,205
Miscellaneous	104,892
Total operating expenses	<u>2,963,937</u>
OPERATING LOSS	<u>(206,224)</u>
NON-OPERATING REVENUES (EXPENSES):	
Interest income	253
Interest expense	(238,226)
Total non-operating revenues (expenses)	<u>(237,973)</u>
LOSS BEFORE CAPITAL CONTRIBUTIONS	<u>(444,197)</u>
CAPITAL CONTRIBUTIONS	<u>152,237</u>
DECREASE IN NET POSITION	(291,960)
NET POSITION, JUNE 30, 2012	<u>7,742,312</u>
NET POSITION, JUNE 30, 2013	<u><u>\$ 7,450,352</u></u>

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

CITY OF GREENUP
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	Utility Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 2,645,317
Cash payments to suppliers for goods and services	(1,798,871)
Cash payments to employees	(655,467)
Other operating revenues	118,256
Net cash provided by operating activities	<u>309,235</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition and construction of capital assets	(225,783)
Proceeds from issuance of refunding bonds	4,150,000
Proceeds from issuance of notes payable	42,261
Principal paid on long-term debt	(3,897,864)
Interest paid on long-term debt	(380,604)
Capital contributions	152,237
Net cash used for capital and related financing activities	<u>(159,753)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	253
Net cash provided by investing activities	<u>253</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	149,735
CASH AND CASH EQUIVALENTS, June 30, 2012	<u>197,554</u>
CASH AND CASH EQUIVALENTS, June 30, 2013	<u><u>\$ 347,289</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating loss	\$ (206,224)
Adjustments:	
Depreciation	540,205
Changes in assets and liabilities:	
Increase in accounts receivable	(14,228)
Increase in inventories	(4,625)
Decrease in accounts payable	(83,746)
Increase in accrued wages	1,747
Decrease in accrued compensated absences	(2,871)
Increase in due from other funds	55,107
Increase in other accrued liabilities	3,782
Increase in customer deposits	20,088
Net cash provided by operating activities	<u><u>\$ 309,235</u></u>

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

CITY OF GREENUP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(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 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 2013 fiscal year was based was \$41,231,151. The tax rate assessed for the year ended June 30, 2013 to finance general fund operations was \$.1419 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, 2012 information to conform with the 2013 presentation.

Recent Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has recently issued GASB No. 62, *Codification of Accounting and Financial Reporting Guidance*, that incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The requirements of GASB No. 62 are effective for fiscal year 2013 and thereafter. As a result of implementing this statement, the City was not required to change the reporting of current or past transactions.

The Governmental Accounting Standards Board (GASB) has recently issued GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, that provides financial reporting guidance for deferred outflows and inflows of resources. While these elements were introduced and defined by Concepts Statement No. 4, *Elements of Financial Statements*, as a consumption and acquisition of net assets by the government that is applicable to a future reporting period, respectively, these elements have not been included in previous reporting guidance. The requirements of GASB No. 63 are effective for fiscal year 2013 and thereafter. As a result of implementing this statement, the computation of equity on the Statement of Net Position was changed and equity was retitled as "Net Position".

The Governmental Accounting Standards Board (GASB) has recently issued GASB No. 65, *Items Previously Reported as Assets and Liabilities* which clarifies the use of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. This statement requires certain items which were previously reported as assets and liabilities to be reported as deferred outflows of resources, deferred inflows of resources and as revenues or expenses. As a result of implementing this statement, certain items were reclassified to deferred outflows of resources on the Statement of Net Position.

(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, 2013, the carrying amount of the City's deposits (including amounts in restricted asset accounts) was \$433,327 and the bank balances totaled \$480,413. The difference between the carrying amounts and the bank balances was due to items in transit. The total of the bank balances were insured or collateralized with securities held by the City's agents in the City's name.

(3) CAPITAL ASSETS

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

<u>Governmental Activities</u>	June 30, 2012	Increases	Decreases	June 30, 2013
Capital Assets, Not Depreciated:				
Land	\$ 36,000	\$ -	\$ -	\$ 36,000
Capital Assets, Depreciated:				
Buildings	130,820	27,040	-	157,860
Automobiles and equipment	603,435	-	-	603,435
Infrastructure	286,456	6,217	-	292,673
Totals	<u>1,056,711</u>	<u>33,257</u>	<u>-</u>	<u>1,089,968</u>
Accumulated Depreciation:				
Buildings	126,283	1,622	-	127,905
Automobiles and equipment	356,564	38,659	-	395,223
Infrastructure	120,909	28,749	-	149,658
Totals	<u>603,756</u>	<u>69,030</u>	<u>-</u>	<u>672,786</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 452,955</u>	<u>\$ (35,773)</u>	<u>\$ -</u>	<u>\$ 417,182</u>
<u>Business-type Activities</u>				
Capital Assets, Not Depreciated:				
Land	\$ 16,970	\$ -	\$ -	\$ 16,970
Construction in process	2,697,490	108,657	-	2,806,147
Capital Assets, Depreciated:				
Buildings	180,000	-	-	180,000
Building improvements	20,014	-	-	20,014
Office equipment	8,067	5,300	-	13,367
Automobiles and trucks	219,486	-	-	219,486
Other equipment	1,252,792	54,950	-	1,307,742
Operating plant and distribution system	<u>14,676,532</u>	<u>56,876</u>	<u>-</u>	<u>14,733,408</u>
Totals	<u>19,071,351</u>	<u>225,783</u>	<u>-</u>	<u>19,297,134</u>
Less accumulated depreciation	<u>7,054,654</u>	<u>540,205</u>	<u>-</u>	<u>7,594,859</u>
Business-type Activities				
Capital Assets, Net	<u>\$ 12,016,697</u>	<u>\$ (314,422)</u>	<u>\$ -</u>	<u>\$ 11,702,275</u>

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

Governmental activities:	
General government	\$ 1,806
Police	10,449
Streets	28,749
Fire	28,026
	<u>\$ 69,030</u>
Business-type activities:	
Utilities	\$ 540,205
	<u>\$ 540,205</u>

(4) LONG-TERM LIABILITIES

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

<u>Governmental Activities</u>	Balance June 30, 2012	Additions	Reductions	Balance June 30, 2013	Due within one year
Other liabilities:					
Lease payable, 4.69% due January 6, 2020	\$ 222,388	\$ -	\$ 23,548	\$ 198,840	\$ 24,653
Compensated absences	3,593	-	1,948	1,645	-
Total Governmental Activities	<u>\$ 225,981</u>	<u>\$ -</u>	<u>\$ 25,496</u>	<u>\$ 200,485</u>	<u>\$ 24,653</u>
<u>Business-type Activities</u>	Balance June 30, 2012	Additions	Reductions	Balance June 30, 2013	Due within one year
Bonds payable:					
1975 W & S revenue bonds, 5.0%, due 2015	\$ 302,000	\$ -	\$ 302,000	\$ -	\$ -
1978 W & S revenue bonds, 5.0%, due 2018	124,000	-	124,000	-	-
1987 W & S revenue bonds, 7.5%, due 2027	300,000	-	300,000	-	-
1993 W & S revenue bonds, 5.25%, due 2033	301,500	-	301,500	-	-
1997 W & S revenue bonds, 4.75%, due 2038	776,500	-	776,500	-	-
1996 W & S revenue bonds, 4.875%, due 2035	331,000	-	331,000	-	-
1996 W & S revenue bonds, 4.875%, due 2035	23,800	-	23,800	-	-
2001 W & S revenue bonds, 4.75%, due 2041	295,300	-	295,300	-	-
2004 W & S revenue bonds, 4.50%, due 2044	429,000	-	429,000	-	-
2012F revenue bonds 2%-3%, due 2038	-	4,150,000	164,584	3,985,416	399,166
Loans payable:					
Kentucky infrastructure loan payable, 4.0%, due 2013	46,966	-	30,999	15,967	15,967
Kentucky infrastructure loan payable, 2.0%, due 2032	582,258	42,261	24,147	600,372	27,113
Loan payable, 5.25%, due January 10, 2022*	96,251	-	11,624	84,627	12,248
Bank loan payable, 5.25% due July 29, 2018	200,113	-	200,113	-	-
Other liabilities:					
Lease payable, 5.04% due August 1, 2017	583,297	-	583,297	-	-
Total Business-type Activities	<u>\$ 4,391,985</u>	<u>\$ 4,192,261</u>	<u>\$ 3,897,864</u>	<u>\$ 4,686,382</u>	<u>\$ 454,494</u>

* Unsecured loan.

Government Activities

Capital Lease - On January 6, 2006 the City entered into a lease agreement with the option to purchase a Fire Truck. The payment schedule calls for 15 annual installments of \$33,979 and is due on January 6, 2020. The interest rate on the lease is 4.69%. At June 30, 2013, \$390,000 has been capitalized under the capital lease with \$203,667 in related accumulated depreciation.

The minimum principal and interest repayment requirement on the capital lease obligation at June 30, 2013 is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 24,653	\$ 9,326	\$ 33,979
2015	25,809	8,170	33,979
2016	27,020	6,959	33,979
2017	28,287	5,692	33,979
2018	29,613	4,366	33,979
2019-2020	63,458	4,498	67,956
	<u>\$ 198,840</u>	<u>\$ 39,011</u>	<u>\$ 237,851</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, 2013 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 454,494	\$ 120,873	\$ 575,367
2015	405,468	110,312	515,780
2016	355,440	100,802	456,242
2017	366,709	92,389	459,098
2018	284,278	83,703	367,981
2019-2023	790,807	346,179	1,136,986
2024-2028	820,952	250,475	1,071,427
2029-2033	744,068	142,893	886,961
2034-2038	464,166	43,576	507,742
	<u>\$ 4,686,382</u>	<u>\$ 1,291,202</u>	<u>\$ 5,977,584</u>

During 2010, the City secured a construction loan of \$1,381,963 from the Kentucky Infrastructure Authority to finance a waterline extension project to provide water services to approximately 300 residential users. During the course of the project, \$747,642 of the principal will be forgiven under the American Recovery and Reinvestment Act of 2009. Full principal and interest payments on the remaining amount of \$634,321 will commence within one year of project completion. At June 30, 2013 the City had draws under the loan totaling \$1,381,963, of which \$747,642 was forgiven and included in capital contributions. The remaining amount of \$634,321 was included in notes payable and as of June 30, 2013, had a balance of \$600,372. As of June 30, 2013, full principal and interest payments have commenced.

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 2038 using the straight-line method. Additionally, the City reduced its total debt service payments over the following 25 years by \$268,262 and obtained an economic gain (difference between the present values of the debt service payments of the old and new bonds) of \$166,673.

(5) INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of June 30, 2013 is as follows:

Receivable Fund	Payable Fund	Purpose	Amount
Utility Fund	General Fund	Operations	\$ 222,446
Street Fund	General Fund	Operations	5,015
Street Fund	Utility Fund	Operations	22,316
Total			<u>\$ 249,777</u>

(6) RESTRICTED ASSETS

Debt Service Reserve Fund

At June 30, 2013, the city was required to have \$103,750 for the 2012F revenue bonds in a debt service reserve fund. As of June 30, 2013, 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, 2013 was \$-0-, due to the project not being completed before the first required deposit date.

(7) RISK MANAGEMENT

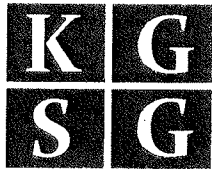
The City is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The City of Greenup has purchased 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, 2013, was \$21,546.

(9) CONTINGENCIES

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



Kelley Galloway
Smith Goolsby, PSC

Certified Public Accountants and Advisors

1200 Corporate Court • P.O. Box 990 • Ashland, Kentucky 41102

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

• Web www.ksgscpa.com Member of **PKF North America**

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities and each major fund of the City of Greenup, Kentucky (the "City") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 4, 2015.

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 (2013-04) 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 (2013-01, 2013-02 and 2013-03).

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 2013-04.

City of Greenup, Kentucky's Response to Findings

City of Greenup's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. City of Greenup's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kelley Galloway Smith, PSC

November 4, 2015
Ashland, Kentucky

CITY OF GREENUP

SCHEDULE OF FINDINGS AND RESPONSES

JUNE 30, 2013

Finding 2013-01 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 2013-02 Cash Disbursements:

Condition: During our testing of cash disbursements, we noted that purchase orders are not being properly utilized. Additionally, we noted a duplicate payment of a vendor invoice. Also, we noted that a signature stamp is utilized, but access to the stamp is not restricted.

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

Effect: Disbursements were not properly documented, unnecessary payment of an expense and dual signature controls could potentially be overridden.

Recommendation: We recommend that all disbursements be supported by the appropriate documentation to ensure the obligation was actually incurred and the disbursement was an appropriate use of public funds. Also, we recommend that payments only be issued upon receipt of an original invoice and purchase order. Additionally, we recommend that signature stamp access be limited to the individual whose name is on the stamp.

Management Response: Clerk has been trained not to pay off statements or invoice copies as this increases the chances of duplicate payments. Purchase orders will be utilized and new purchase order process will be implemented. Signature stamp is no longer used. Invoices will be stamped paid in the future.

Finding 2013-03 Utility Adjustments:

Condition: During our testing of utility adjustments, we noted that several adjustment forms were not properly completed. This included missing signatures of the person completing the

adjustment form and the person approving the adjustment form. Also, utility adjustments were not reconciled to the general ledger.

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

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

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

Management Response: Utility staff has been trained on how to properly document adjustments. Form was created where signatures need to be obtained. Utility adjustments are recorded to the general ledger on a monthly basis. Form has section for adequate description of why adjustment is being completed. Also, staff have been trained in billing procedures and city now has more experienced staff in this area.

Finding 2013-04 Budget:

Condition: During the year ended June 30, 2013, expenditures exceeded appropriated amounts as follow:

<u>Fund</u>	<u>Department</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General	General Government	\$ 209,072	\$ 238,541	\$ 29,469
General	Police	\$ 196,485	\$ 203,287	\$ 6,802

Additionally, the General Fund had a deficit fund balance of \$209,315 at June 30, 2013.

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.