CITY OF GEORGETOWN
Georgetown, Kentucky

FINANCIAL STATEMENTS
AND
SUPPLEMENTAL INFORMATION
June 30, 2012

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EVERETTE VARNEY, MAYOR

City of Georgetown
Management's Discussion and Analysis
For the Year Ended June 30, 2012

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, 2012. 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) 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 40 of this report. Some of the significant financial issues include:

- The City of Georgetown saw revenues begin to increase with occupational license fees increasing over $1.5 million.
- Operating costs increased over $1.1 million as departments were able to begin returning to normal operations. This also included a $500,000 CDBG grant for the Salvation Army. Employee raises were deferred another year.
- Capital acquisitions were returned to the budget with $306,687 in governmental capital outlay.
- The net investment in capital assets increased $2.1 million due to developer contributions for infrastructure.
- General Fund balance increased $244,519. The budget for FY 2013 estimates that expenses will exceed revenues by $600,000 and result in a decline in fund balance next year.

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, and community and economic development activities. These activities are financed by taxes, license fees and permits, fines and reimbursements, and state and federal grants.

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- **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 Assets reflect 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, but an increase in the net assets shows the financial position of the City has improved.

The following table outlines a condensed version of the Statement of Net Assets for June 30, 2012 and 2011.

City of Georgetown
Net Assets
June 30, 2012 & 2011

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Current assets	$ 8,729,847	$ 7,927,913	$ 248,612	$ (88,347)	$ 8,978,459	$ 7,839,566
Capital assets	79,706,863	77,539,316	89,866,234	91,061,453	169,573,097	168,600,769
Other assets	815,019	920,048	6,855,865	5,698,410	7,670,884	6,618,458
Total assets	89,251,729	86,387,277	96,970,711	96,671,516	186,222,440	183,058,793
Long-term debt oustanding	12,234,347	12,623,342	14,677,582	15,102,647	26,911,929	27,725,989
Other liabilities	2,851,223	2,460,670	2,478,471	2,603,751	5,329,694	5,064,421
Total liabilities	15,085,570	15,084,012	17,156,053	17,706,398	32,241,623	32,790,410
Net assets:						
Invested in capital assets, net of debt	67,537,634	64,940,436	(10,850,507)	79,653,964	56,687,127	144,594,400
Restricted	1,482,696	1,191,004	3,581,494	2,344,861	5,064,190	3,535,865
Unrestricted	5,145,829	5,171,825	87,083,671	(3,033,707)	92,229,500	2,138,118
Total net assets	$ 74,166,159	$ 71,303,265	$ 79,814,658	$ 78,965,118	$ 153,980,817	$ 150,268,383

Governmental current assets increased $801,934 with a decline in the internal balances between the governmental and proprietary funds. Long-term governmental liabilities decreased $388,995 with principal payments on outstanding bond issues. Current liabilities increased $390,553 with higher accrued payroll and higher accounts payable. Restricted resources in the governmental funds include MAP, LGEA, Cemetery Perpetual Care, and Drug Forfeiture resources.

Asset balances in the business-type activities increased $299,195 as cash increased and internal balances owed to the governmental funds decreased. Debt decreased with continued retirement of water and sewer bonds and notes, and decreased contracts payable.

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 assets for the 2012 and 2011 fiscal years.

City of Georgetown
Operating Results for the Years Ended June 30, 2012 & 2011

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for service	336,870	324,160	12,049,317	11,038,683	12,386,187	11,362,843
Grant funding	2,937,883	2,636,533	129,879	114,278	3,067,762	2,750,811
General revenues:						
Property taxes	1,824,480	1,570,399	-	-	1,824,480	1,570,399
License fees and permits	788,874	771,209	-	-	788,874	771,209
Occupational license fees	10,883,905	9,349,842	-	-	10,883,905	9,349,842
Insurance premium tax	1,933,694	2,464,255	-	-	1,933,694	2,464,255
Telecommunications excise tax	100,961	102,284	-	-	100,961	102,284
Interest and investment earnings	22,553	34,684	221,948	151,276	244,501	185,960
Fines and reimbursements	98,201	-	-	-	98,201	-
Other local revenues	133,487	6,075	-	300,477	133,487	306,552
Total revenues	19,060,908	17,259,441	12,401,144	11,604,714	31,462,052	28,864,155
Program Expenses:						
General government	1,877,649	1,999,619	-	-	1,877,649	1,999,619
Public protection						
Police	4,617,632	4,228,158	-	-	4,617,632	4,228,158
Fire	4,756,247	4,522,912	-	-	4,756,247	4,522,912
Telecommunications	1,059,283	1,087,882	-	-	1,059,283	1,087,882
Building inspection	405,426	383,903	-	-	405,426	383,903
Community Development	4,122,473	3,887,091	-	-	4,122,473	3,887,091
Public works						
Road maintenance	4,275,118	3,900,860	-	-	4,275,118	3,900,860
Water & sewer treatment	-	-	10,473,553	10,500,989	10,473,553	10,500,989
Garbage collection	-	-	1,318,491	1,525,642	1,318,491	1,525,642
Recycling services	-	-	203,282	208,208	203,282	208,208
Stormwater management	-	-	109,912	-	109,912	-
Landfill postclosure care	-	-	104,432	-	104,432	-
Cemetery:					-	
Operations	-	-	240,163	223,844	240,163	223,844
Perpetual care	-	1,823	-	-	-	1,823
Interest on long-term debt	281,513	251,218	-	-	281,513	251,218
Total expenses	21,395,341	20,263,466	12,449,833	12,458,683	33,845,174	32,722,149
Excess (deficiency) before transfers and special items	(2,334,433)	(3,004,025)	(48,689)	(853,969)	(2,383,122)	(3,857,994)
Gain(Loss) on disposal of property	19,977	-	-	-	19,977	-
Capital contributions	5,291,434	300,235	784,144	2,069,321	6,075,578	2,369,556
Transfers	(114,084)	(599,840)	114,084	599,840	-	-
Prior period adjustment	-	507,761	-	(4,568,773)	-	(4,061,012)
Net increase (decrease) in net assets	2,862,894	(2,795,869)	849,539	(2,753,581)	3,712,433	(5,549,450)

The City saw a significant increase in revenues in FY 2012, primarily from a $1,534,063 increase in Occupational License Fees, which include payroll taxes and net profits revenues. The City also saw an increase in payroll tax revenue due to increased collections. Business-type activities saw an increase of $796,430 in revenues over FY 2011.

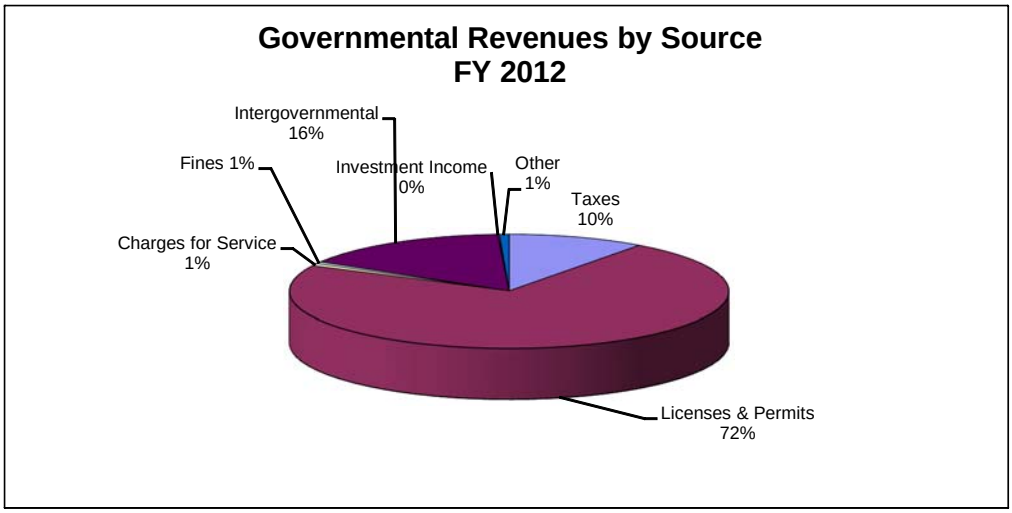
On the other side of the City's ledger, operating costs increased with higher pension and salary and benefit costs. Transfers from the business-type activities were temporarily discontinued since

those funds were incurring deficits to finance governmental operations. The operating costs for business-type activities remained consistent with FY 2011 expenses.

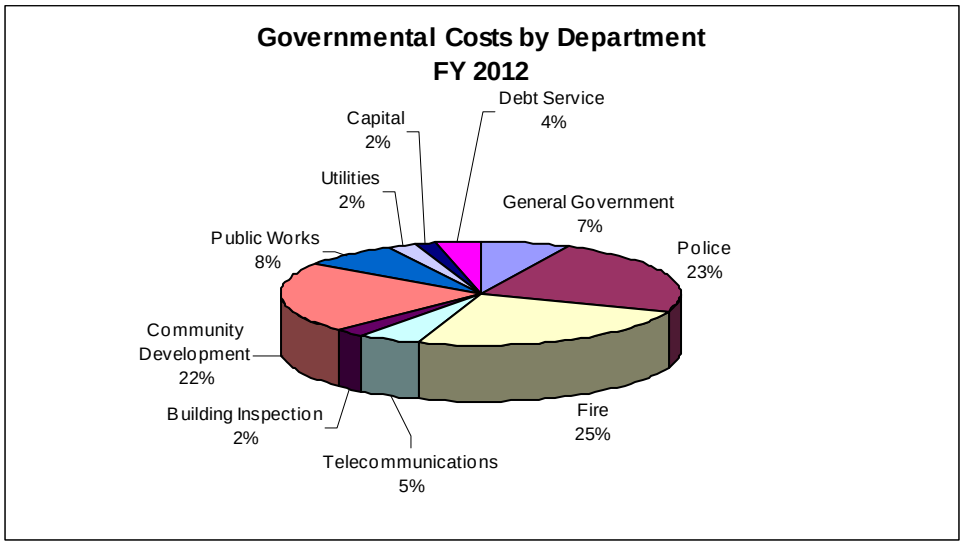
Fund Financial Statements

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 three categories that the City's fund financial statements are divided into are the Governmental Funds, Proprietary Funds, and Fiduciary Funds.

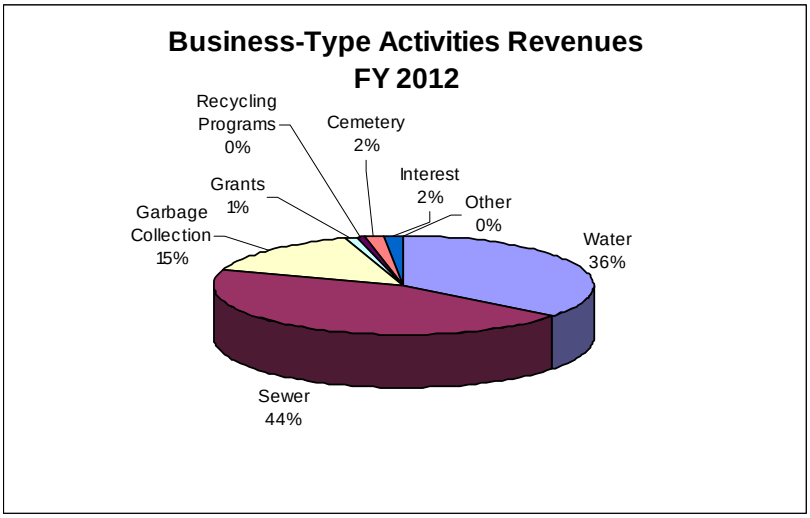
- **Governmental Funds**. The City's governmental funds include the General Fund and several special revenue funds, including the Municipal Aid, Local Government Economic Assistance, grants, and the Cemetery perpetual trust fund. The primary source of revenue in the General Fund includes the occupational license fee (71%) on businesses and their employees. Taxes provide another 10% and intergovernmental revenues are 16% of the total governmental resources. Details about individual funds are reported on pages 11 - 13 and 37 - 38 of this report.



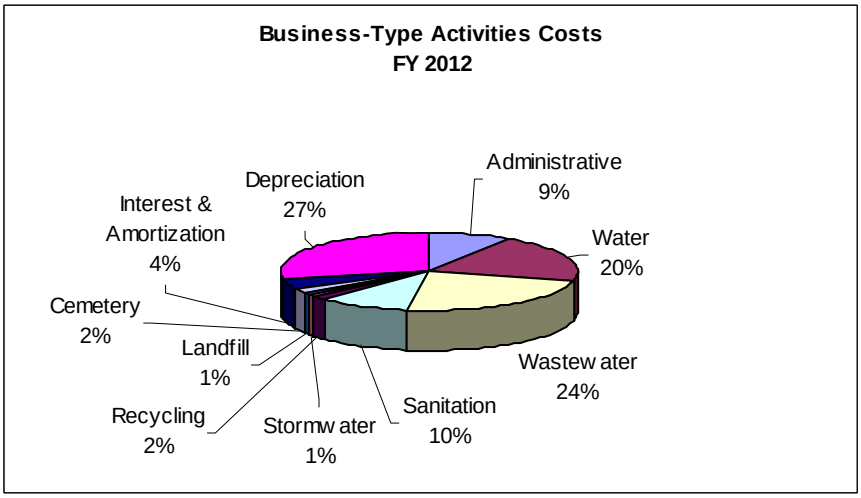
Governmental expenditures include basic services such as police, fire, road maintenance, building inspection, parks and recreation, planning and zoning, and ambulance services. The following chart highlights the allocation among major categories. Community Development includes parks, planning and zoning, plus centers for youth, education, and senior citizens. More details about the individual departments are reported on pages 13 and 38 of this report.



- **Proprietary Funds**. The City's proprietary funds include the water, sewer, sanitation, and solid waste operations. These funds are financed with user fees based on consumption and the costs of providing these services without subsidies to or from the governmental funds. In FY 2012, $109,912 was transferred from the General Fund to the Environmental Services Fund and $25,803 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 is presented on page 35 of this report. Total revenues for the year were $1,377,305 more than budgeted, and expenditures were $641,910 less than budgeted to provide a net positive budget variance of $2,019,215 for the year. All revenues exceeded budget expectations except Fines, Intergovernmental Revenues, and Investment Income. Expenditures were less across almost all departments as the City continued to defer costs and limit services to maintain a balanced budget.

Budget estimates for FY 2013 project current operating expenses for the General Fund to exceed operating revenues by approximately $683,926, which will result in a decrease in Fund Balance for the General Fund as of June 30, 2012, if the estimates hold true. The budget cycle for FY14 is currently in the proposed stages and anticipates an increase in revenue with revenues and expenses almost completely balanced..

CAPITAL ASSET AND DEBT ADMINISTRATION

Infrastructure contributions from developers resulted in $5,247,334 of new additions. Depreciation expense for governmental assets totaled $3.4 million while asset purchases only totaled $306,687. Debt service for the City's governmental funds is only 4% of the total annual appropriations. There are, however, several critical capital projects that will likely require long-term financing in the near term.

The Georgetown Municipal Water and Sewer Service funds maintain a debt to equity ratio of 12.2%, with outstanding debt of $11.2 million and net capital assets of $144 million.

Additional information about capital assets and liabilities is outlined on page 24 through 28 of this report.

OTHER SIGNIFICANT ISSUES AFFECTING FINANCIAL POSITION

Results for FY 2012 were positive as the economy began to recover and the FY 2013 budget planning process continues the trend of economic recovery, planning for another raise for employees, and beginning to address some of the long-term capital needs of the City.

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 is continuing negotiations to complete the sale of the landfill by transferring ownership and liability, and maintain reasonable costs for tipping fees and solid waste collections. 2011 was the tenth anniversary of the sale and required a review of the final purchase payments and hosting fees. The City adopted an amendment to this agreement in November 2012 that will provide retirement of the outstanding note receivable within five years.

REQUEST FOR INFORMATION

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

rfh Ray, Foley, Hensley & Company, PLLC

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INDEPENDENT AUDITORS' REPORT

Honorable Everette Varney, Mayor
and the City Council
City of Georgetown, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Georgetown, Kentucky, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Georgetown, Kentucky's management. Our responsibility is to express an opinion 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with ***Government Auditing Standards***, we have also issued our report dated May 27, 2013, 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*** and should be considered in assessing the results of our audit.

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 1 through 6 and 35 through 36 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.

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

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
May 27, 2013

CITY OF GEORGETOWN, KENTUCKY
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets			
Cash and cash equivalents	$ 3,834,995	$ 485,556	$ 4,320,551
Investments	1,120,172	-	1,120,172
Accounts receivable			
Taxes & licenses	1,819,401	-	1,819,401
Customer, net	156,240	1,168,941	1,325,181
Intergovernmental	318,516	43,686	362,202
Accrued interest	5,280	-	5,280
Prepaid expenses	-	25,672	25,672
Internal balances	1,475,243	(1,475,243)	-
Total current assets	8,729,847	248,612	8,978,459
Noncurrent assets			
Restricted cash and cash equivalents	377,201	2,024,456	2,401,657
Restricted investments	285,214	1,554,793	1,840,007
Accrued interest on note receivable	-	42,340	42,340
Note receivable	-	3,019,676	3,019,676
Deferred cost of issuing debt	152,604	-	152,604
Other assets	-	214,600	214,600
Net capital assets	79,706,863	89,505,969	169,212,832
Construction in progress	-	360,265	360,265
Total noncurrent assets	80,521,882	96,722,099	177,243,981
Total assets	$ 89,251,729	$ 96,970,711	$ 186,222,440
LIABILITIES			
Current liabilities			
Accounts payable	$ 687,447	$ 128,194	$ 815,641
Contracts payable	-	52,009	52,009
Accrued payroll liabilities	1,063,613	652,137	1,715,750
Other accrued liabilities	-	-	-
Accrued interest payable	21,405	63,005	84,410
Customer deposits	481,534	209,365	690,899
Deferred revenue	79,853	-	79,853
Accrued compensated absences, current	69,898	44,578	114,476
Current portion of long-term debt	447,473	1,329,183	1,776,656
Total current liabilities	2,851,223	2,478,471	5,329,694
Noncurrent liabilities			
Compensated absences	512,591	408,093	920,684
Accrued landfill closure and postclosure care	-	4,387,900	4,387,900
Bonds and notes payable	-	9,881,589	9,881,589
Capital lease obligations	11,721,756	-	11,721,756
Total liabilities	15,085,570	17,156,053	32,241,623
NET ASSETS			
Invested in capital assets, net of related debt	67,537,634	(10,850,507)	56,687,127
Restricted	1,482,696	3,581,494	5,064,190
Unrestricted	5,145,829	87,083,671	92,229,500
Total net assets	74,166,159	79,814,658	153,980,817
Total liabilities and net assets	$ 89,251,729	$ 96,970,711	$ 186,222,440

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

CITY OF GEORGETOWN, KENTUCKY
STATEMENT OF ACTIVITIES
for the year ended June 30, 2012

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets – Primary Government: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets – Primary Government: Business-type Activities	Net (Expense) Revenue and Changes in Net Assets – Primary Government: Total
Primary government							
Governmental activities							
General government	$ 1,877,649	$ 44,400	$ -	$ -	$ (1,833,249)	$ -	$ (1,833,249)
Public safety							
Police	4,617,632	77,569	242,908	-	(4,297,155)	-	(4,297,155)
Fire	4,756,247	-	213,951	44,100	(4,498,196)	-	(4,498,196)
Telecommunications	1,059,283	-	686,113	-	(373,170)	-	(373,170)
Building inspection	405,426	207,609	198,829	-	1,012	-	1,012
Public works	4,275,118	7,292	435,990	5,247,334	1,415,498	-	1,415,498
Community development	4,122,473	-	1,160,092	-	(2,962,381)	-	(2,962,381)
Interest on long-term debt	281,513	-	-	-	(281,513)	-	(281,513)
Total governmental activities	21,395,341	336,870	2,937,883	5,291,434	(12,829,154)	-	(12,829,154)
Business type activities							
Georgetown Municipal Water & Sewer:							
Administration	1,168,680	-	-	-	-	(1,168,680)	(1,168,680)
Water distribution	3,925,119	4,441,103	10,000	702,444	-	1,228,428	1,228,428
Sewer collection and treatment	5,379,754	5,494,940	-	81,700	-	196,886	196,886
Environmental service:							
Sanitation	1,318,491	1,849,708	-	-	-	531,217	531,217
Recycling	203,282	60,438	94,076	-	-	(48,768)	(48,768)
Stormwater management	109,912	-	-	-	-	(109,912)	(109,912)
Cemetery operations	240,163	203,128	25,803	-	-	(11,232)	(11,232)
Solid waste management	104,432	-	-	-	-	(104,432)	(104,432)
Total business-type activities	12,449,833	12,049,317	129,879	784,144	-	513,507	513,507
Total primary government	$ 33,845,174	$ 12,386,187	$ 3,067,762	$ 6,075,578	(12,829,154)	513,507	(12,315,647)
		General revenue					
		Property and other local taxes			1,824,480	-	1,824,480
		Occupational licenses			10,883,905	-	10,883,905
		Insurance premium			1,933,694	-	1,933,694
		Licenses, fees, and permits			788,874	-	788,874
		Fines and reimbursements			98,201	-	98,201
		Telecommunications excise tax			100,961	-	100,961
		Interest income			22,553	221,948	244,501
		Miscellaneous			133,487	-	133,487
		Total general revenues			15,786,155	221,948	16,008,103
		Gain on sale of property			19,977	-	19,977
		Transfers			(114,084)	114,084	-
		Total general revenues and transfers			15,692,048	336,032	16,028,080
		Change in Net Assets			2,862,894	849,539	3,712,433
		Net assets-beginning			71,303,265	78,965,119	150,268,384
		NET ASSETS-ENDING			$ 74,166,159	$ 79,814,658	$ 153,980,817

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

CITY OF GEORGETOWN, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	$ 3,563,538	$ 271,457	$ 3,834,995
Restricted cash	377,201	-	377,201
Investments	1,120,172	285,214	1,405,386
Accounts receivable:			
Taxes, net of allowance for uncollectible	1,789,995	-	1,789,995
Customer	148,037	-	148,037
Intergovernmental	196,591	121,925	318,516
Accrued interest	5,280	-	5,280
Prepaid expenses	-	-	-
Due from other funds	993,199	482,044	1,475,243
Total Assets	$ 8,194,013	$ 1,160,640	$ 9,354,653
LIABILITIES			
Accounts payable	$ 652,892	$ 34,555	$ 687,447
Accrued payroll liabilities	1,063,613	-	1,063,613
Deferred revenue	61,232	18,621	79,853
Deposits	479,565	1,969	481,534
Compensated absences	69,898	-	69,898
Due to other funds	-	-	-
Total Liabilities	2,327,200	55,145	2,382,345
FUND BALANCE			
Fund Balance			
Restricted	377,201	1,105,495	1,482,696
Committed	-	-	-
Assigned	602,925	-	602,925
Unassigned	4,886,687	-	4,886,687
Total Fund Equity	5,866,813	1,105,495	6,972,308
Total Liabilities and Fund Equity	$ 8,194,013	$ 1,160,640	$ 9,354,653

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 ASSETS
JUNE 30, 2012

Total Governmental Fund Balances	$ 6,972,308
Amounts reported for governmental activities in the statement of net assets are different because:	
Revenue not available to pay for current expenditures	
Licenses, fees and permits	29,406
Miscellaneous revenue	8,203
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 assets.	79,706,863
Unamortized bond issuance costs are not available to pay for current expenditures	152,604
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 assets.	
Long-term capital leases	(12,169,229)
Long-term compensated absences liability	(512,591)
Accrued interest on long-term debt	(21,405)
Net Assets of Governmental Activities	$ 74,166,159

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, 2012

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes	$ 1,925,441	$ -	$ 1,925,441
Licenses and permits	13,784,676	-	13,784,676
Charges for service	129,261	-	129,261
Fines	98,201	-	98,201
Intergovernmental	1,942,383	1,039,600	2,981,983
Investment income	8,711	13,842	22,553
Other income	136,282	-	136,282
Total Revenues	18,024,955	1,053,442	19,078,397
EXPENDITURES			
Current			
Administration	1,000,790	1,973	1,002,763
City Council	146,024	-	146,024
City Clerk	187,441	-	187,441
Police	4,320,699	71,628	4,392,327
Fire	4,558,128	2,099	4,560,227
Telecommunications	1,023,184	-	1,023,184
Building inspection	406,132	-	406,132
Community development	3,622,473	500,000	4,122,473
Public works	1,029,448	439,884	1,469,332
Utilities	432,218	-	432,218
Capital outlay	59,221	247,466	306,687
Debt service	628,612	61,147	689,759
Total Expenditures	17,414,370	1,324,197	18,738,567
Excess of Revenues Over (Under) Expenditures	610,585	(270,755)	339,830
Other Sources			
Proceeds from sale of capital assets	28,736	-	28,736
Transfers	(394,802)	280,718	(114,084)
Net change in fund balances	244,519	9,963	254,482
Fund Balance beginning of year	5,622,294	1,095,532	6,717,826
Fund Balance end of year	$ 5,866,813	$ 1,105,495	$ 6,972,308

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, 2012

Net Change in Fund Balances - Total Governmental Funds	$ 254,482
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.	306,687
Capital contributions for infrastructure constructed by developers are not current financial resources in the fund statements, but are recognized in the statement of activities	5,247,334
Depreciation expense is reported in the statement of activities to recognize the cost of capital assets used to provide programs and services	(3,377,717)
Less write off of long-term gas pipeline receivable	(11,000)
Revenues not available to pay for current expenditures	
Licenses, fees and permits	29,406
Miscellaneous revenue	8,205
Gain (loss) on sale of assets do not provide current financial resources but are reported in the statement of activities	19,977
Proceeds from sale of assets are reported at net gain or loss in the statement of activities	(28,736)
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 assets.	13,220
Amortization of lease closing costs are recognized as reductions of bond proceeds in the fund financial statements, but are increases of other assets in the statement of net assets	(7,210)
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 assets.	429,651
Adjustment in accrued interest on long-term debt	(21,405)
Change in Net Assets of Governmental Activities	$ 2,862,894

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

CITY OF GEORGETOWN, KENTUCKY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2012

	Water & Wastewater Treatment Plant No. 1	Wastewater Treatment Plant No. 2	Environmental Services Fund	Landfill Fund	Cemetery Fund	Totals
ASSETS						
Current assets						
Cash and cash equivalents	$ 485,556	$ -	$ -	$ -	$ -	$ 485,556
Accounts receivable						
Customer	867,755	100,196	180,165	-	20,825	1,168,941
Intergovernmental	-	-	17,883	-	25,803	43,686
Interfund receivable	1,554,878	-	454,026	-	22,285	2,031,189
Prepaid expenses	21,562	4,110	-	-	-	25,672
Total current assets	2,929,751	104,306	652,074	-	68,913	3,755,044
Noncurrent assets						
Restriced cash and cash equivalents	2,024,456	-	-	-	-	2,024,456
Restricted investments	1,527,337	-	-	27,456	-	1,554,793
Accrued interest receivable	1,951	-	-	40,389	-	42,340
Note receivable	-	-	-	3,019,676	-	3,019,676
Other assets	214,600	-	-	-	-	214,600
Capital assets						
Construction in progress	360,265	-	-	-	-	360,265
Land and easements	575,289	130,019	9,000	2,409,689	25,517	3,149,514
Buildings and improvements	3,035,432	4,707,846	145,847	-	247,250	8,136,375
Utility plants in service	115,841,576	18,074,036	-	-	-	133,915,612
Vehicles and equipment	1,426,307	163,757	1,505,478	-	27,465	3,123,007
Less accumulated depreciation	(44,262,567)	(13,402,054)	(1,128,077)	-	(25,841)	(58,818,539)
Total noncurrent assets	80,744,646	9,673,604	532,248	5,497,210	274,391	96,722,099
Total assets	$ 83,674,397	$ 9,777,910	$ 1,184,322	$ 5,497,210	$ 343,304	$ 100,477,143
LIABILITIES AND NET ASSETS						
Current liabilities						
Accounts payable	$ 71,216	$ 4,271	$ 41,112	$ 1,600	$ 9,995	$ 128,194
Accrued payroll liabilities	594,486	26,632	27,163	-	3,856	652,137
Contracts payable	52,009	-	-	-	-	52,009
Compensated absences	27,782	9,527	5,589	-	1,680	44,578
Interfund payable	-	1,554,878	-	1,951,554	-	3,506,432
Accrued interest payable	63,005	-	-	-	-	63,005
Current portion of long-term debt	1,329,183	-	-	-	-	1,329,183
Customer deposits	209,365	-	-	-	-	209,365
Total current liabilities	2,347,046	1,595,308	73,864	1,953,154	15,531	5,984,903
Long-term liabilities						
Compensated absences	264,641	90,146	40,981	-	12,325	408,093
Accrued landfill closure and postclosure care	-	-	-	4,387,900	-	4,387,900
Bonds, notes, and loans payable	9,881,589	-	-	-	-	9,881,589
Total long-term liabilities	10,146,230	90,146	40,981	4,387,900	12,325	14,677,582
Total liabilities	12,493,276	1,685,454	114,845	6,341,054	27,856	20,662,485
Net Assets						
Invested in capital assets, net of related debt	65,765,530	9,673,604	532,248	2,409,689	274,391	78,655,462
Restricted for debt service	3,281,374	-	-	-	-	3,281,374
Unrestricted	2,134,217	(1,581,148)	537,229	(3,253,533)	41,057	(2,122,178)
Total net assets	71,181,121	8,092,456	1,069,477	(843,844)	315,448	79,814,658
Total liabilities and net assets	$ 83,674,397	$ 9,777,910	$ 1,184,322	$ 5,497,210	$ 343,304	$ 100,477,143

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

CITY OF GEORGETOWN, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
for the year ended June 30, 2012

	Water & Wastewater Treatment Plant No. 1	Wastewater Treatment Plant No. 2	Environmental Services Fund	Landfill Fund	Cemetery Fund	Totals
Operating revenues						
Water revenue	$ 4,067,307	$ -	$ -	$ -	$ -	$ 4,067,307
Sewer revenue	3,370,648	222,975	-	-	-	3,593,623
Sanitation revenue	-	-	1,731,781	-	-	1,731,781
Recycling revenue	-	-	60,438	-	-	60,438
Cemetery revenue	-	-	-	-	203,128	203,128
Intergovernmental	-	-	94,076	-	25,803	119,879
Connection fees	814,425	-	-	-	-	814,425
Commercial user fees	-	1,057,639	-	-	-	1,057,639
Franchise fees	-	-	116,939	-	-	116,939
Miscellaneous	287,851	34,812	988	-	-	323,651
Penalties	80,386	-	-	-	-	80,386
Total operating revenues	8,620,617	1,315,426	2,004,222	-	228,931	12,169,196
Operating expenses						
Administrative	1,108,864	-	-	-	-	1,108,864
Water	2,478,704	-	-	-	-	2,478,704
Wastewater	1,618,246	1,323,498	-	-	-	2,941,744
Sanitation	-	-	1,254,697	-	-	1,254,697
Recycling	-	-	199,755	-	-	199,755
Stormwater	-	-	109,912	-	-	109,912
Landfill	-	-	-	104,432	-	104,432
Cemetery	-	-	-	-	227,707	227,707
Depreciation	2,962,866	493,319	67,321	-	12,456	3,535,962
Total operating expenses	8,168,680	1,816,817	1,631,685	104,432	240,163	11,961,777
Operating income (loss)	451,937	(501,391)	372,537	(104,432)	(11,232)	207,419
Nonoperating revenues (expenses)						
Interest income	28,905	-	3,188	189,684	171	221,948
Interest expense	(451,107)	-	-	-	-	(451,107)
Amortization expense	(36,949)	-	-	-	-	(36,949)
Total nonoperating revenue (expenses)	(459,151)	-	3,188	189,684	171	(266,108)
Income (loss) before capital contributions and transfers	(7,214)	(501,391)	375,725	85,252	(11,061)	(58,689)
Capital contributed						
Developer contributions	702,444	-	-	-	-	702,444
Commercial user contributions		81,700	-	-	-	81,700
Grants	10,000	-	-	-	-	10,000
Transfers in (out)	-	-	107,758	-	6,326	114,084
Change in net assets	705,230	(419,691)	483,483	85,252	(4,735)	849,539
Net assets at beginning of year	70,475,891	8,512,147	585,994	(929,096)	320,183	78,965,119
NET ASSETS AT END OF YEAR	$ 71,181,121	$ 8,092,456	$ 1,069,477	$ (843,844)	$ 315,448	$ 79,814,658

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, 2012

	Water & Wastewater Treatment Plant No. 1	Wastewater Treatment Plant No. 2	Environmental Services Fund	Landfill Fund	Cemetery Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers	$ 8,269,259	$ 1,294,649	$ 1,984,771	$ -	$ 239,632	$ 11,788,311
Payments to suppliers	(2,043,788)	(661,839)	(1,080,968)	-	(105,490)	(3,892,085)
Payments for employee services and benefits	(3,054,977)	(652,020)	(910,579)	-	(119,470)	(4,737,046)
Internal activity - payments to other funds	15,602	(15,602)	-	-	(14,610)	(14,610)
Other receipts (payments)	287,851	34,812	-	-	-	322,663
Net cash provided by operations	3,473,947	-	(6,776)	-	62	3,467,233
CASH FLOWS FROM NONCAPITA FINANCING ACTIVITIES						
Transfers in (out)	-	-	107,758	-	6,326	114,084
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Reduction of long-term post-closure care liabilities	-	-	-	(97,266)	-	(97,266)
Acquisition and construction of capital assets	(1,993,946)	(81,700)	(104,170)	-	(6,559)	(2,186,375)
Capital contributions	293,403	81,700	-	-	-	375,103
Grants in aid of construction	10,000	-	-	-	-	10,000
Interest received on long-term landfill sale note	-	-	-	96,925	-	96,925
Principal paid on capital debt	(1,281,647)	-	-	-	-	(1,281,647)
Draws on line of credit	1,000,000	-	-	-	-	1,000,000
Interest paid on capital debt	(522,190)	-	-	-	-	(522,190)
Net cash (used) by capital and related financing activities	(2,494,380)	-	(104,170)	(341)	(6,559)	(2,605,450)
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchase of investments	(4,598)	-	-	-	-	(4,598)
Interest income	27,789	-	3,188	341	171	31,489
Net cash provided (used) by investing activities	23,191	-	3,188	341	171	26,891
NET INCREASE (DECREASE) IN CASH	1,002,758	-	-	-	-	1,002,758
Cash and cash equivalents at beginning of year	1,507,254	-	-	-	-	1,507,254
CASH AT END OF YEAR	$ 2,510,012	$ -	$ -	$ -	$ -	$ 2,510,012
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:						
Operating income (loss)	$ 451,937	$ (501,391)	$ 372,537	$ (104,432)	$ (11,232)	$ 207,419
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation expense	2,962,866	493,319	67,321	-	12,456	3,535,962
Non-cash credits on tipping fees	-	-	-	104,432	-	104,432
Asset write-off	-	-	-	-	-	-
Cash from other income	-	-	-	-	-	-
Change in assets and liabilities:						
Receivables, net	(77,142)	14,035	(19,451)	-	10,701	(71,857)
Prepaid expense	(2,004)	236	-	-	-	(1,768)
Other assets	24,302	-	-	-	-	24,302
Interfund payable	15,602	(15,602)	(434,025)	-	(14,610)	(448,635)
Accounts and other payables	89,156	9,403	(2,440)	-	2,741	98,860
Accrued expenses	(4,405)	-	9,282	-	6	4,883
Customer deposits	13,635	-	-	-	-	13,635
Net cash provided by operating activities	$ 3,473,947	$ -	$ (6,776)	$ -	$ 62	$ 3,467,233
Supplemental disclosures of cash flow information:						
Noncash capital and related financing activities:						
Capital contributions	$ 409,041	$ -	$ -	$ -	$ -	$ 409,041
Increase (decrease) in contracts payable for capitail items	$ (254,673)	$ -	$ -	$ -	$ -	$ (254,673)
Deferred bond cost included with bonds payable	$ 12,648	$ -	$ -	$ -	$ -	$ 12,648

The accompanying notes are an integral part of the financial statements

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 with 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 assets 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*.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. 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 Other 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 so have been recognized as revenues of the current fiscal period.

Governmental Funds

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Presentation (continued)

Fund Financial Statements

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 sale of the Double Culvert Landfill (closed in 1997) and 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.

E. Assets, Liabilities, and Net Assets

Cash and Investments

For the purposes of the proprietary fund's, Statement of Cash Flows, "cash and cash equivalents" include all demand, savings accounts, and certificate of deposits with an original maturity of three months or less.

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 short-term U.S. treasury obligations with a remaining maturity at the time of purchase of one year or less. Those investments are reported at amortized cost. Fair value is based on quoted market price. Investments consist of certificates of deposit 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 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 2011. Liens have been filed on these properties for all unpaid property taxes. At June 30, 2012, the allowance for doubtful accounts totaled $95,868 for governmental activities and $10,000 for business-type activities.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Liabilities and Net Assets (continued)

Notes Receivable

The City has entered into an agreement to sell its landfill to a private company. The company issued a note due on or before December 15, 2016.

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 Assets. 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 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 assets. 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Liabilities and Net Assets (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. The long-term debt consists of revenue bonds and notes, capital lease obligations, landfill closure and post-closure care liabilities, and compensated absences.

Long-term debt for governmental funds is not exported as liabilities in the fund financial statements. The debt proceeds are recorded as revenue 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 reported 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.

F. 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. 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.

H. 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.

2. CASH AND INVESTMENT POLICIES

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, 2012, the City had $5,926,862 in financial institutions, of which $1,380,303 was insured by FDIC. The City had $6,229,881 in collateral pledged to secure the remaining deposits. In addition, all of the GMWSS funds were fully insured or collateralized.

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 type of single financial institution.

3. INVESTMENTS

The City's investments at June 30, 2012 are as follows:

		Investment Maturities (in Years)	
Type of Investments	Fair Value	Less Than 1	1 – 5 Years
Governmental activities:			
Certificates of deposit	$ 1,120,172	$ 1,120,172	$ -
Money market/mutual funds	285,214	285,214	-
Total governmental activities	$ 1,405,386	$ 1,405,386	$ -
Business-type activities:			
Certificates of deposit	$ 1,550,195	$ 1,356,040	$ 198,753

4. NOTES RECEIVABLE

During fiscal 2000, the City sold the Landfill property for $5,800,000 with 25% of the sales proceeds allocated to the Scott County Fiscal Court in lieu of the host fee allowable to county governments under KRS 68.178. In October 2012, an addendum agreement ("Agreement") was executed modifying the original sales contract. The Agreement called for payment to the City of the unpaid balance of the original note of $3,058,048, plus interest of 5% per annum from April 1, 2011, until paid in full. At a minimum, the purchasing Company is required to make minimum installment lump sum payments of $600,000 to the City at the time of execution and on or before December 15th of each year thereafter. In addition, to the minimum payments, the Company is required to make additional cash payments quarterly, and the Company receives credit for certain tipping fees and demolition costs, as outlined in the Agreement. The principal balance outstanding on the contract at June 30, 2012 was $3,019,676 and accrued interest was $40,389.

5. CAPITAL ASSETS

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

	July 1, 2011 Balance	Additions	Retirements	June 30, 2012 Balance
Governmental activities:				
Land	$ 10,299,456	$ -	$ -	$ 10,299,456
Buildings	27,234,060	-	(7,866)	27,226,194
Vehicles	4,453,614	200,090	(5,000)	4,648,704
Equipment	5,515,426	106,597	(15,619)	5,606,404
Infrastructure	72,229,802	5,247,334	-	77,477,136
Totals at historical cost	119,732,358	5,554,021	(28,485)	125,257,894
Accumulated depreciation	(42,193,042)	(3,377,717)	19,728	(45,551,031)
Governmental activities capital assets, net	$ 77,539,316	$ 2,176,304	$ (8,757)	$ 79,706,863
Business-type activities:				
Land	$ 3,148,957	$ 557	$ -	$ 3,149,514
Buildings	8,079,764	56,611	-	8,136,375
Vehicles	2,434,256	164,323	(68,424)	2,530,155
Equipment	572,131	20,721	-	592,852
Utility Plant	128,951,534	4,964,078		133,915,612
Construction in progress	3,225,814	816,723	(3,682,272)	360,265
Totals at historical cost	146,412,456	6,023,013	(3,750,696)	148,684,773
Accumulated depreciation	(55,351,001)	(3,535,962)	68,424	(58,818,539)
Business-type activities capital assets, net	$ 91,061,455	$ 2,487,051	$ (3,682,272)	$ 89,866,234

5. CAPITAL ASSETS (continued)

Depreciation expense was charged to governmental activities as follows:

General Government	$ 534,723
Public Protection	
Police	230,195
Fire Protection	200,455
Telecommunications	36,978
Public Works	2,375,366
	$ 3,377,717

6. 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 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.

7. 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 capital leases discussed in Note 7 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. The lease expires December 2025 at which time title to the leasehold improvements is transferred to the City.	$ 818,993
20-year capital lease for the construction of a swimming pool and aquatics center. Interest is based on a variable rate. The lease expires January 2026, at which time the title to the swimming pool and aquatics center is transferred to the City.	2,169,241
25-year capital lease for the refinancing of various City projects. Interest is based on a variable rate. The lease expires September 2033 at which time title to the leasehold improvements of the projects will be transferred to the City.	9,180,995
Total governmental activity debt	$ 12,169,229

7. LONG-TERM DEBT (continued)

Governmental Activities

The changes in long-term debt during the fiscal year ended June 30, 2012 are as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Capital Leases	$ 12,598,880	$ -	$ 429,651	$ 12,169,229	$ 447,473
Compensated absences	597,512	-	15,023	582,489	69,898
Total Governmental	$ 13,196,392	$ -	$ 444,674	$ 12,751,718	$ 517,371

The annual debt service requirements to maturity, including principal, interest and fees for capital leases as of June 30, 2012 are as follows:

	Principal	Interest	Fees	Total
2013	$ 447,473	$ 22,252	$ 231,235	$ 700,960
2014	465,437	22,330	222,566	710,333
2015	484,376	21,702	225,973	732,051
2016	503,728	20,466	205,309	729,503
2017	524,467	19,458	195,439	739,364
2018 – 2022	2,958,340	78,112	694,715	3,731,167
2023 – 2027	3,212,648	49,687	524,325	3,786,660
2028 – 2032	2,782,793	21,846	240,604	3,045,243
2033 – 2034	789,967	1,031	14,733	805,731
	$ 12,169,229	$ 256,884	$ 2,554,899	$ 14,981,012

7. LONG-TERM DEBT (continued)

Business-type Activities

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

	Interest Rate	Final Maturity	Outstanding Principal
Revenue bonds:			
Water and Sewer, Series 2003	2.00-4.125%	2023	$ 3,045,000
Water and Sewer, Series 2003B Refunding	2.00-3.500%	2014	775,000
Water and Sewer, Series 2007A	4.00-4.375%	2027	5,747,750
Deferred cost of refunding			(22,133)
Total revenue bonds			9,545,617
Notes Payable:			
Kentucky Infrastructure Authority Series 2004	2.25-5.25%	2014	20,000
Kentucky Infrastructure Authority Subordinated Note, Series 1993	4.00%	2014	645,155
Kentucky Bank line of credit	2.98%	2014	1,000,000
Total notes payable			1,665,155
Other long-term obligations:			
Compensated absences—GMWSS			354,787
Compensated absences—Environmental Services			40,981
Compensated absences—Cemetery Operations			12,325
Total obligations			11,618,865
Less current portion of			
Revenue bonds			906,000
Notes payable			435,831
Deferred cost of refunding			(12,648)
			1,329,183
Total long-term obligations			$ 10,289,682

The changes in long-term debt during 2012 are as follows:

	Beginning Balance	Additions	Payments	Ending Balance
Revenue Bonds	$ 10,407,970	$ -	$ 862,353	$ 9,545,617
Notes Payable	1,084,450	1,000,000	419,295	1,665,155
Landfill Postclosure Care	4,483,500	-	95,600	4,387,900
Compensated absences	407,374	4,496	3,777	408,093
Total Proprietary	$ 16,383,294	$ 1,004,496	$ 1,381,025	$ 16,006,765

7. LONG-TERM DEBT (continued)

BUSINESS-TYPE ACTIVITIES (continued)

The annual debt service requirements to maturity, including principal and interest for bonds and notes payable as of June 30, 2012 are as follows:

Fiscal Year	Interest	Principal	Total
2013	$ 434,143	$ 1,341,831	$ 1,775,974
2014	383,749	2,167,324	2,551,073
2015	314,958	565,417	880,375
2016	293,076	588,417	881,493
2017	270,049	611,833	881,882
2018-2022	962,965	3,439,917	4,402,882
2023-2026	284,647	2,518,167	2,802,814
	$ 2,943,587	$ 11,232,906	$ 14,176,493

Description of Bonds and Notes Payable - The Water and Sewer Revenue Bonds, Series of 2003A and 2003B are secured by a pledge of a fixed portion of the gross income and revenues of the water and sewer system other than from Wastewater Treatment Plant No.2. The 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.

The Water and Sewer Revenue Subordinated Note, Series of 1993 and 2004, are secured by a second lien on the water and sewer system gross income and revenues, other than from Wastewater Treatment Plant No. 2. The notes are subordinated to the revenue bonds.

The bond and note 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 Plan No. 1 and approximated $775,456 at June 30, 2012. This reserve was fully funded at June 30, 2012.

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 $1,842,991 at June 30, 2012.

Note and Interest Reserve - This reserve receives sinking fund payments to meet semi-annual debt service requirements on the subordinated note issued to finance the renovation and expansion of Wastewater Treatment Plant No. 1. At June 30, 2012 the reserve was fully funded with a balance of $300,680.

KIA Loan Reserve - This reserve receives the sinking fund payments to meet the semi-annual debt service requirements on the subordinated note issued to finance the renovation and expansion of Wastewater Treatment Plant No. 1. The reserve has been funded as required.

Construction Fund - Proceeds of the Water and Sewer Revenue Bonds, Series 2007A were placed into the construction reserve and are to be used for water line upgrades, wastewater treatment plant No. 1 improvements, and water treatment plant improvements.

8. 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, 2012 for Revenue Bonds and for Industrial Bonds is not available.

9. RETIREMENT PLAN

The City of Georgetown is a participating employer 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 separate financial statements which may be obtained by request from Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

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, 2012, plan members were required to contribute 5.00% of wages for non-hazardous job classifications and 8.00% of wages for hazardous job classifications. Employees hired after August 31, 2008 and not already in the retirement system must contribute an additional 1% to subsidize health insurance premiums that are primarily withheld from CERS retirees' benefit payments. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statue Section 61.565(3), 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 contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2012, participating employers contributed 18.96% of each employee's wages for non-hazardous classifications and 35.76% for hazardous job classifications, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

The required contribution (employee and employer) and the actual percentage contributed for the City for the current and previous two years are as follows:

Year	Required Contribution	Percentage Contributed
2012	$ 3,093,454	100%
2011	$ 2,298,528	100%
2010	$ 2,726,097	100%

10. INTERFUND RECEIVABLES/PAYABLES

Interfund receivables and payable balances of June 30, 2012 were as follows:

Fund	Receivable	Payable
General Fund	$ 993,199	$ -
Municipal Aid	414,259	-
LGEA	32,340	-
Drug Forfeiture	11,426	-
Business Park	-	-
Federal & State Grants	1,088	-
Cemetery Perpetual Care	22,931	-
Environmental Services	454,026	-
Landfill	-	1,951,554
Cemetery Operations	22,285	-
Total	$ 1,951,554	$ 1,951,554

The City generally maintains one checking account for which all receipts are deposited and disbursement are made. Any deposits or disbursements for funds other than the general fund are processed through the interfund receivable/payable accounts. Amounts due from the Landfill Fund represent amounts due to the General Fund as a result of purchases of land in prior years.

11. TRANSFERS

The following operating transfers were made during the year:

Fund	Transfers In	Transfers Out
General Fund	$ -	$ 394,802
Municipal Aid	-	-
LGEA	-	-
Drug Forfeiture	-	-
Business Park	61,147	-
Federal & State Grants	8,301	-
Cemetery Perpetual Care	24,535	5,058
Capital Projects	191,793	-
Environmental Services	109,912	2,154
Landfill	-	-
Cemetery Operations	30,861	24,535
Total	$ 426,549	$ 426,549

11. TRANSFERS (continued)

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. Transfers to the Perpetual Care Fund represent required reserves from lot sales to be maintained in the Perpetual Care Fund in accordance with KRS.
- The transfer to the Business Park Fund was made to cover debt service while the sale of land is in process.
- The transfer to the Federal and State Grants Fund was made to meet the City's matching requirements related to grant awards.
- The transfer to the Environmental Services Fund was made to finance operating deficits.

12. RELATED ORGANIZATIONS

The City of Georgetown provides financial support for a variety of local organizations. With the exception of Scott United, Historic Georgetown and the Chamber of Commerce, 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 and CMRS programs. 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 City has contributed the following amounts to these organizations.

Georgetown/Scott County Parks & Recreation	$	694,800
Georgetown/Scott County Planning & Zoning		351,000
Georgetown/Scott County Ambulance		1,570,459
Georgetown/Scott County Disaster & Emergency Services		89,950
Georgetown/Scott County Senior Citizens		97,000
Georgetown/Scott County Electrical Inspection		136,480
Georgetown/Scott County Animal Shelter		216,978
Georgetown/Scott County E911 Billing		31,479
Georgetown/Scott County Building Permit		101,712
Georgetown/Scott County CMRS		88,548
Georgetown/Scott County Museum		5,000
Scott United		33,750
Historic Georgetown		45,000
Chamber of Commerce		7,900
Total Contributions	$	3,470,056

13. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

The following commitments to construct projects and purchase materials have been made by the City as of June 30, 2012:

Business-type Activities	
GMWSS – Frankfort Booster Station Upgrade	$ 3,545

The City was a defendant in a complaint filed by Georgetown firefighters with the Kentucky Labor Cabinet requesting the City to pay overtime on state provided incentive pay. The complaint was settled in August 2012 in favor of the Georgetown firefighters. The City previously reserved $508,904 related to this claim. An additional $69,838, related to the plaintiff's legal fees, was expensed during 2012.

The City is 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 on 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 2012 at an interest rate of 2.98% and a maturity date of July 2014. At June 30, 2012, $1,000,000 was due on the line of credit.

14. CONTRIBUTED ASSETS

Contributed assets totaling $784,144 have been reported in the business-type activities statement of revenues, expenses, and changes in net assets. These contributions include $409,041 of water and sewer lines, which were constructed by developers and were deeded to the Water and Sewer Service and $293,403 of cash contributions made by various state and local governments and developers. In addition, $81,700 of capital contributions were received from a commercial customer. These funds were used to construct various water and sewer projects.

The City's governmental activities include $5,247,334 of roads, sidewalks and storm sewers donated during the year.

15. ECONOMIC DEPENDENCE

Toyota Motor Manufacturing Company, USA and its subsidiaries provided $5,727,195 (41.5%) of the City's license fees and permit revenue and $69,329 (3.6%) of the City's property tax revenue. The total amount paid by these companies represents 32.2% of the General Fund revenues. In addition, they provided 80% of the operating revenue for the Wastewater Treatment Plan No. 2. Ten customers accounted for 7% of the operating revenues of the Water and Wastewater Treatment Plant No. 1.

16. LANDFILL POST CLOSURE COST

The City is in the process of providing post closure care for the Sims Road landfill site owned by the City. In addition, the City remains obligated for postclosure care and remediation at the Double Culvert landfill until Kentucky EPA approves the design and construction of the closed cells. The current estimated liability for both landfills is $4,387,900 and will be financed with part of the proceeds from the sale of Double Culvert and transfers from the City's general funds. The City may incur additional post closure costs in future periods due to change in the applicable laws or regulations and technology used in the post closure care. The City is currently negotiating with the Kentucky Division of Water and Waste Services of the Bluegrass to transfer a portion of the liability of Double Culvert. At this time, the amount to be transferred cannot be determined.

16. LANDFILL POST CLOSURE COST (continued)

The Landfill Fund reports a significant deficit in unrestricted net assets, $3,253,533, which represents the unfunded portion of the accrued landfill closure and postclosure care. A portion of this deficit will be financed with part of the proceeds from the sale of the closed Double Culvert Landfill. In addition, once the City has complied with permit assessments imposed by the Commonwealth of Kentucky Division of Water Quality, the buyer will assume the remaining responsibility for postclosure care of this facility. At that point, the liability will be adjusted to reflect only the City's portion of the obligation.

17. 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, 2012.

18. 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.

19. OPERATING LEASE

During 2009 the City entered into an agreement to lease "Cardome Center" to Cardome Academy Association for $1. The term of the lease is for 25 years with the ability to renew up to an additional 49 years. Cardome Academy Association may terminate the lease at the end of the 2nd, 5th and 10th year. At the end of the lease all property will revert to the City. The Cardome Center assets are carried on the City's books, net of depreciation for $3,045,410. Accumulated depreciation of $1,730,748 has been charged through June 30, 2012.

20. SUBSEQUENT EVENTS

In June 2012 the GASB approved a pair of related Statements that reflect substantial improvements to the accounting and financial reporting of pensions by state and local governments and pension plans. Statement No. 67, Financial Reporting for Pension Plans, addresses financial reporting for state and local government pension plans.

The guidance contained in these Statements will change how governments calculate and report the costs and obligations associated with pensions in important ways. It is designed to improve the decision - usefulness of reported pension information and to increase the transparency, consistency, and comparability of pension information across governments. Under the pension standards now in effect, cost-sharing employers have not been required to present actuarial information about pensions. Instead, information has been required to be presented in the pension plan's own financial statements for all of the participating governments combined.

20. SUBSEQUENT EVENTS (continued)

Under the pension standards now in effect, cost-sharing employers have not been required to present actuarial information about pensions. Instead, information has been required to be presented in the pension plan's own financial statements for all of the participating governments combined. Through its research, the GASB concluded that the needs of users of information regarding cost-sharing employers do not differ significantly from those interested in single and agent employers. Therefore, the GASB believes it is important to give users of the financial statements of cost-sharing employers access to better, more transparent financial information. Consequently, under the new standards the GASB is requiring that cost-sharing governments report a net pension liability, pension expense, and pension-related deferred inflows and outflows of resources based on their proportionate share of the collective mounts for all the governments in the plan.

Statement No. 67 will take effect for pension plans in fiscal years beginning after June 15, 2013 (that is, for years ended June 30, 2014 or later).

In May 2013, the City approved a tax incentive under the Kentucky Job Retention Act for Toyota Manufacturing 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.

21. MANAGEMENT'S REVIEW OF SUBSEQUENT EVENTS

The City has evaluated and considered the need to recognize or disclose subsequent events through May 27, 2013, 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, 2012, have not been evaluated by the City.

SUPPLEMENTAL INFORMATION

CITY OF GEORGETOWN, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISONS
GENERAL FUND
for the year ended June 30, 2012

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Taxes	$ 1,756,200	$ 1,756,200	$ 1,925,441	$ 169,241
Licenses, and permits	12,741,000	12,511,000	13,784,676	1,273,676
Charges for service	92,100	106,400	129,261	22,861
Fines	113,600	99,300	98,201	(1,099)
Intergovernmental	2,134,950	2,134,950	1,942,383	(192,567)
Investment income	13,200	13,200	8,711	(4,489)
Other revenue	26,600	26,600	136,282	109,682
Total revenues	16,877,650	16,647,650	18,024,955	1,377,305
Expenditures				
Current				
Administration	1,248,150	1,023,000	1,000,790	22,210
City Council	139,300	139,300	146,024	(6,724)
City Clerk	215,800	215,800	187,441	28,359
Police	4,563,100	4,581,350	4,320,699	260,651
Fire	4,602,900	4,677,650	4,558,128	119,522
Telecommunications	1,158,200	1,088,200	1,023,184	65,016
Building inspection	397,400	418,250	406,132	12,118
Community development	3,250,600	3,594,650	3,622,473	(27,823)
Public works	1,202,800	1,203,680	1,029,448	174,232
Utilities	487,900	487,900	432,218	55,682
Capital outlay	-	-	59,221	(59,221)
Debt service	-	626,500	628,612	(2,112)
Total expenditures	17,266,150	18,056,280	17,414,370	641,910
Excess of Revenues over (under) Expenditures	(388,500)	(1,408,630)	610,585	2,019,215
Other Financing Sources (Uses)				
Property sales	35,000	35,000	28,736	6,264
Transfers out	(905,400)	(663,845)	(394,802)	(269,043)
	(870,400)	(628,845)	(366,066)	(262,779)
Net change in fund balance	(1,258,900)	(2,037,475)	244,519	2,281,994
Fund balance, beginning of year	5,825,000	5,616,705	5,622,294	5,589
Fund balance, end of year	$ 4,566,100	$ 3,579,230	$ 5,866,813	$ 2,287,583

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, Expenses and Changes in Fund Balance, Budgetary and Actual are the same.

CITY OF GEORGETOWN, KENTUCKY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2012

	Municipal Aid Fund	Business Park Fund	Local Government Economic Assistance Fund	Drug Forfeiture Fund	Cemetery Perpetual Care Fund	State & Federal Grants Fund	Capital Projects Fund	**Total**
ASSETS								
Cash and cash equivalents	$ -	$ 1,969	$ -	$ -	$ 269,388	$ 100	$ -	$ 271,457
Investments	-	-	-	-	285,214	-	-	285,214
Accounts receivable:								
Intergovernmental	66,207	-	3,730	-	-	51,988	-	121,925
Prepaid expenses	-	-	-	-	-	-	-	-
Due from other funds	414,259	-	32,340	11,426	22,931	1,088	-	482,044
Total Assets	$ 480,466	$ 1,969	$ 36,070	$ 11,426	$ 577,533	$ 53,176	$ -	$ 1,160,640
LIABILITIES								
Accounts payable	$ -	$ -	$ -	$ -	$ -	$ 34,555	$ -	$ 34,555
Accrued payroll liabilities	-	-	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	18,621	-	18,621
Deposits	-	1,969	-	-	-	-	-	1,969
Due to other funds	-	-	-	-	-	-	-	-
Total Liabilities	-	1,969	-	-	-	53,176	-	55,145
FUND BALANCE								
Fund Balance								
Restricted	480,466	-	36,070	11,426	577,533	-	-	1,105,495
Assigned	-	-	-	-	-	-	-	-
Total Fund Equity	480,466	-	36,070	11,426	577,533	-	-	1,105,495
Total Liabilities and Fund Equity	$ 480,466	$ 1,969	$ 36,070	$ 11,426	$ 577,533	$ 53,176	$ -	$ 1,160,640

CITY OF GEORGETOWN, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
for the year ended June 30, 2012

	Municipal Aid Fund	Business Park Fund	Local Government Economic Assistance Fund	Drug Forfeiture Fund	Cemetery Perpetual Care Fund	State & Federal Grants Fund	Capital Projects Fund	**Total**
REVENUES								
Intergovernmental	$ 413,265	$ -	$ 14,097	$ 14,438	$ -	$ 597,800	$ -	$ 1,039,600
Interest income	3,331	-	260	92	10,159	-	-	13,842
Total Revenues	416,596	-	14,357	14,530	10,159	597,800	-	1,053,442
EXPENDITURES								
Current								
Administration	-	-	-	-	1,973	-	-	1,973
Police	-	-	-	31,306	-	40,322	-	71,628
Fire	-	-	-	-	-	2,099	-	2,099
Community development	-	-	-	-	-	500,000	-	500,000
Public works	424,832	-	4,271	-	-	10,781	-	439,884
Capital outlay	-	-	-	2,774	-	52,899	191,793	247,466
Debt Service	-	61,147	-	-	-	-	-	61,147
Total Expenditures	424,832	61,147	4,271	34,080	1,973	606,101	191,793	1,324,197
Excess of Revenues Over (Under) Expenditures	(8,236)	(61,147)	10,086	(19,550)	8,186	(8,301)	(191,793)	(270,755)
Other Sources								
Transfers in (out)	-	61,147	-	-	19,477	8,301	191,793	280,718
Net change in fund balances	(8,236)	-	10,086	(19,550)	27,663	-	-	9,963
Fund Balance beginning of year	488,702	-	25,984	30,976	549,870	-	-	1,095,532
Fund Balance end of year	$ 480,466	$ -	$ 36,070	$ 11,426	$ 577,533	$ -	$ -	$ 1,105,495

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CITY OF GEORGETOWN, KENTUCKY
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
City of Georgetown, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Georgetown, Kentucky, as of and for the year ended June 30, 2012, which collectively comprise the City of Georgetown, Kentucky's basic financial statements and have issued our report thereon dated May 27, 2013. 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.

Internal Control Over Financial Reporting

Management of City of Georgetown, Kentucky, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered City of Georgetown, Kentucky's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Georgetown, Kentucky's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Georgetown, Kentucky's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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CITY OF GEORGETOWN, KENTUCKY
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

We noted certain matters that we reported to management of City of Georgetown, Kentucky, in a separate letter dated May 27, 2013.

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

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
May 27, 2013

rfh Ray, Foley, Hensley & Company, PLLC

Certified Public Accountants and Consultants

CITY OF GEORGETOWN, KENTUCKY
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS THAT COULD HAVE A
DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

Honorable Everette Varney, Mayor
and City Council
City of Georgetown, Kentucky

Compliance

We have audited City of Georgetown, Kentucky's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Georgetown, Kentucky's major federal programs for the year ended June 30, 2012. City of Georgetown, Kentucky's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Georgetown, Kentucky's management. Our responsibility is to express an opinion on City of Georgetown, Kentucky's compliance based on our audit.

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

In our opinion, City of Georgetown, Kentucky, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
May 27, 2013

CITY OF GEORGETOWN, KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2012

Federal Grantor Program Title	Federal CFDA Number	Pass Through Contract Number	Federal Expenditures
Department of Housing and Urban Development			
Community Development Block Grant/State's Program (Note 1)	14.228	P0N2 112 1100002894 1	$ 500,000 *
Department of Transportation			
State and Community Highway Safety Cluster (Note 2)	20.600	PT 12-19	11,316
Transportation Highway Planning and Construction (Note 3)	20.205	P02-828-0800014443	2,316
Department of Homeland Security			
Assistance to Firefighters Grant	97.044	n/a	44,100
U.S. Department of Justice			
Public Safety Partnership and Community Policing Grants	16.710	n/a	29,054
Equitable Sharing Program	16.922	n/a	9,729
Total Federal Financial Assistance			$ 596,515

***Denotes Major Program**

Notes:
(1) Pass Through Grantor - Kentucky Department for Local Government
(2) Pass Through Grantor - Commonwealth of Kentucky, Transportation Cabinet, Office of Highway Safety
(3) Pass Through Grantor - Commonwealth of Kentucky, Transportation Cabinet

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Georgetown and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of **OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.** Therefore, some amounts presented in, or used in the preparation of, the basic financial statements may differ from these numbers.

CITY OF GEORGETOWN, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended June 30, 2012

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements:
Type of auditors' report issued: Unqualified

Internal control over financial reporting:		
Material weaknesses identified	__Yes	X No
Significant deficiencies identified that are not considered to be material weaknesses	__Yes	X No
Non-compliance material to financial statements noted	__Yes	X No
Federal Awards:		
Internal control over major programs:		
Material weaknesses identified	__Yes	X No
Significant deficiencies identified that are not considered to be material weaknesses	__Yes	X None Reported

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? __Yes X No

Major Programs:

CFDA Number	Name of Federal Program or Cluster
14.228	Community Development Block Grant/State's Program

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

Auditee qualified as a low-risk auditee? __Yes X No

II. FINDINGS RELATED TO FINANCIAL STATEMENTS

NONE

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

NONE

IV. PRIOR AUDIT FINDINGS

NONE