

GREENUP JOINT SEWER AGENCY, INC.

REPORT OF AUDIT OF FINANCIAL STATEMENTS

AND SUPPORTING DATA

YEAR ENDED JUNE 30, 2016

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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Commissioners  
Greenup Joint Sewer Agency, Inc.  
Greenup, Kentucky

### **Report on the Financial Statements**

I have audited the accompanying financial statements of the business-type activities of and Greenup Joint Sewer Agency, Inc., as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Greenup Joint Sewer Agency, Inc.'s basic financial statement listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statement are free from material misstatement.

An audit involves performing procedure to obtain audit evidence about the amounts and disclosures in the financial statements. The procedure selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentations of the financial statements in order to design audit procedures that are appropriate in the circumstances; but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the evidence I obtained is sufficient and appropriate to provide a basis for my audit opinions.

### **Opinions**

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of and Sewer District, as of June 30, 2016 and 2015, and the respective changes in financial position and where applicable, cash flows thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

### **Correction of Error**

As described in note 12 to the financial statements, beginning of the year prepaid insurance was adjusted and increased reducing prior year insurance expense and increasing Unrestricted Net Position. My opinion is not modified with respect to this matter.

### **Other Matters**

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and budgetary comparison information on pages 3-7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America; which consisted of inquiries of management about methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide assurance.

### **Other Reporting Required by Governmental Auditing Standards**

In accordance with Governmental Auditing Standards, I have also issued my report dated May 10, 2019, on my consideration of and Greenup Joint Sewer Agency, Inc.'s internal control over financial reporting and on 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 my 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 Governmental Auditing Standards in considering and Sewer District's internal control over financial reporting and compliance.

*Richard F. Paulmann*

Richard F. Paulmann CPA, LLC  
Pewee Valley, KY  
May 10, 2019

GREENUP JOINT SEWER AGENCY, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year ended June 30, 2016 and 2015

This discussion and analysis of the Greenup Joint Sewer Agency's financial performance provides an overview of the Agency's financial activities for the year ended June 30, 2016. This information is presented in conjunction with the audited financial statements that follow this section.

**FINANCIAL HIGHLIGHTS**

- The Agency's liabilities exceeded its assets at the end of the year by \$42,501. This was a decrease of \$253,871 from the year ended June 30, 2015.
- At June 30, 2016, the Agency had \$1,975,938 in assets and \$2,018,439 in liabilities. The investment in capital assets, net of related debt, balance at this date was (\$189,139). The restricted for debt service balance was \$135,510. The unrestricted balance was \$11,128.
- The Agency had a net loss of \$253,871 for the year ended June 30, 2016. For the year ended June 30, 2015 the net loss was \$237,431.
- The Agency's solid waste revenue was \$207,922 for the year ended June 30, 2016. For the year ended June 30, 2015 the solid waste revenue was \$131,467. This represented an increase of 37.77%, which is attributed to increased usage and a full twelve months of service revenue billings as opposed to ten months of service in the prior year.

**OVERVIEW OF FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the Agency's basic financial statements. The Agency's basic financial statements comprise two components: 1) financial statements, and 2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Financial statements. The financial statements are designed to provide readers with a broad overview of the Agency's finances, in a manner similar to a private – sector business.

The statement of net position presents information on all of the Agency's assets and liabilities, in a comparative format, showing the balances as of June 30, 2016 and June 30, 2015. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The statement of revenues, expenditures and changes in net position presents information showing the Agency's net income or (loss) for the years then ended.

The statement of cash flows shows the increase or decrease in the cash and cash equivalents for the year ended by the different types of activities.

The financial statements can be found on pages 8 through 12 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 13 through 19 of this report.

GREENUP JOINT SEWER AGENCY, INC.  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 Year ended June 30, 2016 and 2015

**FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of the Agency's financial position. In the case of the Agency, liabilities exceeded assets by \$42,501 at the close of the most recent year.

**Greenup Joint Sewer Agency's Net Assets**

		2016
Current assets	\$	36,979
Restricted assets		135,510
Fixed assets		1,803,449
Other assets		0
 Total assets		 1,975,938
 Current liabilities		 68,036
Long-term liabilities		1,950,404
 Total liabilities		 2,018,439
 Net assets:		
Investment in		
Capital Assets		(189,139)
Restricted		135,510
Unrestricted		11,128
 Total net assets	 \$	 1,975,938

By far the largest portion of the Agency's net assets reflects its investment in fixed assets (e.g., land, sewer plant, tanks), less any related debt used to acquire those assets still outstanding.

GREENUP JOINT SEWER AGENCY, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year ended June 30, 2016 and 2015

**Greenup Joint Sewer Agency's Statement of Revenues, Expenses, and Changes in Net Position**

	2016
Revenues:	
Solid Waste Revenue	\$ 207,922
Other	2,123
Total revenues	210,045
Expenses:	
Depreciation and Amortization	72,938
Repairs and Maintenance	20,784
Solid Waste Payments	13,735
Power for Pumping	83,348
Outside Services	14,840
Miscellaneous and Commissioners	12,913
Insurance	16,623
Telephone & Internet	6,343
Payroll and Other Taxes	8,201
Management Fees	20,967
Professional Fees	26,188
Wages	107,297
Sewer Supplies and Expense	17,760
Employee Benefits	20,065
Total operating expenses	442,003
Net operating income (loss)	(231,958)
Non-operating income (expense)	
Interest income	480
Interest expense	(34,749)
Insurance Recovery	12,356
Total non-operating (expense)	(21,913)
Net income (loss) before contributions and transfers	(253,871)
Total net assets, beginning	211,370
Total net assets, ending	(42,501)

**Operations.**

The District showed a net income (loss) of (\$253,871).

Key elements of this income are as follows:

- Depreciation for the year was \$72,938.
- Solid Waste income of \$207,922 was received during the year.

GREENUP JOINT SEWER AGENCY, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year ended June 30, 2016 and 2015

**Greenup Joint Sewer Agency, Inc. Budget Comparison**

	Actual Amounts	Original Budget Amounts	Variance Positive (Negative) 2016
	2016	2016	
<b>Revenues:</b>			
Solid Waste Revenue	\$ 207,922	\$ 137,920	\$ 70,002
Other	2,123	29	2,094
<b>Total Revenues</b>	<b>210,045</b>	<b>137,949</b>	<b>72,096</b>
<b>Expenses:</b>			
Depreciation and Amortization	72,938	0	(72,938)
Repairs and Maintenance	20,784	70,471	49,687
Solid Waste Payments	13,735	12,989	(746)
Power for Pumping	83,348	60,746	(22,602)
Outside Services	14,840	12,757	(2,083)
Miscellaneous and Commissioners	12,913	10,146	(2,767)
Insurance	16,623	36,750	20,127
Telephone and Internet	6,343	5,643	(700)
Payroll and Other Taxes	8,201	4,980	(3,221)
Management Fees	20,967	0	(20,967)
Professional Fees	26,188	15,807	(10,381)
Wages	107,297	115,124	7,827
Sewer Supplies and Expense	17,760	20,944	3,184
Employee Benefits	20,065	2,563	(17,502)
<b>Total operating expenses</b>	<b>442,003</b>	<b>368,920</b>	<b>(73,083)</b>
<b>Net operating income</b>	<b>(231,958)</b>	<b>(230,971)</b>	<b>(987)</b>
<b>Non-operating income (expense)</b>			
Interest Income	480	802	(322)
Interest Expense	(34,749)	0	(34,749)
Insurance Recovery	12,356	0	12,356
<b>Total non-operating income</b>	<b>(21,913)</b>	<b>802</b>	<b>(22,715)</b>
<b>Net income (loss)</b>	<b>(253,871)</b>	<b>(230,169)</b>	<b>(23,702)</b>
<b>Total net assets, beginning</b>	<b>211,370</b>		
<b>Total net assets, ending</b>	<b>\$ (42,501)</b>	<b>\$</b>	<b>\$</b>

**Budget Comparisons**

- Revenues were \$72,096 more than budgeted as a result of increased flow and the addition of an unbudgeted new industrial customer.
- Operating expenses were \$73,083 more than budgeted. Several items: depreciation expense, management fees, and interest expense were not budgeted. Further, operating expenses such as utilities, employee benefits, and professional fees were higher than budgeted. The Agency did, however, remain under budget for repairs, sewer supplies, and insurance.

GREENUP JOINT SEWER AGENCY, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year ended June 30, 2016 and 2015

**FINANCIAL ANALYSIS OF THE AGENCY'S FUNDS**

The Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the Statement of Net Position. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The accrual basis of accounting is utilized by the Agency. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred.

**Capital Assets**

The Agency's investment in utility plant and equipment as of June 30, 2016 amounts to \$1,803,449 (net of accumulated depreciation). The increase in the Agency's investment in utility plant (net of accumulated depreciation) for the current year was 1.92% percent, before current depreciation.

Additional information on the Agency's utility plant can be found in Note (10) of the financial statements.

**Debt Administration**

At the end of the current fiscal year, the Agency had total debt outstanding of \$1,992,589. Additional information on the Agency's long-term debt can be found in Note (13) of the financial statements.

**Contacting the District's Financial Management**

This financial report is designed to provide our customers, creditors, and other users with a general overview of the Agency's finances and to show the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Manager, at the Greenup Joint Sewer District, 211 Wurts Road, Wurtland, KY 41144, 606-833-8100.

GREENUP JOINT SEWER AGENCY, INC.  
STATEMENT OF FINANCIAL POSITION  
June 30, 2016

	<u>June 2016</u>	<u>June 2015</u>
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and Cash Equivalents	\$ 18,218	\$ 3,341
Accounts Receivable (Net of Allowance for Delinquencies of 0 in 2016 and 0 in 2015)	18,761	16,290
Prepaid Expense	<u>-</u>	<u>12,732</u>
<b>Total Current Assets</b>	36,979	32,363
<b>Noncurrent Assets</b>		
Restricted Cash	135,510	313,623
<b>Capital Assets:</b>		
Land, Plumbing and Distribution System	1,868,865	1,833,740
Transportation Equipment	16,500	16,500
Furniture, Fixtures and Equipment	<u>52,954</u>	<u>52,954</u>
<b>Total Capital Assets</b>	1,938,319	1,903,194
Less: Accumulated Depreciation	<u>(134,870)</u>	<u>(61,932)</u>
Net Capital Assets	1,803,449	1,841,262
<b>Total Noncurrent Assets</b>	1,938,959	2,154,885
<b>Total Assets</b>	<u>\$ 1,975,938</u>	<u>\$ 2,187,248</u>

GREENUP JOINT SEWER AGENCY, INC.  
STATEMENT OF FINANCIAL POSITION  
June 30, 2016 (Continued)

	<u>June 2016</u>	<u>June 2015</u>	
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts Payable	\$ 17,745	\$ 14,624	
Payroll Liabilities	8,105	3,415	
Current Portion Notes Payable	<u>42,185</u>		
<b>Total Current Liabilities</b>	<u>68,035</u>	<u>18,039</u>	
<b>Noncurrent Liabilities</b>			
Notes Payable-Net of Current Portion	<u>1,950,404</u>	<u>1,957,839</u>	
<b>Total Long Term Liabilities</b>	<u>1,950,404</u>	<u>1,957,839</u>	
<b>Total Liabilities</b>	<u>2,018,439</u>	<u>1,975,878</u>	
<b>Net Position:</b>			
Invested in Capital Assets, Net of Related Debt	(189,139)	(116,577)	
Restricted for Debt Service	135,510	313,623	
Unrestricted	<u>11,129</u>	<u>14,324</u>	
<b>Total Net Position</b>	<u>\$ (42,501)</u>	<u>\$ 211,370</u>	

See accompanying notes to the basic financial statements

GREENUP JOINT SEWER AGENCY, INC.  
 STATEMENT OF REVENUE EXPENDITURE AND CHANGES IN NET POSITION  
 For the Year Ended June 30, 2016

	For the Year Ended June 30	
	2016	2015
<b>Operating Revenue:</b>		
Solid Waste Revenue	\$ 207,922	\$ 131,467
Other	2,123	682
<b>Total Operating Revenue</b>	210,045	132,149
<b>Operating Expenses:</b>		
Depreciation and Amortization	72,938	61,932
Repairs and Maintenance	20,784	33,277
Solid Waste Payments	13,735	11,952
Power for Pumping	83,348	53,674
Outside Services	14,840	11,093
Miscellaneous and Commissioners	12,913	11,983
Insurance	16,623	19,224
Telephone and Internet	6,343	4,907
Payroll and Other Taxes	8,201	7,702
Management Fees	20,967	-
Professional Fees	26,188	19,745
Wages	107,297	97,017
Sewer Supplies	17,760	18,212
Employee Benefits	20,065	2,229
<b>Total Operating Expense</b>	442,003	352,947
<b>Operating Income (Loss)</b>	(231,958)	(220,798)
<b>Non-Operating Revenue (Expense)</b>		
Interest Income	480	741
Interest Expense	(34,749)	(17,374)
Insurance Proceeds	12,356	
<b>Total Non-Operating Revenue (Expenses)</b>	(21,913)	(16,633)
<b>Income (Loss) Before Capital Contributions</b>	(253,871)	(237,431)
<b>Capital Contributions</b>		
Capital Contribution	-	448,801
<b>Total Capital Contributions</b>	-	448,801
<b>Change in Net Position</b>	(253,871)	211,370
<b>Total Net Position, Beginning</b>	211,370	-
<b>Total Position, Ending</b>	\$ (42,501)	\$ 211,370

See accompanying notes to the financial statements

GREENUP JOINT SEWER AGENCY, INC.  
Statement of Cash Flows  
For the Year Ended June 30, 2016  
(with prior year data for comparison purposes only)

	For the Year Ended June 30	
	2016	2015
<b>Cash flows from operating activity</b>		
Cash received from customers	\$ 219,969	\$ 115,859
Cash payments to suppliers for goods and services	(348,559)	(285,709)
Cash received from deposits	-	-
<b>Net cash provided by operating activities</b>	<u>(128,590)</u>	<u>(169,850)</u>
<b>Cash flows from noncapital financing activities</b>		
Subsidy From Federal and State Grant	-	-
Net Cash Provided (Used) By Noncapital	<u>-</u>	<u>-</u>
<b>Financing Activities</b>		
<b>Cash flows from capital and related financing activities</b>		
(Increase ) decrease in Restricted Assets Accounts	178,113	-
Loan Proceeds	-	1,957,839
Interest Paid	(34,749)	(17,373)
Capital Contributed		448,801
Principal Payment on Bonds	(7,436)	-
Purchase of Utility Plant in Service	-	(1,833,739)
Purchase of Automotive Equipment	-	(16,500)
Purchase of Equipment	(35,126)	(52,955)
Proceeds from Bond	42,185	-
Proceeds on Sale of Assets	-	-
Net cash provided by (used for) capital and related financing activities	<u>142,988</u>	<u>486,073</u>
<b>Cash flows from investing activities</b>		
Proceeds from earnings on investments	480	741
Net cash provided by (used for) investing activities	<u>480</u>	<u>741</u>
<b>Total increase (decrease) in cash and cash equivalents</b>	14,877	316,964
<b>Cash and cash equivalents at beginning of year</b>	<u>3,341</u>	<u>-</u>
<b>Cash and cash equivalents at end of year (Note 2)</b>	<u>\$ 18,218</u>	<u>\$ 316,964</u>

See accompanying notes to the basic financial statements  
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GREENUP JOINT SEWER AGENCY, INC.  
Statement of Cash Flows  
For the Year Ended June 30, 2016  
(with prior year data for comparison purposes only)

	For the Year Ended December 31	
	2016	2015
<b>Reconciliation of Income from operations to net cash provided by operated activities:</b>		
<b>Income from operations</b>	\$ (219,602)	\$ (220,799)
Adjustment to reconcile income from operations to net cash provided by operating activities:		
Operating Activities:		
Depreciation and amortization	72,938	61,932
Changes in assets and liabilities:		
Decrease (increase) in utility accounts receivable	(2,470)	(16,290)
Decrease (increase) in prepaid expense	12,732	(12,732)
Increase (decrease) in accounts payable and other payable	7,812	18,039
<b>Net cash provided by operating activities</b>	<u>\$ (128,590)</u>	<u>\$ (169,850)</u>

GREENUP JOINT SEWER AGENCY, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015

Note 1 – Summary of Significant Accounting Policies

The significant policies of the Agency are as follows:

**Organization and Business Activities** – The district is a governmental organization with its primary activities consisting of sale of sewer services to residents in Greenup County Kentucky, pursuant to the provisions of the Inter Local Cooperation Act of Kentucky Revised Standards Statutes Sections 65.210 through 65.300, inclusive, for the purpose of acquiring and operating sewage treatment facilities.

**Basis of Accounting** – The accounting and reporting policies of the and Sewer Agency relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable for local governments. Generally accepted accounting principles for local Governments includes those principles presented by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publications entitled Audits of State and Local Governments and by the Financial Accounting Standards Board (when applicable). As allowed in section PBO of GASB's Codification of Governmental Accounting and Financial Reporting Standards the Agency has elected not to apply Financial Accounting Board Statements and Interpretations, Accounting Research Bulletins of the Committee of Accounting Principle Board Opinions, and Accounting Research Bulletins of the Committee of Accounting and Procedures issued after November 30, 1969. The Agency first applies restricted resources when an expense is incurred for restricted and unrestricted purposes. The more significant polices of the district are described below.

**Basis of Presentation**

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, the Agency uses Proprietary Fund financial statement reporting including a Statement of Net Assets, Statements of Revenues, Expenditures and Changes in Net Assets, and a Statement of Cash Flows.

The Statement of Net Assets includes the Agency's assets and liabilities and provides Information about the nature and amounts of investments in resources (assets) and the obligations to the Agency's creditors (liabilities). The difference between the assets and liabilities is shown as net assets. The statement also provides the basis of evaluating the capital structure of the Agency and assessing its liquidity and financial flexibility.

The statement of Revenue, Expenditure and Changes in Net Assets accounts for the current year's revenue and expense. This statement measures the success of the Agency's operations over the past year and determines whether the Agency has recovered its cost through user fees and other charges.

The final required financial statement is the Statement of Cash Flows. This statement reports cash receipts, cash disbursements, and changes in cash resulting from operations and investments during the reporting period.

GREENUP JOINT SEWER AGENCY, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015

Note 1 – Summary of Significant Accounting Policies (Continued)

The Notes to the basic financial statements provide a description of the accounting policies used to prepare the financial statements and present disclosures required by generally accepted accounting principles that are not otherwise present in the financial statements.

The Agency's basic financial statements include the accounts of all Agency operations. The Agency's criteria for including organizations as component units with the Agency's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Standards includes whether:

- The Organization is legally separate (can sue and be sued in their own name).
- The Agency holds the corporate powers of the organization.
- The Agency appoints voting majority of the organization.
- The Organization has the potential to impose a financial benefit/burden on the Association.
- There is fiscal dependency by the organization on the Agency.

**Component Unit Presentation** – Based on the aforementioned criteria the Agency has no component units.

**Cash** - For the purpose of the statement of cash flows, the Agency considers cash to include cash on hand and unrestricted cash in bank.

**Inventory** – Inventory consists primarily of pipes and supplies to be used for future expansion and repairs of existing lines. Inventory is valued at the lower of cost or market under first – in, first- out (FIFO) method.

**Allowance for Doubtful Accounts** – The Agency utilizes the allowance method for accounting for bad debts. This method is based on historical experience and evaluation of outstanding accounts at year end. The Allowance for Doubtful as of June 30, 2016 and 2015 is \$0 and \$0.

**Operating and Non – Operating Revenue** – Only solid waste revenue and related service charges and penalties are considered as operating revenue.

**Applying Resources** – Restricted resources are applied first for expenses incurred for which both restricted and unrestricted net assets are available.

**Use of Estimates** – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results can differ from those estimates.

GREENUP JOINT SEWER AGENCY, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015

**Note 2 – Restricted Cash Accounts**

The District had the following restricted cash accounts as of June 30, 2016 and 2015:

	2016	2015
Debt Service	\$135,510	\$313,623
Totals	<u>\$135,510</u>	<u>\$313,623</u>

The amounts held were below the required minimum for 2016 for all restricted requirements.

**Note 3 – Prepaid Items**

Prepaid items include prepayment of service contracts, software rights and insurance. These amounts represent payments made in the current year for which services will be provided in the subsequent fiscal year. There were no prepaid items for 2016. In 2015, there was \$12,732 in prepaid items.

**Note 4 – Deferred Income**

Unearned revenue was \$0 for 2016 and 2015.

**Note 5 – Deposits with Financial Institutions**

As of December 31, 2016, the company had amounts of \$ 153,728 on deposit with financial institutions with \$ 153,728 insured by FDIC and \$ 0 is uninsured.

As of December 31, 2015, the company had amounts of \$ 316,964 on deposit with financial institutions with \$ 316,964 insured by FDIC and \$ 0 is uninsured.

**Note 6 – Risk Management**

Significant losses covered by commercial insurance with premiums (based on industry information adjusted for any District Claims) for general liability, vehicles, personal and real property. Settlement amounts have not exceeded insurance coverage for the current year.

**Note 7 – Subsequent Events**

During July 2017, the Agency made agreements with Kentucky Infrastructure Authority to catch up all required loan payments and reserve requirements.

The Agency's management has valuated subsequent events through May 10, 2019 which is the date the financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosures in these financial statements.

GREENUP JOINT SEWER AGENCY, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2016 AND 2015

**Note 8 – Capital and Net Assets**

Changes in contributed capital and net assets during the year ended June 30, 2016:

	Contributed Capital	Reserves	Net Assets (Deficit)	Total
Balance July 01, 2014	\$0	\$0	\$0	\$0
Capital Contributed	448,801			448,801
Net Income (Loss)			(237,431)	(237,431)
Balance June 30, 2015	\$2,111,057	\$313,623	\$(237,431)	\$211,370
Transfer		(178,113)	178,113	
Net Income (Loss)			(253,871)	(253,871)
Balance June 30, 2016	\$2,111,057	\$135,510	\$(313,189)	\$(42,501)

**Note 9 - Retirement Plan**

The Agency maintains a SIMPLE IRA retirement plan under the provisions of section 408 (p) of the Internal Revenue Code. The plan is a deferred compensation plan which is available to all employees. The maximum salary deferral is limited to amounts allowed per the Internal Revenue Code, which for 2016 was \$12,500. Normally the Agency contributes 3% of the employee's basic pay. All contributions are immediately vested. Expenses charged to operations for the retirement plan were \$0 for 2016.

**Note 10 - Property and Equipment**

Capital assets, which include property, plant, equipment and vehicles, are reported in the applicable governmental column in the government – wide financial statements. All capital assets are valued at their historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

Depreciation has been calculated on each class of depreciable property using the straight – line method. Estimated useful lives are as follows. Changes requested by Public Service Commission with the last rate increase were made during 2013.

Depreciation has been calculated on each class of depreciable property using the straight – line method. Estimated useful lives are as follows:

Buildings	20 – 50 Years
Improvements	20 – 50 Years
Vehicles	5 – 10 Years
Equipment	7 – 20 Years

GREENUP JOINT SEWER AGENCY, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2016 AND 2015

**Note 10 - Property and Equipment- cont'd**

The following summarizes the changes to capital assets for 2016:

	Balance 07/01/15	Additions	Disposals	Balance 06/30/16
Sewer Treatment Plant and Land	\$1,833,740	\$35,125	-0-	\$1,868,865
Automotive Equipment	16,500	-0-	-0-	16,500
Furniture, Fixtures and Equipment	52,954	-0-	-0-	52,954
Construction in Progress	-0-	-0-	-0-	-0-
<b>TOTAL ASSETS</b>	<b>\$1,903,194</b>	<b>\$35,125</b>	<b>-0-</b>	<b>\$1,938,319</b>
Less				
Accumulated Depreciation				
Sewer Treatment Plant and Land	59,376	65,907	-0-	125,283
Automotive Equipment	550	3,300	-0-	3,850
Furniture, Fixtures and Equipment	2,006	3,731	-0-	5,737
Total Accumulated Depreciation	61,932	72,938	-0-	134,870
<b>Balance – June 30</b>	<b><u>\$1,841,262</u></b>			<b><u>\$1,803,449</u></b>

The following summarizes the changes to capital assets for 2015:

	Balance 07/01/14	Additions	Disposals	Balance 06/30/15
Sewer Treatment Plant and Land	\$ 0	\$1,833,740	-0-	\$1,833,740
Automotive Equipment	0	16,500	-0-	16,500
Furniture, Fixtures and Equipment	0	-52,954	-0-	52,954
Construction in Progress	-0-	-0-	-0-	-0-
<b>TOTAL ASSETS</b>	<b>\$ 0</b>	<b>\$1,903,194</b>	<b>-0-</b>	<b>\$1,903,194</b>
Less				
Accumulated Depreciation				
Sewer Treatment Plant and Land	0	59,376	-0-	59,376
Automotive Equipment	0	550	-0-	550
Furniture, Fixtures and Equipment	0	2,006	-0-	2,006
Total Accumulated Depreciation	0	61,932	-0-	61,932
<b>Balance – June 30</b>	<b><u>\$ 0</u></b>			<b><u>\$1,841,262</u></b>

**Note 11 – Concentrations of Credit Risk**

Concentrations of credit risk are limited due to the large number of customers comprising the district's customer base.

GREENUP JOINT SEWER AGENCY, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2016 AND 2015

**Note 12 – Correction of an Error**

Beginning of the year Unrestricted Net Assets has been adjusted to reflect the prepayment of workers compensation insurance that was previously expensed in prior period. The cumulative effect is increase of \$12,732 increase net assets for June 30, 2015 expensed during the year ended June 30, 2016.

**Note 13 – Notes Payable**

All notes are secured by the Sewer Treatment Plant and related assets unless stated as non – secured:

**Summary of Notes Payable**

	2016	2015
a) Kentucky Infrastructure Authority 1.75% installment note, 40 semi-annual payments of \$59,772 including interest due 06/01 and 12/1. Final payment 12/01/2036	\$1,992,589	\$1,957,839
<b>Total Long-Term Notes Payable</b>	<b>\$1,992,589</b>	<b>\$1,957,839</b>
Less Current Maturities	42,185	0
Notes Payable Less Current Portion	<b>\$1,950,404</b>	<b>\$1,957,839</b>

During July 2017, the Agency made agreements with Kentucky Infrastructure Authority to catch up the reserve requirements and loan payments on this note. During the fiscal year, the note was in technical default. As of the date of the audit report, the Agency is current and caught up on reserve and payments for this note. Ten years' reserve payment of \$4,900 are made to be made each December 1, starting in 2017, with a total funded balance of \$49,000 maintained by December 2027.

Following are maturities of long-term debt as of June 30, 2016:

	Principal	Interest
2017	42,185	17,587
2018	85,480	34,064
2019	86,982	32,562
2020	88,511	31,032
2021	90,067	29,477
2022-2026	474,645	123,074
2027-2031	517,851	79,868
2032-2036	564,989	32,730
2037	41,879	366
<b>Total</b>	<b>\$1,992,589</b>	<b>\$380,760</b>

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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

May 10, 2019

To the Board of Commissioners  
Greenup Joint Sewer Agency, Inc.  
Greenup, Kentucky

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of and Greenup Joint Sewer Agency, Inc., (a Kentucky Special District) as of and for the year ended June 30, 2016, and the related notes to the financial statements; which collectively comprise and Greenup Joint Sewer Agency, Inc.'s basic financial statements and have issued my report thereon dated May 10, 2019.

**Internal Control Over Financial Reporting**

In planning and performing my audit of the financial statements, I considered and Greenup Joint Sewer Agency, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements; but not for the purpose of expressing an opinion on the effectiveness of Greenup Joint Sewer Agency, Inc.'s internal control. Accordingly, I do not express an opinion on the effectiveness of Greenup Joint Sewer Agency, Inc.'s internal control.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Impaired material assets were not removed from the Agencies records.

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 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. However I did identify the following deficiency that I consider to be material weaknesses.

Assets were not capitalized during the fiscal year.

Views of responsible officials:

This was a one time over looked event.

A significant deficiency, or a combination of deficiencies in internal control is a deficiency, or 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. I consider the following to be a significant deficiency.

Invoices were not maintained for items purchased.

Views of responsible officials:

The accounting system is now being brought up to required standards.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether and Greenup Joint Sewer Agency, Inc.'s financial statements are free of material misstatement, I 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 my audit, and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. I consider the following to be compliance findings.

Loan payments and reserve requirements were not be made as required by agreement.

Views of responsible officials:

New agreements were reached in July 2017 and all requirements are current as of the issue date of this report.

Budgets, audits, and collateral agreement for cash balances above FDIC insurance need to be prepared and maintained as required by Kentucky State Statue.

Views of responsible officials:

The accounting is now being brought up to required standards.

### **Purpose of this Report**

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



Richard F. Paulmann, LLC

February May 10, 2019