

CITY OF GEORGETOWN
Georgetown, Kentucky

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION**
June 30, 2013

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EVERETTE VARNEY, MAYOR

City of Georgetown Management's Discussion and Analysis For the Year Ended June 30, 2013

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, 2013. 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 license and permit revenues continue to rebound, including Occupational License Fees for Payroll and Net Profits, increasing over FY 2012 by more than \$2 million.
- Operating costs across both governmental and proprietary funds stayed relatively stable and included a 3% pay increase for City employees for the first time in several years.
- Capital additions totaled \$2,764,165, with approximately \$1.9 million coming from developers' contributions of infrastructure.
- The General Fund balance increased by almost \$2.5 million due to increased revenues.
- The budget for FY 2014 estimates that revenues will exceed expenses by approximately \$226,000 showing continued economic improvement as the City is able to again fund needed capital improvements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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



Net Position reflects the difference between the City's total assets and total liabilities. These amounts are similar to the owner's equity in financial statements of a commercial business, but these amounts do reflect resources that are available for supporting future governmental services. The City's operating purpose is providing services, not accumulating net assets, but an increase in the net position shows the financial position of the City has improved.

The following table outlines a condensed version of the Statement of Net Position for June 30, 2013 and 2012.

**City of Georgetown
Net Position
June 30, 2013 & 2012**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Current assets	\$ 10,977,005	\$ 8,729,847	\$ 827,991	\$ 248,612	\$ 11,804,996	\$ 8,978,459
Capital assets	78,879,820	79,706,863	89,886,883	89,866,234	168,766,703	169,573,097
Other assets	820,773	815,019	6,031,800	6,855,865	6,852,573	7,670,884
Total assets	90,677,598	89,251,729	96,746,674	96,970,711	187,424,272	186,222,440
Long-term debt outstanding	12,234,988	12,234,347	12,121,079	14,677,582	24,356,067	26,911,929
Other liabilities	2,520,166	2,851,223	2,440,822	2,478,471	4,960,988	5,329,694
Total liabilities	14,755,154	15,085,570	14,561,901	17,156,053	29,317,055	32,241,623
Net position:						
Net invested in capital assets	66,619,061	67,537,634	80,006,295	78,655,462	146,625,356	146,193,096
Restricted	1,703,190	1,482,696	3,232,256	3,281,374	4,935,446	4,764,070
Unrestricted	7,600,193	5,145,829	(1,053,778)	(2,122,178)	6,546,415	3,023,651
Total net position	\$ 75,922,444	\$ 74,166,159	\$82,184,773	\$79,814,658	\$ 158,107,217	\$ 153,980,817

Governmental current assets increased \$2,247,158 with a decline in the internal balances between the governmental and proprietary funds. Long-term governmental liabilities stayed relatively the same due to payment of existing debt and taking on new debt for the purchase of 17 police vehicles. Current liabilities decreased \$331,057 with lower accrued payroll and lower accounts payable, as well as the payment of the accrual for the Firefighter Back pay. Restricted resources in the governmental funds include restricted cash in the General Fund, MAP, LGEA, Cemetery Perpetual Care, Grants, and Drug Forfeiture resources.

Current asset balances in the business-type activities increased \$579,379 as cash, accounts receivable, and prepaid expenses increased and internal balances owed to the governmental funds decreased. Debt decreased with continued retirement of water and sewer bonds and notes, and a decrease in the estimate for post-closure care of the City's landfills.

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

The following table summarizes the changes in net position for the 2013 and 2012 fiscal years.

**City of Georgetown
Operating Results for the Years Ended June 30, 2013 & 2012**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for service	369,521	336,870	12,207,597	12,049,317	12,577,118	12,386,187
Grant funding	2,657,600	2,937,883	138,391	129,879	2,795,991	3,067,762
General revenues:						
Property taxes	1,963,015	1,824,480	-	-	1,963,015	1,824,480
License fees and permits	1,085,140	788,874	-	-	1,085,140	788,874
Occupational license fees	12,547,572	10,883,905	-	-	12,547,572	10,883,905
Insurance premium tax	1,991,023	1,933,694	-	-	1,991,023	1,933,694
Telecommunications excise tax	99,646	100,961	-	-	99,646	100,961
Interest and investment earnings	23,246	22,553	146,925	221,948	170,171	244,501
Fines and reimbursements	151,219	98,201	-	-	151,219	98,201
Other local revenues	79,933	133,487	-	-	79,933	133,487
Total revenues	20,967,915	19,060,908	12,492,913	12,401,144	33,460,828	31,462,052
Program Expenses:						
General government	1,911,378	1,877,649	-	-	1,911,378	1,877,649
Public protection						
Police	5,134,699	4,617,632	-	-	5,134,699	4,617,632
Fire	4,795,935	4,756,247	-	-	4,795,935	4,756,247
Telecommunications	1,095,059	1,059,283	-	-	1,095,059	1,059,283
Building inspection	376,236	405,426	-	-	376,236	405,426
Community Development	3,667,003	4,122,473	-	-	3,667,003	4,122,473
Codes Enforcement	23,897	-	-	-	23,897	-
Public works						
Road maintenance	4,264,009	4,275,118	-	-	4,264,009	4,275,118
Water & sewer treatment	-	-	10,936,753	10,473,553	10,936,753	10,473,553
Garbage collection	-	-	1,345,180	1,318,491	1,345,180	1,318,491
Recycling services	-	-	206,502	203,282	206,502	203,282
Stormwater management	-	-	94,144	109,912	94,144	109,912
Landfill postclosure care	-	-	95,222	104,432	95,222	104,432
Cemetery:						
Operations	-	-	237,446	240,163	237,446	240,163
Perpetual care	-	-	-	-	-	-
Interest on long-term debt	257,733	281,513	-	-	257,733	281,513
Total expenses	21,525,949	21,395,341	12,915,247	12,449,833	34,441,196	33,845,174
Excess (deficiency) before transfers and special items	(558,034)	(2,334,433)	(422,334)	(48,689)	(980,368)	(2,383,122)
Gain(Loss) on disposal of property	(61,300)	19,977	(27,534)	-	(88,834)	19,977
Capital contributions	1,971,769	5,291,434	1,975,033	784,144	3,946,802	6,075,578
Reduction of Postclosure Care Estimate	-	-	1,248,800	-	1,248,800	-
Transfers	403,850	(114,084)	(403,850)	114,084	-	-
Prior period adjustment	-	-	-	-	-	-
Net increase (decrease) in net position	1,756,285	2,862,894	2,370,115	849,539	4,126,400	3,712,433

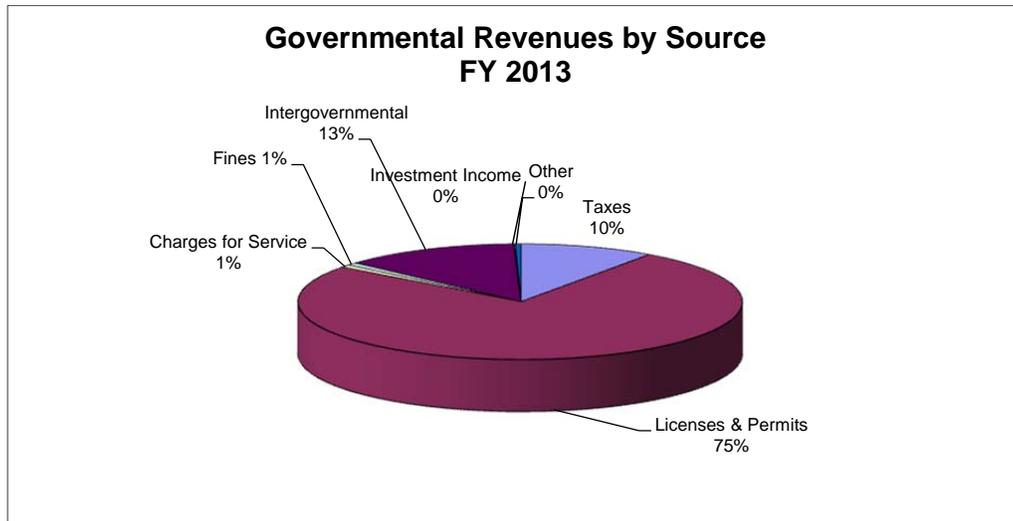
The City saw a significant increase in revenues in FY 2013, primarily from a \$1,663,667 increase in Occupational License Fees, which include payroll taxes and net profits revenues. Approximately \$1,300,000 of this increase was from an individual taxpayer for net profits. The City also saw an increase in payroll tax revenue due to increased collections. Revenues for business-type activities stayed relatively consistent with FY 2012.

On the other side of the City's ledger, governmental operating costs increased due to rising salary and benefit costs. Transfers from the business-type activities to reimburse the governmental activities were reinstated. The operating costs for business-type activities increased by \$465,364 over FY2012.

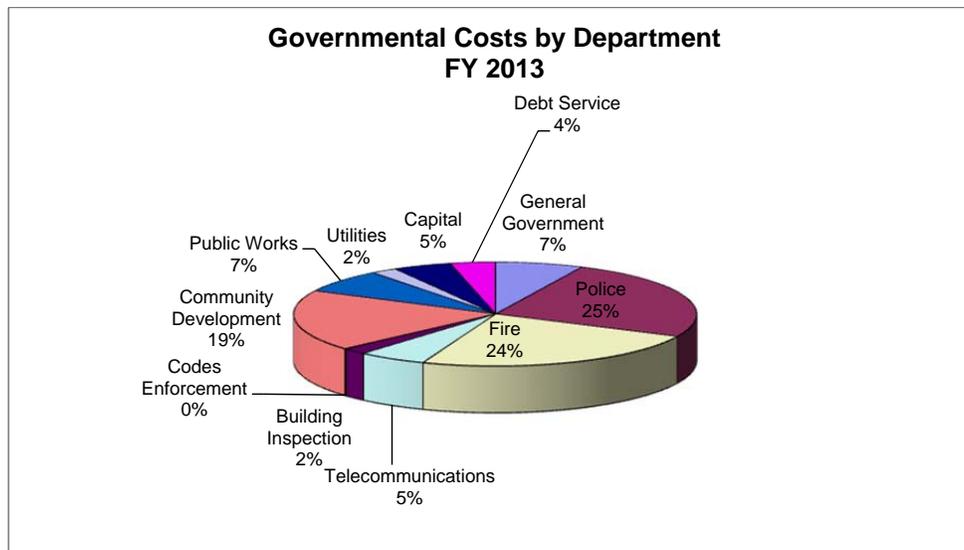
Fund Financial Statements

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.

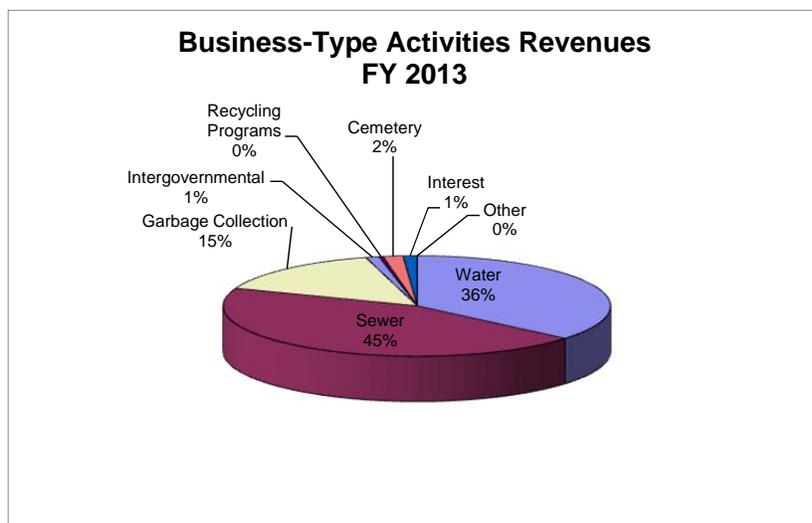
- **Governmental Funds.** The City's governmental funds include the General Fund and several special revenue funds, including the Municipal Aid, Local Government Economic Assistance, grants, and the Cemetery perpetual trust fund. The primary source of revenue in the General Fund includes the occupational license fee (75%) on businesses and their employees. Taxes provide another 10% and intergovernmental revenues are 13% of the total governmental resources. Details about individual funds are reported on pages 11 - 13 and 37 - 38 of this report.



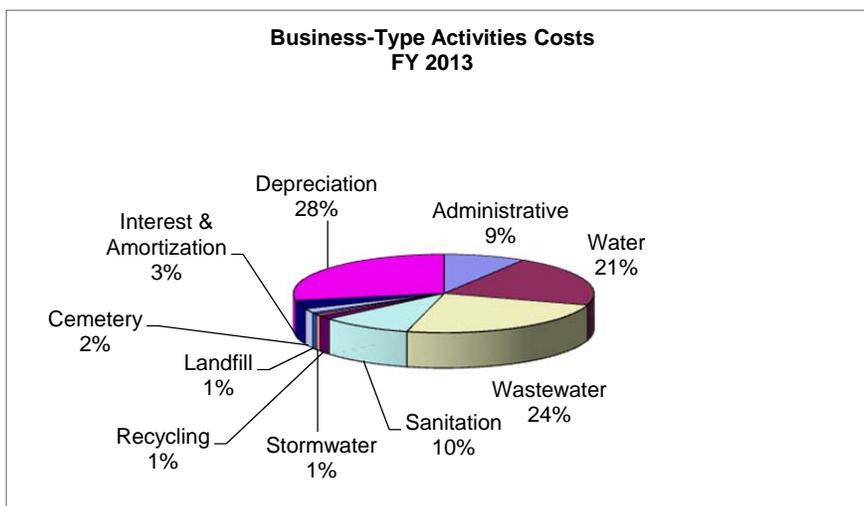
Governmental expenditures include basic services such as police, fire, road maintenance, building inspection, parks and recreation, planning and zoning, and ambulance services. The following chart highlights the allocation among major categories. Community Development includes parks, planning and zoning, 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, storm water, 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 2013, \$94,143 was transferred from the General Fund to the Environmental Services Fund and \$39,502 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 \$2,307,478 more than budgeted, and expenditures were \$667,320 less than budgeted to provide a net positive budget variance of \$2,974,798 for the year. All revenues exceeded budget expectations except 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 2014 project current operating revenues for the General Fund to exceed operating expenses by approximately \$226,000. The City continues to see increased revenues from Occupational License Fees and has worked to maintain a balanced budget in the current fiscal year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Infrastructure contributions from developers resulted in \$1,935,897 of new additions. Depreciation expense for governmental assets totaled \$3.5 million while asset purchases totaled \$828,268. The City also has Construction in Progress of \$77,246 for architectural services for a new Police Department and completion of the Pavilion at the Yuko En Japanese Garden. Debt service for the City's governmental funds is only 4% of the total annual appropriations; however, there are capital projects such as the new Police Department 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 10.8%, with outstanding debt of \$9.9 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

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

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. It is expected to have final terms of sale completed in 2013 so that ownership may be transferred. The City began receiving payments under the new agreement in October 2012 and expect retirement of the outstanding note receivable within five years.

REQUEST FOR INFORMATION

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

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Georgetown, Kentucky as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express 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 from material misstatement.

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

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

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, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with **Government Auditing Standards**, we have also issued our report dated March 20, 2014, on our consideration of the City of Georgetown, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** in considering City of Georgetown, Kentucky's internal control over financial reporting and compliance.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
Lexington, Kentucky
March 20, 2014

CITY OF GEORGETOWN, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2013

	Primary Government			2012 Totals
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 4,940,435	\$ 504,536	\$ 5,444,971	\$ 4,320,551
Investments	1,126,581	-	1,126,581	1,120,172
Accounts receivable				
Taxes & licenses, net	2,927,396	-	2,927,396	1,819,401
Customer, net	400,733	1,263,359	1,664,092	1,325,181
Intergovernmental	289,988	55,280	345,268	362,202
Other	76,200	-	76,200	-
Accrued interest	3,343	-	3,343	5,280
Prepaid expenses	138,785	78,360	217,145	25,672
Internal balances	1,073,544	(1,073,544)	-	-
Total current assets	<u>10,977,005</u>	<u>827,991</u>	<u>11,804,996</u>	<u>8,978,459</u>
Noncurrent assets				
Restricted cash and cash equivalents	381,301	1,975,136	2,356,437	2,401,657
Restricted investments	294,078	1,557,689	1,851,767	1,840,007
Accrued interest on note receivable	-	1,703	1,703	42,340
Note receivable	-	2,306,974	2,306,974	3,019,676
Other assets	145,394	190,298	335,692	367,204
Net capital assets	78,802,574	89,518,000	168,320,574	169,212,832
Construction in progress	77,246	368,883	446,129	360,265
Total noncurrent assets	<u>79,700,593</u>	<u>95,918,683</u>	<u>175,619,276</u>	<u>177,243,981</u>
Total assets	<u>\$ 90,677,598</u>	<u>\$ 96,746,674</u>	<u>\$ 187,424,272</u>	<u>\$ 186,222,440</u>
LIABILITIES				
Current liabilities				
Accounts payable	\$ 522,586	\$ 135,089	\$ 657,675	\$ 815,641
Contracts payable	-	100,858	100,858	52,009
Accrued liabilities	750,540	703,829	1,454,369	1,715,750
Accrued interest payable	28,938	58,027	86,965	84,410
Customer deposits	484,673	215,480	700,153	690,899
Deferred revenue	60,610	-	60,610	79,853
Accrued compensated absences, current	77,645	69,700	147,345	114,476
Current portion of long-term debt	595,174	1,157,839	1,753,013	1,776,656
Total current liabilities	<u>2,520,166</u>	<u>2,440,822</u>	<u>4,960,988</u>	<u>5,329,694</u>
Noncurrent liabilities				
Compensated absences	569,403	398,330	967,733	920,684
Accrued landfill closure and postclosure care	-	3,000,000	3,000,000	4,387,900
Bonds and notes payable	-	8,722,749	8,722,749	9,881,589
Capital lease obligations	11,665,585	-	11,665,585	11,721,756
Total liabilities	<u>14,755,154</u>	<u>14,561,901</u>	<u>29,317,055</u>	<u>32,241,623</u>
NET POSITION				
Net invested in capital assets	66,619,061	80,006,295	146,625,356	146,193,096
Restricted	1,703,190	3,232,256	4,935,446	4,764,070
Unrestricted	7,600,193	(1,053,778)	6,546,415	3,023,651
Total net position	<u>75,922,444</u>	<u>82,184,773</u>	<u>158,107,217</u>	<u>153,980,817</u>
Total liabilities and net position	<u>\$ 90,677,598</u>	<u>\$ 96,746,674</u>	<u>\$ 187,424,272</u>	<u>\$ 186,222,440</u>

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

CITY OF GEORGETOWN, KENTUCKY
STATEMENT OF ACTIVITIES
for the year ended June 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			2012 Totals
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Primary government								
Governmental activities								
General government	\$ 1,911,378	\$ 44,400	\$ -	\$ -	\$ (1,866,978)	\$ -	\$ (1,866,978)	\$ (1,833,249)
Public safety								
Police	5,134,699	105,986	395,483	-	(4,633,230)	-	(4,633,230)	(4,297,155)
Fire	4,795,935	-	218,167	33,300	(4,544,468)	-	(4,544,468)	(4,498,196)
Telecommunications	1,095,059	-	709,431	-	(385,628)	-	(385,628)	(373,170)
Building inspection	376,236	211,737	199,679	-	35,180	-	35,180	1,012
Codes enforcement	23,897	-	11,932	-	(11,965)	-	(11,965)	-
Public works	4,264,009	7,398	472,820	1,935,896	(1,847,895)	-	(1,847,895)	1,415,498
Community development	3,667,003	-	650,088	2,573	(3,014,342)	-	(3,014,342)	(2,962,381)
Interest on long-term debt	257,733	-	-	-	(257,733)	-	(257,733)	(281,513)
Total governmental activities	21,525,949	369,521	2,657,600	1,971,769	(16,527,059)	-	(16,527,059)	(12,829,154)
Business type activities								
Georgetown Municipal Water & Sewer:								
Administration	1,200,711	-	-	-	-	(1,200,711)	(1,200,711)	(1,168,680)
Water distribution	4,141,839	4,552,410	-	506,323	-	916,894	916,894	1,228,428
Sewer collection and treatment	5,594,203	5,529,620	-	1,468,710	-	1,404,127	1,404,127	196,886
Environmental service:								
Sanitation	1,345,180	1,877,177	-	-	-	531,997	531,997	531,217
Recycling	206,502	42,054	98,888	-	-	(65,560)	(65,560)	(48,768)
Stormwater management	94,144	-	-	-	-	(94,144)	(94,144)	(109,912)
Cemetery operations	237,446	206,336	39,503	-	-	8,393	8,393	(11,232)
Solid waste management	95,222	-	-	-	-	(95,222)	(95,222)	(104,432)
Total business-type activities	12,915,247	12,207,597	138,391	1,975,033	-	1,405,774	1,405,774	513,507
Total primary government	\$ 34,441,196	\$ 12,577,118	\$ 2,795,991	\$ 3,946,802	(16,527,059)	1,405,774	(15,121,285)	(12,315,647)
General revenue								
Property and other local taxes					1,963,015	-	1,963,015	1,824,480
Occupational licenses					12,547,572	-	12,547,572	10,883,905
Insurance premium					1,991,023	-	1,991,023	1,933,694
Licenses, fees, and permits					1,085,140	-	1,085,140	788,874
Fines and reimbursements					151,219	-	151,219	98,201
Telecommunications excise tax					99,646	-	99,646	100,961
Interest income					23,246	146,925	170,171	244,501
Miscellaneous					79,933	-	79,933	133,487
Total general revenues					17,940,794	146,925	18,087,719	16,008,103
Gain(loss) on sale of property					(61,300)	(27,534)	(88,834)	19,977
Reduction of postclosure care estimate					-	1,248,800	1,248,800	-
Transfers					403,850	(403,850)	-	-
Total general revenues and transfers					18,283,344	964,341	19,247,685	16,028,080
Change in Net Position					1,756,285	2,370,115	4,126,400	3,712,433
Net position-beginning					74,166,159	79,814,658	153,980,817	150,268,384
NET POSITION-ENDING					\$ 75,922,444	\$ 82,184,773	\$ 158,107,217	\$ 153,980,817

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

**CITY OF GEORGETOWN, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>	<u>2012 Totals</u>
ASSETS				
Cash and cash equivalents	\$ 4,662,660	\$ 277,775	\$ 4,940,435	\$ 3,834,995
Restricted cash	381,301	-	381,301	377,201
Investments	1,126,581	294,078	1,420,659	1,405,386
Accounts receivable:				
Taxes, net of allowance for uncollectible	2,927,396	-	2,927,396	1,789,995
Customer	400,733	-	400,733	148,037
Intergovernmental	229,381	60,607	289,988	318,516
Other	-	76,200	76,200	-
Accrued interest	3,343	-	3,343	5,280
Prepaid expenses	138,785	-	138,785	-
Due from other funds	<u>351,192</u>	<u>776,161</u>	<u>1,127,353</u>	<u>1,475,243</u>
 Total Assets	 <u>\$ 10,221,372</u>	 <u>\$ 1,484,821</u>	 <u>\$ 11,706,193</u>	 <u>\$ 9,354,653</u>
LIABILITIES				
Accounts payable	\$ 508,437	\$ 14,149	\$ 522,586	\$ 687,447
Accrued payroll liabilities	750,540	-	750,540	1,063,613
Deferred revenue	42,957	17,653	60,610	79,853
Deposits	482,701	1,972	484,673	481,534
Compensated absences	77,645	-	77,645	69,898
Due to other funds	<u>-</u>	<u>53,809</u>	<u>53,809</u>	<u>-</u>
 Total Liabilities	 <u>1,862,280</u>	 <u>87,583</u>	 <u>1,949,863</u>	 <u>2,382,345</u>
FUND BALANCE				
Fund Balance				
Restricted	381,301	1,321,889	1,703,190	1,482,696
Assigned	55,453	75,349	130,802	602,925
Unassigned	<u>7,922,338</u>	<u>-</u>	<u>7,922,338</u>	<u>4,886,687</u>
 Total Fund Balance	 <u>8,359,092</u>	 <u>1,397,238</u>	 <u>9,756,330</u>	 <u>6,972,308</u>
 Total Liabilities and Fund Balance	 <u>\$ 10,221,372</u>	 <u>\$ 1,484,821</u>	 <u>\$ 11,706,193</u>	 <u>\$ 9,354,653</u>

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, 2013

	<u>2013</u>	<u>2012 Totals</u>
Total Governmental Fund Balances	\$ 9,756,330	\$ 6,972,308
Amounts reported for governmental activities in the statement of net position are different because:		
Prior year revenue now 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 position		
	78,879,820	79,706,863
Unamortized bond issuance costs are not available to pay for current expenditures		
	145,394	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 position		
Long-term capital leases	(12,260,759)	(12,169,229)
Long-term compensated absences liability	(569,403)	(512,591)
Accrued interest on long-term debt	<u>(28,938)</u>	<u>(21,405)</u>
Net Position of Governmental Activities	<u>\$ 75,922,444</u>	<u>\$ 74,166,159</u>

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

CITY OF GEORGETOWN, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES
GOVERNMENTAL FUNDS
for the year ended June 30, 2013

	General Fund	Other Governmental Funds	Total Governmental Funds	2012 Totals
REVENUES				
Taxes	\$ 2,062,661	\$ -	\$ 2,062,661	\$ 1,925,441
Licenses and permits	15,864,878	-	15,864,878	13,784,676
Charges for service	157,784	-	157,784	129,261
Fines	151,219	-	151,219	98,201
Intergovernmental	1,984,111	709,362	2,693,473	2,981,983
Investment income	3,039	20,207	23,246	22,553
Other income	83,101	5,039	88,140	136,282
Total Revenues	20,306,793	734,608	21,041,401	19,078,397
EXPENDITURES				
Current				
Administration	1,021,022	2,332	1,023,354	1,002,763
City Council	133,993	-	133,993	146,024
City Clerk	200,692	-	200,692	187,441
Police	4,795,365	53,609	4,848,974	4,392,327
Fire	4,577,405	218	4,577,623	4,560,227
Telecommunications	1,058,976	-	1,058,976	1,023,184
Building inspection	371,606	-	371,606	406,132
Codes enforcement	23,897	-	23,897	-
Community development	3,558,186	108,817	3,667,003	4,122,473
Public works	984,371	418,217	1,402,588	1,469,332
Utilities	402,995	-	402,995	432,218
Capital outlay	64,341	841,172	905,513	306,687
Debt service	-	697,673	697,673	689,759
Total Expenditures	17,192,849	2,122,038	19,314,887	18,738,567
Excess of Revenues Over (Under) Expenditures	3,113,944	(1,387,430)	1,726,514	339,830
Other Sources				
Proceeds from sale of capital assets	39,658	75,000	114,658	28,736
Bond proceeds	-	539,000	539,000	-
Transfers	(661,323)	1,065,173	403,850	(114,084)
Net change in fund balance	2,492,279	291,743	2,784,022	254,482
Fund Balance, beginning of year	5,866,813	1,105,495	6,972,308	6,717,826
Fund Balance, end of year	\$ 8,359,092	\$ 1,397,238	\$ 9,756,330	\$ 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, 2013

	2013	2012 Totals
Net Change in Fund Balances - Total Governmental Funds	\$ 2,784,022	\$ 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.	905,513	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	1,935,896	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	(3,492,494)	(3,377,717)
Less write off of long-term gas pipeline receivable	-	(11,000)
Prior year revenues available to pay for current expenditures		
Licenses, fees and permits	(29,406)	29,406
Miscellaneous revenue	(8,206)	8,205
Gain (loss) on sale of assets do not provide current financial resources but are reported in the statement of activities	(61,300)	19,977
Proceeds from sale of assets are reported at net gain or loss in the statement of activities	(114,658)	(28,736)
Long-term compensated absences are not reported in the fund financial statements because they are not due in the current period, but they are presented as long-term liabilities in the statement of net position	(56,812)	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 position	(7,210)	(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 position	447,473	429,651
Lease proceeds are recognized as other financing sources in the fund financial statements, but are presented as long-term liabilities in the statement of net position.	(539,000)	-
Adjustment in accrued interest on long-term debt	(7,533)	(21,405)
Change in Net Position of Governmental Activities	\$ 1,756,285	\$ 2,862,894

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

CITY OF GEORGETOWN, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013

	Municipal Water & Sewer Funds	Environmental Services Fund	Landfill Fund	Cemetery Fund	Totals	2012 Totals
ASSETS						
Current assets						
Cash and cash equivalents	\$ 504,536	\$ -	\$ -	\$ -	\$ 504,536	\$ 485,556
Accounts receivable						
Customer, net of allowance	1,067,287	176,267	-	19,805	1,263,359	1,168,941
Intergovernmental	-	17,407	-	37,873	55,280	43,686
Interfund receivable	-	491,387	-	13,796	505,183	2,031,189
Prepaid expenses	78,360	-	-	-	78,360	25,672
Total current assets	<u>1,650,183</u>	<u>685,061</u>	<u>-</u>	<u>71,474</u>	<u>2,406,718</u>	<u>3,755,044</u>
Noncurrent assets						
Restricted cash and cash equivalents	1,975,136	-	-	-	1,975,136	2,024,456
Restricted investments	1,530,233	-	27,456	-	1,557,689	1,554,793
Accrued interest receivable	394	-	1,309	-	1,703	42,340
Note receivable	-	-	2,306,974	-	2,306,974	3,019,676
Other assets	190,298	-	-	-	190,298	214,600
Capital assets						
Construction in progress	368,883	-	-	-	368,883	360,265
Land and easements	734,074	9,000	2,409,689	45,079	3,197,842	3,149,514
Buildings and improvements	5,975,197	201,408	-	247,250	6,423,855	6,368,294
Utility plants in service	137,069,023	-	-	-	137,069,023	133,915,612
Vehicles and equipment	3,386,644	1,494,292	-	49,835	4,930,771	4,891,088
Less accumulated depreciation	(61,071,909)	(989,556)	-	(42,026)	(62,103,491)	(58,818,539)
Total noncurrent assets	<u>90,157,973</u>	<u>715,144</u>	<u>4,745,428</u>	<u>300,138</u>	<u>95,918,683</u>	<u>96,722,099</u>
Total assets	<u>\$ 91,808,156</u>	<u>\$ 1,400,205</u>	<u>\$ 4,745,428</u>	<u>\$ 371,612</u>	<u>\$ 98,325,401</u>	<u>\$ 100,477,143</u>
LIABILITIES AND NET ASSETS						
Current liabilities						
Accounts payable	\$ 62,700	\$ 57,105	\$ 5,325	\$ 9,959	\$ 135,089	\$ 128,194
Accrued liabilities	673,909	26,124	-	3,796	703,829	652,137
Contracts payable	100,858	-	-	-	100,858	52,009
Compensated absences	62,300	5,567	-	1,833	69,700	44,578
Interfund payable	-	-	1,578,727	-	1,578,727	3,506,432
Accrued interest payable	58,027	-	-	-	58,027	63,005
Current portion of long-term debt	1,157,839	-	-	-	1,157,839	1,329,183
Customer deposits	215,480	-	-	-	215,480	209,365
Total current liabilities	<u>2,331,113</u>	<u>88,796</u>	<u>1,584,052</u>	<u>15,588</u>	<u>4,019,549</u>	<u>5,984,903</u>
Long-term liabilities						
Compensated absences	344,058	40,825	-	13,447	398,330	408,093
Accrued landfill closure and postclosure care	-	-	3,000,000	-	3,000,000	4,387,900
Bonds, notes, and loans payable	8,722,749	-	-	-	8,722,749	9,881,589
Total long-term liabilities	<u>9,066,807</u>	<u>40,825</u>	<u>3,000,000</u>	<u>13,447</u>	<u>12,121,079</u>	<u>14,677,582</u>
Total liabilities	<u>11,397,920</u>	<u>129,621</u>	<u>4,584,052</u>	<u>29,035</u>	<u>16,140,628</u>	<u>20,662,485</u>
Net Position						
Net invested in capital assets	76,581,324	715,144	2,409,689	300,138	80,006,295	78,655,462
Restricted for debt service	3,232,256	-	-	-	3,232,256	3,281,374
Unrestricted	596,656	555,440	(2,248,313)	42,439	(1,053,778)	(2,122,178)
Total net position	<u>80,410,236</u>	<u>1,270,584</u>	<u>161,376</u>	<u>342,577</u>	<u>82,184,773</u>	<u>79,814,658</u>
Total liabilities and net position	<u>\$ 91,808,156</u>	<u>\$ 1,400,205</u>	<u>\$ 4,745,428</u>	<u>\$ 371,612</u>	<u>\$ 98,325,401</u>	<u>\$ 100,477,143</u>

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

CITY OF GEORGETOWN, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
PROPRIETARY FUND
for the year ended June 30, 2013

	Municipal Water & Sewer Funds	Environmental Services Fund	Landfill Fund	Cemetery Fund	Totals	2012 Totals
Operating revenues						
Water revenue	\$ 4,166,502	\$ -	\$ -	\$ -	\$ 4,166,502	\$ 4,067,307
Sewer revenue	3,747,385	-	-	-	3,747,385	3,593,623
Sanitation revenue	-	1,757,632	-	-	1,757,632	1,731,781
Recycling revenue	-	42,054	-	-	42,054	60,438
Cemetery revenue	-	-	-	206,336	206,336	203,128
Intergovernmental	-	98,888	-	39,503	138,391	119,879
Connection fees	710,369	-	-	-	710,369	814,425
Commercial user fees	1,041,116	-	-	-	1,041,116	1,057,639
Franchise fees	-	118,406	-	-	118,406	116,939
Miscellaneous	330,038	1,139	-	-	331,177	323,651
Penalties	86,620	-	-	-	86,620	80,386
Total operating revenues	10,082,030	2,018,119	-	245,839	12,345,988	12,169,196
Operating expenses						
Administrative	1,143,197	-	-	-	1,143,197	1,108,864
Water	2,715,704	-	-	-	2,715,704	2,478,704
Wastewater	3,110,115	-	-	-	3,110,115	2,941,744
Sanitation	-	1,262,655	-	-	1,262,655	1,254,697
Recycling	-	202,975	-	-	202,975	199,755
Stormwater	-	94,144	-	-	94,144	109,912
Landfill	-	-	95,222	-	95,222	104,432
Cemetery	-	-	-	221,261	221,261	227,707
Depreciation	3,499,310	86,052	-	16,185	3,601,547	3,535,962
Total operating expenses	10,468,326	1,645,826	95,222	237,446	12,446,820	11,961,777
Operating income (loss)	(386,296)	372,293	(95,222)	8,393	(100,832)	207,419
Nonoperating revenues (expenses)						
Interest income	16,349	2,205	128,309	62	146,925	221,948
Interest expense	(431,478)	-	-	-	(431,478)	(451,107)
Amortization expense	(36,949)	-	-	-	(36,949)	(36,949)
Reduction of postclosure care estimate	-	-	1,248,800	-	1,248,800	-
Loss on disposal of capital assets	-	(27,534)	-	-	(27,534)	-
Total nonoperating revenue (expenses)	(452,078)	(25,329)	1,377,109	62	899,764	(266,108)
Income (loss) before capital contributions and transfers	(838,374)	346,964	1,281,887	8,455	798,932	(58,689)
Capital contributed						
Developer contributions	1,755,155	-	-	-	1,755,155	702,444
Commercial user contributions	219,878	-	-	-	219,878	81,700
Grants	-	-	-	-	-	10,000
Transfers in (out)	-	(145,857)	(276,667)	18,674	(403,850)	114,084
Change in net position	1,136,659	201,107	1,005,220	27,129	2,370,115	849,539
Net position at beginning of year	79,273,577	1,069,477	(843,844)	315,448	79,814,658	78,965,119
NET POSITION AT END OF YEAR	\$ 80,410,236	\$ 1,270,584	\$ 161,376	\$ 342,577	\$ 82,184,773	\$ 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, 2013

	Municipal Water & Sewer Funds	Environmental Services Fund	Landfill Fund	Cemetery Fund	Totals	2012 Totals
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers	\$ 9,658,771	\$ 2,022,493	\$ -	\$ 234,789	\$ 11,916,053	\$ 11,788,311
Payments to suppliers	(3,000,484)	(722,064)	-	(98,811)	(3,821,359)	(3,892,085)
Payments for employee services and benefits	(3,942,652)	(860,293)	-	(121,271)	(4,924,216)	(4,737,046)
Internal activity - payments to other funds	-	-	-	8,490	8,490	(14,610)
Other receipts (payments)	330,038	-	-	-	330,038	322,663
Net cash provided by operations	3,045,673	440,136	-	23,197	3,509,006	3,467,233
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfers in (out)	-	(145,857)	(649,494)	18,674	(776,677)	114,084
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Reduction of long-term post-closure care liabilities	-	-	(135,374)	-	(135,374)	(97,266)
Acquisition and construction of capital assets	(1,784,532)	(296,484)	-	(41,933)	(2,122,949)	(2,186,375)
Capital contributions	509,745	-	-	-	509,745	375,103
Grants in aid of construction	-	-	-	-	-	10,000
Principal paid on capital debt	(1,342,831)	-	-	-	(1,342,831)	(1,281,647)
Draws on line of credit	-	-	-	-	-	1,000,000
Interest paid on capital debt	(473,405)	-	-	-	(473,405)	(522,190)
Net cash (used) by capital and related financing activities	(3,091,023)	(296,484)	(135,374)	(41,933)	(3,564,814)	(2,702,375)
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchase of investments	(2,896)	-	-	-	(2,896)	(4,598)
Interest received on long-term landfill sale note	-	-	72,166	-	72,166	96,925
Principal received on long-term landfill sale note	-	-	712,702	-	712,702	-
Interest income	17,906	2,205	-	62	20,173	31,489
Net cash provided (used) by investing activities	15,010	2,205	784,868	62	802,145	123,816
NET INCREASE (DECREASE) IN CASH	(30,340)	-	-	-	(30,340)	1,002,758
Cash and cash equivalents at beginning of year	2,510,012	-	-	-	2,510,012	1,507,254
CASH AT END OF YEAR	<u>\$ 2,479,672</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,479,672</u>	<u>\$ 2,510,012</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:						
Operating income (loss)	\$ (386,296)	\$ 372,293	\$ (95,222)	\$ 8,393	\$ (100,832)	\$ 207,419
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation expense	3,499,310	86,052	-	16,185	3,601,547	3,535,962
Non-cash credits on tipping fees	-	-	95,222	-	95,222	104,432
Change in assets and liabilities:						
Receivables, net	(99,336)	4,374	-	(11,050)	(106,012)	(71,857)
Prepaid expense	(52,688)	-	-	-	(52,688)	(1,768)
Other assets	24,302	-	-	-	24,302	24,302
Interfund payable	-	(37,360)	-	8,490	(28,870)	(448,635)
Accounts and other payables	(12,787)	15,993	-	(36)	3,170	98,860
Accrued expenses	67,053	(1,216)	-	1,215	67,052	4,883
Customer deposits	6,115	-	-	-	6,115	13,635
Net cash provided by operating activities	<u>\$ 3,045,673</u>	<u>\$ 440,136</u>	<u>\$ -</u>	<u>\$ 23,197</u>	<u>\$ 3,509,006</u>	<u>\$ 3,467,233</u>
Supplemental disclosures of cash flow information:						
Noncash capital and related financing activities:						
Capital contributions	\$ 1,465,288	\$ -	\$ -	\$ -	\$ 1,465,288	\$ 409,041
Increase (decrease) in contracts payable for capitall items	\$ 48,849	\$ -	\$ -	\$ -	\$ 48,849	\$ (254,673)
Deferred bond cost included with bonds payable	\$ 9,485	\$ -	\$ -	\$ -	\$ 9,485	\$ 12,648
Reduction in postclosure care estimate	\$ -	\$ -	\$ 1,252,526	\$ -	\$ 1,252,526	\$ -

The accompanying notes are an integral part of the financial statements

CITY OF GEORGETOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
for the year ended June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Government-wide Statements

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

B. Reporting Entity

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

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

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

C. Basis of Presentation

Government-wide Financial Statements

The government-wide statements and the proprietary fund financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

CITY OF GEORGETOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
for the year ended June 30, 2013

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 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 and state courts related to property seized in drug crimes. These funds are to be used to investigate and prevent further drug related crimes.

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

The **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.

CITY OF GEORGETOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
for the year ended June 30, 2013

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 1992) 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 Position

Cash and Investments

For the purposes of the proprietary funds', 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 to the General Fund for net disbursements on behalf of that fund.

All proprietary fund and property tax receivables are shown net of an allowance for estimated uncollectible accounts. The allowance for utility accounts is based upon historical trends and the periodic aging of accounts receivable. The General Fund's property tax receivable is reported net of allowance for uncollectible based on all outstanding amounts for tax years prior to 2012. Liens have been filed on these properties for all unpaid property taxes. At June 30, 2013, the allowance for doubtful accounts totaled \$83,328 for governmental activities and \$26,614 for business-type activities. The business-type activities allowance consists of \$16,614 for GMWSS and \$10,000 for the Cemetery Fund.

CITY OF GEORGETOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
for the year ended June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, Liabilities and Net Position (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 Position. Some expenditures of the City may be paid with restricted and non-restricted resources, and the City has determined that when both resources are available that they will use the restricted resources first.

Capital Assets

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

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

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

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

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

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

CITY OF GEORGETOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
for the year ended June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, Liabilities and Net Position (continued)

Long-Term Liabilities

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

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are recorded as 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 accumulate unused vacation and sick leave, subject to maximum amounts for carryover to subsequent years. Employees who have completed their initial probation period are paid for all accrued but unused vacation leave upon termination, resignation, or retirement. Employees are not paid for unused sick leave upon termination of employment. However, employees may use unpaid sick leave to purchase additional service credits with the Kentucky Retirement System upon retirement.

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

CITY OF GEORGETOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
for the year ended June 30, 2013

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.

I. Management's Review of Subsequent Events

The City has evaluated and considered the need to recognize or disclose subsequent events through March 20, 2014, 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, 2013, have not been evaluated by the City.

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, 2013, the City had \$7,096,896 in financial institutions, of which \$1,138,937 was insured by FDIC. The City had \$7,177,421 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 financial institution.

CITY OF GEORGETOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
for the year ended June 30, 2013

3. INVESTMENTS

The City's investments at June 30, 2013, are as follows:

<u>Type of Investments</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>	
		<u>Less Than 1</u>	<u>1 – 5 Years</u>
Governmental activities:			
Certificates of deposit	\$ 1,126,581	\$ 468,764	\$ 657,817
Money market/mutual funds	<u>294,078</u>	<u>294,078</u>	<u>-</u>
Total governmental activities	<u>\$ 1,420,659</u>	<u>\$ 762,842</u>	<u>\$ 657,817</u>
Business-type activities:			
Certificates of deposit	<u>\$ 1,557,689</u>	<u>\$ 500,972</u>	<u>\$ 1,056,717</u>

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, 2013, was \$2,306,974 and accrued interest was \$1,309.

5. CAPITAL ASSETS

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

	<u>July 1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2013</u>
	<u>Balance</u>			<u>Balance</u>
Governmental activities:				
Capital assets not depreciated				
Land	\$ 10,299,456	\$ -	\$ (75,000)	\$ 10,224,456
Construction in progress	<u>-</u>	<u>77,246</u>	<u>-</u>	<u>77,246</u>
Total	<u>10,299,456</u>	<u>77,246</u>	<u>(75,000)</u>	<u>10,301,702</u>
Capital assets being depreciated				
Buildings	27,226,194	-	-	27,226,194
Vehicles	4,648,704	525,392	(859,514)	4,314,582
Equipment	5,606,404	302,876	(121,798)	5,787,482
Infrastructure	<u>77,477,136</u>	<u>1,935,897</u>	<u>-</u>	<u>79,413,033</u>
Total	<u>114,958,438</u>	<u>2,764,165</u>	<u>(981,312)</u>	<u>116,741,291</u>
Accumulated depreciation	<u>(45,551,031)</u>	<u>(3,492,494)</u>	<u>880,352</u>	<u>(48,163,173)</u>
Governmental activities capital assets, net	<u>\$ 79,706,863</u>	<u>\$ (651,083)</u>	<u>\$ (175,960)</u>	<u>\$ 78,879,820</u>

CITY OF GEORGETOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
for the year ended June 30, 2013

5. CAPITAL ASSETS (CONTINUED)

	July 1, 2012			June 30, 2013
Business-type activities:	<u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u>
Capital assets not depreciated				
Land	\$ 3,149,514	\$ 28,766	\$ -	\$ 3,178,280
Construction in progress	<u>360,265</u>	<u>630,441</u>	<u>(621,823)</u>	<u>368,883</u>
Total	<u>3,509,779</u>	<u>659,207</u>	<u>(621,823)</u>	<u>3,547,163</u>
Capital assets being depreciated				
Land improvements	-	19,562	-	19,562
Buildings	6,368,294	55,561	-	6,423,855
Vehicles	2,530,155	289,378	(318,055)	2,501,478
Equipment	2,360,933	94,435	(26,075)	2,429,293
Utility Plant	<u>133,915,612</u>	<u>3,153,411</u>	<u>-</u>	<u>137,069,023</u>
Total	<u>145,174,994</u>	<u>3,612,347</u>	<u>(344,130)</u>	<u>148,443,211</u>
Accumulated depreciation	<u>(58,818,539)</u>	<u>(3,601,548)</u>	<u>316,596</u>	<u>(62,103,491)</u>
Business-type activities capital assets, net	<u>\$ 89,866,234</u>	<u>\$ 670,006</u>	<u>\$ (649,357)</u>	<u>\$ 89,886,883</u>

Depreciation expense was charged to governmental activities as follows:

General Government	\$ 544,774
Public Protection	
Police	262,003
Fire Protection	200,768
Telecommunications	32,107
Building Inspection	1,557
Public Works	<u>2,451,285</u>
	<u>\$ 3,492,494</u>

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 of these leases are variable-rates that adjust weekly based on the lowest rate that in the opinion of the Remarketing Agent would enable them to remarket the bonds at par for the week.

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.

**CITY OF GEORGETOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
for the year ended June 30, 2013**

7. LONG-TERM DEBT (CONTINUED)

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.	\$ 771,415
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.	2,045,177
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.	8,905,167
4-year promissory note for the purchase of 17 police cruisers and equipment. Interest is a fixed rate of 2.5%. The note matures on November 15, 2016 and is due in four equal annual installments of \$143,398. The police cruisers and equipment are pledged as collateral on the note.	<u>539,000</u>
Total governmental activity debt	<u>\$ 12,260,759</u>

The changes in long-term debt during the fiscal year ended June 30, 2013, are as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Capital leases	\$ 12,169,229	\$ -	\$ 447,470	\$ 11,721,759	\$ 465,438
Note payable	-	539,000	-	539,000	129,736
Compensated absences	<u>582,489</u>	<u>64,559</u>	<u>-</u>	<u>647,048</u>	<u>77,645</u>
Total Governmental	<u>\$ 12,751,718</u>	<u>\$ 603,559</u>	<u>\$ 447,470</u>	<u>\$ 12,907,807</u>	<u>\$ 672,819</u>

The annual debt service requirements to maturity, including principal, interest and fees for capital leases and notes payable as of June 30, 2013, are as follows:

	Principal	Interest	Fees	Total
2014	\$ 595,174	\$ 35,186	\$ 222,616	\$ 852,976
2015	617,400	31,012	213,904	862,316
2016	640,124	26,729	205,355	872,208
2017	664,311	22,310	195,483	882,104
2018	545,601	17,757	185,691	749,049
2019 – 2023	3,078,329	72,338	767,374	3,918,041
2024 – 2028	3,058,716	42,017	464,000	3,564,733
2029 – 2033	2,899,840	15,756	184,176	3,099,772
2034	<u>161,264</u>	<u>50</u>	<u>1,372</u>	<u>162,686</u>
	<u>\$ 12,260,759</u>	<u>\$ 263,155</u>	<u>\$ 2,439,971</u>	<u>\$ 14,963,885</u>

**CITY OF GEORGETOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
for the year ended June 30, 2013**

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.

	<u>Interest Rate</u>	<u>Final Maturity</u>	<u>Outstanding Principal</u>
Revenue bonds:			
Water and Sewer, Series 2003A	2.00-4.125%	2023	\$ 2,815,000
Water and Sewer, Series 2003B Refunding	2.00-3.500%	2014	395,000
Water and Sewer, Series 2007A	4.00-4.375%	2027	5,450,750
Deferred cost of refunding			<u>(9,485)</u>
Total revenue bonds			<u>8,651,265</u>
Notes payable and lines of credit:			
Kentucky Infrastructure Authority Series 2004	2.25-5.25%	2014	10,000
Kentucky Infrastructure Authority Subordinated Note, Series 1993	4.00%	2014	219,323
Kentucky Bank line of credit	2.98%	2014	<u>1,000,000</u>
Total notes payable			<u>1,229,323</u>
Other long-term obligations:			
Compensated absences—GMWSS			344,057
Compensated absences—Environmental Services			40,825
Compensated absences—Cemetery Operations			13,447
Landfill postclosure care			<u>3,000,000</u>
Total obligations			<u>13,278,918</u>
Less current portion of			
Revenue bonds			938,000
Notes payable			229,324
Deferred cost of refunding			<u>(9,485)</u>
			<u>1,157,839</u>
Total long-term obligations			<u>\$ 12,121,079</u>

The changes in long-term debt during 2013 are as follows:

	Beginning Balance	Additions	Payments	Ending Balance
Revenue bonds	\$ 9,545,617	\$ -	\$ 894,352	\$ 8,651,265
Notes payable	1,665,155	-	435,832	1,229,323
Landfill postclosure care	4,387,900	-	1,387,900	3,000,000
Compensated absences	<u>408,093</u>	<u>1,122</u>	<u>10,885</u>	<u>398,330</u>
Total Proprietary	<u>\$ 16,006,765</u>	<u>\$ 1,122</u>	<u>\$ 2,728,969</u>	<u>\$ 13,278,918</u>

**CITY OF GEORGETOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
for the year ended June 30, 2013**

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, 2013, are as follows:

<u>Fiscal Year</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2014	\$ 383,749	\$ 1,167,324	\$ 1,551,073
2015	314,958	1,565,417	1,880,375
2016	293,076	588,417	881,493
2017	270,049	611,833	881,882
2018	245,576	636,250	881,826
2019-2023	824,361	3,580,167	4,404,528
2024-2027	<u>177,675</u>	<u>1,740,667</u>	<u>1,918,342</u>
	<u>\$ 2,509,444</u>	<u>\$ 9,890,075</u>	<u>\$ 12,399,519</u>

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 Plant No.1 which approximated \$778,352 at June 30, 2013. This reserve was fully funded at June 30, 2013.

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 \$1,804,692 at June 30, 2013.

Note and Interest Reserve- This reserve receives sinking fund payments to meet semiannual debt service requirements on the subordinated note issued to finance the renovation and expansion of Water and Wastewater Treatment Plant No.1. At June 30, 2013 the reserve was fully funded with a balance of \$300,680.

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

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, 2013, for Revenue Bonds and for Industrial Bonds is not available.

**CITY OF GEORGETOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
for the year ended June 30, 2013**

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, 2013, 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 Statute 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, 2013, participating employers contributed 19.55% of each employee's wages for non-hazardous classifications and 37.60% 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:

<u>Year</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
2013	\$ 3,409,993	100%
2012	\$ 3,093,454	100%
2011	\$ 2,298,528	100%

**CITY OF GEORGETOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
for the year ended June 30, 2013**

10. INTERFUND RECEIVABLES/PAYABLES

Interfund receivable and payable balances as of June 30, 2013, were as follows:

Fund	Receivable	Payable
General Fund	\$ 351,192	\$ -
Municipal Aid	481,147	-
LGEA	47,136	-
Drug Forfeiture	135,099	-
Business Park	-	53,054
Federal & State Grants	-	755
Cemetery Perpetual Care	48,979	-
Capital Projects	63,800	-
Environmental Services	491,387	-
Landfill	-	1,578,727
Cemetery Operations	<u>13,796</u>	<u>-</u>
Total	<u>\$ 1,632,536</u>	<u>\$ 1,632,536</u>

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	\$ 240,000	\$ 901,323
Cemetery Perpetual Care	26,454	5,625
Capital Projects	1,044,344	-
Environmental Services	94,143	240,000
Landfill	-	276,667
Cemetery Operations	<u>45,128</u>	<u>26,454</u>
Total	<u>\$ 1,450,069</u>	<u>\$ 1,450,069</u>

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

- The transfer to the Cemetery Operations Fund was made to provide operating funds for the cemetery. In accordance with an interlocal agreement with Scott County Fiscal Court, the City and County are to split the cost of operating the cemetery 50/50 net of any income the cemetery may receive.
- In addition, the Perpetual Care Fund transfers investment earnings to the Operating Fund to cover maintenance costs. 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 Environmental Services Fund was to fund stormwater projects.
- The transfer to the Capital Projects Fund was to fund capital projects.
- The transfer to the General Fund was to reimburse the General Fund for prior purchases of Herbies.

CITY OF GEORGETOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
for the year ended June 30, 2013

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 Revenue Commission is managed by a separate board with the City, County and Board of Education providing funding. The City has contributed the following amounts to these organizations.

Georgetown/Scott County Parks & Recreation	\$	714,850
Georgetown/Scott County Planning & Zoning		348,000
Georgetown/Scott County Ambulance		1,482,493
Georgetown/Scott County Disaster & Emergency Services		118,324
Georgetown/Scott County Senior Citizens		97,000
Georgetown/Scott County Electrical Inspection		123,447
Georgetown/Scott County Animal Shelter		202,435
Georgetown/Scott County E911 Billing		31,844
Georgetown/Scott County Building Permit		105,631
Georgetown/Scott County CMRS		87,654
Georgetown/Scott County Museum		5,000
Georgetown/Scott County Revenue Commission		154,858
Scott United		33,750
Historic Georgetown		45,000
Chamber of Commerce		<u>7,900</u>
 Total Contributions	 \$	 <u>3,558,186</u>

13. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

The following commitments to construct projects and purchase materials have been made by the City as of June 30, 2013:

Governmental activities:

General fund

Center of Town renovations \$ 27,571

Business-type activities:

GMWSS

Water Treatment Plant Fluoride Tank \$ 76,354

N/W Bypass Utility Relocation 11,553

Total \$ 87,907

Environmental Services

Stormwater design services \$ 32,640

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

The City entered into a \$3 million line of credit agreement with Kentucky Bank August 31, 2009, on behalf of the Water and Sewer Service for the purpose of financing wastewater improvements and additions. The line of credit was renewed during July 2012 at an interest rate of 2.98% and a maturity date of August 2014. At June 30, 2013, \$1,000,000 was due on the line of credit.

CITY OF GEORGETOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
for the year ended June 30, 2013

14. CONTRIBUTED ASSETS

Contributed assets totaling \$1,975,033 have been reported in the accompanying statement of revenues, expenses, and changes in fund assets. These contributions include \$1,465,288 of water and sewer lines, which were constructed by developers and were contributed to the Water & Sewer Service and \$289,866 of cash contributions made by various state and local governments and developers. In addition, \$219,879 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 \$1,935,896 of roads, sidewalks and storm sewers donated during the year.

15. ECONOMIC DEPENDENCE

Toyota Motor Manufacturing Company, USA and its subsidiaries provided \$7,224,916 (45.5%) of the City's license fees and permit revenue and \$73,062 (3.5%) of the City's property tax revenue. The total amount paid by these companies represents 36.9% of the General Fund revenues. In addition, they provided 10% of the operating revenue of GMWSS. Ten other customers accounted for 7% of the operating revenue of GMWSS.

16. LANDFILL POSTCLOSURE COST

The City is in the process of providing postclosure 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 \$3,000,000 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 postclosure costs in future periods due to changes in the applicable laws or regulations and technology used in the postclosure 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.

The Landfill Fund reports a significant deficit in unrestricted net position, \$2,248,313, 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, 2013.

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.

CITY OF GEORGETOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
for the year ended June 30, 2013

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 \$2,937,166. Accumulated depreciation of \$1,838,992 has been charged through June 30, 2013.

20. RECLASSIFICATIONS

Certain presentations of accounts previously reported have been reclassified in these financial statements. Such reclassifications had no effect on net income or fund balances.

21. SUBSEQUENT EVENTS

Financial Reporting for Pension Plans

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.

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 amounts 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). The City is currently evaluating the effects of this statement on its financial statements. The Kentucky League of Cities (KLC) prepared estimates of the financial statement impact for all cities participating in CERS. KLC estimated that the City of Georgetown's unfunded liability would be approximately \$22,400,000 based on the 2011 actuarial analysis. The actual liability for June 30, 2014, could be considerably different due to changes in system assumptions and liabilities.

Tax Incentive

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.

**CITY OF GEORGETOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
for the year ended June 30, 2013**

21. SUBSEQUENT EVENTS (CONTINUED)

2013A Revenue Bonds and 2013B Refunding Revenue Bonds

On September 9, 2013, the City of Georgetown authorized the sale of \$4,775,000 (subject to adjustment) of Water and Sewer Revenue Bonds, Series 2013A and \$2,675,000 (subject to adjustment) of Water and Sewer Refunding Revenue Bonds, Series 2013B.

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

The Series 2013B Bonds are being issued for the purposes of: (a) refunding, redeeming and discharging the City's Water and Sewer Revenue Bonds, Series 2003A; (b) funding a debt service reserve; and (c) paying costs of issuance of the Series 2013B Bonds.

The Series 2013A bonds were delivered on September 30, 2013, and the Series 2013B Bonds were delivered on October 21, 2013.

SUPPLEMENTAL INFORMATION

CITY OF GEORGETOWN, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISONS
GENERAL FUND
for the year ended June 30, 2013

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Taxes	\$ 1,894,300	\$ 1,894,300	\$ 2,062,661	\$ 168,361
Licenses, and permits	13,681,713	13,681,713	15,864,878	2,183,165
Charges for service	145,700	145,700	157,784	12,084
Fines	96,800	96,800	151,219	54,419
Intergovernmental	2,122,100	2,122,100	1,984,111	(137,989)
Investment income	12,700	12,700	3,039	(9,661)
Other revenue	46,000	46,000	83,101	37,101
Total revenues	<u>17,999,313</u>	<u>17,999,313</u>	<u>20,306,793</u>	<u>2,307,480</u>
Expenditures				
Current				
Administration	964,654	989,707	1,021,022	(31,315)
City Council	149,300	149,300	133,993	15,307
City Clerk	203,576	203,576	200,692	2,884
Police	4,831,440	4,808,977	4,795,365	13,612
Fire	4,668,860	4,649,270	4,577,405	71,865
Telecommunications	1,253,940	1,253,940	1,058,976	194,964
Code enforcement	-	36,391	23,897	12,494
Building inspection	411,748	375,358	371,606	3,752
Community development	3,680,750	3,680,750	3,558,186	122,564
Public works	1,273,500	1,269,300	984,371	284,929
Utilities	439,400	439,400	402,995	36,405
Capital outlay	-	4,200	64,341	(60,141)
Debt service	-	-	-	-
Total expenditures	<u>17,877,168</u>	<u>17,860,169</u>	<u>17,192,849</u>	<u>667,320</u>
Excess of Revenues over (under) Expenditures	<u>122,145</u>	<u>139,144</u>	<u>3,113,944</u>	<u>2,974,800</u>
Other Financing Sources (Uses)				
Property sales	10,000	17,300	39,658	(22,358)
Transfers out	(735,070)	(840,370)	(661,323)	(179,047)
	(725,070)	(823,070)	(621,665)	(201,405)
Net change in fund balance	(602,925)	(683,926)	2,492,279	3,176,205
Fund balance, beginning of year	<u>5,866,813</u>	<u>5,866,813</u>	<u>5,866,813</u>	<u>-</u>
Fund balance, end of year	<u>\$ 5,263,888</u>	<u>\$ 5,182,887</u>	<u>\$ 8,359,092</u>	<u>\$ 3,176,205</u>

CITY OF GEORGETOWN, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
for the year ended June 30, 2013

Budgetary accounting and control

Budget Law

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

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

Budgetary Accounting

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

**CITY OF GEORGETOWN, KENTUCKY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2013**

	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	2012 Totals
ASSETS									
Cash and cash equivalents	\$ -	\$ 1,972	\$ -	\$ -	\$ 270,203	\$ 5,600	\$ -	\$ 277,775	\$ 271,457
Investments	-	-	-	-	294,078	-	-	294,078	285,214
Accounts receivable:									
Intergovernmental	41,108	-	4,139	-	-	12,787	2,573	60,607	121,925
Other	-	76,200	-	-	-	-	-	76,200	-
Prepaid expenses	-	-	-	-	-	-	-	-	-
Due from other funds	481,147	-	47,136	135,099	48,979	-	63,800	776,161	482,044
Total Assets	\$ 522,255	\$ 78,172	\$ 51,275	\$ 135,099	\$ 613,260	\$ 18,387	\$ 66,373	\$ 1,484,821	\$ 1,160,640
LIABILITIES									
Accounts payable	\$ -	\$ 5,203	\$ -	\$ -	\$ -	\$ -	\$ 8,946	\$ 14,149	\$ 34,555
Deferred revenue	-	-	-	-	-	17,653	-	17,653	18,621
Deposits	-	1,972	-	-	-	-	-	1,972	1,969
Due to other funds	-	53,054	-	-	-	755	-	53,809	-
Total Liabilities	-	60,229	-	-	-	18,408	8,946	87,583	55,145
FUND BALANCE									
Fund Balance									
Restricted	522,255	-	51,275	135,099	613,260	-	-	1,321,889	1,105,495
Assigned	-	17,943	-	-	-	(21)	57,427	75,349	-
Total Fund Balance	522,255	17,943	51,275	135,099	613,260	(21)	57,427	1,397,238	1,105,495
Total Liabilities and Fund Balance	\$ 522,255	\$ 78,172	\$ 51,275	\$ 135,099	\$ 613,260	\$ 18,387	\$ 66,373	\$ 1,484,821	\$ 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, 2013

	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	2012 Totals
REVENUES									
Intergovernmental	\$ 442,028	\$ -	\$ 14,993	\$ 185,584	\$ -	\$ 64,184	\$ 2,573	\$ 709,362	\$ 1,039,600
Other income		5,039						5,039	-
Interest income	2,159	-	212	606	17,230	-	-	20,207	13,842
Total Revenues	444,187	5,039	15,205	186,190	17,230	64,184	2,573	734,608	1,053,442
EXPENDITURES									
Current									
Administration	-	-	-	-	2,332	-	-	2,332	1,973
Police	-	-	-	42,561	-	11,048	-	53,609	71,628
Fire	-	-	-	-	-	218	-	218	2,099
Community development	-	-	-	-	-	-	108,817	108,817	500,000
Public works	402,398	-	-	-	-	15,819	-	418,217	439,884
Capital outlay	-	-	-	19,956	-	37,120	784,096	841,172	247,466
Debt Service	-	62,096	-	-	-	-	635,577	697,673	61,147
Total Expenditures	402,398	62,096	-	62,517	2,332	64,205	1,528,490	2,122,038	1,324,197
Excess of Revenues Over (Under) Expenditures	41,789	(57,057)	15,205	123,673	14,898	(21)	(1,525,917)	(1,387,430)	(270,755)
Other Financing Sources (Uses)									
Proceeds from sale of assets	-	75,000	-	-	-	-	-	75,000	-
Bond proceeds	-	-	-	-	-	-	539,000	539,000	-
Transfers in (out)	-	-	-	-	20,829	-	1,044,344	1,065,173	280,718
	-	75,000	-	-	20,829	-	1,583,344	1,679,173	280,718
Net change in fund balances	41,789	17,943	15,205	123,673	35,727	(21)	57,427	291,743	9,963
Fund Balance, beginning of year	480,466	-	36,070	11,426	577,533	-	-	1,105,495	1,095,532
Fund Balance, end of year	\$ 522,255	\$ 17,943	\$ 51,275	\$ 135,099	\$ 613,260	\$ (21)	\$ 57,427	\$ 1,397,238	\$ 1,105,495



Certified Public Accountants and Consultants

**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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in **Government Auditing Standards** issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Georgetown, Kentucky, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise City of Georgetown, Kentucky's basic financial statements, and have issued our report thereon dated March 20, 2014.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

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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
(CONTINUED)

Purpose of this Report

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

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
March 20, 2014