

**CITY OF GEORGETOWN**  
Georgetown, Kentucky

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**FINANCIAL STATEMENTS AND  
SUPPLEMENTAL INFORMATION**  
June 30, 2016

## CONTENTS

Independent Auditors' Report.....	1-2
Management's Discussion and Analysis .....	3-8
Government-wide Financial Statements	
Statement of Net Position .....	9
Statement of Activities.....	10
Fund Financial Statements	
Balance Sheet – Governmental Funds .....	11
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position .....	12
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds .....	13
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	14
Statement of Net Position – Proprietary Funds .....	15
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds.....	16
Statement of Cash Flows – Proprietary Funds .....	17
Notes to Financial Statements.....	18-38
Required Supplementary Information	
Budgetary Comparison .....	39
Pension – Proportionate Share of the Net Pension Liability – Nonhazardous .....	40
Pension – Proportionate Share of the Net Pension Liability – Hazardous .....	41
Pension – Schedule of Contributions – Nonhazardous .....	42
Pension – Schedule of Contributions – Hazardous .....	43
Notes to Required Supplemental Information .....	44
Supplementary Information	
Combining Balance Sheet – Nonmajor Governmental Funds.....	45
Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Nonmajor Governmental .....	46
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based On an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> .....	47-48



## INDEPENDENT AUDITORS' REPORT

Honorable Tom Prather, Mayor  
and the City Council  
City of Georgetown, Kentucky

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

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 Georgetown, Kentucky, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

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

### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Georgetown, Kentucky, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and pension schedules on pages 3-8 and 39-43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Georgetown, Kentucky's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

### *Prior-Year Comparative Information*

We have previously audited the City's 2015 financial statements, and we expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information in our report dated April 20, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2017, on our consideration of the City of Georgetown, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Georgetown, Kentucky's internal control over financial reporting and compliance.

**RFH**

RFH, PLLC  
Lexington, Kentucky  
February 17, 2017

City Council Members  
Chuck Bradley  
Millie Butcher-Conway  
Polly Singer-Eardley  
David Lusby



City Council Members  
Karen Tingle-Sames  
Mark Showalter  
Connie Tackett  
Marvin Thompson

**TOM PRATHER, MAYOR**

**City of Georgetown  
Management's Discussion and Analysis  
For the Year Ended June 30, 2016**

**EXECUTIVE SUMMARY**

The City of Georgetown's Management Team presents this narrative to help our users evaluate our financial performance for the year ended June 30, 2016. Financial reporting provides the users with information in making decisions and assessing the financial condition of the City. Our Basic Financial Statements are presented in accordance with Governmental Accounting Standards Board ([www.gasb.org](http://www.gasb.org)) accounting and reporting standards for state and local governments in the United States, in accordance with KRS 91A.020. Our basic financial statements include (1) government-wide financial statements, (2) fund financial statements, (3) notes to the financial statements, (4) certain required supplementary information, and (5) other supplementary information.

Readers can find more details in the statements and narratives on pages 9 through 38 of this report. Some of the significant financial issues include:

- During FY2016, the tax incentive previously approved by the City of Georgetown for Toyota Motor Manufacturing Kentucky (TMMK) brought the production of a Lexus model vehicle to the Georgetown plant along with new full-time, part-time, and temporary employees. The City began contributing one half of one percent of the payroll tax withholding for all full-time, Kentucky-resident, TMMK employees in October 2015. The total contribution of the City during FY2016 was \$2,156,908, which leaves a remaining balance of \$12,493,092 for the duration of the incentive program.
- The City completed two large capital projects during FY2016. The Police Department moved into their newly constructed building in August 2015 and the City Hall parking lot project was completed in Fall 2015.
- The City hired consultants to review the operations and finances of the Sanitation department to determine steps needed to make the department more efficient and to ensure service fee revenue is sufficient to cover the City's cost of operations. The report was completed and presented to the Georgetown City Council in January 2017.
- The City's revenues continue to perform well, with the General Fund Balance increasing \$5.1 million during FY2016. Approximately half of this increase was due to the City's largest taxpayer filing an amended Net Profits tax return for 2011, which resulted in additional Net Profits and related Penalties and Interest of \$2.4 million. The remaining increase was due to growth in revenues.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

Government-wide financial statements report the overall financial position and activities of the City as a whole. The statements are prepared using accounting principles that are similar to a commercial business. All of the City's funds are included in the government-wide statements.

Columns in the government-wide financial statements reflect two major types of operations for the City of Georgetown:



- **Governmental activities.** The City's basic services are reported in the governmental activities. Included are general government, public safety, public works, building inspection, rental, cemetery trust, and community and economic development activities. These activities are financed by taxes, license fees and permits, fines and reimbursements, and state and federal grants.
- **Business Type Activities.** The City's business-type activities include the Georgetown Municipal Water and Sewer Service, Sanitation, and Solid Waste Management. These operations are funded with user fees based on consumption.

*Net Position* reflects the difference between the City's total assets and total liabilities. These amounts are similar to the owner's equity in financial statements of a commercial business, but these amounts do reflect resources that are available for supporting future governmental services. The City's operating purpose is providing services, not accumulating net assets. The reduction in the City's unrestricted net assets is due to the new GASB 68 requirement to record the City's portion of the state pension fund's liability, which is reflected in the increase in "Other Liabilities" below.

The following table outlines a condensed version of the Statement of Net Position for June 30, 2016 and 2015.

**City of Georgetown  
Net Position  
June 30, 2016 & 2015**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Current assets	\$ 22,220,134	\$ 13,557,968	\$ 3,143,230	\$ 2,877,149	\$ 25,363,364	\$ 16,435,117
Capital assets	78,880,498	79,390,991	90,974,206	90,329,588	169,854,704	169,720,579
Other assets	693,040	5,752,681	3,773,225	4,376,325	4,466,265	10,129,006
Deferred Outflows of Resources	3,856,220	1,325,746	1,274,779	462,370	5,130,999	1,788,116
Total assets	105,649,892	100,027,386	99,165,440	98,045,432	204,815,332	198,072,818
Long-term debt outstanding	15,246,623	15,238,255	10,613,338	10,614,303	25,859,961	25,852,558
Other liabilities	22,009,339	18,318,227	8,801,397	7,279,487	30,810,736	25,597,714
Deferred Inflows of Resources	27,729	1,176,549	8,246	432,251	35,975	1,608,800
Total liabilities	37,283,691	34,733,031	19,422,981	18,326,041	56,706,672	53,059,072
Net position:						
Net invested in capital assets	63,633,875	63,531,066	79,978,900	79,413,698	143,612,775	142,944,764
Restricted	2,431,459	3,855,439	3,486,197	3,597,810	5,917,656	7,453,249
Unrestricted	2,300,867	(2,092,150)	(3,722,638)	(3,292,117)	(1,421,771)	(5,384,267)
Total net position	\$ 68,366,201	\$ 65,294,355	\$ 79,742,459	\$ 79,719,391	\$ 148,108,660	\$ 145,013,746

Governmental current assets increased \$8,662,166, mainly due to increased revenues which resulted in increased cash balances in the General Fund. Capital Assets decreased slightly due to disposals and loss of assets. Other Assets decreased due to the reduction of restricted bond proceeds that were drawn down for the payment of construction of the new Police Department. Other liabilities increased mainly due to changes in the balance of the City's portion of the Net Pension Liability for the County Employees' Retirement System (CERS). Restricted resources in the governmental funds include restricted cash in the General Fund, MAP, LGEA, Cemetery Perpetual Care, and Drug Forfeiture resources.

Assets in the Business-Type Activities increased mainly due to Deferred Outflows related to the pension liability. Liabilities increased mainly due to changes in the pension liability and a new line of credit. Net position remained constant from FY2015.

The Statement of Activities (page 10) shows the revenues and expenses of the City using the accrual method of accounting. A governmental statement of activities outlines the costs of various programs, plus the charges for services, operating, and capital grants generated by those programs. The net (expense)/revenue column is the difference between the expenses and the revenues for the specific activities and indicates how much of the City's general revenues, such as taxes, investment earnings, and transfers are used to finance these programs.

The following table summarizes the changes in net position for the 2016 and 2015 fiscal years.

**City of Georgetown**  
**Operating Results for the Years Ended June 30, 2016 & 2015**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charges for service	740,705	494,383	13,260,168	13,331,418	14,000,873	13,825,801
Grant funding	3,034,099	3,068,086	125,416	188,086	3,159,515	3,256,172
General revenues:						
Property taxes	2,087,610	1,985,386	-	-	2,087,610	1,985,386
License fees and permits	1,833,331	1,887,309	-	-	1,833,331	1,887,309
Occupational license fees	16,888,072	15,422,625	-	-	16,888,072	15,422,625
Insurance premium tax	2,406,834	2,292,581	-	-	2,406,834	2,292,581
Telecommunications excise tax	99,630	99,632	-	-	99,630	99,632
Interest and investment earnings	24,406	21,093	8,814	72,253	33,220	93,346
Fines and reimbursements	851,488	161,494	-	-	851,488	161,494
Other local revenues	134,815	48,741	-	-	134,815	48,741
Total revenues	28,100,990	25,481,330	13,394,398	13,591,757	41,495,388	39,073,087
Program Expenses:						
General government	2,242,413	2,020,112	-	-	2,242,413	2,020,112
Public protection						
Police	6,018,497	5,148,894	-	-	6,018,497	5,148,894
Fire	5,499,296	5,062,354	-	-	5,499,296	5,062,354
Telecommunications	1,407,476	1,125,030	-	-	1,407,476	1,125,030
Building inspection	408,049	349,632	-	-	408,049	349,632
Community Development	4,410,718	4,334,405	-	-	4,410,718	4,334,405
Codes Enforcement	78,166	68,708	-	-	78,166	68,708
Public works						
Road maintenance	4,781,463	4,607,631	-	-	4,781,463	4,607,631
Water & sewer treatment	-	-	11,802,564	11,423,958	11,802,564	11,423,958
Garbage collection	-	-	1,639,360	1,516,885	1,639,360	1,516,885
Recycling services	-	-	273,340	239,726	273,340	239,726
Stormwater management	-	-	183,414	140,782	183,414	140,782
Landfill postclosure care	-	-	111,254	106,026	111,254	106,026
Cemetery:						
Operations	-	-	297,216	266,452	297,216	266,452
Perpetual care	-	-	-	-	-	-
Interest on long-term debt	394,287	578,905	-	-	394,287	578,905
Total expenses	25,240,365	23,295,671	14,307,148	13,693,829	39,547,513	36,989,500
Excess (deficiency) before transfers and special items	2,860,625	2,185,659	(912,750)	(102,072)	1,947,875	2,083,587
Gain(Loss) on disposal of property	(161,750)	(167,019)	(4,685)	-	(166,435)	(167,019)
Capital contributions	661,301	160,867	652,173	277,595	1,313,474	438,462
Reduction of Postclosure Care Estimate	-	-	-	-	-	-
Transfers	(288,330)	(139,156)	288,330	139,156	-	-
Prior period adjustment	-	-	-	-	-	-
Net increase (decrease) in net position	3,071,846	2,040,351	23,068	314,679	3,094,914	2,355,030

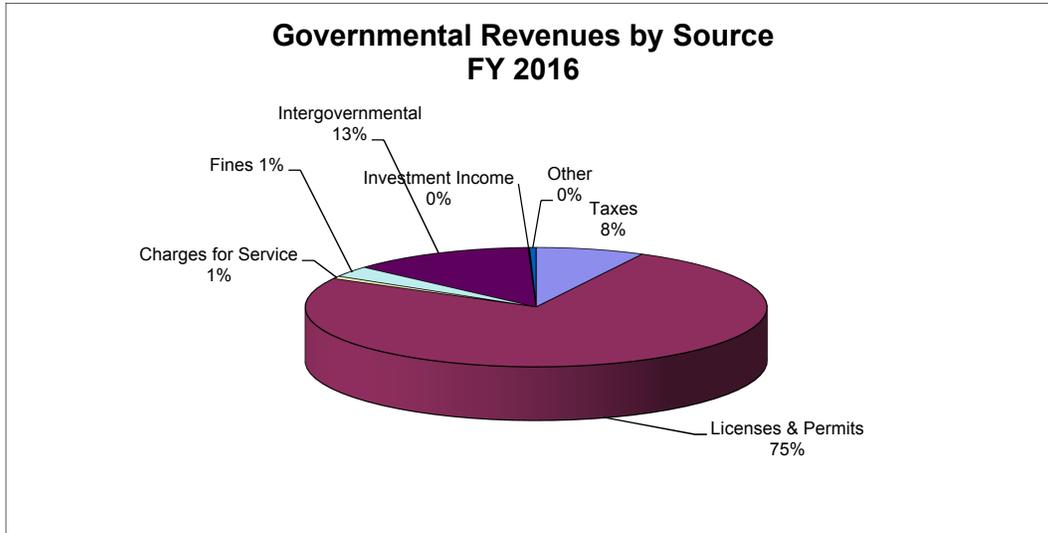
The City saw a significant increase in revenue in FY 2016, primarily from a one-time payment of occupational license fees and penalties and interest related to the filing of an amended return for the City's largest taxpayer, which totaled over \$2.4 million. Revenues for business-type activities remained fairly consistent with the prior year, with a very slight decrease.

On the other side of the City's ledger, governmental operating costs increased due to rising salary and benefit costs, as well as continued efforts to upgrade equipment and provide necessary services for citizens. Transfers from Governmental Activities to Business-Type Activities included transfers to cover costs for Storm Water Management and Cemetery Operations. The operating costs for business-type activities increased compared to FY2015, with the main increases due to the operation of Water & Sewer services and Garbage Collection, due to increased salaries and benefits.

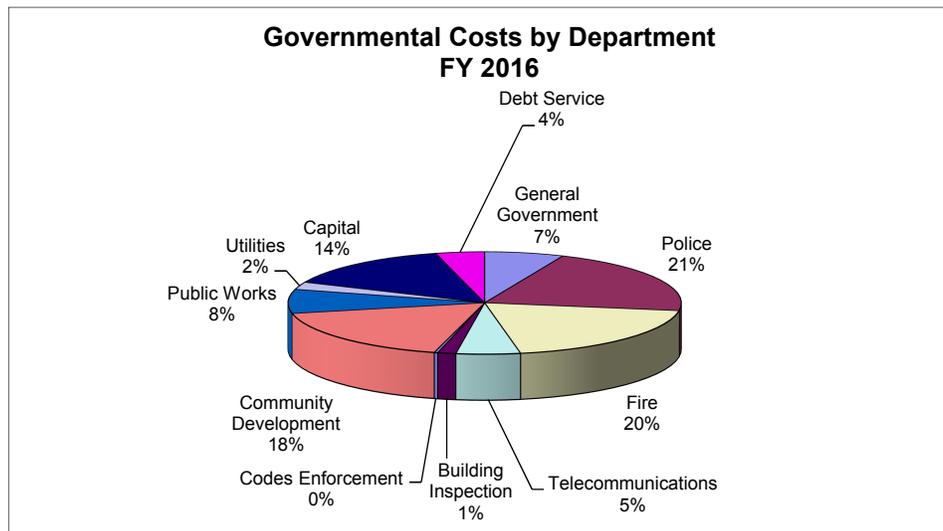
### Fund Financial Statements

The main focus of Fund Financial Statements is on the specific activities of the City instead of the financial activities of the City as a whole. The City's fund financial statements are divided into Governmental Funds and Proprietary Funds.

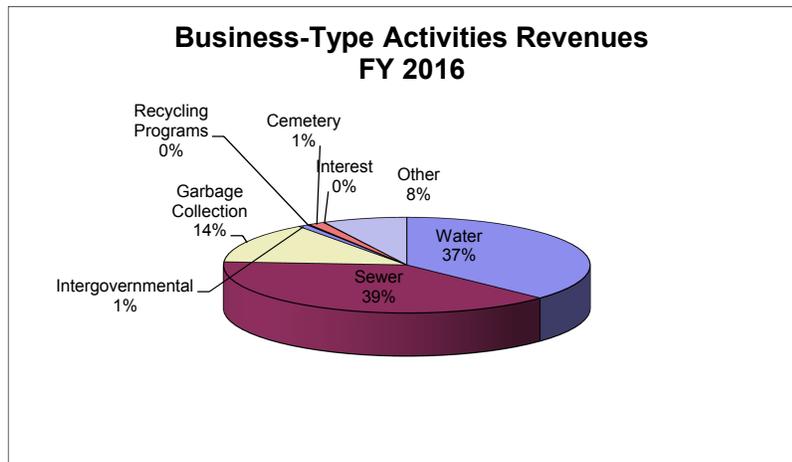
- Governmental Funds.** The City's governmental funds include the General Fund and several special revenue funds, including the Municipal Aid, Local Government Economic Assistance, grants, and the Cemetery perpetual trust fund. The primary source of revenue in the General Fund includes the occupational license fee (75%) on businesses and their employees. Taxes provide another 8% and intergovernmental revenues are 13% of the total governmental resources. Details about individual funds are reported on pages 11 - 13 and 45 - 46 of this report.



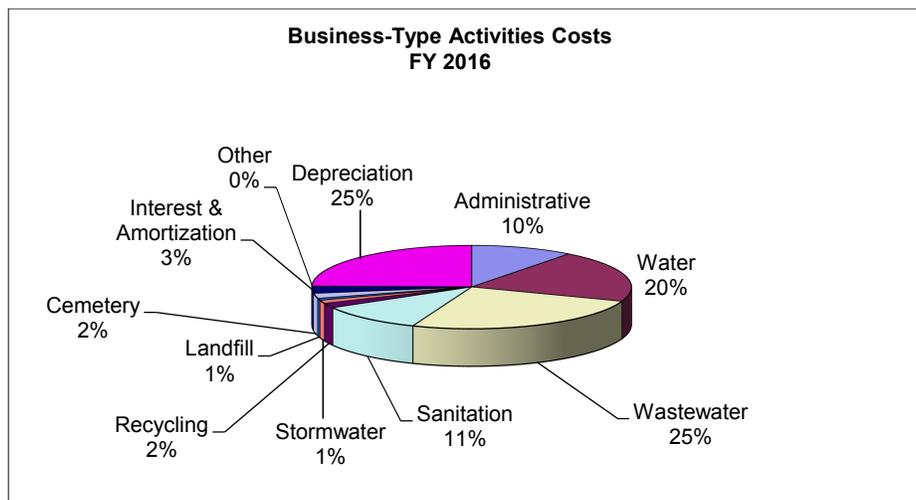
Governmental expenditures include basic services such as police, fire, road maintenance, building inspection, and telecommunications/911. The following chart highlights the allocation among major categories. Community Development includes parks, planning and zoning, and the City's portion of inter-local departments such as ambulance services, emergency management, and electrical inspection. More details about the individual departments are reported on pages 13 and 46 of this report.



- Proprietary Funds.** The City's proprietary funds include the water, sewer, sanitation, recycling, storm water, solid waste, and cemetery operations. These funds are financed with user fees based on consumption and the costs of providing these services. In FY 2016, \$183,414 was transferred from the General Fund to the Environmental Services Fund and \$29,108 was transferred from the General Fund to the Cemetery Fund to resolve the deficits in those funds.



Details about costs for individual operations are reported on page 16 of this report. Water and Wastewater are the largest cost component, but there are other business-type activities for sanitation, recycling, cemetery, and post-closure care for the landfill. Depreciation of existing facilities is also a significant cost component.



**BUDGETARY HIGHLIGHTS**

A budgetary comparison for the General Fund is presented on page 39 of this report. Total revenues for the year were \$4,173,724 more than budgeted, and expenditures were \$349,652 less than budgeted to provide a net positive budget variance of \$4,746,639 for the year after accounting for other financing sources and uses. Nearly all revenue categories exceeded budget expectations. Expenditures varied from department to department, but 10 out of 13 departments remained under budget for the year.

The original budget for FY 2017 uses approximately \$1.5 million of prior year revenues in the General Fund to fund capital projects and to offset the reduction of occupational license fees due to the Toyota incentive program. The City continues to work to maintain a balanced budget; however, a mid-year budget amendment is being presented to Council which may use an additional \$820,679 of prior year revenues, mainly to address various capital expenditures that have come up during the current fiscal year.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

Depreciation expense for governmental assets totaled \$3.503 million while asset purchases totaled \$3,626,380. The City also has Construction in Progress of \$205,936 which is for infrastructure upgrades at the Lanes Run Business Park.

Debt service for the City's governmental funds is 4% of the total annual appropriations, in line with prior years.

The Georgetown Municipal Water and Sewer Service funds maintain a debt to equity ratio of 14.5%, with outstanding debt of \$11 million and net invested in capital assets of \$76.1 million.

Additional information about capital assets and liabilities is outlined on page 25 through 29 of this report.

## **OTHER SIGNIFICANT ISSUES AFFECTING FINANCIAL POSITION**

The City continues to focus on upgrading equipment and pursuing capital projects for the improvement of the City. During FY2017, the City continued work to improve the infrastructure at the Lane's Run Business Park and will begin a project to widen and improve Lemons Mill Road jointly with the state, country, and private entities.

The City of Georgetown established a Joint Code Enforcement Board with the City of Stamping Ground, the City of Sadieville, and the Scott County Fiscal Court. This also resulted in the expansion of the City-managed Code Enforcement Department, including additional staff and operating budget increases.

The City and Scott County Fiscal Court also entered into an Inter-Local Agreement for the use of the building at 125 West Clinton Street, which will house Building Inspection, Code Enforcement, and the County-managed Electrical Inspection. The City and County will share the costs of renovating and operating the building. Renovations are expected to be begin during FY2017.

In April 2016, the Georgetown City Council approved a resolution to terminate the existing lease of the Cardome property, to execute a short-term lease with the Roman Catholic Diocese of Lexington, and to allow the Mayor to negotiate the terms of a lease/purchase agreement with the Diocese. The short-term lease was last extended on January 9, 2017 for an additional three-month term, and the lease/purchase agreement is expected to be executed during the 2016-2017 fiscal year.

## **REQUEST FOR INFORMATION**

Questions regarding this report may be sent to the Director of Finance, Stacey M. Clark, CPA, at 100 North Court Street, Georgetown, Kentucky 40324. Financial Statements and additional information for Georgetown Municipal Water & Sewer Service can be requested from the Finance Director, Allen Maples, at P.O. Box 640, Georgetown, Kentucky 40324.

**CITY OF GEORGETOWN, KENTUCKY**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2016**

	Primary Government			2015 Totals
	Governmental Activities	Business-type Activities	Total	
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 18,666,172	\$ 1,631,533	\$ 20,297,705	\$ 11,560,178
Investments	1,139,048	-	1,139,048	1,136,547
Accounts receivable				
Taxes & licenses, net	1,555,823	-	1,555,823	1,089,858
Customer, net	-	1,372,060	1,372,060	1,249,698
Intergovernmental	550,137	68,141	618,278	782,161
Other	307,026	-	307,026	555,057
Accrued interest	1,928	-	1,928	3,317
Prepaid expenses	-	71,496	71,496	58,301
Total current assets	<u>22,220,134</u>	<u>3,143,230</u>	<u>25,363,364</u>	<u>16,435,117</u>
Noncurrent assets				
Restricted cash and cash equivalents	390,728	2,630,871	3,021,599	8,193,053
Restricted investments	302,312	1,125,951	1,428,263	1,446,054
Accrued interest receivable	-	440	440	440
Other assets	-	15,963	15,963	17,629
Nondepreciable capital assets, land	10,172,311	3,202,375	13,374,686	10,613,586
Depreciable capital assets, net	68,502,251	87,514,312	156,016,563	154,823,214
Construction in progress	205,936	257,519	463,455	4,755,609
Total noncurrent assets	<u>79,573,538</u>	<u>94,747,431</u>	<u>174,320,969</u>	<u>179,849,585</u>
Total assets	<u>101,793,672</u>	<u>97,890,661</u>	<u>199,684,333</u>	<u>196,284,702</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflow - pension	3,856,220	1,264,298	5,120,518	1,776,190
Defeasance on refunding	-	10,481	10,481	11,926
Total assets and deferred outflows of resources	<u>\$ 105,649,892</u>	<u>\$ 99,165,440</u>	<u>\$ 204,815,332</u>	<u>\$ 198,072,818</u>
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	\$ 874,080	\$ 295,890	\$ 1,169,970	\$ 878,088
Line of credit payable	-	381,968	381,968	-
Accrued liabilities	1,021,989	754,694	1,776,683	1,823,801
Accrued interest payable	24,533	31,245	55,778	57,298
Customer deposits	262,355	239,820	502,175	671,129
Unearned revenue	62,100	-	62,100	54,818
Accrued compensated absences, current	74,188	98,546	172,734	197,423
Current portion of long-term debt	633,612	796,833	1,430,445	1,395,087
Total current liabilities	<u>2,952,857</u>	<u>2,598,996</u>	<u>5,551,853</u>	<u>5,077,644</u>
Noncurrent liabilities				
Compensated absences	544,050	517,624	1,061,674	1,140,733
Bonds and notes payable	12,584,824	9,816,505	22,401,329	23,641,899
Capital lease obligations	2,028,187	-	2,028,187	2,210,659
Net pension liability	19,146,044	6,481,610	25,627,654	19,379,337
Total noncurrent liabilities	<u>34,303,105</u>	<u>16,815,739</u>	<u>51,118,844</u>	<u>46,372,628</u>
Total liabilities	<u>37,255,962</u>	<u>19,414,735</u>	<u>56,670,697</u>	<u>51,450,272</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows - pension	27,729	8,246	35,975	1,608,800
<b>NET POSITION</b>				
Net investment in capital assets	63,633,875	79,978,900	143,612,775	142,944,764
Restricted	2,431,459	3,486,197	5,917,656	7,453,249
Unrestricted	2,300,867	(3,722,638)	(1,421,771)	(5,384,267)
Total net position	<u>68,366,201</u>	<u>79,742,459</u>	<u>148,108,660</u>	<u>145,013,746</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 105,649,892</u>	<u>\$ 99,165,440</u>	<u>\$ 204,815,332</u>	<u>\$ 198,072,818</u>

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

**CITY OF GEORGETOWN, KENTUCKY**  
**STATEMENT OF ACTIVITIES**  
for the year ended June 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			2015 Totals
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
<b>Primary government</b>								
<b>Governmental activities</b>								
General government	\$ 2,242,413	\$ 47,380	\$ -	\$ 378,398	\$ (1,816,635)	\$ -	\$ (1,816,635)	\$ (1,964,192)
Public safety								
Police	6,018,497	52,364	325,097	-	(5,641,036)	-	(5,641,036)	(4,755,128)
Fire	5,499,296	-	206,823	282,903	(5,009,570)	-	(5,009,570)	(4,798,198)
Telecommunications	1,407,476	-	773,910	-	(633,566)	-	(633,566)	(346,274)
Building inspection	408,049	533,442	292,331	-	417,724	-	417,724	280,543
Codes enforcement	78,166	-	47,525	-	(30,641)	-	(30,641)	(34,810)
Public works	4,781,463	107,519	593,885	-	(4,080,059)	-	(4,080,059)	(3,837,143)
Community development	4,410,718	-	794,528	-	(3,616,190)	-	(3,616,190)	(3,538,228)
Interest on long-term debt	394,287	-	-	-	(394,287)	-	(394,287)	(578,905)
Total governmental activities	25,240,365	740,705	3,034,099	661,301	(20,804,260)	-	(20,804,260)	(19,572,335)
<b>Business-type activities</b>								
Georgetown Municipal Water & Sewer:								
Administration	1,551,591	-	-	-	-	(1,551,591)	(1,551,591)	(1,411,749)
Water distribution	4,312,258	4,744,467	-	533,788	-	965,997	965,997	743,451
Sewer collection and treatment	5,938,715	6,332,283	-	118,385	-	511,953	511,953	731,092
Environmental service:								
Sanitation	1,639,360	1,954,452	-	-	-	315,092	315,092	378,481
Recycling	273,340	27,964	94,343	-	-	(151,033)	(151,033)	(64,298)
Stormwater management	183,414	-	-	-	-	(183,414)	(183,414)	(140,782)
Cemetery operations	297,216	201,002	31,073	-	-	(65,141)	(65,141)	(26,899)
Solid waste management	111,254	-	-	-	-	(111,254)	(111,254)	(106,026)
Total business-type activities	14,307,148	13,260,168	125,416	652,173	-	(269,391)	(269,391)	103,270
<b>Total primary government</b>	<b>\$ 39,547,513</b>	<b>\$ 14,000,873</b>	<b>\$ 3,159,515</b>	<b>\$ 1,313,474</b>	<b>(20,804,260)</b>	<b>(269,391)</b>	<b>(21,073,651)</b>	<b>(19,469,065)</b>
General revenue								
Property and other local taxes					2,087,610	-	2,087,610	1,985,386
Occupational licenses					16,888,072	-	16,888,072	15,422,625
Insurance premium					2,406,834	-	2,406,834	2,292,581
Licenses, fees, and permits					1,833,331	-	1,833,331	1,887,309
Fines and reimbursements					851,488	-	851,488	161,494
Telecommunications excise tax					99,630	-	99,630	99,632
Interest income					24,406	8,814	33,220	93,346
Miscellaneous					134,815	-	134,815	48,741
Total general revenues					24,326,186	8,814	24,335,000	21,991,114
Gain (loss) on sale of property					(161,750)	(4,685)	(166,435)	(167,019)
Transfers					(288,330)	288,330	-	-
Total general revenues and transfers					23,876,106	292,459	24,168,565	21,824,095
Change in Net Position					3,071,846	23,068	3,094,914	2,355,030
Net position-beginning					65,294,355	79,719,391	145,013,746	142,658,716
NET POSITION-ENDING					\$ 68,366,201	\$ 79,742,459	\$ 148,108,660	\$ 145,013,746

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

**CITY OF GEORGETOWN, KENTUCKY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2016**

	<b>General Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>	<b>2015 Totals</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 16,626,857	\$ 2,039,315	\$ 18,666,172	\$ 10,050,372
Restricted cash and cash equivalents	369,365	21,363	390,728	5,432,578
Investments	1,139,048	302,312	1,441,360	1,456,650
Accounts receivable:				
Taxes and licenses, net	1,555,823	-	1,555,823	1,089,858
Intergovernmental	422,359	127,778	550,137	652,922
Other	73,630	233,396	307,026	555,057
Accrued interest	1,928	-	1,928	3,317
Due from other funds	259,974	-	259,974	3,904,451
 Total Assets	 \$ 20,448,984	 \$ 2,724,164	 \$ 23,173,148	 \$ 23,145,205
<b>LIABILITIES</b>				
Accounts payable	\$ 635,197	\$ 238,883	\$ 874,080	\$ 736,271
Accrued payroll liabilities	1,021,989	-	1,021,989	1,150,407
Deferred revenue	34,275	27,825	62,100	54,818
Deposits	260,375	1,980	262,355	441,824
Compensated absences	74,188	-	74,188	89,536
Due to other funds	-	259,974	259,974	3,834,556
 Total Liabilities	 2,026,024	 528,662	 2,554,686	 6,307,412
<b>FUND BALANCE</b>				
Fund Balance				
Restricted	374,954	2,056,505	2,431,459	3,855,439
Assigned	1,560,500	138,997	1,699,497	1,686,055
Unassigned	16,487,506	-	16,487,506	11,296,299
 Total Fund Balance	 18,422,960	 2,195,502	 20,618,462	 16,837,793
 Total Liabilities and Fund Balance	 \$ 20,448,984	 \$ 2,724,164	 \$ 23,173,148	 \$ 23,145,205

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

**CITY OF GEORGETOWN, KENTUCKY  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2016**

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	<u>2016</u>	<u>2015 Totals</u>
Total Governmental Fund Balances	\$ 20,618,462	\$ 16,837,793
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets are not reported in the fund financial statement because they are not current financial resources, but they are reported in the statement of net position	78,880,498	79,390,991
Certain liabilities are not reported in the fund statements because they are not due and payable, but these liabilities are included in the statement of net position		
Long-term capital leases and bonds payable	(15,246,623)	(15,859,925)
Long-term compensated absences liability	(544,050)	(656,601)
Accrued interest on long-term debt	(24,533)	(25,003)
Net deferred inflows/outflows related to the long-term net pension liability	3,828,491	149,197
Long-term net pension liability	<u>(19,146,044)</u>	<u>(14,542,097)</u>
Net Position of Governmental Activities	<u>\$ 68,366,201</u>	<u>\$ 65,294,355</u>

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

**CITY OF GEORGETOWN, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**for the year ended June 30, 2016**

	<b>General Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>	<b>2015 Totals</b>
<b>REVENUES</b>				
Taxes	\$ 2,187,240	\$ -	\$ 2,187,240	\$ 2,085,018
Licenses and permits	20,778,549	883,130	21,661,679	19,933,787
Charges for service	207,263	-	207,263	163,111
Fines	851,488	-	851,488	161,494
Intergovernmental	2,442,843	1,252,557	3,695,400	3,164,495
Investment income	9,455	14,948	24,403	21,093
Other income	134,813	-	134,813	48,739
<b>Total Revenues</b>	<u>26,611,651</u>	<u>2,150,635</u>	<u>28,762,286</u>	<u>25,577,737</u>
<b>EXPENDITURES</b>				
Current				
Administration	1,268,998	36,184	1,305,182	1,253,325
City Council	147,988	-	147,988	97,232
City Clerk	187,791	-	187,791	186,340
Police	4,273,345	998,500	5,271,845	5,218,331
Fire	4,927,271	7,055	4,934,326	4,780,803
Telecommunications	1,323,539	-	1,323,539	1,131,932
Building inspection	375,978	-	375,978	358,664
Codes enforcement	71,658	-	71,658	70,568
Community development	4,222,321	188,397	4,410,718	4,334,405
Public works	1,210,837	697,663	1,908,500	1,700,034
Utilities	593,666	-	593,666	481,313
Capital outlay	1,536,832	2,089,548	3,626,380	5,594,676
Debt service	948,880	59,176	1,008,056	1,461,219
<b>Total Expenditures</b>	<u>21,089,104</u>	<u>4,076,523</u>	<u>25,165,627</u>	<u>26,668,842</u>
Excess of Revenues Over (Under) Expenditures	5,522,547	(1,925,888)	3,596,659	(1,091,105)
Other Sources (Uses)				
Proceeds from sale of capital assets	28,565	443,775	472,340	51,328
Cost of bond issuance	-	-	-	(239,330)
Bond refunding	-	-	-	(8,469,517)
Bond proceeds and premium on issuance	-	-	-	13,710,360
Transfers	(462,378)	174,048	(288,330)	(139,156)
Net change in fund balance	5,088,734	(1,308,065)	3,780,669	3,822,580
Fund Balance, beginning of year	<u>13,334,226</u>	<u>3,503,567</u>	<u>16,837,793</u>	<u>13,015,213</u>
<b>Fund Balance, end of year</b>	<u>\$ 18,422,960</u>	<u>\$ 2,195,502</u>	<u>\$ 20,618,462</u>	<u>\$ 16,837,793</u>

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

**CITY OF GEORGETOWN, KENTUCKY**  
**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, 2016**

	<u>2016</u>	<u>2015</u> <u>Totals</u>
Net Change in Fund Balances - Total Governmental Funds	\$ 3,780,669	\$ 3,822,580
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported as expenditures in the fund financial statement because they are current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives	3,626,380	5,594,671
Capital contributions for infrastructure constructed by developers are not current financial resources in the fund statements, but are recognized in the statement of activities	-	64,458
Depreciation expense is reported in the statement of activities to recognize the cost of capital assets used to provide programs and services	(3,502,788)	(3,585,351)
Gain (loss) on sale of assets do not provide current financial resources but are reported in the statement of activities	(161,750)	(167,019)
Proceeds from sale of assets are reported at net gain or loss in the statement of activities	(472,340)	(51,328)
Long-term compensated absences are not reported in the fund financial statements because they are not due in the current period, but they are presented as long-term liabilities in the statement of net position	112,550	(4,021)
Bond and lease payments are recognized as expenditures of current financial resources in the fund financial statement, but are reductions of liabilities in the statement of net position	605,531	9,583,101
Bond and lease proceeds are recognized as other financing sources in the fund financial statements, but are presented as long-term liabilities in the statement of net position	-	(13,710,360)
Amortization of bond premium	7,768	7,768
Change in net pension liability	(924,644)	485,560
Adjustment in accrued interest on long-term debt	<u>470</u>	<u>292</u>
Change in Net Position of Governmental Activities	<u>\$ 3,071,846</u>	<u>\$ 2,040,351</u>

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

**CITY OF GEORGETOWN, KENTUCKY**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2016**

	Municipal Water & Sewer Funds	Environmental Services Fund	Landfill Fund	Cemetery Fund	Totals	2015 Totals
<b>ASSETS</b>						
Current assets						
Cash and cash equivalents	\$ 659,808	\$ 605,833	\$ 316,985	\$ 48,907	\$ 1,631,533	\$ 1,509,806
Accounts receivable						
Customer, net of allowance	1,177,182	174,393	-	20,485	1,372,060	1,249,698
Intergovernmental	-	36,746	-	31,395	68,141	129,239
Prepaid expenses	71,496	-	-	-	71,496	58,301
<b>Total current assets</b>	<b>1,908,486</b>	<b>816,972</b>	<b>316,985</b>	<b>100,787</b>	<b>3,143,230</b>	<b>2,947,044</b>
Noncurrent assets						
Restricted cash and cash equivalents	2,630,871	-	-	-	2,630,871	2,760,475
Restricted investments	1,098,495	-	27,456	-	1,125,951	1,125,951
Accrued interest receivable	440	-	-	-	440	440
Other assets	15,963	-	-	-	15,963	17,629
Capital assets						
Construction in progress	257,519	-	-	-	257,519	235,915
Land and easements	740,815	9,000	2,427,043	45,079	3,221,937	3,217,424
Buildings and improvements	8,872,255	201,408	-	247,250	9,320,913	7,970,978
Utility plants in service	146,452,196	-	-	-	146,452,196	144,508,871
Vehicles and equipment	1,717,941	2,078,473	-	161,907	3,958,321	3,705,777
Less accumulated depreciation	(70,943,714)	(1,197,338)	-	(95,628)	(72,236,680)	(68,837,547)
<b>Total noncurrent assets</b>	<b>90,842,781</b>	<b>1,091,543</b>	<b>2,454,499</b>	<b>358,608</b>	<b>94,747,431</b>	<b>94,705,913</b>
<b>Total assets</b>	<b>92,751,267</b>	<b>1,908,515</b>	<b>2,771,484</b>	<b>459,395</b>	<b>97,890,661</b>	<b>97,652,957</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Deferred outflows - pension	1,040,572	194,236	-	29,490	1,264,298	450,444
Defeasance on refunding	10,481	-	-	-	10,481	11,926
<b>Total assets and deferred outflows of resources</b>	<b>\$ 93,802,320</b>	<b>\$ 2,102,751</b>	<b>\$ 2,771,484</b>	<b>\$ 488,885</b>	<b>\$ 99,165,440</b>	<b>\$ 98,115,327</b>
<b>LIABILITIES AND NET POSITION</b>						
Current liabilities						
Accounts payable	\$ 64,495	\$ 153,054	\$ 38,646	\$ 39,695	\$ 295,890	\$ 141,817
Accrued liabilities	745,813	7,678	-	1,203	754,694	673,394
Line of credit payable	381,968	-	-	-	381,968	-
Compensated absences	90,362	6,165	-	2,019	98,546	107,887
Interfund payable	-	-	-	-	-	69,895
Accrued interest payable	31,245	-	-	-	31,245	32,295
Current portion of long-term debt	796,833	-	-	-	796,833	773,417
Customer deposits	239,820	-	-	-	239,820	229,305
<b>Total current liabilities</b>	<b>2,350,536</b>	<b>166,897</b>	<b>38,646</b>	<b>42,917</b>	<b>2,598,996</b>	<b>2,028,010</b>
Long-term liabilities						
Compensated absences	457,603	45,213	-	14,808	517,624	484,132
Bonds, notes, and loans payable	9,816,505	-	-	-	9,816,505	10,614,303
Net pension liability	5,270,574	1,054,884	-	156,152	6,481,610	4,837,240
<b>Total long-term liabilities</b>	<b>15,544,682</b>	<b>1,100,097</b>	<b>-</b>	<b>170,960</b>	<b>16,815,739</b>	<b>15,935,675</b>
<b>Total liabilities</b>	<b>17,895,218</b>	<b>1,266,994</b>	<b>38,646</b>	<b>213,877</b>	<b>19,414,735</b>	<b>17,963,685</b>
<b>DEFERRED INFLOWS OR RESOURCES</b>						
Deferred inflows - pension	-	7,159	-	1,087	8,246	432,251
Net Position						
Net investment in capital assets	76,101,706	1,091,543	2,427,043	358,608	79,978,900	79,413,698
Restricted for debt service	3,458,741	-	-	-	3,458,741	3,597,810
Restricted for other purposes	-	-	27,456	-	27,456	-
Unrestricted	(3,653,345)	(262,945)	278,339	(84,687)	(3,722,638)	(3,292,117)
<b>Total net position</b>	<b>75,907,102</b>	<b>828,598</b>	<b>2,732,838</b>	<b>273,921</b>	<b>79,742,459</b>	<b>79,719,391</b>
<b>Total liabilities, deferred inflows of resources and net position</b>	<b>\$ 93,802,320</b>	<b>\$ 2,102,751</b>	<b>\$ 2,771,484</b>	<b>\$ 488,885</b>	<b>\$ 99,165,440</b>	<b>\$ 98,115,327</b>

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

**CITY OF GEORGETOWN, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGES IN NET POSITION**  
**PROPRIETARY FUND**  
**for the year ended June 30, 2016**

	<b>Municipal Water &amp; Sewer Funds</b>	<b>Environmental Services Fund</b>	<b>Landfill Fund</b>	<b>Cemetery Fund</b>	<b>Totals</b>	<b>2015 Totals</b>
<b>Operating revenues</b>						
Water revenue	\$ 4,176,900	\$ -	\$ -	\$ -	\$ 4,176,900	\$ 4,083,389
Sewer revenue	4,332,843	-	-	-	4,332,843	4,172,915
Sanitation revenue	-	1,954,452	-	-	1,954,452	1,895,366
Recycling revenue	-	27,964	-	-	27,964	35,978
Cemetery revenue	-	-	-	201,002	201,002	190,917
Intergovernmental	-	94,343	-	31,073	125,416	188,086
Connection fees	1,034,484	-	-	-	1,034,484	1,425,333
Commercial user fees	1,137,075	-	-	-	1,137,075	1,127,498
Miscellaneous	281,928	-	-	-	281,928	294,471
Penalties	113,520	-	-	-	113,520	105,551
	<u>11,076,750</u>	<u>2,076,759</u>	<u>-</u>	<u>232,075</u>	<u>13,385,584</u>	<u>13,519,504</u>
<b>Operating expenses</b>						
Administrative	1,487,808	-	-	-	1,487,808	1,350,533
Water	2,891,422	-	-	-	2,891,422	2,624,089
Wastewater	3,631,535	-	-	-	3,631,535	3,352,803
Sanitation	-	1,533,029	-	-	1,533,029	1,433,939
Recycling	-	263,662	-	-	263,662	232,486
Stormwater	-	183,414	-	-	183,414	140,782
Landfill	-	-	111,254	-	111,254	106,026
Cemetery	-	-	-	274,687	274,687	246,682
Depreciation	3,395,988	116,009	-	22,529	3,534,526	3,792,995
	<u>11,406,753</u>	<u>2,096,114</u>	<u>111,254</u>	<u>297,216</u>	<u>13,911,337</u>	<u>13,280,335</u>
Operating income (loss)	<u>(330,003)</u>	<u>(19,355)</u>	<u>(111,254)</u>	<u>(65,141)</u>	<u>(525,753)</u>	<u>239,169</u>
<b>Nonoperating revenues (expenses)</b>						
Interest income	8,444	341	-	29	8,814	72,253
Interest expense	(393,666)	-	-	-	(393,666)	(410,858)
Amortization expense	(2,145)	-	-	-	(2,145)	(2,636)
Gain (loss) on disposal of capital assets	6,677	(10,181)	-	(1,181)	(4,685)	-
Total nonoperating revenue (expenses)	<u>(380,690)</u>	<u>(9,840)</u>	<u>-</u>	<u>(1,152)</u>	<u>(391,682)</u>	<u>(341,241)</u>
Income (loss) before capital contributions and transfers	(710,693)	(29,195)	(111,254)	(66,293)	(917,435)	(102,072)
Capital contributed						
Developer contributions	533,788	-	-	-	533,788	199,979
Commercial user contributions	118,385	-	-	-	118,385	77,616
Transfers in (out)	-	183,414	-	104,916	288,330	139,156
<b>Change in net position</b>	(58,520)	154,219	(111,254)	38,623	23,068	314,679
Net position at beginning of year	<u>75,965,622</u>	<u>674,379</u>	<u>2,844,092</u>	<u>235,298</u>	<u>79,719,391</u>	<u>79,404,712</u>
<b>NET POSITION AT END OF YEAR</b>	<u>\$ 75,907,102</u>	<u>\$ 828,598</u>	<u>\$ 2,732,838</u>	<u>\$ 273,921</u>	<u>\$ 79,742,459</u>	<u>\$ 79,719,391</u>

The accompanying notes are an integral  
part of the financial statements

**CITY OF GEORGETOWN, KENTUCKY**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
for the year ended June 30, 2016

	Municipal Water & Sewer Funds	Environmental Services Fund	Landfill Fund	Cemetery Fund	Totals	2015 Totals
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Receipts from customers	\$ 10,679,371	\$ 2,103,900	\$ -	\$ 269,636	\$ 13,052,907	\$ 13,326,284
Payments to suppliers	(3,107,935)	(874,300)	(77,433)	(97,081)	(4,156,749)	(4,228,413)
Payments for employee services and benefits	(4,419,695)	(1,015,115)	-	(139,861)	(5,574,671)	(5,427,244)
Other receipts (payments)	281,928	-	-	-	281,928	294,471
Net cash provided (used) by operations	<u>3,433,669</u>	<u>214,485</u>	<u>(77,433)</u>	<u>32,694</u>	<u>3,603,415</u>	<u>3,965,098</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>						
Transfers in (out)	-	183,414	-	35,021	218,435	(743,394)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
Acquisition and construction of capital assets	(3,432,826)	(210,090)	-	(68,311)	(3,711,227)	(2,375,449)
Capital contributions	652,173	-	-	-	652,173	277,595
Proceeds from disposal of capital assets	6,677	-	-	-	6,677	-
Principal paid on capital debt	(773,417)	-	-	-	(773,417)	(760,417)
Net draws on line of credit	381,968	-	-	-	381,968	-
Interest paid on capital debt	(394,716)	-	-	-	(394,716)	(414,544)
Net cash (used) by capital and related financing activities	<u>(3,560,141)</u>	<u>(210,090)</u>	<u>-</u>	<u>(68,311)</u>	<u>(3,838,542)</u>	<u>(3,272,815)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Purchase of investments	-	-	-	-	-	(40,948)
Sale of investments	-	-	-	-	-	41,036
Interest income	8,445	341	-	29	8,815	7,245
Net cash provided by investing activities	<u>8,445</u>	<u>341</u>	<u>-</u>	<u>29</u>	<u>8,815</u>	<u>7,333</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	(118,027)	188,150	(77,433)	(567)	(7,877)	1,907,286
Cash and cash equivalents at beginning of year	3,408,706	417,683	394,418	49,474	4,270,281	2,362,995
<b>CASH AT END OF YEAR</b>	<u>\$ 3,290,679</u>	<u>\$ 605,833</u>	<u>\$ 316,985</u>	<u>\$ 48,907</u>	<u>\$ 4,262,404</u>	<u>\$ 4,270,281</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>						
Operating income (loss)	\$ (330,003)	\$ (19,355)	\$ (111,254)	\$ (65,141)	\$ (525,753)	\$ 239,169
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation expense	3,395,988	116,009	-	22,529	3,534,526	3,792,995
Change in assets and liabilities:						
Receivables, net	(125,966)	27,141	-	37,561	(61,264)	95,028
Prepaid expense	(13,195)	-	-	-	(13,195)	(18,802)
Other assets	-	-	-	-	-	2,735
Accounts and other payables	153,774	64,186	33,821	35,725	287,506	(9,071)
Accrued expenses	-	(28,680)	-	(6,751)	(35,431)	28,653
Customer deposits	10,515	-	-	-	10,515	6,223
Net pension liability	342,556	55,184	-	8,771	406,511	(171,832)
Net cash provided (used) by operating activities	<u>\$ 3,433,669</u>	<u>\$ 214,485</u>	<u>\$ (77,433)</u>	<u>\$ 32,694</u>	<u>\$ 3,603,415</u>	<u>\$ 3,965,098</u>
Supplemental disclosures of cash flow information:						
Noncash capital and related financing activities:						
Capital contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Increase in contracts payable for capital items	\$ 7,449	\$ -	\$ -	\$ -	\$ 7,449	\$ 14,588
Amortization expense	\$ 2,145	\$ -	\$ -	\$ -	\$ 2,145	\$ 2,636

The accompanying notes are an integral part of the financial statements

**CITY OF GEORGETOWN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
for the year ended June 30, 2016

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the City of Georgetown, Kentucky (City) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as revised and applied to governmental units. KRS 91A.020 requires Kentucky cities to comply with governmental GAAP standards.

**A. Government-wide Statements**

The government-wide statements include the statement of net position and the statement of activities and report all activities of the primary government and its component units. Fiduciary funds are not included in the government-wide statements since these resources are not available to finance the City's programs. Most interfund activity has been eliminated from the government-wide statements, summarizing the details reported in the fund statements.

**B. Reporting Entity**

The City operates under a City Council government comprised of the Mayor and eight council members. The financial statements of the City include the funds, agencies, boards and entities for which the Mayor and City council are financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards was determined on the basis of the City's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service.

**Blended component units.** The Georgetown Municipal Water and Sewer Service (GMWSS) has been blended with the City's other enterprise funds. This organization's activities have been blended because the City approves the utility rate structure and the GMWSS budget, plus the City is ultimately responsible for the GMWSS outstanding debt. A copy of the separate GMWSS financial statements may be obtained from the Finance Director of the Georgetown Municipal Water and Sewer System.

The Business Park Development Authority has also been blended with the City's governmental funds. This organization's activities have been blended because the City provides all the financial administration for the Park, issues and repays debt associated with the project, and appoints the Board of Directors.

**C. Basis of Presentation**

**Government-wide Financial Statements**

The government-wide statements and the proprietary fund financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. 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 activities* reflect those programs and services that are supported by taxes, intergovernmental revenues, and charges for services. *Business-type activities*, on the other hand, are financed primarily with user fees designed to recover all costs of services, including capital. These two types of services are reported separately in the government-wide statements to distinguish how the City's programs are financed. The City of Georgetown has no discretely presented component units, so all funds are included in the primary government totals.

The governmental statement of activities presents a unique format for the "operating" statement in the government-wide section of the report. This statement is focused on the program perspective to demonstrate the level of funding provided directly by program revenues. *Direct expenses* are those that are clearly identified with a specific program or function. *Program revenues* include direct charges to customers as well as grants and contributions that are restricted to meeting the operation or capital requirements for that program. Taxes and other sources that are available for all programs are reported as *general revenues*.

CITY OF GEORGETOWN, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
for the year ended June 30, 2016

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation (continued)

**Fund Financial Statements**

Fund financial statements report detailed information about the City. Fund statements are grouped into three sections—governmental, proprietary, and fiduciary funds. Fiduciary fund information is not included in the government-wide statements. Fund information is reported using separate columns for each major fund within the governmental and proprietary categories. Nonmajor governmental funds are reported in a single column with details in combining statements included in the Supplementary Information section of this report.

In the fund financial statements, balances are presented with a 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 government 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, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period.

**Governmental Funds**

The City of Georgetown reports the **General Fund** as major in the governmental fund statements. Nonmajor governmental funds include the following:

The **Capital Projects Fund** accounts for the acquisition or construction of capital assets. The accumulation of resources for, and the payment of, the costs of the acquisition or construction of capital assets are held in the fund until the assets are placed in service.

The **Municipal Aid Fund** accounts for the allocation from the Commonwealth of Kentucky as provided by KRS 174 for design, right-of-way acquisitions, utilities, construction, and other municipal road expenditures.

The **Local Government Economic Assistance Fund** accounts for the allocation from the Commonwealth of Kentucky as provided by KRS 42.455 to improve the environment for new industry and to improve the quality of life for the residents.

The **Business Park Fund** accounts for the receipts and disbursements of resources used in acquisition of land and construction of infrastructure to develop the Lane's Run Business Park, which will enable new businesses to locate in the City.

The **Drug Forfeiture Fund** accounts for funds received from federal and state courts related to property seized in drug crimes. These funds are to be used to investigate and prevent further drug related crimes.

The **State and Federal Grants Fund** accounts for the receipt and disbursement of grant programs financed with grants from the federal government and the Commonwealth of Kentucky.

The **Cemetery Trust Fund** holds the funds required to be held in trust for the benefit of the Georgetown Cemetery.

The **Alcohol Fund** accounts for funds received from alcoholic beverage regulatory fees. These funds are to be used to reimburse the City for the estimated costs of police, regulatory, and administrative expenses related to the sale of alcoholic beverages in the City.

**CITY OF GEORGETOWN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
for the year ended June 30, 2016

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Basis of Presentation (continued)**

**Fund Financial Statements (continued)**

**Proprietary Funds**

Proprietary funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges, and the measurement of financial activity focuses on net income measurement similar to the private sector. The City has the following major proprietary funds:

The **Georgetown Municipal Water and Sewer Funds** accounts for the water and sewer treatment plants operated by GMWSS.

The **Environmental Services Fund** accounts for the activities associated with garbage collections from City residents and businesses as well as recycling and stormwater management programs.

The **Landfill Fund** accounts for the cost associated with postclosure care for the Sims Road Landfill (closed in 1997).

The **Cemetery Fund** accounts for the operation and maintenance of the City's Cemetery.

**D. Assets, Liabilities, and Net Position**

**Cash and Investments**

The City considers all demand, savings accounts, money market funds, and certificate of deposits with an original maturity of three months or less to be "cash and cash equivalents."

Kentucky Revised Statutes authorize the City to invest in obligations of the U.S. Treasury, commercial paper, certificates of deposit, Commonwealth of Kentucky obligations, certain mutual funds, state or local government securities with ratings in the three highest categories of a national rating agency, repurchase agreements backed by U.S. Treasury obligations, and the Commonwealth's Investment Pool.

Investments are carried at fair value, except for certificates of deposit which are reported at amortized cost. Fair value is based on quoted market price. Investments consist of certificates of deposit, common stocks, and mutual funds held by the Cemetery Trust Fund.

**Receivables and Payables**

Balances for activity between funds that represent temporary transfers of resources are reported as "due to/from other funds". The City of Georgetown maintains a single operating checking account, collecting and disbursing all fund operating transactions, except GMWSS transactions, from that account. Due to/from other fund balances in the governmental and city proprietary funds represent that fund's share of cash in the general operating account or amounts due to the General Fund for net disbursements on behalf of that fund.

All proprietary fund and property tax receivables are shown net of an allowance for estimated uncollectible accounts. The allowance for utility accounts is based upon historical trends and the periodic aging of accounts receivable. The General Fund's property tax receivable is reported net of allowance for uncollectible based on all outstanding amounts for tax years prior to 2015. Liens have been filed on these properties for all unpaid property taxes. At June 30, 2016, the allowance for doubtful accounts totaled \$153,300 for governmental activities and \$26,614 for business-type activities. The business-type activities allowance consists of \$16,614 for GMWSS and \$10,000 for the Cemetery Fund.

**CITY OF GEORGETOWN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
for the year ended June 30, 2016

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Assets, Liabilities and Net Position (continued)**

**Inventories**

Purchases of supplies in the General Fund are recorded as expenditures at the time they are purchased and are not inventoried. Purchases of supplies in the proprietary funds are generally purchased as needed and are not recorded as inventory. This departure from GAAP is not considered material to the financial statements.

**Restricted Assets**

Certain proceeds of revenue bonds, as well as certain resources set aside for their payment, as required by bond indentures, are classified as restricted assets on the Statement of Net Position. Some expenditures of the City may be paid with restricted and non-restricted resources, and the City has determined that when both resources are available that they will use the restricted resources first.

**Capital Assets**

Capital assets, including land, buildings, equipment, and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City of Georgetown capitalizes assets that cost more than \$2,500 and have a useful life of three years or more. Capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of contribution.

Normal maintenance and repairs expenditures are not capitalized unless these costs add to the value of the asset or extend the estimated useful life.

In the fund financial statements, property used in governmental fund operations is accounted for as capital outlay expenditures of the governmental fund upon acquisition. Property used in proprietary fund operations is accounted for in the same manner as in the government-wide statements.

Depreciation of all exhaustible property is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the asset's estimated useful lives, using the straight-line method of depreciation. The estimated useful lives are as follows:

Buildings	15-40 years
Infrastructure	20-50 years
Improvements	15-40 years
Utility plant	15-20 years
Vehicles	5-10 years
Furniture & equipment	7-10 years

Construction in progress represents construction projects for fixed assets that have not yet been placed in service. Interest expense related to these projects has not been capitalized, as the amount is minimal.

**CITY OF GEORGETOWN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
for the year ended June 30, 2016

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Assets, Liabilities and Net Position (continued)**

**Long-Term Liabilities**

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements. Long-term debt consists of revenue bonds and notes, capital lease obligations, and compensated absences.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are recorded as other financing sources and payment of principal and interest is reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the government-wide statements.

**Fund Balance Classifications**

Fund financial statements report governmental fund equity as fund balance. Fund balance is further classified as nonspendable or spendable, with balances reported as restricted, committed, assigned or unassigned. Restricted amounts are based on constraints imposed by contracts, regulations, or enabling legislation. The City of Georgetown classifies resources as committed if the City Council imposes constraints by ordinance for specific purposes. Funds may be assigned by the Council, Mayor or Finance Director, with approval by the Mayor and notice to Council, for specific purposes. In the event that the annual adopted budget authorizes the use of available fund balance for the subsequent year's appropriations, this decrease in fund balance is classified as assigned. This assignment shall expire on June 30th of the following fiscal year.

**E. Revenues, Expenditures and Expenses**

**Program Revenues**

Amounts reported as *program revenues* include customer user fees for goods or services provided by the City of Georgetown. In addition, operating or capital grants and contributions are classified as *program resources* if those grants are restricted to the specific purpose of those programs or functions. *General revenues* include all taxes, investment income, other sources, and transfers between governmental and proprietary funds.

**Property Tax Revenues**

Property taxes are levied based on property assessed values and ownership as of January 1 each year. Tax rates are levied, in accordance with prescribed procedures in KRS Chapter 132, in September each year for the fiscal year ended June 30. Bills are issued in October and become delinquent if unpaid on January 1 of the following calendar year. Property taxes remaining unpaid on May 31 are secured by liens on applicable properties. Penalties and interest begin accruing on January 1 until paid.

**Compensated Absences**

City of Georgetown employees are allowed to accumulated unused vacation and sick leave, subject to maximum amounts for carryover to subsequent years. Employees who have completed their initial probation period are paid for all accrued but unused vacation leave upon termination, resignation, or retirement. Employees are not paid for unused sick leave upon termination of employment. However, employees may use unpaid sick leave to purchase additional service credits with the Kentucky Retirement System upon retirement.

All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. Amounts expected to be paid within one year are recognized in the governmental funds.

**CITY OF GEORGETOWN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
for the year ended June 30, 2016

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**E. Revenues, Expenditures and Expenses (continued)**

**Definitions for Operating and Nonoperating Revenues and Expenses**

Proprietary funds report *operating* revenues and expenses separately from *nonoperating* items. Operating revenues and expenses generally result from providing services or producing and delivering goods in connection with the primary ongoing operations. Operating revenues include customer fees and charges, connection fees, and local government funding for shared services. Investment income, as well as the interest on a note receivable for the sale of the landfill, is reported as nonoperating revenue. Operating expenses for the City's proprietary funds include costs of sales and services, administrative expenses, and depreciation on capital assets.

**F. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions. As a result, actual results could differ from estimated amounts.

**G. Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees' Retirement System (CERS) and additions to/deductions from CERS' fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments, including refunds of employee contributions are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

**H. Management's Review of Subsequent Events**

The City has evaluated and considered the need to recognize or disclose subsequent events through February 17, 2017, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended June 30, 2016, have not been evaluated by the City.

**2. CASH AND INVESTMENTS**

The City adopted written policies and procedures for cash and investment management that designate the Mayor and City Clerk be responsible for these duties. The primary objective of the investment policy is to maintain the safety of the investment and to maintain funds in accounts, which will enable the City to meet all reasonably anticipated operating requirements.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. In order to anticipate market changes and provide a level of security for all funds, the City's policy requires a collateralized level of 105% of market value, plus accrued interest.

At June 30, 2016, the City had \$26,802,623 in financial institutions, of which \$2,458,786 was insured by FDIC insurance, SIPC insurance, or secured by U.S. government obligations. The City had \$28,222,970 in collateral pledged to secure the remaining deposits.

**CITY OF GEORGETOWN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
for the year ended June 30, 2016

**2. CASH AND INVESTMENTS (CONTINUED)**

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The City's investment policy states that unless matched to a specific cash flow need, the City's funds should not, in general, be invested in securities maturing more than one year from the date of purchase.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. The City's policy is that with the exception of fully insured collateralized investments and demand deposit accounts, no more than 50% of the total investment portfolio shall be invested in a single financial institution.

The City's investments at June 30, 2016, are as follows:

<u>Type of Investments</u>	<u>Book Value</u>	<u>Investment Maturities (in Years)</u>	
		<u>Less Than 1</u>	<u>1 – 5 Years</u>
Governmental activities:			
Certificates of deposit	\$ 1,139,048	\$ 1,139,048	\$ -
Mutual funds	274,569	274,569	-
Common stock	27,743	27,743	-
Total governmental activities	<u>\$ 1,441,360</u>	<u>\$ 1,441,360</u>	<u>\$ -</u>
Business-type activities:			
Certificates of deposit	<u>\$ 1,125,951</u>	<u>\$ 1,125,951</u>	<u>\$ -</u>

Investment Valuation

The City categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The City does not have any investments that are measured using Level 3 inputs.

For those investments measured at fair value, the investments' fair value measurements are as follows at June 30, 2016:

<u>Investments</u>	<u>Fair Value</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>
Mutual funds	\$ 274,569	\$ 274,569	\$ -	\$ -
Common stock	27,743	27,743	-	-
Total	<u>\$ 302,312</u>	<u>\$ 302,312</u>	<u>\$ -</u>	<u>\$ -</u>

**CITY OF GEORGETOWN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
for the year ended June 30, 2016

**3. CAPITAL ASSETS**

A summary of the Primary Government's capital asset activity during the fiscal year follows:

	July 1, 2015 Balance	Additions	Retirements	June 30, 2016 Balance
Governmental activities:				
Capital assets not depreciated				
Land	\$ 10,613,586	\$ -	\$ (441,275)	\$ 10,172,311
Construction in progress	4,519,694	205,936	(4,519,694)	205,936
Total	<u>15,133,280</u>	<u>205,936</u>	<u>(4,960,969)</u>	<u>10,378,247</u>
Capital assets being depreciated				
Buildings	27,440,465	6,169,943	(393,969)	33,216,439
Vehicles	5,039,299	967,588	(143,068)	5,863,819
Equipment	5,380,412	608,849	(127,843)	5,861,418
Infrastructure	79,558,549	193,758	-	79,752,307
Total	<u>117,418,725</u>	<u>7,940,138</u>	<u>(664,880)</u>	<u>124,693,983</u>
Accumulated depreciation	<u>(53,161,014)</u>	<u>(3,502,788)</u>	<u>472,070</u>	<u>(56,191,732)</u>
Governmental activities capital assets, net	<u>\$ 79,390,991</u>	<u>\$ 4,643,286</u>	<u>\$ (5,153,779)</u>	<u>\$ 78,880,498</u>
	July 1, 2015 Balance	Additions	Retirements	June 30, 2016 Balance
Business-type activities:				
Capital assets not depreciated				
Land	\$ 3,197,862	\$ 4,513	\$ -	\$ 3,202,375
Construction in progress	235,915	1,839,563	(1,817,959)	257,519
Total	<u>3,433,777</u>	<u>1,844,076</u>	<u>(1,817,959)</u>	<u>3,459,894</u>
Capital assets being depreciated				
Land improvements	19,562	-	-	19,562
Buildings	6,425,944	1,307,636	-	7,733,580
Vehicles	3,014,353	266,943	(109,645)	3,171,651
Equipment	2,236,458	107,385	(32,840)	2,374,003
Utility Plant	144,508,871	1,947,595	(4,270)	146,452,196
Total	<u>156,205,188</u>	<u>3,692,559</u>	<u>(146,755)</u>	<u>159,750,992</u>
Accumulated depreciation	<u>(68,837,547)</u>	<u>(3,534,526)</u>	<u>135,393</u>	<u>(72,236,680)</u>
Business-type activities capital assets, net	<u>\$ 90,801,418</u>	<u>\$ 2,002,109</u>	<u>\$ (1,829,321)</u>	<u>\$ 90,974,206</u>

**CITY OF GEORGETOWN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
for the year ended June 30, 2016

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**3. CAPITAL ASSETS (CONTINUED)**

Depreciation expense was charged to governmental activities as follows:

General Government	\$	532,684
Public Protection		
Police		420,843
Fire Protection		279,364
Telecommunications		29,502
Code Enforcement		2,588
Building Inspection		11,362
Public Works		<u>2,226,445</u>
	<u>\$</u>	<u>3,502,788</u>

**4. LEASE OBLIGATIONS**

The City has entered into agreements to construct buildings, develop an industrial park, and acquire various other properties through capital leases. Title to the assets is held by the lessor until such time as the lease has been paid in full. At that time, title is transferred to the City. The lease agreements may be cancelled by the City at the end of any fiscal year upon written notice to the lessor. The interest rates on all of these leases are variable-rates that adjust weekly based on the lowest rate that in the opinion of the Remarketing Agent would enable them to remarket the bonds at par for the week.

**5. LONG-TERM DEBT**

The City's long-term debt is segregated between the amounts to be repaid from governmental activities and amount to be repaid from business-type activities.

**Governmental Activities**

Governmental long-term debt includes general obligation bonds, capital leases, discussed in Note 5 above, and compensated absences discussed in Note 1.

20-year capital lease for the construction and installation of public roads, electric utility lines, telephone lines, cable television lines, water lines, gas lines, and sanitary sewer lines at the Georgetown Business Park Phase II. Interest is based on a variable rate equal to LIBOR plus 1.50%. The lease expires May 2025, at which time title to the leasehold improvements is transferred to the City.	\$ 570,729
20-year capital lease for the construction of a swimming pool and aquatics center. Interest is based on a variable rate equal to LIBOR plus 1.50%. The lease expires March 2026, at which time the title to the swimming pool and aquatics center is transferred to the City.	1,656,070
20-year General Obligation Refunding Bonds, Series 2014B, for the advance refund of the previously issued Georgetown Refinancing 2009 Bonds issued for various City projects. Interest is based on fixed rates varying between 2.00-3.25%. The bonds final maturity is in June 2034 and are subject to redemption prior to maturity at various times, along with a call premium, as more fully described in the ordinance.	8,295,000
20-year General Obligation Bonds, Series 2014, for the financing of the new police department project. Interest is based on fixed rates varying between 2.00-3.75%. The bonds final maturity is in June 2034 and are subject to redemption prior to maturity at various times, along with a call premium, as more fully described in the ordinance.	4,585,000
Bond Premiums	<u>139,824</u>
Total governmental activity debt	<u>\$ 15,246,623</u>

**CITY OF GEORGETOWN, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
for the year ended June 30, 2016**

**5. LONG-TERM DEBT (CONTINUED)**

The changes in long-term debt during the fiscal year ended June 30, 2016, are as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Capital leases	\$ 2,402,329	\$ -	\$ 175,530	\$ 2,226,799	\$ 198,612
Bond payable	13,310,000	-	430,000	12,880,000	435,000
Compensated absences	<u>746,137</u>	<u>32,644</u>	<u>160,543</u>	<u>618,238</u>	<u>74,188</u>
<b>Total Governmental</b>	<u>\$ 16,458,466</u>	<u>\$ 32,644</u>	<u>\$ 766,073</u>	<u>\$ 15,725,037</u>	<u>\$ 707,800</u>

The annual debt service requirements to maturity, including principal, interest and fees for capital leases and bonds payable as of June 30, 2016, are as follows:

	Principal	Interest	Fees	Total
2017	\$ 633,612	\$ 283,831	\$ 8,833	\$ 926,276
2018	646,029	385,687	8,148	1,039,864
2019	658,874	372,624	7,450	1,038,948
2020	786,908	359,180	6,737	1,152,825
2021	795,535	343,405	5,986	1,144,926
2022 – 2026	4,180,841	1,459,678	16,727	5,657,246
2027 – 2031	4,735,000	908,874	-	5,643,874
2032 – 2036	<u>2,670,000</u>	<u>166,118</u>	<u>-</u>	<u>2,836,118</u>
	<u>\$ 15,106,799</u>	<u>\$ 4,279,397</u>	<u>\$ 53,881</u>	<u>\$ 19,440,077</u>

**Business-type Activities**

Business-type activities include GMWSS, Environmental Services, Landfill, and Cemetery Operating Funds. Revenue bonds are obligations of GMWSS. Compensated absences are obligations of several funds.

	Interest Rate	Final Maturity	Outstanding Principal
Revenue bonds:			
Water and Sewer, Series 2013A	2.00-4.250%	2033	\$ 4,230,000
Water and Sewer, Series 2013B	1.00-3.000%	2023	1,870,000
Water and Sewer, Series 2007A	4.00-4.375%	2027	4,487,916
Bond premium			<u>25,422</u>
Total revenue bonds			<u>10,613,338</u>
Other long-term obligations:			
Compensated absences – GMWSS			547,965
Compensated absences – Environmental Services			51,378
Compensated absences – Cemetery Operations			<u>16,827</u>
Total compensated absences			<u>616,170</u>
Total obligations			<u>11,229,508</u>
Less current portion of revenue bonds			796,833
Less current portion of compensated absences			<u>98,546</u>
Total long-term obligations			<u>\$ 10,334,129</u>

**CITY OF GEORGETOWN, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
for the year ended June 30, 2016**

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**5. LONG-TERM DEBT (CONTINUED)**

The changes in long-term debt during 2016 are as follows:

	Beginning Balance	Additions	Payments	Ending Balance	Due Within One Year
Revenue bonds	\$11,361,333	\$ -	\$ 773,417	\$ 10,587,916	\$ 796,833
Compensated absences	<u>592,019</u>	<u>46,327</u>	<u>22,176</u>	<u>616,170</u>	<u>98,546</u>
<b>Total Proprietary</b>	<b><u>\$11,953,352</u></b>	<b><u>\$ 46,327</u></b>	<b><u>\$ 795,593</u></b>	<b><u>\$ 11,204,086</u></b>	<b><u>\$ 895,379</u></b>

The annual debt service requirements to maturity, including principal and interest for bonds as of June 30, 2016, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 796,833	\$ 373,092	\$ 1,169,925
2018	816,250	351,906	1,168,156
2019	841,250	329,121	1,170,371
2020	866,250	304,641	1,170,891
2021	892,083	278,171	1,170,254
2022-2026	4,038,417	938,588	4,977,005
2027-2031	1,696,833	324,868	2,021,701
2032-2033	<u>640,000</u>	<u>41,013</u>	<u>681,013</u>
	<b><u>\$ 10,587,916</u></b>	<b><u>\$ 2,941,400</u></b>	<b><u>\$ 13,529,316</u></b>

**Description of Bonds**

2007A Kentucky Rural Water Finance Corporation Bonds

The Kentucky Rural Water Finance Corporation Water and Sewer Revenue Bonds, Series of 2007A are secured by a pledge of all system gross income and revenues. The bonds are subject to redemption prior to maturity at various times, along with a call premium, as more fully described in the ordinance.

2013A Revenue Bonds and 2013B Refunding Revenue Bonds

During 2014, the City of Georgetown sold \$4,775,000 of Water and Sewer Revenue Bonds, Series 2013A and \$2,675,000 of Water and Sewer Refunding Revenue Bonds, Series 2013B. The Bonds are secured by gross revenues of the System as more fully described in the ordinance.

The Series 2013A Bonds were issued for the purposes of: (a) acquiring, constructing and installing major new water and sanitary sewer (wastewater) service facilities constituting part of the System, including (i) the acquisition, expansion and improvement of the Mallard Point Wastewater Collection System; and (ii) the acquisition, construction and installation of new wastewater pumping facilities and wastewater lines; (b) paying and discharging the 2009 Note; (c) funding a debt service reserve; and (d) paying costs of issuance of the Series 2013A Bonds.

The Series 2013B Bonds were issued for the purposes of: (a) refunding, redeeming and discharging the City's Water and Sewer Revenue Bonds, Series 2003A; (b) funding a debt service reserve; and (c) paying costs of issuance of the Series 2013B Bonds. As a result of the current refunding the Water and Sewer Service reduced debt service by \$531,377 over the next 10 years. The present value of the cash flow savings and economic gain was \$456,925.

**CITY OF GEORGETOWN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**for the year ended June 30, 2016**

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**5. LONG-TERM DEBT (CONTINUED)**

**BUSINESS-TYPE ACTIVITIES (continued)**

The bond ordinances require that certain reserves be maintained as follows:

**Bond and Interest Reserve-** This reserve includes the sinking fund payments as required by the Revenue Bond ordinance, plus a Sinking Fund Reserve equal to the maximum annual debt service required on all revenue bonds outstanding of Water and Wastewater Treatment Plant No.1. The balance in the reserve was \$958,824 at June 30, 2016. This reserve was fully funded at June 30, 2016.

**Depreciation Reserve-** All excess cash flow generated each month over and above that required for three month's operating expenses and sinking fund requirements, or \$5,000 per month, whichever is greater, are to be deposited into this reserve for use in financing contingencies or for the retirement of revenue bonds. The reserve has been funded as required. The balance in the reserve was \$2,184,914 at June 30, 2016.

**6. CONDUIT DEBT**

Revenue Bonds and Industrial Revenue Bonds have been issued through the City to assist various private enterprises in construction of manufacturing plants and educational facilities. These bonds do not constitute an indebtedness or pledge of faith and credit by the City. The balance outstanding at June 30, 2016, for Revenue Bonds and for Industrial Bonds is not available.

**7. RETIREMENT PLAN**

The City of Georgetown and Georgetown Municipal Water and Sewer System are participating employers of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Retirement Systems website.

*Plan Description* – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of state legislature.

*Contributions* – For the year ended June 30, 2016, plan members were required to contribute 5% of wages for non-hazardous job classifications and 8% of wages for hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2016, participating employers contributed 17.06% of each employee's wages for non-hazardous job classifications and 32.95% of each employee's wages for hazardous job classifications. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

**CITY OF GEORGETOWN, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
for the year ended June 30, 2016**

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**7. RETIREMENT PLAN (CONTINUED)**

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5% of wages to their own account for non-hazardous job classifications and 8% of wages to their own account for hazardous classifications. Plan members also contribute 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. Each member's account is credited with a 4% employer pay credit for non-hazardous members, and a 7.5% pay credit for hazardous members. The employer pay credit represents a portion of the employer contribution.

For the year ended June 30, 2016, the City contributed \$997,690, or 100% of the required contribution for non-hazardous job classifications. The contribution was allocated \$726,337 to the CERS pension fund and \$271,353 to the CERS insurance fund. For the year ended June 30, 2016, the City contributed \$1,708,867, or 100% of the required contribution for hazardous job classifications. The contribution was allocated \$1,050,733 to the CERS pension fund and \$658,134 to the CERS insurance fund.

*Benefits* – CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers based on hire date:

Tier 1	Participation date Unreduced retirement Reduced retirement	Before September 1, 2008 27 years service or 65 years old At least 5 years service and 55 years old 25 years service and any age
Tier 2	Participation date Unreduced retirement Reduced retirement	September 1, 2008 - December 31, 2013 At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal 87 At least 10 years service and 60 years old
Tier 3	Participation date Unreduced retirement Reduced retirement	After December 31, 2013 At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal 87 Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

**CITY OF GEORGETOWN, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
for the year ended June 30, 2016**

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**7. RETIREMENT PLAN (CONTINUED)**

*Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources* – At June 30, 2016, the City reported a liability for its proportionate share of the net pension liability as follows:

<b>Total Net Pension Liability</b>	<b>Non-hazardous</b>	<b>Hazardous</b>
<u>\$ 25,627,654</u>	<u>\$ 10,431,397</u>	<u>\$ 15,196,257</u>

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. The City's proportionate share at June 30, 2015 was as follows:

<b>Non-hazardous</b>	<b>Hazardous</b>
.2415%	.9899%

The non-hazardous proportionate share at June 30, 2015, increased by .0015 percent from its non-hazardous proportionate share at June 30, 2014. The hazardous proportionate share at June 30, 2015, increased by .0339 percent from its hazardous proportionate share at June 30, 2014.

For the year ended June 30, 2016, the City recognized pension expense of \$2,657,000. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual results	\$ 420,188	\$ -
Changes of assumptions	2,365,097	-
Net difference between projected and actual earnings on Plan investments	185,495	-
Changes in proportion and differences between City contributions and proportionate share of contributions	372,668	35,975
City contributions subsequent to the measurement date	<u>1,777,070</u>	<u>-</u>
<b>Total</b>	<u><b>\$ 5,120,518</b></u>	<u><b>\$ 35,975</b></u>

The \$1,777,070 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

**Year ending June 30,**

2017	\$	888,610
2018	\$	888,610
2019	\$	661,982
2020	\$	868,271

**CITY OF GEORGETOWN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**for the year ended June 30, 2016**

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**7. RETIREMENT PLAN (CONTINUED)**

*Actuarial Assumptions* – The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

**Non-hazardous**

Inflation	3.25%
Salary increases	4.00%, average, including inflation
Investment rate of return	7.50%, net of Plan investment expense, including inflation

**Hazardous**

Inflation	3.25%
Salary increases	4.00%, average, including inflation
Investment rate of return	7.50%, net of Plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP- 2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. Several factors are considered in evaluating the long-term rate of return assumptions including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer time frame. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

**CITY OF GEORGETOWN, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
for the year ended June 30, 2016**

**7. RETIREMENT PLAN (CONTINUED)**

The target allocation and best estimates of nominal real rates of return for each major asset class are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-term Nominal Real Rate of Return</b>
Combined Equity	44%	5.4%
Combined Fixed Income	19%	1.5%
Real Return (Diversified Inflation Strategies)	10%	3.5%
Real Estate	5%	4.5%
Absolute Return (Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	8.5%
Cash Equivalent	2%	-.25%
Total	100%	

*Discount Rate* – The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 29 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate does not use a municipal bond rate.

*Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate* – The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	<b>Non-hazardous</b>		<b>Hazardous</b>	
	<b>Discount rate</b>	<b>City's proportionate share of net pension liability</b>	<b>Discount rate</b>	<b>City's proportionate share of net pension liability</b>
1% decrease	6.50%	\$ 13,253,405	6.50%	\$ 19,451,722
Current discount rate	7.50%	\$ 10,431,397	7.50%	\$ 15,196,257
1% increase	8.50%	\$ 7,922,158	8.50%	\$ 11,670,507

*Payable to the Pension Plan* – At June 30, 2016, the City reported a payable of \$377,159 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2016. The payable includes both the pension and insurance contribution allocation.

**CITY OF GEORGETOWN, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
for the year ended June 30, 2016**

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**8. INTERFUND RECEIVABLES/PAYABLES**

The City generally maintains one checking account for which all receipts are deposited and disbursement are made. This results in outstanding interfund receivable/payable accounts at year end for various funds. Interfund receivable and payable balances as of June 30, 2016, were as follows:

<b>Fund</b>	<b>Receivable</b>	<b>Payable</b>
General Fund	\$ 259,974	\$ -
Federal & State Grants	-	33,637
Alcohol	-	226,337
	<hr/>	<hr/>
Total	<u>\$ 259,974</u>	<u>\$ 259,974</u>

**9. TRANSFERS**

The following operating transfers were made during the year:

<b>Fund</b>	<b>Transfers In</b>	<b>Transfers Out</b>
General Fund	\$ -	\$ 462,378
Cemetery Perpetual Care	-	75,808
Capital Projects	190,679	-
Environmental Services	183,414	-
Business Park	59,177	-
Cemetery Operations	104,916	-
	<hr/>	<hr/>
Total	<u>\$ 538,186</u>	<u>\$ 538,186</u>

The transfers to/from the general fund were made for the following purposes:

- The transfer to the Cemetery Operations Fund was made to provide operating funds for the cemetery. In accordance with an interlocal agreement with Scott County Fiscal Court, the City and County are to split the cost of operating the cemetery 50/50 net of any income the cemetery may receive.
- In addition, the Perpetual Care Fund transfers investment earnings to the Operating Fund to cover maintenance costs. The Perpetual Care Fund also transferred funds to the Operating Fund to reverse treatment of prior year transfers for reserves from lot sales.
- The transfer to the Environmental Services Fund was to fund stormwater projects.
- The transfer to the Capital Projects Fund was to fund capital projects.
- The transfer to the Business Park Fund was made to provide funds to cover debt service.

**CITY OF GEORGETOWN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
for the year ended June 30, 2016

**10. FUND BALANCES**

As described in Note 1, fund financial statements report governmental fund equity as fund balance. Fund balance is classified as nonspendable or spendable, with balances reported as restricted, committed, assigned or unassigned. As of June 30, 2016, fund balances are composed of the following:

	<b>General Fund</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
Restricted:			
MAP fund	\$ -	\$ 1,032,886	\$ 1,032,886
LGEA fund	-	83,629	83,629
Drug forfeiture	-	346,216	346,216
Cemetery perpetual care	-	593,774	593,774
Gus Wolf reserve	5,589	-	5,589
Medical escrow	52,654	-	52,654
Bond account	1,515	-	1,515
Street light deposits	<u>315,196</u>	<u>-</u>	<u>315,196</u>
Total Restricted	<u>\$ 374,954</u>	<u>\$ 2,056,505</u>	<u>\$ 2,431,459</u>
Assigned:			
Business park	\$ -	\$ 65,745	\$ 65,745
Alcohol-related operations	-	427	427
Capital Projects	-	72,825	72,825
Aquatic center	60,500	-	60,500
2017 budget allocations	<u>1,500,000</u>	<u>-</u>	<u>1,500,000</u>
Total Assigned	<u>1,560,500</u>	<u>138,997</u>	<u>1,699,497</u>
Unassigned	<u>16,487,506</u>	<u>-</u>	<u>16,487,506</u>
Total fund balances	<u>\$ 18,422,960</u>	<u>\$ 2,195,502</u>	<u>\$ 20,618,962</u>

**11. RELATED ORGANIZATIONS**

The City of Georgetown provides financial support for a variety of local organizations. With the exception of Scott United and the Georgetown/Scott County Senior Center, the following agencies are subject to an interlocal agreement with Scott County for joint funding of these operations. Scott County manages the Ambulance, Disaster & Emergency Services, Electrical Inspection, Animal Shelter, and the E911 Billing. The City operates Building Permits, CMRS programs, Code Enforcement, Recycling and Cemetery. Each government bills the other for one-half of the net operating costs. Parks & Recreation and the Planning & Zoning agencies are managed by separate boards with operating costs shared by the City and County. The Revenue Commission is managed by a separate board with the City, County and Board of Education providing funding. The Georgetown/Scott County Airport's Board of Directors is jointly appointed by the City and Scott County.

**CITY OF GEORGETOWN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
for the year ended June 30, 2016

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**11. RELATED ORGANIZATIONS (CONTINUED)**

The City has contributed the following amounts to these organizations:

Georgetown/Scott County Parks & Recreation	\$ 945,788
Georgetown/Scott County Planning & Zoning	396,773
Georgetown/Scott County Ambulance	1,706,930
Georgetown/Scott County Disaster & Emergency Services	120,057
Georgetown/Scott County Senior Citizens	97,000
Georgetown/Scott County Electrical Inspection	107,047
Georgetown/Scott County Animal Shelter	194,015
Georgetown/Scott County E911 Billing	37,134
Georgetown/Scott County Revenue Commission	159,780
Georgetown/Scott County Airport	5,000
Scott United	33,750
Georgetown/Scott County Tourism	<u>24,000</u>
Total Contributions	<u>\$ 3,827,274</u>

**12. SIGNIFICANT COMMITMENTS AND CONTINGENCIES**

The following commitments to construct projects and purchase materials have been made by the City as of June 30, 2016:

Governmental activities:

General fund

Technology services	\$ 111,960
Software	5,600
Website	4,750
Public Works- dump truck	<u>34,782</u>
Total	<u>\$ 157,092</u>

Business Park Fund

Materials	\$ 88,452
Project/construction	<u>119,970</u>
	<u>\$ 208,422</u>

Municipal Aid Fund

Pavement materials	\$ 335,000
Pavement construction	<u>344,965</u>
	<u>\$ 679,965</u>

Business-type activities:

Environmental Services

Stormwater systems	\$ 108,716
Sanitation consulting	<u>45,100</u>
	<u>\$ 153,816</u>

Landfill

Landfill consulting	\$ 20,342
Sediment pond removal	<u>41,933</u>
	<u>\$ 62,275</u>

**CITY OF GEORGETOWN, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
for the year ended June 30, 2016**

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**12. SIGNIFICANT COMMITMENTS AND CONTINGENCIES (CONTINUED)**

The City is a defendant in other various legal actions arising from normal business operations. The City's legal counsel believes these actions are without merit, adequately covered by insurance, or that the ultimate liability, if any, will not materially affect the City's financial position.

The City entered into a \$3 million line of credit agreement with Kentucky Bank August 31, 2009, on behalf of the Water and Sewer Service for the purpose of financing wastewater improvements and additions. The line of credit was renewed during July 2014 at an interest rate of 2.75%. The note was subsequently renewed in September 2016 and is scheduled to mature on September 4, 2018. At June 30, 2016, there was a balance of \$381,968.

In May 2013, the City approved a tax incentive under the Kentucky Job Retention Act for Toyota Manufacturing (TMMK) to begin an expansion that will bring the production of a Lexus model vehicle to the Georgetown plant and is estimated to bring on 750 new full-time, part-time, and temporary employees. The City will contribute one half of one percent of the payroll tax withholding for all full-time, Kentucky-resident, TMMK employees, beginning in FY 2016. The total contribution of the City over ten years will total \$14,650,000. The City plans to fund this investment with prior year revenues from the Unassigned portion of the General Fund Balance, in addition to the continued increase of Occupational License Fee revenues as the economy continues to improve and grow. For the year ended June 30, 2016, contributions of the City totaled \$670,744.

**13. ECONOMIC DEPENDENCE**

Toyota Motor Manufacturing Company, USA and its subsidiaries provided \$9,522,027 (45.5%) of the City's license fees and permit revenue and \$80,398 (3.7%) of the City's property tax revenue. The total amount paid by these companies represents 36.1% of the General Fund revenues. In addition, they provided 12.1% of the operating revenue of GMWSS. Ten other customers accounted for 6.9% of the operating revenue of GMWSS.

**14. CONTRIBUTED ASSETS**

Contributed assets totaling \$652,173 have been reported in the accompanying statement of revenues, expenses, and changes in net position. These contributions include \$533,788 of cash contributions made by various state and local governments and developers. In addition, \$188,385 of capital contributions was received from a commercial customer. These funds were used to construct various water and sewer projects.

**15. CHARITABLE DONATION AGREEMENT**

In December of 2001, the City and Toyota Motor Manufacturing, Kentucky, Inc. ("TMMK") entered into a Charitable Donation Agreement (the "Agreement") whereby TMMK agreed to provide certain charitable contributions to the City for use in the acquisition of certain properties deemed by both parties as suitable for economic development, including open space, scenic and recreational properties as defined in the Agreement. Under the terms of the Agreement, TMMK would reimburse the City 50% of the purchase price of eligible property up to a maximum of \$4,000,000. The City did not receive any payments under this Agreement for the year ended June 30, 2016.

**16. RISK MANAGEMENT**

Significant losses are covered by commercial insurance. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

**CITY OF GEORGETOWN, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
for the year ended June 30, 2016**

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**17. CARDOME PROPERTY LEASE**

During 2009, the City entered into an agreement to lease "Cardome Center" to Cardome Academy Association for \$1. The term of the lease was for 25 years with the ability to renew up to an additional 49 years. On March 22, 2016, the City terminated the lease with Cardome Academy Association. On April 11, 2016, the City entered into an agreement to lease "Cardome Center" to the Roman Catholic Diocese of Lexington for \$6. The term of the lease was for 6 months. On September 28, 2016, the City amended the lease agreement to extend the original term by 3 months. On January 9, 2017, the City executed a second amended lease agreement to extend the term another 3 months. It is the intention of both parties that during the term of this lease, the parties will negotiate and finalize a capital lease under which the Roman Catholic Diocese of Lexington will ultimately acquire title to the "Cardome Center".

The Cardome Center assets are carried on the City's books, net of depreciation for \$2,299,134. Accumulated depreciation of \$2,163,824 has been charged through June 30, 2016.

**18. SUBSEQUENT EVENTS**

**Tax Incentive Agreement**

During November 2016, the City approved the granting of a credit of occupational license fees in an amount up to one half of one percent for up to ten years for any approved company pursuant to the Kentucky Business Investment (KBI) Program and in accordance with a tax incentive agreement between the Kentucky Economic Development Finance Authority and the company. The City approved the granting of inducements to International Crankshaft, Inc. of one half of one percent of occupational license fees that would otherwise be due, pending final approval from the Kentucky Economic Development Finance Authority, for up to ten years from the date of activation.

**Conduit Debt Obligation**

On December 12, 2016, the City approved the issuance of a maximum aggregate face amount of \$10,000,000 of Industrial Revenue Bonds to provide financial assistance to a private-sector entity for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. The City is not obligated in any manner for repayment of the bonds.

**Interlocal Agreement**

On November 14, 2016, the City entered into an interlocal agreement with Scott County for sharing space and facility costs at 125 W. Clinton Street for the purpose of housing the Georgetown/Scott County Building Inspection Department, the Georgetown Code Enforcement Division, and the Georgetown/Scott County Electrical Inspection Department. The City owns the property and will be not charge Scott County rent for the duration of this agreement. The duration of this agreement is for a period of 10 years. This arrangement will satisfy the City's insurance debt to Scott County which derived from the County erroneously paying insurance premiums for City-owned properties administered by the Parks and Recreation department in the amount of \$150,000.

## **SUPPLEMENTARY INFORMATION**

**CITY OF GEORGETOWN, KENTUCKY**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISONS**  
**GENERAL FUND**  
**for the year ended June 30, 2016**

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>				
Taxes	\$ 1,997,600	\$ 1,997,600	\$ 2,187,240	\$ 189,640
Licenses, and permits	15,108,350	16,907,036	20,778,549	3,871,513
Charges for service	153,242	153,242	207,263	54,021
Fines	118,000	825,474	851,488	26,014
Intergovernmental	2,345,652	2,480,652	2,442,843	(37,809)
Investment income	3,000	3,000	9,455	6,455
Other revenue	<u>1,000</u>	<u>70,923</u>	<u>134,813</u>	<u>63,890</u>
 Total revenues	 <u>19,726,844</u>	 <u>22,437,927</u>	 <u>26,611,651</u>	 <u>4,173,724</u>
 <b>Expenditures</b>				
Current				
Administration	1,273,381	1,326,674	1,268,998	57,676
City Council	150,923	151,098	147,988	3,110
City Clerk	195,644	195,561	187,791	7,770
Police	4,353,516	4,394,722	4,273,345	121,377
Fire	4,838,315	4,826,836	4,927,271	(100,435)
Telecommunications	1,336,780	1,338,118	1,323,539	14,579
Code enforcement	73,164	72,477	71,658	819
Building inspection	379,610	406,833	375,978	30,855
Community development	4,515,343	4,494,844	4,222,321	272,523
Public works	1,318,775	1,343,096	1,210,837	132,259
Utilities	477,400	552,400	593,666	(41,266)
Capital outlay	1,024,808	1,374,811	1,536,832	(162,021)
Debt service	<u>961,285</u>	<u>961,286</u>	<u>948,880</u>	<u>12,406</u>
 Total expenditures	 <u>20,898,944</u>	 <u>21,438,756</u>	 <u>21,089,104</u>	 <u>349,652</u>
 Excess of Revenues over (under) Expenditures	 <u>(1,172,100)</u>	 <u>999,171</u>	 <u>5,522,547</u>	 <u>4,523,376</u>
 Other Financing Sources (Uses)				
Property sales	20,000	20,000	28,565	(8,565)
Transfers	<u>(432,014)</u>	<u>(677,076)</u>	<u>(462,378)</u>	<u>(214,698)</u>
	<u>(412,014)</u>	<u>(657,076)</u>	<u>(433,813)</u>	<u>(223,263)</u>
 Net change in fund balance	 (1,584,114)	 342,095	 5,088,734	 4,746,639
 Fund balance, beginning of year	 <u>13,334,226</u>	 <u>13,334,226</u>	 <u>13,334,226</u>	 <u>-</u>
 Fund balance, end of year	 <u>\$ 11,750,112</u>	 <u>\$ 13,676,321</u>	 <u>\$ 18,422,960</u>	 <u>\$ 4,746,639</u>

**CITY OF GEORGETOWN, KENTUCKY  
REQUIRED SUPPLEMENTAL SCHEDULE OF  
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - NONHAZARDOUS  
Last Three Fiscal Years**

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	<b>2016</b>	<b>2015</b>	<b>2014</b>
City's proportion of the net pension liability	0.2415%	0.2400%	0.2400%
City's proportionate share of the net pension liability (asset)	\$ 10,431,397	\$ 7,842,734	\$ 8,856,545
City's covered employee payroll	\$ 5,848,126	\$ 5,653,973	\$ 5,550,910
City's share of the net pension liability (asset) as a percentage of its covered employee payroll	178.37%	138.71%	159.55%
Plan fiduciary net position as a percentage of the total pension liability	59.97%	66.80%	61.22%

**Notes:**

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2015 valuation:

The assumed investment rate of return was decreased from 7.75% to 7.5%.

The assumed rate of inflation was reduced from 3.5% to 3.25%.

The assumed rate of wage inflation was reduced from 1% to .75%.

Payroll growth assumption was reduced from 4.5% to 4%.

Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).

For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females).

For disabled members, the RP- 2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

**CITY OF GEORGETOWN, KENTUCKY  
REQUIRED SUPPLEMENTAL SCHEDULE OF  
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - HAZARDOUS  
Last Three Fiscal Years**

---

	<b>2016</b>	<b>2015</b>	<b>2014</b>
City's proportion of the net pension liability	0.9899%	0.9560%	0.9560%
City's proportionate share of the net pension liability (asset)	\$ 15,196,257	\$ 11,536,603	\$ 12,835,445
City's covered employee payroll	\$ 5,186,243	\$ 5,063,536	\$ 4,857,829
City's share of the net pension liability (asset) as a percentage of its covered employee payroll	293.01%	227.84%	264.22%
Plan fiduciary net position as a percentage of the total pension liability	57.52%	63.46%	57.74%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2015 valuation:

The assumed investment rate of return was decreased from 7.75% to 7.5%.

The assumed rate of inflation was reduced from 3.5% to 3.25%.

The assumed rate of wage inflation was reduced from 1% to .75%.

Payroll growth assumption was reduced from 4.5% to 4%.

Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).

For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females).

For disabled members, the RP- 2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

**CITY OF GEORGETOWN, KENTUCKY**  
**REQUIRED SUPPLEMENTAL**  
**SCHEDULE OF CONTRIBUTIONS - NONHAZARDOUS**  
**Last Four Fiscal Years**

	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Contractually required employer contribution	\$ 726,337	\$ 726,520	\$ 764,808	\$ 660,173
Contributions relative to contractually required employer contribution	<u>\$ 726,337</u>	<u>\$ 726,520</u>	<u>\$ 764,808</u>	<u>\$ 660,173</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	\$ 5,848,126	\$ 5,653,973	\$ 5,550,910	\$ 5,226,162
Employer contributions as a percentage of covered-employee payroll	12.42%	12.85%	13.78%	12.63%

**Notes:**

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2015 valuation:

The assumed investment rate of return was decreased from 7.75% to 7.5%.

The assumed rate of inflation was reduced from 3.5% to 3.25%.

The assumed rate of wage inflation was reduced from 1% to .75%.

Payroll growth assumption was reduced from 4.5% to 4%.

Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).

For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females).

For disabled members, the RP- 2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The above contributions only include those contributions allocated directly to the CERS pension fund.

**CITY OF GEORGETOWN, KENTUCKY  
REQUIRED SUPPLEMENTAL  
SCHEDULE OF CONTRIBUTIONS - HAZARDOUS  
Last Four Fiscal Years**

	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Contractually required employer contribution	\$ 1,050,733	\$ 1,049,670	\$ 1,057,841	\$ 945,898
Contributions relative to contractually required employer contribution	<u>\$ 1,050,733</u>	<u>\$ 1,049,670</u>	<u>\$ 1,057,841</u>	<u>\$ 945,898</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	\$ 5,186,243	\$ 5,063,536	\$ 4,857,829	\$ 4,697,824
Employer contributions as a percentage of covered-employee payroll	20.26%	20.73%	21.78%	20.13%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2015 valuation:

The assumed investment rate of return was decreased from 7.75% to 7.5%.

The assumed rate of inflation was reduced from 3.5% to 3.25%.

The assumed rate of wage inflation was reduced from 1% to .75%.

Payroll growth assumption was reduced from 4.5% to 4%.

Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).

For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females).

For disabled members, the RP- 2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The above contributions only include those contributions allocated directly to the CERS pension fund.

**CITY OF GEORGETOWN, KENTUCKY**  
**NOTES TO REQUIRED SUPPLEMENTAL INFORMATION**  
**for the year ended June 30, 2016**

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Budgetary accounting and control

Budget Law

The city annually prepares a budget under the provisions of Kentucky Revised Statute (KRS) 91A.030. In accordance with the Statute, the following process is used to adopt the annual budget:

- A. The budget proposal is the responsibility of the Mayor and the City and shall be submitted to the legislative body not later than thirty days prior to the beginning of the fiscal year it covers.
- B. The legislative body shall adopt a budget ordinance making appropriations for the fiscal year in such sums as the legislative body finds sufficient and proper, whether greater or less than the sums recommended in the budget proposal. The budget ordinance may be in any form that the legislative body finds most efficient in enabling it to make the necessary fiscal policy decisions.
- C. No budget ordinance shall be adopted that provides for appropriations to exceed available resources in any one fiscal year, which would also violate section 157 of the Kentucky Constitution.
- D. The City legislative body may amend the budget ordinance after the ordinances' adoption if the amended ordinance continues to satisfy the requirements of KRS 91A.030.
- E. Immediately following the adoption of an annual budget, the clerk shall cause a summary of the budget or the text of the budget ordinance to be advertised by publication in a newspaper.

Budgetary Accounting

The annual operation budgets of governmental and proprietary funds are prepared and presented on the modified accrual basis of accounting. The city does not use an encumbrance accounting system; thus, the budgetary and GAAP presentation of the General Fund Statement of Revenues, Expenditures and Changes in Fund Balance, Budgetary and Actual are the same.

**CITY OF GEORGETOWN, KENTUCKY  
COMBINING BALANCE SHEET  
NON-MAJOR GOVERNMENTAL FUNDS  
June 30, 2016**

	Municipal Aid Fund	Business Park Fund	Local Government Economic Assistance Fund	Drug Forfeiture Fund	Cemetery Perpetual Care Fund	State & Federal Grants Fund	Alcohol Fund	Capital Projects Fund	Total
<b>ASSETS</b>									
Cash and cash equivalents	\$ 1,181,911	\$ 78,935	\$ 83,629	\$ 346,216	\$ 270,099	\$ -	\$ -	\$ 78,525	\$ 2,039,315
Restricted cash and cash equivalents	-	-	-	-	21,363	-	-	-	21,363
Investments	-	-	-	-	302,312	-	-	-	302,312
Accounts receivable:									
Intergovernmental	66,316	-	-	-	-	61,462	-	-	127,778
Other	-	-	-	-	-	-	233,072	324	233,396
Prepaid expenses	-	-	-	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-	-	-	-
<b>Total Assets</b>	<b>\$ 1,248,227</b>	<b>\$ 78,935</b>	<b>\$ 83,629</b>	<b>\$ 346,216</b>	<b>\$ 593,774</b>	<b>\$ 61,462</b>	<b>\$ 233,072</b>	<b>\$ 78,849</b>	<b>\$ 2,724,164</b>
<b>LIABILITIES</b>									
Accounts payable	\$ 215,341	\$ 11,210	\$ -	\$ -	\$ -	\$ -	\$ 6,308	\$ 6,024	\$ 238,883
Deferred revenue	-	-	-	-	-	27,825	-	-	27,825
Deposits	-	1,980	-	-	-	-	-	-	1,980
Due to other funds	-	-	-	-	-	33,637	226,337	-	259,974
<b>Total Liabilities</b>	<b>215,341</b>	<b>13,190</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>61,462</b>	<b>232,645</b>	<b>6,024</b>	<b>528,662</b>
<b>FUND BALANCE</b>									
Fund Balance									
Restricted	1,032,886	-	83,629	346,216	593,774	-	-	-	2,056,505
Assigned	-	65,745	-	-	-	-	427	72,825	138,997
<b>Total Fund Balance</b>	<b>1,032,886</b>	<b>65,745</b>	<b>83,629</b>	<b>346,216</b>	<b>593,774</b>	<b>-</b>	<b>427</b>	<b>72,825</b>	<b>2,195,502</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 1,248,227</b>	<b>\$ 78,935</b>	<b>\$ 83,629</b>	<b>\$ 346,216</b>	<b>\$ 593,774</b>	<b>\$ 61,462</b>	<b>\$ 233,072</b>	<b>\$ 78,849</b>	<b>\$ 2,724,164</b>

**CITY OF GEORGETOWN, KENTUCKY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**for the year ended June 30, 2016**

	Municipal Aid Fund	Business Park Fund	Local Government Economic Assistance Fund	Drug Forfeiture Fund	Cemetery Perpetual Care Fund	State & Federal Grants Fund	Alcohol Fund	Capital Projects Fund	Total
<b>REVENUES</b>									
Intergovernmental	\$ 560,573	\$ -	\$ 19,290	\$ 79,531	\$ -	\$ 349,765	\$ -	\$ 243,398	\$ 1,252,557
Licenses, permits	-	-	-	-	-	-	883,130	-	883,130
Other income	-	-	-	-	-	-	-	-	-
Interest income	662	-	47	171	13,765	-	-	303	14,948
<b>Total Revenues</b>	<u>561,235</u>	<u>-</u>	<u>19,337</u>	<u>79,702</u>	<u>13,765</u>	<u>349,765</u>	<u>883,130</u>	<u>243,701</u>	<u>2,150,635</u>
<b>EXPENDITURES</b>									
Current									
Administration	-	-	-	-	4,145	-	32,039	-	36,184
Police	-	-	-	33,581	-	45,990	847,731	71,198	998,500
Fire	-	-	-	-	-	7,055	-	-	7,055
Community development	-	181,547	-	-	-	6,850	-	-	188,397
Public works	683,641	-	-	-	-	14,022	-	-	697,663
Capital outlay	40,075	199,741	-	79,775	-	275,848	3,085	1,491,024	2,089,548
Debt Service	-	59,176	-	-	-	-	-	-	59,176
<b>Total Expenditures</b>	<u>723,716</u>	<u>440,464</u>	<u>-</u>	<u>113,356</u>	<u>4,145</u>	<u>349,765</u>	<u>882,855</u>	<u>1,562,222</u>	<u>4,076,523</u>
Excess of Revenues Over (Under) Expenditures	<u>(162,481)</u>	<u>(440,464)</u>	<u>19,337</u>	<u>(33,654)</u>	<u>9,620</u>	<u>-</u>	<u>275</u>	<u>(1,318,521)</u>	<u>(1,925,888)</u>
Other Financing Sources (Uses)									
Proceeds from sale of assets	-	443,775	-	-	-	-	-	-	443,775
Bond proceeds and premium	-	-	-	-	-	-	-	-	-
Cost of bond issuance	-	-	-	-	-	-	-	-	-
Transfers in (out)	-	59,177	-	102,983	(75,808)	-	-	87,696	174,048
	<u>-</u>	<u>502,952</u>	<u>-</u>	<u>102,983</u>	<u>(75,808)</u>	<u>-</u>	<u>-</u>	<u>87,696</u>	<u>617,823</u>
Net change in fund balances	(162,481)	62,488	19,337	69,329	(66,188)	-	275	(1,230,825)	(1,308,065)
Fund Balance, beginning of year	<u>1,195,367</u>	<u>3,257</u>	<u>64,292</u>	<u>276,887</u>	<u>659,962</u>	<u>-</u>	<u>152</u>	<u>1,303,650</u>	<u>3,503,567</u>
<b>Fund Balance, end of year</b>	<u>\$ 1,032,886</u>	<u>\$ 65,745</u>	<u>\$ 83,629</u>	<u>\$ 346,216</u>	<u>\$ 593,774</u>	<u>\$ -</u>	<u>\$ 427</u>	<u>\$ 72,825</u>	<u>\$ 2,195,502</u>



**INDEPENDENT AUDITORS' 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**

To the City Council  
and Honorable Tom Prather, Mayor  
City of Georgetown, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Georgetown, Kentucky, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Georgetown, Kentucky's basic financial statements, and have issued our report thereon dated February 17, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Georgetown, Kentucky's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Georgetown, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Georgetown, Kentucky's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Georgetown, Kentucky's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

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

**RFH**

RFH, PLLC  
Lexington, Kentucky  
February 17, 2017