

CITY OF GREENUP

**FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

FOR THE YEAR ENDED JUNE 30, 2009

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS



Kelley,
Galloway &
Company, PSC

CERTIFIED PUBLIC ACCOUNTANTS

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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

The Honorable Donna Hewlett, 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, 2009, 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, 2009, 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 read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis information on pages 4 through 9, are not a required part of the basic financial statements but is supplemental information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Kelley, Galloway + 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, 2009. 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 \$6,584,505 (net assets). Governmental activities' unrestricted net assets were \$(80,498) and business type activities unrestricted net assets were \$158,249.
- ⇒ The Government's total net assets decreased by \$160,221. Net assets of governmental activities decreased by \$109,629 and net assets of business-type activities decreased by \$50,592.
- ⇒ At June 30, 2009, the governmental activities had \$536,659 in total assets and \$320,001 in total liabilities. Business type activities had \$11,218,996 in total assets and \$4,851,149 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, 2009. 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, 2009, the Government as a whole had net assets greater than its liabilities by \$6,584,505. Net assets of governmental activities were \$216,658 and decreased by \$109,629 over the prior year. Of these net assets \$297,156 is invested in capital assets (net of related debt), and \$(80,498) is unrestricted.

The net assets of the Government's business-type activities are \$6,367,847 and decreased by \$50,592 over the prior year. Of these net assets \$5,937,547 or 93% are invested in capital assets (net of related debt), \$272,051 or 4% is restricted and \$158,249 or 2% is unrestricted. The largest portion of the City's net assets (93%) 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 assets of governmental activities. Current unrestricted net assets are \$(80,498). No unrestricted net assets are available to be used to meet the City's ongoing obligations to citizens and creditors.

At the end of this fiscal year June 30, 2009 the City is able to report positive balances in 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	
	2009	2008 (as restated)	2009	2008 (as restated)	2009	2008 (as restated)
Current and other assets	\$ (47,388)	\$ 167,559	\$ 751,422	\$ 691,967	\$ 704,034	\$ 859,526
Capital assets	<u>584,047</u>	<u>606,307</u>	<u>10,467,574</u>	<u>10,909,619</u>	<u>11,051,621</u>	<u>11,515,926</u>
Total assets	<u>536,659</u>	<u>773,866</u>	<u>11,218,996</u>	<u>11,601,586</u>	<u>11,755,655</u>	<u>12,375,452</u>
Current liabilities	41,866	129,307	593,078	645,384	634,944	774,691
Long-term liabilities	<u>278,135</u>	<u>318,272</u>	<u>4,258,071</u>	<u>4,537,763</u>	<u>4,536,206</u>	<u>4,856,035</u>
Total liabilities	<u>320,001</u>	<u>447,579</u>	<u>4,851,149</u>	<u>5,183,147</u>	<u>5,171,150</u>	<u>5,630,726</u>
Net assets						
Invested in capital assets net of related debt	297,156	299,812	5,937,547	6,104,976	6,234,703	6,404,788
Restricted	-	-	272,051	255,867	272,051	255,867
Unrestricted	<u>(80,498)</u>	<u>26,475</u>	<u>158,249</u>	<u>57,596</u>	<u>77,751</u>	<u>84,071</u>
Total net assets	<u>\$ 216,658</u>	<u>\$ 326,287</u>	<u>\$ 6,367,847</u>	<u>\$ 6,418,439</u>	<u>\$ 6,584,505</u>	<u>\$ 6,744,726</u>

ANALYSIS OF THE CITY'S OPERATIONS

Revenues	Governmental Activities		Business-type Activities		Total Primary Government	
	2009	2008 (as restated)	2009	2008 (as restated)	2009	2008 (as restated)
Taxes	\$ 232,601	\$ 184,652	\$ -	\$ -	\$ 232,601	\$ 184,652
Licenses and permits	11,969	11,425	-	-	11,969	11,425
Fees and fines	76,573	68,644	-	-	76,573	68,644
Rental income	38,411	37,859	-	-	38,411	37,859
Charges for services	42,651	35,196	2,368,425	2,309,768	2,411,076	2,344,964
Grant/other income	84,786	260,859	43,468	14,855	128,254	275,714
Total	<u>\$ 486,991</u>	<u>\$ 598,635</u>	<u>\$ 2,411,893</u>	<u>\$ 2,324,623</u>	<u>\$ 2,898,884</u>	<u>\$ 2,923,258</u>
Expenses	Governmental Activities		Business-type Activities		Total Primary Government	
	2009	2008 (as restated)	2009	2008	2009	2008 (as restated)
General government	\$ 197,711	\$ 181,100	-	-	\$ 197,711	\$ 181,100
Police	257,623	246,338	-	-	257,623	246,338
Fire	102,305	95,293	-	-	102,305	95,293
Streets	25,048	10,612	-	-	25,048	10,612
Capital outlay	-	3,939	-	-	-	3,939
Debt services	13,933	14,831	-	-	13,933	14,831
Total governmental activities	<u>\$ 596,620</u>	<u>\$ 552,113</u>	<u>-</u>	<u>-</u>	<u>\$ 596,620</u>	<u>\$ 552,113</u>
Utility fund			<u>\$ 2,462,485</u>	<u>\$ 2,323,819</u>	<u>2,462,485</u>	<u>2,323,819</u>
Total primary government					<u>\$ 3,059,105</u>	<u>\$ 2,875,932</u>
Change in net assets	(109,629)	46,522	(50,592)	804	(160,221)	47,326
Net assets beginning of year, June 30, 2008	<u>326,287</u>	<u>279,765</u>	<u>6,418,439</u>	<u>6,417,635</u>	<u>6,744,726</u>	<u>6,697,400</u>
Net assets, June 30, 2009	<u>\$ 216,658</u>	<u>\$ 326,287</u>	<u>\$ 6,367,847</u>	<u>\$ 6,418,439</u>	<u>\$ 6,584,505</u>	<u>\$ 6,744,726</u>

Note: June 30, 2008 general fund and utility fund are restated - See Note 9.

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 \$(68,731). The General fund has a negative fund balance of \$111,593 and a positive fund balance of \$42,862 for the Street fund.

The General Fund at June 30, 2009 had revenues of \$465,488, and expenditures of \$561,578 and a fund balance of \$(111,593).

The Municipal Aid Road Fund (Street Fund) at June 30, 2009 had revenues of \$21,503 and expenditures of \$32,396 and a fund balance of \$42,862.

PROPRIETARY FUNDS

The City's proprietary fund (Utility fund) or business-type activities had total assets of \$11,241,312 and total liabilities of \$4,873,465 leaving net assets of \$6,367,847. The Utility fund had \$2,368,425 in operating revenues, \$9,681 in interest income and \$33,787 in capital contributions. Operating expense totaled \$2,224,872 and interest expense on debt service totaled \$237,613. The utility funds total expenses exceeded it's revenues by \$50,592.

BUDGETARY HIGHLIGHTS

No budget ordinance was adopted for Fiscal Year 2009. Kentucky Revised Statues (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, 2009 is \$41,000 for non-depreciable assets and \$11,010,621 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 2009</u>
Land	\$ 36,000	\$ 5,000	\$ 41,000
Buildings and improvements	130,820	180,000	310,820
Automotive equipment	568,046	151,697	719,743
Operating equipment	-	1,170,257	1,170,257
Office equipment	-	8,067	8,067
Infrastructure	236,501	-	236,501
Utility plant	-	14,484,265	14,484,265
	<u>971,367</u>	<u>15,999,286</u>	<u>16,970,653</u>
Less depreciation	<u>(387,320)</u>	<u>(5,531,712)</u>	<u>(5,919,032)</u>
Total	<u>\$ 584,047</u>	<u>\$ 10,467,574</u>	<u>\$ 11,051,621</u>

DEBT

At the end of fiscal year 2009 the City had governmental activities debt of \$298,658 compared to \$318,272 at June 30, 2008, which represents an decrease of \$19,614. Business-type activities had debt of \$4,530,027 compared to \$4,804,643 at June 30, 2008, which represents a decrease of \$274,616. 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%	\$ 286,891
Compensated absences obligation	11,767
Total	<u>\$ 298,658</u>
 <u>Business-Type Activities Debt</u>	 <u>Amount</u>
Revenue bonds	\$ 3,335,700
Loans payable	378,569
Lease at 5.04%	815,758
Total	<u>\$ 4,530,027</u>

DESCRIPTION OF MUNICIPAL DEBT

- ⇒ A lease for a new ladder truck. Balance at June 30, 2009 = \$286,891.
- ⇒ Utility revenue bonds payable for utility construction and maintenance. Various issues totaling \$3,335,700 at June 30, 2009. See audit notes for additional detail.
- ⇒ Bank and infrastructure loans for utility construction and maintenance. Loans total \$378,569 at June 30, 2009. See Note 4.
- ⇒ Employee compensated absences payable after 60 days = \$11,767.
- ⇒ Radio read metering system, lease purchase at 5.04% Balance at June 30, 2010 is \$815,758

ECONOMIC FACTORS AND NEXT YEARS BUDGET

Unemployment rate for the City of Greenup for 2009 is 8.6%. This rate is below the State of Kentucky rate at 10.8% and the national rate of 9.5%.

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

The following table summarizes the 2009 fiscal year budgeted expenses.

- ⇒ General Fund - \$695,488
- ⇒ Municipal Aid Program - \$20,315
- ⇒ Utility Fund - \$2,258,027
- ⇒ Total Budget - \$2,973,830

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, 2009

	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and cash equivalents	\$ 33,777	\$ 77,207	\$ 110,984
Accounts receivable	2,965	214,168	217,133
Allowance for uncollectible accounts	(2,673)	(4,327)	(7,000)
Internal balances, net	(93,699)	93,699	-
Prepaid items	122	-	122
Other receivables	12,120	305	12,425
Restricted assets -			
Cash and cash equivalents	-	310,883	310,883
Materials and supplies inventory	-	59,487	59,487
Nondepreciable capital assets	36,000	5,000	41,000
Depreciable capital assets-net	935,367	15,994,286	16,929,653
Accumulated depreciation	(387,320)	(5,531,712)	(5,919,032)
Total assets	<u>536,659</u>	<u>11,218,996</u>	<u>11,755,655</u>
Liabilities:			
Accounts payable	8,802	36,902	45,704
Accrued wages	2,644	8,248	10,892
Other accrued liabilities	7,582	43,539	51,121
Customer deposits	-	192,563	192,563
Accrued compensated absences, current	2,315	39,870	42,185
Current portion of long-term debt	20,523	271,956	292,479
Accrued compensated absences, non-current	11,767	-	11,767
Capital lease obligation, non-current	266,368	742,099	1,008,467
Notes payable, non-current	-	322,372	322,372
Revenue bonds, non-current	-	3,193,600	3,193,600
Total liabilities	<u>320,001</u>	<u>4,851,149</u>	<u>5,171,150</u>
Net Assets:			
Invested in capital assets, net of related debt	297,156	5,937,547	6,234,703
Restricted	-	272,051	272,051
Unrestricted	(80,498)	158,249	77,751
Total net assets	<u>\$ 216,658</u>	<u>\$ 6,367,847</u>	<u>\$ 6,584,505</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, 2009

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	Total
Governmental Activities:							
General government	\$ 197,711	\$ 33,351	\$ -	\$ -	\$ (164,360)	\$ -	\$ (164,360)
Police department	257,623	-	-	-	(257,623)	-	(257,623)
Street department	25,048	-	21,467	-	(3,581)	-	(3,581)
Fire department	102,305	9,300	-	8,250	(84,755)	-	(84,755)
Debt service	13,933	-	-	-	(13,933)	-	(13,933)
Total governmental activities	596,620	42,651	21,467	8,250	(524,252)	-	(524,252)
Business-Type Activities:							
Utilities	2,462,485	2,368,425	-	33,787	-	(60,273)	(60,273)
Total business-type activities	2,462,485	2,368,425	-	33,787	-	(60,273)	(60,273)
Total primary government	\$ 3,059,105	\$ 2,411,076	\$ 21,467	\$ 42,037	\$ (524,252)	\$ (60,273)	\$ (584,525)
General Revenues:							
Property and other local taxes					\$ 232,601	\$ -	\$ 232,601
Franchise fees					76,573	-	76,573
Rental income					38,411	-	38,411
Occupational license fees					11,969	-	11,969
Interest income					316	9,681	9,997
Other income					54,753	-	54,753
Total general revenues					414,623	9,681	424,304
Change in net assets					(109,629)	(50,592)	(160,221)
Net assets, June 30, 2008, as restated (Note 9)					326,287	6,418,439	6,744,726
Net assets, June 30, 2009					\$ 216,658	\$ 6,367,847	\$ 6,584,505

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

**CITY OF GREENUP
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009**

	<u>General Fund</u>	<u>Special Revenue Street Fund</u>	<u>Total Governmental Funds</u>
Assets:			
Cash	\$ 21,494	\$ 12,283	\$ 33,777
Garbage fees receivable	2,965	-	2,965
Allowance for uncollectible accounts	(2,673)	-	(2,673)
Other receivables	8,579	3,541	12,120
Prepaid items	122	-	122
Due from other funds	<u>-</u>	<u>27,038</u>	<u>27,038</u>
Total assets	<u>\$ 30,487</u>	<u>\$ 42,862</u>	<u>\$ 73,349</u>
Liabilities and fund balances			
Liabilities:			
Accounts payable	\$ 8,802	\$ -	\$ 8,802
Accrued wages	2,644	-	2,644
Due to other funds	120,737	-	120,737
Accrued expenses	7,582	-	7,582
Accrued compensated absences	<u>2,315</u>	<u>-</u>	<u>2,315</u>
Total liabilities	<u>142,080</u>	<u>-</u>	<u>142,080</u>
Fund balances:			
Unreserved/undesignated, reported in:			
General fund	(111,593)	-	(111,593)
Special revenue funds	<u>-</u>	<u>42,862</u>	<u>42,862</u>
Total fund balances	<u>(111,593)</u>	<u>42,862</u>	<u>(68,731)</u>
Total liabilities and fund balances	<u>\$ 30,487</u>	<u>\$ 42,862</u>	<u>\$ 73,349</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, 2009**

Total fund balances - Governmental Funds		\$	(68,731)
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets of \$971,367 net of accumulated depreciation of \$387,320 used in government activities are not financial resources and therefore are not reported in the governmental funds.			584,047
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.			
Capital lease obligation	(286,891)		
Accrued compensated absences	<u>(11,767)</u>		<u>(298,658)</u>
Net assets - Governmental Activities		\$	<u>216,658</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, 2009

	<u>Special Revenue</u>		Total
	<u>General</u>	<u>Street</u>	<u>Governmental</u>
	<u>Fund</u>	<u>Fund</u>	<u>Funds</u>
Revenues:			
Property taxes	\$ 73,014	\$ -	\$ 73,014
Vehicle taxes	14,468	-	14,468
Business license fees	11,969	-	11,969
Franchise taxes	76,573	-	76,573
Insurance taxes	145,119	-	145,119
Garbage fees	33,351	-	33,351
Intergovernmental revenues	17,550	21,467	39,017
Interest	280	36	316
Rent	38,411	-	38,411
Other income	54,753	-	54,753
Total revenues	<u>465,488</u>	<u>21,503</u>	<u>486,991</u>
Expenditures:			
General government	194,850	-	194,850
Police department	250,987	-	250,987
Street department	-	32,396	32,396
Fire department	73,820	-	73,820
Capital outlay	8,384	-	8,384
Debt service:			
Principal retirement	19,604	-	19,604
Interest	13,933	-	13,933
Total expenditures	<u>561,578</u>	<u>32,396</u>	<u>593,974</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(96,090)</u>	<u>(10,893)</u>	<u>(106,983)</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	(96,090)	(10,893)	(106,983)
Fund balances beginning year, as restated (Note 9)	<u>(15,503)</u>	<u>53,755</u>	<u>38,252</u>
Fund balances end of year	<u>\$ (111,593)</u>	<u>\$ 42,862</u>	<u>\$ (68,731)</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, 2009

Net change in fund balances - Governmental Funds \$ (106,983)

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	43,850	
Depreciation	<u>(66,110)</u>	
Excess of depreciation expense over capital outlay		(22,260)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 19,604

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>10</u>
---	-----------

Change in net assets Governmental Activities \$ (109,629)

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, 2009

	<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	\$ 309,174	\$ (49,361)
Intergovernmental revenues	178,300	178,300	17,550	(160,750)
Charges for service	42,000	42,000	33,351	(8,649)
Rent	38,600	38,600	38,411	(189)
Licenses and permits	11,250	11,250	11,969	719
Other income	23,775	23,775	55,033	31,258
	<u>652,460</u>	<u>652,460</u>	<u>465,488</u>	<u>(186,972)</u>
Expenditures				
General government	334,045	334,045	194,850	139,195
Police department	204,887	204,887	250,987	(46,100)
Fire department	62,468	62,468	73,820	(11,352)
Capital outlay	60,109	60,109	8,384	51,725
Debt service	33,979	33,979	33,537	442
	<u>695,488</u>	<u>695,488</u>	<u>561,578</u>	<u>133,910</u>
Net change in fund balance	(43,028)	(43,028)	(96,090)	(53,062)
Fund balance, beginning of year, as restated (Note 9)	<u>(15,503)</u>	<u>(15,503)</u>	<u>(15,503)</u>	<u>-</u>
Fund balance, end of year	<u>\$ (58,531)</u>	<u>\$ (58,531)</u>	<u>\$ (111,593)</u>	<u>\$ (53,062)</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, 2009

	<u>Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Intergovernmental revenues	\$ 20,275	\$ 20,275	\$ 21,467	\$ 1,192
Other income	-	-	36	36
Total revenues	<u>20,275</u>	<u>20,275</u>	<u>21,503</u>	<u>1,228</u>
Expenditures				
Street department	20,315	20,315	32,396	(12,081)
Capital outlay	-	-	-	-
Debt service	-	-	-	-
Total expenditures	<u>20,315</u>	<u>20,315</u>	<u>32,396</u>	<u>(12,081)</u>
Excess of revenues over (under) expenditures	<u>(40)</u>	<u>(40)</u>	<u>(10,893)</u>	<u>(10,853)</u>
Net change in fund balance	(40)	(40)	(10,893)	(10,853)
Fund balance, beginning of year	<u>53,755</u>	<u>53,755</u>	<u>53,755</u>	<u>-</u>
Fund balance, end of year	<u>\$ 53,715</u>	<u>\$ 53,715</u>	<u>\$ 42,862</u>	<u>\$ (10,853)</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, 2009

ASSETS:	Utility
Current assets:	Fund
Cash and cash equivalents	\$ 77,207
Accounts receivable	214,168
Allowance for doubtful accounts	(4,327)
Accrued interest receivable	305
Due from other funds	116,015
Materials and supplies inventory	59,487
Total current assets	<u>462,855</u>
Restricted assets:	
Cash and cash equivalents	<u>310,883</u>
Total restricted assets	<u>310,883</u>
Capital assets:	
Property, plant and equipment	15,999,286
Less: accumulated depreciation	<u>(5,531,712)</u>
Total capital assets - net	<u>10,467,574</u>
Total assets	<u>\$ 11,241,312</u>
LIABILITIES:	
Current liabilities (payable from current assets):	
Accounts payable	\$ 36,902
Due to other funds	22,316
Accrued wages	8,248
Accrued expenses	4,707
Accrued compensated absences	39,870
Accrued interest payable	38,832
Customer deposits	192,563
Current portion of capital lease obligation	73,659
Current portion of bonds payable	142,100
Current portion of notes payable	<u>56,197</u>
Total current liabilities	<u>615,394</u>
Long-term liabilities:	
Capital lease obligation	742,099
Revenue bonds payable	3,193,600
Notes payable	<u>322,372</u>
Total long-term liabilities	<u>4,258,071</u>
Total liabilities	<u>4,873,465</u>
NET ASSETS:	
Invested in capital assets, net of related debt	5,937,547
Restricted for debt payment and capital outlay	272,051
Unrestricted	<u>158,249</u>
Total net assets	<u>\$ 6,367,847</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, 2009

OPERATING REVENUES:	Utility Fund
Water sales	\$ 2,138,742
Sewer service	156,700
Miscellaneous	72,983
Total operating revenues	<u>2,368,425</u>
OPERATING EXPENSES:	
Salaries, wages and related expenses	588,854
Health insurance	212,953
Contractual services	67,101
Materials and supplies	300,944
Repairs and maintenance	197,474
Fuel and oil	25,471
Utilities	155,685
Insurance	25,772
Office supplies	35,131
Rent	30,000
Depreciation	481,968
Miscellaneous	103,519
Total operating expenses	<u>2,224,872</u>
OPERATING INCOME	<u>143,553</u>
NON-OPERATING REVENUES (EXPENSES):	
Interest income	9,681
Interest expense	<u>(237,613)</u>
Total non-operating revenues (expenses)	<u>(227,932)</u>
LOSS BEFORE OPERATING TRANSFERS AND CAPITAL CONTRIBUTIONS	(84,379)
CAPITAL CONTRIBUTIONS	<u>33,787</u>
DECREASE IN NET ASSETS	(50,592)
NET ASSETS, June 30, 2008, as restated (Note 9)	<u>6,418,439</u>
NET ASSETS, June 30, 2009	<u>\$ 6,367,847</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, 2009**

	Utility Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 2,288,621
Cash payments to suppliers for goods and services	(1,213,516)
Cash payments to employees	(596,643)
Other operating revenues	72,983
Net cash provided by operating activities	<u>551,445</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition and construction of capital assets	(39,923)
Principal paid on long-term debt	(274,616)
Interest paid on long-term debt	(239,245)
Capital contributions	33,787
Net cash used for capital and related financing activities	<u>(519,997)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest income	9,721
Net cash provided by investing activities	<u>9,721</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	41,169
CASH AND CASH EQUIVALENTS, June 30, 2008	<u>346,921</u>
CASH AND CASH EQUIVALENTS, June 30, 2009	<u>\$ 388,090</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 143,553
Adjustments:	
Depreciation	481,968
Changes in assets and liabilities:	
In crease in accounts receivable	(7,685)
Decrease in prepaid expenses	18,165
Decrease in inventories	29,165
Decrease in accounts payable	(16,631)
Increase in accrued wages	1,515
Decrease in accrued compensated absences	(9,304)
Increase in due from other funds	(90,816)
Increase in other accrued liabilities	651
Increase in customer deposits	864
Net cash provided by operating activities	<u>\$ 551,445</u>

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

CITY OF GREENUP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

(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 2009 fiscal year was based was \$43,625,231. The tax rate assessed for the year ended June 30, 2009 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, 2008 information to conform with the 2009 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, 2009, the carrying amount of the City's deposits (including amounts in restricted asset accounts) was \$421,466 and the bank balances totaled \$579,566. 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, 2008	Increases	Decreases	June 30, 2009
<u>Governmental Activities</u>				
Capital Assets, Not Depreciated:				
Land	\$ 36,000	\$ -	\$ -	\$ 36,000
Capital Assets, Depreciated:				
Buildings	130,820	-	-	130,820
Automobiles and equipment	554,196	13,850	-	568,046
Infrastructure	206,501	30,000	-	236,501
Totals	927,517	43,850	-	971,367
Accumulated Depreciation:				
Buildings	113,860	3,105	-	116,965
Automobiles and equipment	185,870	40,355	-	226,225
Infrastructure	21,480	22,650	-	44,130
Totals	321,210	66,110	-	387,320
Governmental Activities Capital Assets, Net	\$ 606,307	\$ (22,260)	\$ -	\$ 584,047
<u>Business-type Activities</u>				
Capital Assets, Not Depreciated:				
Land	\$ 5,000	\$ -	\$ -	\$ 5,000
Capital Assets, Depreciated:				
Buildings	180,000	-	-	180,000
Office equipment	8,067	-	-	8,067
Automobiles and trucks	151,697	-	-	151,697
Other equipment	1,170,257	-	-	1,170,257
Operating plant and distribution system	14,444,342	39,923	-	14,484,265
Totals	15,959,363	39,923	-	15,999,286
Less accumulated depreciation	5,049,744	481,968	-	5,531,712
Business-type Activities Capital Assets, Net	\$ 10,909,619	\$ (442,045)	\$ -	\$ 10,467,574

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

Governmental activities:	
General government	\$ 2,873
Police	12,102
Streets	22,650
Fire	28,485
	<u>\$ 66,110</u>
Business-type activities:	
Utilities	\$ 481,968
	<u>\$ 481,968</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, 2008	Additions	Reductions	Balance June 30, 2009	Due within one year
Other liabilities:					
Lease payable, 4.69% due January 6, 2020	\$ 306,495	\$ -	\$ 19,604	\$ 286,891	\$ 20,523
Compensated absences	11,777	-	10	11,767	-
Total Governmental Activities	<u>\$ 318,272</u>	<u>\$ -</u>	<u>\$ 19,614</u>	<u>\$ 298,658</u>	<u>\$ 20,523</u>
<u>Business-type Activities</u>	Balance June 30, 2008	Additions	Reductions	Balance June 30, 2009	Due within one year
Bonds payable:					
1975 W & S revenue bonds, 5.0%, due 2015	\$ 632,000	\$ -	\$ 75,000	\$ 557,000	\$ 80,000
1978 W & S revenue bonds, 5.0%, due 2018	190,000	-	15,000	175,000	16,000
1987 W & S revenue bonds, 7.5%, due 2027	338,000	-	8,000	330,000	9,000
1993 W & S revenue bonds, 5.25%, due 2033	325,500	-	5,500	320,000	6,000
1997 W & S revenue bonds, 4.75%, due 2038	833,500	-	13,000	820,500	14,000
1996 W & S revenue bonds, 4.875%, due 2035	358,500	-	6,500	352,000	6,500
1996 W & S revenue bonds, 4.875%, due 2035	25,900	-	500	25,400	500
2001 W & S revenue bonds, 4.75%, due 2041	312,900	-	4,100	308,800	4,100
2004 W & S revenue bonds, 4.50%, due 2044	453,000	-	6,000	447,000	6,000
Loans payable:					
Kentucky infrastructure loan payable, 4.0% due 2013	159,385	-	26,457	132,928	27,527
Loan payable, 5.25%, due January 10, 2022*	158,494	-	16,062	142,432	9,139
Bank loan payable, 5.00% due December 21, 2009 *	24,452	-	16,140	8,312	8,312
Bank loan payable, 5.83% due July 28, 2011 *	105,402	-	10,505	94,897	11,219
Other liabilities:					
Lease payable, 5.04% due August 1, 2017	887,610	-	71,852	815,758	73,659
Total Business-type Activities	<u>\$ 4,804,643</u>	<u>\$ -</u>	<u>\$ 274,616</u>	<u>\$ 4,530,027</u>	<u>\$ 271,956</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, 2009, \$390,000 has been capitalized under the capital lease with \$99,667 in related accumulated depreciation.

The minimum principal and interest repayment requirement on the capital lease obligation at June 30, 2009 is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 20,523	\$ 13,456	\$ 33,979
2011	21,486	12,493	33,979
2012	22,494	11,485	33,979
2013	23,548	10,431	33,979
2014	24,653	9,326	33,979
2015-2019	141,731	28,161	169,892
2020	32,456	1,523	33,979
	<u>\$ 286,891</u>	<u>\$ 86,875</u>	<u>\$ 373,766</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 loan payable to the Kentucky Infrastructure Authority is 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, 2009 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 198,297	\$ 188,836	\$ 387,133
2011	200,860	179,162	380,022
2012	271,533	165,558	437,091
2013	208,494	155,257	363,751
2014	204,136	144,876	349,012
2015-2019	602,718	600,605	1,203,323
2020-2024	478,131	463,949	942,080
2025-2029	531,600	324,313	855,913
2030-2034	545,100	190,679	735,779
2035-2039	345,500	69,597	415,097
2040-2044	127,900	13,119	141,019
	<u>\$ 3,714,269</u>	<u>\$ 2,495,951</u>	<u>\$ 6,210,220</u>

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, 2009, \$887,609 has been capitalized under the capital lease with \$94,925 in related accumulated depreciation.

The minimum principal and interest repayment requirement on the capital lease obligation at June 30, 2009 is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 73,659	\$ 41,685	\$ 115,344
2011	77,423	37,921	115,344
2012	81,379	33,965	115,344
2013	85,456	29,888	115,344
2014	89,905	25,439	115,344
2015-2017	407,936	53,442	461,378
	<u>\$ 815,758</u>	<u>\$ 222,340</u>	<u>\$ 1,038,098</u>

(5) INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of June 30, 2009 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Purpose</u>	<u>Amount</u>
Utility Fund	General Fund	Operations	\$ 116,015
Street Fund	General Fund	Operations	4,722
Street Fund	Utility Fund	Operations	22,316
Total			<u>\$ 143,053</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 \$182,871 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, 2009, the City had such funds totaling \$235,885.

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, 2009 was \$93.

(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, 2009, was \$23,715.

(9) PRIOR PERIOD ADJUSTMENTS

During the current fiscal year, the City became aware of errors in applying the modified accrual basis of accounting for property taxes receivable in the General Fund. In order to recognize the revenue produced and related receivable from any property tax assessment, the revenue must meet "available" criteria. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. The National Council on Governmental Accounting Interpretation (NCGAI) No. 1, states that property taxes must be collected within 60 days of the current fiscal year end to meet the "available" criteria. The General Fund fund balance and Government Activities net assets were overstated by \$68,646 in 2008, due to the inclusion of property tax revenues that did not meet the "available" criteria. Beginning net assets and fund balances have been restated as follow:

		Governmental Activities	
		As previously Reported	As restated
Statement of Net Assets			
Total assets	\$	842,512	\$ 773,866
Total liabilities		447,579	447,579
Net assets:			
Invested in capital assets, net of related debt		299,812	299,812
Restricted		-	-
Unrestricted		95,121	26,475
Total net assets	\$	<u>394,933</u>	<u>\$ 326,287</u>
General Fund			
Total Assets	\$	212,371	\$ 143,725
Total liabilities		159,228	159,228
Fund Balances:			
Unreserved		53,143	(15,503)
Total net assets	\$	<u>53,143</u>	<u>\$ (15,503)</u>

During the current fiscal year, the City became aware of an error in the printing of the Aged Trial Balance summary utilized in recording receivables for the Utility Fund. The report did not include all customer accounts with receivables on June 30, 2008. The Utility Fund fund balance and Business-Type Activities net assets were understated by \$162,629 in 2008. Beginning net assets and fund balances have been restated as follows:

		Business-Type Activities	
		As previously Reported	As restated
Statement of Net Assets			
Total assets	\$	11,438,957	\$ 11,601,586
Total liabilities		5,183,147	5,183,147
Net assets:			
Invested in capital assets, net of related debt		6,104,976	6,104,976
Restricted		255,867	255,867
Unrestricted		(105,033)	57,596
Total net assets	\$	<u>6,255,810</u>	<u>\$ 6,418,439</u>
Utility Fund			
Total Assets	\$	11,461,273	\$ 11,623,902
Total liabilities		5,205,463	5,205,463
Net assets:			
Invested in capital assets, net of related debt		6,104,976	6,104,976
Restricted		255,867	255,867
Unrestricted		(105,033)	57,596
Total net assets	\$	<u>6,255,810</u>	<u>\$ 6,418,439</u>

(10) 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



Kelley,
Galloway &
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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 Donna Hewlett, 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, 2009, 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 [2009-01 to 2009-03]. 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 2009-04.

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, Galpin & Company, PLLC
April 12, 2011

CITY OF GREENUP
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2009

Finding 2009-01 Segregated 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.

Response: 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 posted to Utility Billing and Tax Account.

Finding 2009-02 Payroll Procedures

Condition: During the course of the audit, we noted several errors relating to the processing of payroll, including employees not using the time clock for lunch and errors in the number of hours paid to an employee. Additionally, we noted that the time clock at the water distribution plant is broke and supervisors are not documenting approval of employee time sheets.

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

Effect: Employees were not paid for the appropriate hours.

Recommendation: We recommend reminding employees to use the time clock as they come on and off duty. Additionally, we recommend an independent employee verify the number of hours entered into the payroll system matches employees' time cards that are approved by their supervisor.

Response: 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 2009-03 Personnel Contract

Condition: During our review of payroll transactions, we noted that a contract was not executed for the Main Street Director to detail job duties, wages and benefits, such as vacation.

Criteria: To establish more adequate internal controls related to payroll, written contracts should be executed for employees hired outside of the collective bargaining agreement.

Effect: Reduced effectiveness of internal control related to payroll.

Recommendation: We recommend that written contracts be executed for all personnel hired outside of the collective bargaining agreement to outline job duties, wages and benefits.

Response: Main Street director is now an independent contractor and not being paid by the hour as an employee.

Finding 2009-04 Budget

Condition: A budget ordinance for fiscal year 2009 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, 2009, 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	250,987	(46,100)
General	Fire	62,468	73,820	(11,352)
Street	Streets	20,315	32,396	(12,081)

Additionally, the General Fund had a deficit fund balance of \$111,593 at June 30, 2009.

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.

Response: Budgets will be adopted and any budget amendments will be made to reflect actual spending. Deficit fund balance is being addressed by expenditure cuts.