

CITY OF GREENUP

**FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

FOR THE YEAR ENDED JUNE 30, 2011

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS



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Kelley,
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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Greenup, Kentucky (the "City") as of and for the year ended June 30, 2011, 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 and 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 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, 2011, and the respective changes in financial position, and, where applicable, cash flows thereof, 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 20, 2012 on our consideration of the City of Greenup's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

of financial reporting for placing the basic financial statements in the appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in the 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 any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Greenup's basic financial statements. The accompanying schedule of expenditures of federal awards contained on pages 30 and 31 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Kelly, H. Manning & Company, PSC
April 20, 2012

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, 2011. 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 \$7,955,291 (net assets). Governmental activities' unrestricted net assets were \$(260,926) and business type activities unrestricted net assets were \$(343,039).
- ⇒ The Government's total net assets increased by \$1,157,187. Net assets of governmental activities decreased by \$120,535 and net assets of business-type activities increased by \$1,277,722.
- ⇒ At June 30, 2011, the governmental activities had \$311,296 in total assets and \$286,800 in total liabilities. Business type activities had \$12,882,816 in total assets and \$4,952,021 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, 2011. 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, 2011, the Government as a whole had net assets greater than its liabilities by \$7,955,291. Net assets of governmental activities were \$24,496 and decreased by \$120,535 over the prior year. Of these net assets \$285,422 is invested in capital assets (net of related debt), and \$(260,926) is unrestricted.

The net assets of the Government's business-type activities are \$7,930,795 and increased by \$ 1,277,722 over the prior year. Of these net assets \$8,139,800 or 103% are invested in capital assets (net of related debt), \$134,034 or 2% is restricted and \$(343,039) is unrestricted. The largest portion of the City's net assets (103%) 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. Current unrestricted net assets are \$(603,965). No unrestricted net assets are available be used to meet the City's ongoing obligations to citizens and creditors.

ANALYSIS OF THE CITY'S NET ASSETS

	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ (219,008)	\$ (98,210)	\$ 779,074	\$ 856,094	\$ 560,066	\$ 757,884
Capital assets	<u>530,304</u>	<u>548,045</u>	<u>12,103,742</u>	<u>10,697,214</u>	<u>12,634,046</u>	<u>11,245,259</u>
Total assets	<u>311,296</u>	<u>449,835</u>	<u>12,882,816</u>	<u>11,553,308</u>	<u>13,194,112</u>	<u>12,003,143</u>
Current liabilities	55,862	50,371	1,341,997	775,254	1,397,859	825,625
Long-term liabilities	<u>230,938</u>	<u>254,433</u>	<u>3,610,024</u>	<u>4,124,981</u>	<u>3,840,962</u>	<u>4,379,414</u>
Total liabilities	<u>286,800</u>	<u>304,804</u>	<u>4,952,021</u>	<u>4,900,235</u>	<u>5,238,821</u>	<u>5,205,039</u>
Net assets						
Invested in capital assets net of related debt	285,422	281,677	8,139,800	6,293,531	8,425,222	6,575,208
Restricted	-	-	134,034	270,108	134,034	270,108
Unrestricted	<u>(260,926)</u>	<u>(136,646)</u>	<u>(343,039)</u>	<u>89,434</u>	<u>(603,965)</u>	<u>(47,212)</u>
Total net assets	<u>\$ 24,496</u>	<u>\$ 145,031</u>	<u>\$ 7,930,795</u>	<u>\$ 6,653,073</u>	<u>\$ 7,955,291</u>	<u>\$ 6,798,104</u>

ANALYSIS OF THE CITY'S OPERATIONS

Revenues	Governmental Activities 2011	2010	Business-type Activities 2011	2010	Total Primary Government 2011	2010
Taxes	\$ 214,489	\$ 211,583	\$ -	\$ -	\$ 214,489	\$ 211,583
Licenses and permits	9,239	10,158	-	-	9,239	10,158
Fees and fines	74,428	68,584	-	-	74,428	68,584
Rental income	34,500	35,230	-	-	34,500	35,230
Charges for services	40,745	40,369	2,514,848	2,456,499	2,555,593	2,496,868
Grant/other income	69,555	107,094	1,626,013	445,207	1,695,568	552,301
Total	<u>\$ 442,956</u>	<u>\$ 473,018</u>	<u>\$ 4,140,861</u>	<u>\$ 2,901,706</u>	<u>\$ 4,583,817</u>	<u>\$ 3,374,724</u>
Expenses	Governmental Activities 2011	2010	Business-type Activities 2011	2010	Total Primary Government 2011	2010
General government	\$ 218,642	\$ 188,058	-	-	\$ 218,642	\$ 188,058
Police	238,350	250,466	-	-	238,350	250,466
Fire	69,171	66,685	-	-	69,171	66,685
Streets	25,035	26,441	-	-	25,035	26,441
Capital outlay	-	-	-	-	-	-
Debt services/ Depreciation	12,293	12,995	-	-	12,293	12,995
Total governmental activities	<u>\$ 563,491</u>	<u>\$ 544,645</u>	<u>-</u>	<u>-</u>	<u>\$ 563,491</u>	<u>\$ 544,645</u>
Utility fund			<u>\$ 2,863,139</u>	<u>\$ 2,616,480</u>	<u>2,863,139</u>	<u>2,616,480</u>
Total primary government					<u>\$ 3,426,630</u>	<u>\$ 3,161,125</u>
Change in net assets	(120,535)	(71,627)	1,277,722	285,226	1,157,187	213,599
Net assets beginning of year, June 30, 2010	<u>145,031</u>	<u>216,658</u>	<u>6,653,073</u>	<u>6,367,847</u>	<u>6,798,104</u>	<u>6,584,505</u>
Net assets, June 30, 2011	<u>\$ 24,496</u>	<u>\$ 145,031</u>	<u>\$ 7,930,795</u>	<u>\$ 6,653,073</u>	<u>\$ 7,955,291</u>	<u>\$ 6,798,104</u>

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 \$(252,376). The General fund has a negative fund balance of \$286,782 and the Street Fund has a positive fund balance of \$34,406.

The General Fund at June 30, 2011 had revenues of \$416,995, and expenditures of \$517,730 and a fund balance of \$(286,782).

The Municipal Aid Road Fund (Street Fund) at June 30, 2011 had revenues of \$25,961 and expenditures of \$50,507 and a fund balance of \$34,406.

PROPRIETARY FUNDS

The City's proprietary fund (Utility Fund) or business-type activities had total assets of \$12,905,132 and total liabilities of \$4,974,337 leaving net assets of \$7,930,795. The Utility Fund had \$2,514,848 in operating revenues, \$973 in interest income and \$1,625,040 in capital contributions. Operating expense totaled \$2,657,942 and interest expense on debt service totaled \$205,197. The Utility Fund's total expenses exceeded its revenues by \$ 347,318.

BUDGETARY HIGHLIGHTS

Property Tax and other Local tax revenue came in under budget by \$ 20,541. Insurance premium taxes is one reason for this unfavorable budget variance. The general government division exceeded their budget in Fiscal Year 2011 by \$ 79,348.

ASSET AND DEBT ADMINISTRATION

The City's investment in assets for governmental and business-type activities as of June 30, 2011 is \$2,361,555 for non-depreciable assets and \$10,272,491 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 2011</u>
Land	\$ 36,000	\$ 16,970	\$ 52,970
Construction-in-Process	-	2,308,585	2,308,585
Buildings and improvements	130,820	200,014	330,834
Automotive equipment	603,435	184,874	788,309
Operating equipment	-	1,252,792	1,252,792
Office equipment	-	8,067	8,067
Infrastructure	286,456	-	286,456
Utility plant	-	14,645,894	14,645,894
	1,056,711	18,617,196	19,673,907
Less depreciation	(526,407)	(6,513,454)	(7,039,861)
Total	<u>\$ 530,304</u>	<u>\$ 12,103,742</u>	<u>\$ 12,634,046</u>

DEBT

At the end of fiscal year 2011 the City had governmental activities debt of \$253,432 compared to \$275,919 at June 30, 2010, which represents a decrease of \$22,487. Business-type activities had debt of \$3,963,942 compared to \$4,403,683 at June 30, 2010, which represents a decrease of \$439,741. 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%	\$ 244,882
Compensated absences obligation	8,550
Total	<u>\$ 253,432</u>
<u>Business-Type Activities Debt</u>	<u>Amount</u>
Revenue bonds	\$ 3,042,900
Loans payable	256,366
Lease at 5.04%	664,676
Total	<u>\$ 3,963,942</u>

DESCRIPTION OF MUNICIPAL DEBT

- ⇒ A lease for a new ladder truck. Balance at June 30, 2011 = \$244,882.
- ⇒ Utility revenue bonds payable for utility construction and maintenance. Various issues totaling \$3,042,900 at June 30, 2011. See audit notes for additional detail.
- ⇒ Bank and infrastructure loans for utility construction and maintenance. Loans total \$256,366 at June 30, 2011. See Note 4.
- ⇒ Employee compensated absences payable after 60 days = \$8,550.
- ⇒ Radio read metering system, lease purchase at 5.04%. Balance at June 30, 2011 is \$664,676.

ECONOMIC FACTORS AND NEXT YEARS BUDGET

Unemployment rate for the City of Greenup for 2011 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 compares favorably to the state and national trend of 2.60%.

The City approved an occupational tax ordinance on February 28, 2012 at a rate of 1% of gross wages earned within city limits. This levy is expected to generate between \$120,000 and \$130,000 a year to help reduce the City's deficit in the General Fund.

The following table summarizes the 2012 fiscal year budgeted expenses.

- ⇒ General Fund - \$394,044
- ⇒ Municipal Aid Program - \$33,275
- ⇒ Utility Fund - \$2,705,520
- ⇒ Total Budget - \$3,132,839

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, 2011

	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and cash equivalents	\$ 23,249	\$ 47,907	\$ 71,156
Accounts receivable	5,619	229,817	235,436
Allowance for uncollectible accounts	-	(1,687)	(1,687)
Internal balances, net	(257,385)	257,385	-
Other receivables	9,509	-	9,509
Restricted assets -			
Cash and cash equivalents	-	162,035	162,035
Materials and supplies inventory	-	83,617	83,617
Nondepreciable capital assets	36,000	2,325,555	2,361,555
Depreciable capital assets	1,020,711	16,291,641	17,312,352
Accumulated depreciation	(526,407)	(6,513,454)	(7,039,861)
Total assets	<u>311,296</u>	<u>12,882,816</u>	<u>13,194,112</u>
Liabilities:			
Accounts payable	24,573	736,498	761,071
Accrued wages	1,287	9,329	10,616
Other accrued liabilities	5,826	30,587	36,413
Customer deposits	-	190,476	190,476
Accrued compensated absences, current	1,682	21,189	22,871
Current portion of long-term debt	22,494	353,918	376,412
Accrued compensated absences, non-current	8,550	-	8,550
Capital lease obligation, non-current	222,388	583,297	805,685
Notes payable, non-current	-	143,627	143,627
Revenue bonds, non-current	-	2,883,100	2,883,100
Total liabilities	<u>286,800</u>	<u>4,952,021</u>	<u>5,238,821</u>
Net Assets:			
Invested in capital assets, net of related debt	285,422	8,139,800	8,425,222
Restricted	-	134,034	134,034
Unrestricted	(260,926)	(343,039)	(603,965)
Total net assets	<u>\$ 24,496</u>	<u>\$ 7,930,795</u>	<u>\$ 7,955,291</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, 2011

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	\$ 218,642	\$ 32,700	\$ -	\$ -	\$ (185,942)	\$ -	\$ (185,942)
Police department	238,350	-	-	-	(238,350)	-	(238,350)
Street department	25,035	-	25,911	-	876	-	876
Fire department	69,171	8,045	-	-	(61,126)	-	(61,126)
Debt service	12,293	-	-	-	(12,293)	-	(12,293)
Total governmental activities	<u>563,491</u>	<u>40,745</u>	<u>25,911</u>	<u>-</u>	<u>(496,835)</u>	<u>-</u>	<u>(496,835)</u>
Business-Type Activities:							
Utilities	2,863,139	2,514,848	-	1,625,040	-	1,276,749	1,276,749
Total business-type activities	<u>2,863,139</u>	<u>2,514,848</u>	<u>-</u>	<u>1,625,040</u>	<u>-</u>	<u>1,276,749</u>	<u>1,276,749</u>
Total primary government	<u>\$ 3,426,630</u>	<u>\$ 2,555,593</u>	<u>\$ 25,911</u>	<u>\$ 1,625,040</u>	<u>\$ (496,835)</u>	<u>\$ 1,276,749</u>	<u>\$ 779,914</u>
General Revenues:							
Property and other local taxes					\$ 214,489	\$ -	\$ 214,489
Franchise fees					74,428	-	74,428
Rental income					34,500	-	34,500
Occupational license fees					9,239	-	9,239
Interest income					183	973	1,156
Other income					43,461	-	43,461
Total general revenues					<u>376,300</u>	<u>973</u>	<u>377,273</u>
Change in net assets					(120,535)	1,277,722	1,157,187
Net assets, June 30, 2010					145,031	6,653,073	6,798,104
Net assets, June 30, 2011					<u>\$ 24,496</u>	<u>\$ 7,930,795</u>	<u>\$ 7,955,291</u>

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

**CITY OF GREENUP
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011**

	<u>General Fund</u>	<u>Special Revenue Street Fund</u>	<u>Total Governmental Funds</u>
Assets			
Cash	\$ 15,881	\$ 7,368	\$ 23,249
Garbage fees receivable	5,619	-	5,619
Other receivables	9,509	-	9,509
Due from other funds	-	27,038	27,038
	<u>-</u>	<u>27,038</u>	<u>27,038</u>
Total assets	<u>\$ 31,009</u>	<u>\$ 34,406</u>	<u>\$ 65,415</u>
Liabilities and fund balances			
Liabilities:			
Accounts payable	\$ 24,573	\$ -	\$ 24,573
Accrued wages	1,287	-	1,287
Due to other funds	284,423	-	284,423
Accrued expenses	5,826	-	5,826
Accrued compensated absences	1,682	-	1,682
	<u>317,791</u>	<u>-</u>	<u>317,791</u>
Total liabilities	<u>317,791</u>	<u>-</u>	<u>317,791</u>
Fund balances			
Unassigned	(286,782)	-	(286,782)
Assigned for special revenue funds	-	34,406	34,406
	<u>(286,782)</u>	<u>34,406</u>	<u>(252,376)</u>
Total fund balances	<u>(286,782)</u>	<u>34,406</u>	<u>(252,376)</u>
Total liabilities and fund balances	<u>\$ 31,009</u>	<u>\$ 34,406</u>	<u>\$ 65,415</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, 2011**

Total fund balances - Governmental Funds		\$	(252,376)
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets of \$1,056,711 net of accumulated depreciation of \$526,407 used in government activities are not financial resources and therefore are not reported in the governmental funds.			530,304
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.			
Capital lease obligation	(244,882)		
Accrued compensated absences	<u>(8,550)</u>		<u>(253,432)</u>
Net assets - Governmental Activities		\$	<u>24,496</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, 2011

	<u>Special Revenue</u>		
	<u>General Fund</u>	<u>Street Fund</u>	<u>Total Governmental Funds</u>
Revenues			
Property taxes	\$ 70,192	\$ -	\$ 70,192
Vehicle taxes	16,974	-	16,974
Business license fees	9,239	-	9,239
Franchise taxes	74,428	-	74,428
Insurance taxes	127,323	-	127,323
Garbage fees	32,700	-	32,700
Intergovernmental revenues	8,045	25,911	33,956
Interest	133	50	183
Rent	34,500	-	34,500
Other income	43,461	-	43,461
Total revenues	<u>416,995</u>	<u>25,961</u>	<u>442,956</u>
Expenditures			
General government	221,345	-	221,345
Police department	223,045	-	223,045
Street department	-	50,507	50,507
Fire department	39,561	-	39,561
Debt service:			
Principal retirement	21,486	-	21,486
Interest	12,293	-	12,293
Total expenditures	<u>517,730</u>	<u>50,507</u>	<u>568,237</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(100,735)</u>	<u>(24,546)</u>	<u>(125,281)</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	(100,735)	(24,546)	(125,281)
Fund balances beginning year	<u>(186,047)</u>	<u>58,952</u>	<u>(127,095)</u>
Fund balances end of year	<u>\$ (286,782)</u>	<u>\$ 34,406</u>	<u>\$ (252,376)</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, 2011

Net change in fund balances - Governmental Funds \$ (125,281)

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	54,530	
Depreciation	<u>(72,271)</u>	
Excess of depreciation expense over capital outlay		(17,741)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 21,486

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>1,001</u>
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Change in net assets Governmental Activities \$ (120,535)

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, 2011

	<u>Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Property and other local taxes	\$ 309,458	\$ 309,458	\$ 288,917	\$ (20,541)
Intergovernmental revenues	17,550	17,550	8,045	(9,505)
Charges for service	38,750	38,750	32,700	(6,050)
Rent	34,500	34,500	34,500	-
Licenses and permits	11,925	11,925	9,239	(2,686)
Other income	50,400	50,400	43,594	(6,806)
	<u>462,583</u>	<u>462,583</u>	<u>416,995</u>	<u>(45,588)</u>
Expenditures				
General government	144,321	141,997	221,345	(79,348)
Police department	226,799	230,202	223,045	7,157
Fire department	48,130	56,405	39,561	16,844
Capital outlay	200,000	-	-	-
Debt service	43,333	33,979	33,779	200
	<u>662,583</u>	<u>462,583</u>	<u>517,730</u>	<u>(55,147)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(200,000)</u>	<u>-</u>	<u>(100,735)</u>	<u>(100,735)</u>
Other financing sources (uses)				
Issuance of debt	<u>200,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>200,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	-	-	(100,735)	(100,735)
Fund balance, beginning of year	<u>(186,047)</u>	<u>(186,047)</u>	<u>(186,047)</u>	<u>-</u>
Fund balance, end of year	<u>\$ (186,047)</u>	<u>\$ (186,047)</u>	<u>\$ (286,782)</u>	<u>\$ (100,735)</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, 2011

	<u>Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Intergovernmental revenues	\$ 22,750	\$ 22,750	\$ 25,911	\$ 3,161
Other income	<u>30</u>	<u>30</u>	<u>50</u>	<u>20</u>
Total revenues	<u>22,780</u>	<u>22,780</u>	<u>25,961</u>	<u>3,181</u>
Expenditures				
Street department	56,750	56,750	50,507	6,243
Capital outlay	-	-	-	-
Debt service	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>56,750</u>	<u>56,750</u>	<u>50,507</u>	<u>6,243</u>
Excess of revenues over (under) expenditures	<u>(33,970)</u>	<u>(33,970)</u>	<u>(24,546)</u>	<u>9,424</u>
Net change in fund balance	(33,970)	(33,970)	(24,546)	9,424
Fund balance, beginning of year	<u>58,952</u>	<u>58,952</u>	<u>58,952</u>	<u>-</u>
Fund balance, end of year	<u>\$ 24,982</u>	<u>\$ 24,982</u>	<u>\$ 34,406</u>	<u>\$ 9,424</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, 2011

ASSETS:	
Current assets:	Utility Fund
Cash and cash equivalents	\$ 47,907
Accounts receivable	229,817
Allowance for doubtful accounts	(1,687)
Due from other funds	279,701
Materials and supplies inventory	83,617
Total current assets	<u>639,355</u>
Restricted assets:	
Cash and cash equivalents	162,035
Total restricted assets	<u>162,035</u>
Capital assets:	
Property, plant and equipment	18,617,196
Less: accumulated depreciation	(6,513,454)
Total capital assets - net	<u>12,103,742</u>
Total assets	<u>\$ 12,905,132</u>
LIABILITIES:	
Current liabilities (payable from current assets):	
Accounts payable	\$ 736,498
Due to other funds	22,316
Accrued wages	9,329
Accrued expenses	2,586
Accrued compensated absences	21,189
Accrued interest payable	28,001
Customer deposits	190,476
Current portion of capital lease obligation	81,379
Current portion of bonds payable	159,800
Current portion of notes payable	112,739
Total current liabilities	<u>1,364,313</u>
Long-term liabilities:	
Capital lease obligation	583,297
Revenue bonds payable	2,883,100
Notes payable	143,627
Total long-term liabilities	<u>3,610,024</u>
Total liabilities	<u>4,974,337</u>
NET ASSETS:	
Invested in capital assets, net of related debt	8,139,800
Restricted for debt payment and capital outlay	134,034
Unrestricted	(343,039)
Total net assets	<u>\$ 7,930,795</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, 2011

OPERATING REVENUES:	Utility Fund
Water sales	\$ 2,196,997
Sewer service	155,493
Miscellaneous	162,358
Total operating revenues	<u>2,514,848</u>
OPERATING EXPENSES:	
Salaries, wages and related expenses	584,527
Health insurance	251,389
Contractual services	95,168
Materials and supplies	442,252
Repairs and maintenance	430,426
Fuel and oil	34,509
Utilities	177,589
Insurance	26,633
Office supplies	25,056
Rent	34,601
Depreciation	491,122
Miscellaneous	64,670
Total operating expenses	<u>2,657,942</u>
OPERATING INCOME	<u>(143,094)</u>
NON-OPERATING REVENUES (EXPENSES):	
Interest income	973
Interest expense	(205,197)
Total non-operating revenues (expenses)	<u>(204,224)</u>
LOSS BEFORE OPERATING TRANSFERS AND CAPITAL CONTRIBUTIONS	(347,318)
CAPITAL CONTRIBUTIONS	<u>1,625,040</u>
INCREASE IN NET ASSETS	1,277,722
NET ASSETS, June 30, 2010	<u>6,653,073</u>
NET ASSETS, June 30, 2011	<u>\$ 7,930,795</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, 2011**

CASH FLOWS FROM OPERATING ACTIVITIES:	Utility Fund
Cash received from customers	\$ 2,362,907
Cash payments to suppliers for goods and services	(1,086,406)
Cash payments to employees	(584,197)
Other operating revenues	162,358
Net cash provided by operating activities	<u>854,662</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition and construction of capital assets	(1,897,650)
Principal paid on long-term debt	(439,741)
Interest paid on long-term debt	(212,784)
Capital contributions	<u>1,625,040</u>
Net cash used for capital and related financing activities	<u>(925,135)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest income	<u>973</u>
Net cash provided by investing activities	<u>973</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(69,500)
CASH AND CASH EQUIVALENTS, June 30, 2010	<u>279,442</u>
CASH AND CASH EQUIVALENTS, June 30, 2011	<u>\$ 209,942</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ (143,094)
Adjustments:	
Depreciation	491,122
Changes in assets and liabilities:	
Decrease in accounts receivable	7,575
Decrease in prepaid expenses	20,967
Decrease in inventories	17,919
Increase in accounts payable	548,415
Decrease in accrued wages	(185)
Increase in accrued compensated absences	515
Increase in due from other funds	(91,031)
Decrease in other accrued liabilities	(383)
Increase in customer deposits	<u>2,842</u>
Net cash provided by operating activities	<u>\$ 854,662</u>

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

CITY OF GREENUP
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

(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 Proprietary Fund:

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 2011 fiscal year was based was \$40,787,977. The tax rate assessed for the year ended June 30, 2011 to finance general fund operations was \$.1430 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

Beginning with fiscal year 2011, the City implemented GASB Statement 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. 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 Commissioners 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 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, 2010 information to conform with the 2011 presentation.

Recent Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) issued Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, in March 2009. The objective is to incorporate the hierarchy of Generally Accepted Accounting Principles (GAAP) within GASB authoritative literature. The current hierarchy resides within the American Institute of Certified Public Accountants' Statement of Auditing Standards (AICPA) No. 69. The adoption of this Statement did not have a material impact on the City's financial statements.

Also in March 2009, GASB issued Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. This Statement does not establish new standards but incorporates existing guidance issued by the AICPA into the GASB standards. In particular, it addresses related party transactions, going concern considerations and subsequent events that are not already included in the authoritative literature. The adoption of this Statement did not have a material impact on the City's financial statements.

(2) DEPOSITS WITH FINANCIAL INSTITUTIONS

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

At June 30, 2011, the carrying amount of the City's deposits (including amounts in restricted asset accounts) was \$233,191 and the bank balances totaled \$302,721. 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, 2010	Increases	Decreases	June 30, 2011
Capital Assets, Not Depreciated:				
Land	\$ 36,000	\$ -	\$ -	\$ 36,000
Capital Assets, Depreciated:				
Buildings	130,820	-	-	130,820
Automobiles and equipment	598,860	4,575	-	603,435
Infrastructure	236,501	49,955	-	286,456
Totals	1,002,181	54,530	-	1,056,711

Accumulated Depreciation:				
Buildings	120,071	3,106	-	123,177
Automobiles and equipment	266,285	44,682	-	310,967
Infrastructure	67,780	24,483	-	92,263
Totals	454,136	72,271	-	526,407

Governmental Activities

Capital Assets, Net	\$ 548,045	\$ (17,741)	\$ -	\$ 530,304
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Business-type Activities

Capital Assets, Not Depreciated:

Land	\$ 5,000	\$ 11,970	\$ -	\$ 16,970
Construction in process	591,363	1,717,222	-	2,308,585

Capital Assets, Depreciated:

Buildings	180,000	-	-	180,000
Building improvements	20,014	-	-	20,014
Office equipment	8,067	-	-	8,067
Automobiles and trucks	151,697	33,177	-	184,874
Other equipment	1,178,051	74,741	-	1,252,792
Operating plant and distribution system	14,585,354	60,540	-	14,645,894
Totals	16,719,546	1,897,650	-	18,617,196

Less accumulated depreciation	6,022,332	491,122	-	6,513,454
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Business-type Activities

Capital Assets, Net	\$ 10,697,214	\$ 1,406,528	\$ -	\$ 12,103,742
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Depreciation expense was allocated to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 2,873
Police	15,305
Streets	24,483
Fire	29,610
	<u>\$ 72,271</u>

Business-type activities:

Utilities	\$ 491,122
	<u>\$ 491,122</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, 2010	Additions	Reductions	Balance June 30, 2011	Due within one year
Other liabilities:					
Lease payable, 4.69% due January 6, 2020	\$ 266,368	\$ -	\$ 21,486	\$ 244,882	\$ 22,494
Compensated absences	9,551	-	1,001	8,550	-
Total Governmental Activities	<u>\$ 275,919</u>	<u>\$ -</u>	<u>\$ 22,487</u>	<u>\$ 253,432</u>	<u>\$ 22,494</u>
<u>Business-type Activities</u>	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011	Due within one year
Bonds payable:					
1975 W & S revenue bonds, 5.0%, due 2015	\$ 477,000	\$ -	\$ 85,000	\$ 392,000	\$ 90,000
1978 W & S revenue bonds, 5.0%, due 2018	159,000	-	17,000	142,000	18,000
1987 W & S revenue bonds, 7.5%, due 2027	321,000	-	10,000	311,000	11,000

1993 W & S revenue bonds, 5.25%, due 2033	314,000	-	6,000	308,000	6,500
1997 W & S revenue bonds, 4.75%, due 2038	806,500	-	14,500	792,000	15,500
1996 W & S revenue bonds, 4.875%, due 2035	345,500	-	7,000	338,500	7,500
1996 W & S revenue bonds, 4.875%, due 2035	24,900	-	500	24,400	600
2001 W & S revenue bonds, 4.75%, due 2041	304,700	-	4,700	300,000	4,700
2004 W & S revenue bonds, 4.50%, due 2044	441,000	-	6,000	435,000	6,000
Loans payable:					
Kentucky infrastructure loan payable, 4.0%, due 2013	105,401	-	28,639	76,762	29,796
Kentucky infrastructure loan payable, 2.0%	153,325	631,897	785,222	-	-
Loan payable, 5.25%, due January 10, 2022*	125,506	-	17,836	107,670	11,009
Bank loan payable, 5.83% due July 28, 2011*	83,752	-	11,818	71,934	71,934
Other liabilities:					
Lease payable, 5.04% due August 1, 2017	742,099	-	77,423	664,676	81,379
Total Business-type Activities	<u>\$ 4,403,683</u>	<u>\$ 631,897</u>	<u>\$ 1,071,638</u>	<u>\$ 3,963,942</u>	<u>\$ 353,918</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, 2011, \$390,000 has been capitalized under the capital lease with \$151,667 in related accumulated depreciation.

The minimum principal and interest repayment requirement on the capital lease obligation at June 30, 2011 is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 22,494	\$ 11,485	\$ 33,979
2013	23,548	10,431	33,979
2014	24,653	9,326	33,979
2015	25,809	8,170	33,979
2016	27,020	6,959	33,979
2017-2020	121,358	14,555	135,913
	<u>\$ 244,882</u>	<u>\$ 60,926</u>	<u>\$ 305,808</u>

Business-type Activities

The water and sewer revenue bonds are secured by an exclusive pledge of the gross revenues derived from operations of the City's water and sewer systems. In order to retire the 1975, 1978, 1987, 1993, 1996 and 1997 bonds, the City is required to make monthly deposits to a sinking fund equal to one-sixth of the next succeeding semi-annual interest payment plus one-twelfth of the next annual principal payment.

The loans payable to the Kentucky Infrastructure Authority are secured by a pledge of the gross revenues derived from the operations of the City's sewer system. The security interest and source of payment is subordinate to the revenue bonds.

The minimum principal and interest repayment requirements on the City's debt for business-type activities at June 30, 2011 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 272,539	\$ 164,698	\$ 437,237
2013	208,959	154,791	363,750
2014	204,627	144,386	349,013
2015	199,892	134,356	334,248
2016	99,059	124,055	223,114
2017-2021	476,690	539,138	1,015,828
2022-2026	507,800	411,281	919,081
2027-2031	523,400	268,782	792,182
2032-2036	519,100	137,681	656,781
2037-2041	239,200	40,003	279,203
2042-2043	48,000	3,240	51,240
	<u>\$ 3,299,266</u>	<u>\$ 2,122,411</u>	<u>\$ 5,421,677</u>

During 2010, the City secured a construction loan of \$1,590,604 from the Kentucky Infrastructure Authority to finance a waterline extension project to provide water services to approximately 300 residential users. During the course of the project, \$860,517 of the principal will be forgiven under the American Recovery and Reinvestment Act of 2009. Full principal and interest payments on the remaining amount of \$730,087 will commence within one year of project completion. At June 30, 2011 the City had draws under the loan totaling \$785,222, which were forgiven and included in capital contributions.

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, 2011, \$887,609 has been capitalized under the capital lease with \$272,447 in related accumulated depreciation.

The minimum principal and interest repayment requirement on the capital lease obligation at June 30, 2011 is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 81,379	\$ 33,965	\$ 115,344
2013	85,456	29,888	115,344
2014	89,905	25,439	115,344
2015	94,499	20,845	115,344
2016	99,328	16,016	115,344
2017-2018	214,109	16,579	230,688
	<u>\$ 664,676</u>	<u>\$ 142,732</u>	<u>\$ 807,408</u>

(5) **INTERFUND RECEIVABLES AND PAYABLES**

The composition of interfund balances as of June 30, 2011 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Purpose</u>	<u>Amount</u>
Utility Fund	General Fund	Operations	\$ 279,701
Street Fund	General Fund	Operations	4,722
Street Fund	Utility Fund	Operations	22,316
Total			<u>\$ 306,739</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. Currently, a balance of \$191,491 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, 2011, the City had such funds totaling \$102,383.

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, until the reserve account attains the required level of \$22,137. The balance of these replacement reserve accounts at June 30, 2011 was \$69.

(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, 2011, was \$21,258.

(9) CONTINGENCIES

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

SUPPLEMENTAL INFORMATION

CITY OF GREENUP

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2011

	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of HUD</u>			
Passed through Kentucky Department for Local Government			
CDBG State-Administered Small			
Cities Program	14.228	09-028	<u>462,050</u>
Total U.S. Department of HUD			<u>462,050</u>
 <u>U.S. Environmental Protection Agency</u>			
Passed through Kentucky Infrastructure Authority			
ARRA - Capitalization Grants for Clean Water	66.468	F2 09-17	<u>885,300</u>
Total U.S. Environmental Protection Agency			<u>885,300</u>
 <u>U.S. Department of Homeland Security</u>			
Passed through Kentucky Division of Emergency			
Management			
Hazard Mitigation Grant	97.039	DR-1912	<u>45,896</u>
Total U.S. Department of Homeland Security			<u>45,896</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,393,246</u>

The accompanying Notes to Schedule of Expenditures of
Federal Awards are an integral part of this Schedule.

CITY OF GREENUP

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONCLUDED)

FOR THE YEAR ENDED JUNE 30, 2011

Notes to Schedule of Expenditures of Federal Awards

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Greenup's programs of the federal government for the year ended June 30, 2011. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Government, and Non-Profit Organizations. Because the schedule presents only a selected portion of operations of the City, it is not and does not present the financial position, changes in net assets or cash flows of the City.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

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



Kelley,
Galloway &
Company, PSC

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

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

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Greenup, Kentucky (the "City") as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 20, 2012. 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

Management of the City is responsible for establishing and maintaining effective 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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses 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 deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. [2011-04 and 2011-05].

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 accompany schedule of findings and questioned costs to be significant deficiencies. [2011-01, 2011-02 and 2011-03].

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 2011-02.

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

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

Kelley, Goodenough + Company, PC

April 20, 2012



Kelley,
Galloway &
Company, PSC

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

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

Compliance

We have audited the City of Greenup's (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2011. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and is described in the accompanying schedule of findings and questioned costs as item 2011-06.

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal

programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

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

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2011-06 to be a significant deficiency.

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

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

Kelly, Hartman & Company, PSC

April 20, 2012

CITY OF GREENUP

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2011

A. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

☐ Material weakness(es) identified? X Yes No

☐ Significant deficiency(ies) identified
that are not considered to be
material weaknesses? X Yes No

Noncompliance material to the
financial statements noted? X Yes No

Federal Awards

Internal control over major programs:

☐ Material weakness(es) identified? Yes X No

☐ Significant deficiency(ies) identified
that are not considered to be
material weaknesses? X Yes No

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

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

Identification of Major Programs	<u>CFDA No.</u>
ARRA – Capitalization Grants for Clean Water	66.468

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

Auditee qualified as low risk auditee? Yes X No

CITY OF GREENUP

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2011

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

Finding 2011-01 Segregation of Duties

Condition: Review of internal control over accounting procedures indicates that there is a lack of segregation of duties. Specifically, the city clerk has duties relating to cash receipts, cash disbursements, payroll, and all other accounting and recording activities and is also an authorized check signer. The utility clerk is responsible for preparing utility billings, maintaining the detail accounts receivable records, and depositing cash receipts.

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

Finding 2011-02 Budget

Condition: The budget ordinance for fiscal year 2011 was not adopted within the time required by KRS 91A.030 and expenditures exceeded appropriated amounts in the General Fund.

Criteria: KRS 91A.030 requires that a city adopt a budget ordinance to cover one fiscal year no later than 30 days prior to the beginning of the 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.

Effect: During the year ended June 30, 2011, expenditures exceeded appropriated amounts as follows:

<u>Fund</u>	<u>Department</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General	General Government	\$ 141,997	\$ 221,345	\$ (79,348)

Additionally, the General Fund had a deficit fund balance of \$286,782 at June 30, 2011.

Effect: Non-compliance with KRS 91A.030.

Recommendation: We recommend that the City implement a process whereby they monitor the budget versus actual financial results monthly in order to identify the need for budgetary amendments prior to the end of the fiscal year.

Management's Response and Corrective Action Plan: The budget adjustments will be voted on and approved before the end of the fiscal year.

CITY OF GREENUP

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2011

Finding 2011-03 Payroll Procedures

Condition: During our review of payroll processing procedures, we noted that one employee is being paid as a licensed waste water operator.

Criteria: Article 23, Schedule A of the "Union Contract Between USW – Local 7054 and City of Greenup" for the contract period ending July 1, 2011, states that a license is required to be considered a "licensed water plant operator."

Effect: The employee is potentially being paid at an incorrect rate.

Recommendation: We recommend that the City obtain the required license and maintain a copy in the employee's personnel file. If the required license is unavailable, we recommend that the employee's classification be changed to an unlicensed operator.

Management's Response and Corrective Action Plan: Personnel files will be reviewed by the City Clerk each year to make sure each employee's license is still valid.

Finding 2011-04 Cash Disbursements

Condition: During the course of our audit, we noted several disbursements, totaling \$16,103, in which the City did not maintain proper supporting documentation, such as supporting invoices and properly approved purchase orders.

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.

Effect: Disbursements were not properly documented.

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

Management's Response and Corrective Action Plan: No checks will be written without proper supporting documentation. Current year exceptions resulted from the change in administration and personnel.

Finding 2011-05 Inventory Management

Condition: Upon arriving to perform an inventory observation, we discovered several problems that could have a material effect on the City's financial statements.

1. Obsolete and unusable inventory was not segregated.
2. All inventory items are not being counted.
3. Procedures to achieve proper cutoff of inventory have not been implemented.
4. Actual costs are not being used to record inventory at year-end. Quotes from vendors are utilized to obtain pricing.

CITY OF GREENUP

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2011

Criteria: Proper management of inventory is required to ensure the accurate recording of the City's year-end inventory balance.

Effect: Inventory for the Utility Fund has a greater likelihood of being materially misstated.

Recommendation: We recommend the City consider implementing a perpetual inventory system for substantially all inventories of the Utility Fund. This would provide better accounting control over inventory by maintaining a more reliable inventory cost and level data by item. It would also be useful in taking the annual physical inventory and identifying obsolete items.

Additionally, we recommend more adequate physical inventory count procedures be implemented. The following items should be considered by the City:

1. Prepare and distribute to counters written instructions and assign areas of responsibility.
2. Have workers clean up each location and arrange inventory for more efficient counting.
3. Physically segregate all obsolete and unusable items on hand that are not to be included in inventory, and prominently label them "Do not count."
4. If the inventory count is not performed on the date of the City's fiscal year-end, maintain a listing of items used and physically segregate inventory received after the count to ensure proper cutoff.

Management's Response and Corrective Action Plan: Inventory will be completed at year end and obsolete inventory will be counted separately or disposed of. The distribution supervisor will double check all inventory counts. Inventory was not completed for several months after year end and delayed completion of the financial statements.

C. FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

Finding 2011-06 Federal Compliance - Reporting

Condition: The federal reporting deadline for the City's Single Audit Reporting Package was March 31, 2012; however, the City did not issue its Single Audit Reporting Package until April 2012. In addition, the City's federal oversight agency, the U.S. Environmental Protection Agency, has not approved an extension for late submission of the 2011 Single Audit Reporting Package.

Criteria: Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, §.320, requires the City to submit its Single Audit Reporting Package to the federal clearinghouse no later than 9 months after fiscal year-end, unless the City's federal oversight agency approves an extension of this deadline.

Effect: The late submission affects all federal programs the City administered. This finding is a significant deficiency in internal control over compliance and noncompliance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, §.320.

Cause: The late completion of the City's financial statement audit contributed to the late submission of its Single Audit Reporting Package.

CITY OF GREENUP

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONCLUDED)

FOR THE YEAR ENDED JUNE 30, 2011

Recommendation: The City should improve its financial reporting process so that it can submit its Single Audit Reporting Package to the federal clearinghouse no later than 9 months after fiscal year.

Management's Response and Corrective Action Plan: Due to the multiple changes in personnel and incomplete inventory count, the financial statements were delayed. City management will ensure future financial statements will be completed in a timely manner.

CITY OF GREENUP
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011

<u>Findings</u>	<u>Findings/Noncompliance</u>
2010-01	We recommend the City segregate duties relating to cash receipts, cash disbursements, payroll, utility billings, maintaining the detail accounts receivable records and check signing to the extent possible.
<u>Status</u>	Uncorrected. See 2011-01
2010-02	We recommend that the City implement a process whereby they monitor the budget versus actual financial results monthly in order to identify the need for budgetary amendments prior to the end of the fiscal year.
<u>Status</u>	Uncorrected. See 2011-02
2010-03	We recommend that all changes to employee time be approved by the mayor and the reason for the change be properly documented.
<u>Status</u>	Corrected.
2010-04	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.
<u>Status</u>	Uncorrected. See 2011-04