

**CITY OF GEORGETOWN
GEORGETOWN MUNICIPAL WATER AND
SEWER SERVICE
Georgetown, Kentucky**

**FINANCIAL STATEMENTS
June 30, 2017 and 2016**

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INDEPENDENT AUDITORS' REPORT

Board of Water and Sanitary
Sewer Commissioners
City of Georgetown
Georgetown, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the Georgetown Municipal Water and Sewer Service, a component unit of the City of Georgetown, Kentucky as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the entity'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Georgetown Municipal Water and Sewer Service, as of June 30, 2017 and 2016, and the changes in financial position, and cash flows for the years 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, the schedule of proportionate share of the net pension liability and the schedule of contributions on pages 3-5, 23 and 24 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 Georgetown Municipal Water and Sewer Service's basic financial statements. The combining and individual nonmajor fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual 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 and individual 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 September 29, 2017, on our consideration of the Georgetown Municipal Water and Sewer Service'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 Georgetown Municipal Water and Sewer Service's internal control over financial reporting and compliance.

RFH

RFH, PLLC
Lexington, Kentucky
September 29, 2017

**GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017**

The Management Discussion and Analysis (MD&A) gives readers an overview and analysis of the financial position and activity of Georgetown Municipal Water and Sewer Service (GMWSS) for the fiscal year ended June 30, 2017. This information should be read in conjunction with the Auditor's Reports and the financial statements immediately following this analysis.

FINANCIAL HIGHLIGHTS

- The assets of GMWSS exceeded its liabilities at the close of the fiscal year by \$75.4 million, compared to the previous fiscal year balance of \$75.9 million (net position).
- GMWSS's total net position, decreased \$543,878 from fiscal year 2016.
- GMWSS had total assets of \$92.7 million at June 30, 2017 with capital assets, net of depreciation comprising \$87.2 million of the total.
- GMWSS's debt decreased approximately \$270,000 to \$10.7 million at June 30, 2017.

FINANCIAL STATEMENTS

Financial statements include the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All the revenues earned and expenses incurred in the fiscal year are taken into account regardless of when cash is received or paid.

The Statement of Net Position presents information on all the assets and liabilities of GMWSS as of June 30, 2017. Net position is the difference between assets, deferred outflows and liabilities. Over time, increases or decreases in net position is one indicator of whether financial health is improving or deteriorating. Information on other factors, such as changes in the revenue structure and the condition of GMWSS's assets, is also needed to assess the overall financial situation of the GMWSS.

The Statement of Revenues, Expenses, and Changes in Net Position present GMWSS's annual revenues and expenses, as well as any other transactions that increase or reduce net position.

The Statement of Cash Flows presents the changes in the GMWSS's cash and cash equivalents for the year ended June 30, 2017, summarized by operating, capital and noncapital financing, and investing activities. The statement is prepared using the direct method of reporting cash flows, and, therefore, presents gross rather than net amounts for the year's activities.

REPORTING ON FUNDS

The combining and individual Enterprise Fund financial statements report GMWSS's activities in more detail than the consolidated financial statements. Plant No. 1 (which comprises the primary water plant, distribution, and two waste water plants) financial statements are presented on pages 28 - 31. Plant No. 2 is comprised of a waste water plant, which receives most of its revenues from a local manufacturing plant and a small portion from residential customers. These financial statements are presented on pages 32 and 33.

ANALYSIS OF GMWSS

Net Position

As of June 30, 2017, GMWSS had net position of \$75.4 million. Of this net position, \$76.5 million or 100.01% is net invested in capital assets. Restricted net position total \$3.1 million or 4.1%. This reflects funds held in various reserve accounts to meet the various bond and note covenants, or as deemed appropriate by management. Total assets were \$92.7 million and decreased by \$89,212 versus the prior year.

Revenues

Revenues for GMWSS for the fiscal year ended June 30, 2017, totaled \$11.5 million. Water and sewer revenues represent \$8.8 million or 76.4% of the total. Other major sources of revenue are connection fees and commercial user fees. Budgeted revenues for this same fiscal year were \$11.2 million. Total revenues increased approximately \$465,000 or 4.2% over the previous fiscal year.

Expenses

Expenses for GMWSS for the fiscal year ended June 30, 2017, totaled \$12.2 million; of which \$3.6 million represented depreciation expense. Budgeted expenses for this same fiscal year were \$11.9 million. Actual expenses for water treatment & distribution and sewer collection & treatment totaled \$10.3 million or 84% of the total. Expenses increased approximately \$833,000 or 7.3% over the previous fiscal year.

Operating Income

For the year ended June 30, 2017, operating income before non-operating revenues and expenses was approximately \$(698,000) which includes an allowance of \$3.6 million for depreciation expense. Non-operating expenses totaled approximately \$754,000. Contributed capital, which consists primarily of assets constructed by developers and contributed to GMWSS, totaled \$908,000. The decrease in net position was approximately \$544,000.

Liabilities

Total liabilities as of June 30, 2017, were \$18.6 million. Of this amount approximately \$1.2 million are classified as current liabilities to be paid from unrestricted assets. Additionally, \$1 million in current liabilities is to be paid from restricted assets. GMWSS maintains sufficient balances in unrestricted & restricted assets to cover these liabilities. Long-term liabilities consist primarily of bonds payable, line of credit payable and notes payable, which are funds borrowed by GMWSS to finance major capital improvement projects. These amounts, along with accruals for compensated absences and net pension liability, total \$16.4 million.

Capital Assets

GMWSS has been recording the value of capital assets on an ongoing basis. GMWSS's investment in capital assets totaled approximately \$161 million as of June 30, 2017, an increase of \$2.9 million over the previous fiscal year. This investment in capital assets includes land, buildings, equipment, water systems, and sewer systems. Major capital additions for this fiscal year included:

- Water and sewer system improvements constructed by developers and donated to GMWSS in the amount of \$674,976.
- Water and sewer system improvements constructed and acquired by GMWSS in the amount of \$1.8 million, which includes 1000 West Main Building improvements, Drake Dam Pump station, Hillside Land purchase, and a WWTP#1 Bridge.

Additional information on GMWSS's capital asset activity can be found in the notes on page 13.

Debt Administration

At the end of the fiscal year, GMWSS had \$10.7 million in bonds and lines of credit outstanding, of which \$816,250 is the current portion payable. The Board of Commissioners for GMWSS has authorized a debt to equity ratio of 28%. As of June 30, 2017, the debt to equity ratio was 14.2%. Additional information about long-term debt can be found in the notes beginning on page 19.

Deferred Inflows and Outflows of Resources

At the end of the fiscal year, GMWSS had \$1.4 million of deferred outflows of resources and approximately \$31,000 of deferred inflows of resources. The majority of the deferred outflows and inflows of resources are related to the net pension liability accrual.

BUDGET FOR FISCAL YEAR 2018

FY 2018 revenues are budgeted to be \$12.1 million, an increase of approximately \$864,500 or 7.7% from fiscal year 2017 budgeted revenues. Expenses (including depreciation) are budgeted to be \$12.7 million, an increase of approximately \$747,700 or 6.3% from 2017 budgeted expenses. Although GMWSS faces substantial price increases in many expense items in our budget, management continues to look for operating efficiencies in all areas that can be translated to budget savings.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the GMWSS's finances for all those interested. Questions concerning any of the information provided in this report or request for additional information should be addressed to Accounting Manager, Georgetown Municipal Water and Sewer Service, PO Box 640, Georgetown, Kentucky 40324.

CITY OF GEORGETOWN
GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE
STATEMENTS OF NET POSITION
June 30,

ASSETS	<u>2017</u>	<u>2016</u>
Current assets		
Cash and cash equivalents	\$ 725,714	\$ 659,808
Accounts receivable (net)	1,268,819	1,177,182
Prepaid expenses	<u>78,892</u>	<u>71,496</u>
Total current assets	<u>2,073,425</u>	<u>1,908,486</u>
Noncurrent assets		
Restricted cash	2,237,759	2,630,871
Restricted investments - certificate of deposit	1,098,501	1,098,495
Accrued interest receivable	1,787	440
Other assets	14,297	15,963
Capital assets		
Construction in progress	868,557	257,519
Land and easements	856,224	740,815
Buildings, property and equipment	8,147,955	8,872,255
Utility plants in service	149,097,347	146,452,196
Transportation and work equipment	1,990,136	1,717,941
Less accumulated depreciation	<u>(73,723,933)</u>	<u>(70,943,714)</u>
Total noncurrent assets	<u>90,588,630</u>	<u>90,842,781</u>
Total assets	<u>92,662,055</u>	<u>92,751,267</u>
DEFERRED OUTFLOWS OF RESOURCES		
Defeasance on refunding	9,035	10,481
Deferred outflows - pension	<u>1,345,050</u>	<u>1,040,572</u>
Total assets and deferred outflows of resources	<u>\$ 94,016,140</u>	<u>\$ 93,802,320</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 286,290	\$ 71,975
Accrued liabilities	859,504	828,695
Current portion of long-term debt	816,250	796,833
Line of credit payable	-	381,968
Customer deposits	241,740	239,820
Accrued interest payable	<u>31,245</u>	<u>31,245</u>
Total current liabilities	<u>2,235,029</u>	<u>2,350,536</u>
Noncurrent liabilities		
Accrued expenses	498,908	457,603
Net pension liability	5,979,178	5,270,574
Line of credit payable	909,797	-
Bonds, notes, and loans payable	<u>8,999,287</u>	<u>9,816,505</u>
Total noncurrent liabilities	<u>16,387,170</u>	<u>15,544,682</u>
Total liabilities	<u>18,622,199</u>	<u>17,895,218</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows - pension	<u>30,717</u>	<u>-</u>
NET POSITION		
Net invested in capital assets	77,420,749	76,101,706
Restricted for debt service	3,065,062	3,458,741
Unrestricted	<u>(5,122,587)</u>	<u>(3,653,345)</u>
Total net position	<u>75,363,224</u>	<u>75,907,102</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 94,016,140</u>	<u>\$ 93,802,320</u>

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

CITY OF GEORGETOWN
GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE
STATEMENTS OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION
for the years ended June 30,

	2017	2016
Operating revenues		
Water revenue	\$ 4,346,824	\$ 4,176,900
Sewer revenue	4,469,261	4,332,843
Connection fees	1,360,899	1,034,484
Commercial user fees	989,368	1,137,075
Miscellaneous	242,045	281,928
Penalties	133,478	113,520
Total operating revenues	11,541,875	11,076,750
Operating expenses		
Administration	766,744	811,436
Customer accounts	680,498	740,155
Water treatment plant	2,011,013	1,645,173
Water distribution	2,221,658	2,140,791
Wastewater treatment plant No. 1	2,477,101	2,350,632
Engineering	532,059	390,423
Wastewater collections	1,324,629	1,204,341
Wastewater treatment plant No. 2	2,226,255	2,123,802
Total operating expenses	12,239,957	11,406,753
Operating (loss)	(698,082)	(330,003)
Nonoperating revenues (expenses)		
Gain (loss) on disposal of fixed assets	(373,038)	6,677
Interest income	8,324	8,444
Interest expense	(386,778)	(393,666)
Amortization expense	(2,145)	(2,145)
Total nonoperating (expenses)	(753,637)	(380,690)
(Loss) before capital contributions	(1,451,719)	(710,693)
Developer contributions	674,976	533,788
Commercial user contributions	232,865	118,385
Change in net position	(543,878)	(58,520)
Net position at beginning of year	75,907,102	75,965,622
NET POSITION AT END OF YEAR	\$ 75,363,224	\$ 75,907,102

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

CITY OF GEORGETOWN
GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE
STATEMENTS OF CASH FLOWS
for the years ended June 30,

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 11,210,113	\$ 10,679,371
Payments to suppliers	(3,345,650)	(3,107,935)
Payments for employee services and benefits	(4,601,694)	(4,419,695)
Other receipts	<u>242,045</u>	<u>281,928</u>
Net cash provided by operating activities	<u>3,504,814</u>	<u>3,433,669</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(4,097,713)	(3,432,826)
Capital contributions	907,841	652,173
Proceeds from disposal of capital assets	7,625	6,677
Principal paid on capital debt	(797,802)	(773,417)
Net draws on line of credit	527,829	381,968
Interest paid on capital debt	<u>(386,778)</u>	<u>(394,716)</u>
Net cash (used) by capital and related financing activities	<u>(3,838,998)</u>	<u>(3,560,141)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	<u>6,978</u>	<u>8,445</u>
Net cash provided by investing activities	<u>6,978</u>	<u>8,445</u>
Net (decrease) in cash and cash equivalents	(327,206)	(118,027)
Cash and cash equivalents at beginning of year	<u>3,290,679</u>	<u>3,408,706</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,963,473</u>	<u>\$ 3,290,679</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating (loss)	\$ (698,082)	\$ (330,003)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	3,578,737	3,395,988
Change in assets and liabilities:		
Receivables, net	(91,637)	(125,966)
Prepaid expense	(7,396)	(13,195)
Accounts payable and other accrued liabilities	286,429	153,774
Customer deposits	1,920	10,515
Net pension liability	<u>434,843</u>	<u>342,556</u>
Net cash provided by operating activities	<u>\$ 3,504,814</u>	<u>\$ 3,433,669</u>
Supplemental disclosures of cash flow information:		
Non-cash capital and related financing activities:		
Increase in contracts payable for capital items	\$ 8,407	\$ 7,449
Amortization expense	\$ 2,145	\$ 2,145

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

CITY OF GEORGETOWN
GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Georgetown, Kentucky, Georgetown Municipal Water and Sewer Service (“Water and Sewer Service”) have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body of governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below, and where appropriate, subsequent pronouncements will be referenced.

A. Reporting Entity

The City of Georgetown, Kentucky (“the City”) created the Georgetown Municipal Water and Sewer Service by a City Ordinance and has delegated the authority of managing and controlling the municipal water and sewer systems to the Board of Water and Sanitary Sewer Commissioners (Board). The Board consists of five members, which are appointed by the Mayor and approved by the City Council.

The City retains certain control over the Board including:

1. Approval of all contracts for the purchase of materials, supplies, and equipment which exceed \$20,000,
2. Issuing all debt instruments required for capital construction or maintenance purposes, and
3. Approval of changes in the customer rate structure for services provided.

Because of the above oversight criteria, The Georgetown Municipal Water and Sewer Service and their activities are considered to be a part of the reporting entity of the City. As such, these financial statements are not intended to present fairly the financial position, results of operations and cash flows of the City.

B. Basis of Presentation, Fund Accounting

The accounts of the Water and Sewer Service are organized on the basis of funds, each of which is considered to be a separate fiscal and accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that is comprised of its assets, liabilities, net position, revenues and expenses, as appropriate.

The Water and Sewer Service has two enterprise funds consisting of one municipal water filtration plant, one distribution system, and two sewage treatment plants, which have been established to account for the acquisition, operation, and maintenance of the Water and Sewer Service facilities and services, which are entirely or predominately self-supported by user charges.

The sewage treatment plants are referred to as Wastewater Treatment Plant No. 1 and Wastewater Treatment Plant No. 2. Residents and businesses within the City have services provided by Wastewater Treatment Plant No. 1, and it is accounted for with the water system. Wastewater Treatment Plant No. 2 provides sanitary sewer service to a local manufacturing plant, with a portion of its capacity used for residential customers.

CITY OF GEORGETOWN
GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting

The enterprise funds are accounted for on the accrual basis of accounting. Their revenues are recognized in the period earned, and expenses are recognized at the time liabilities are incurred. Enterprise funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenue of the Water and Sewer Service are charges to customers for sales and services. The Water and Sewer Service also recognizes as operating revenue connection fees intended to recover the costs of connecting new customers to the utility system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenses during the reporting period. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for account balances deemed not collectible, and the time period used to depreciate the utility plants. Actual results could differ from estimated amounts.

E. Budgetary Control and Encumbrances

Budget Policy - The Board annually prepares and approves a budget. The budget is prepared on the same basis as the financial statements, and budgetary control is maintained at the department level. Appropriations lapse at year end; however, uncompleted capital projects may be re-appropriated at the beginning of each fiscal year.

Encumbrances - The Water and Sewer Service does not report its financial statements on an encumbrance basis.

F. Assets, Liabilities, and Net Position

Cash and cash equivalents - For purposes of reporting cash flows, cash and cash equivalents consist of cash on hand, cash on deposit with banks, and certificates of deposit with an original maturity of less than three months (including amounts held in restricted asset accounts).

Investments - Investments of the Water and Sewer Service consist of certificates of deposits with an original maturity of three months or greater. The certificates of deposit are reported at cost.

Receivables - Customer accounts receivable reflect revenues earned or accrued in the current period from customers of the water and sewer system. These accounts are stated at face value less an allowance for uncollectible accounts of \$16,614. Accounts receivable from other governments include amounts due to be reimbursed on the cost of construction projects, which have been incurred by the Water and Sewer Service

CITY OF GEORGETOWN
GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Assets, Liabilities, and Net Position, continued

Inventories - Purchases of supplies are expensed when purchased and are not inventoried and reflected in the balance sheet. Generally, supplies are purchased as needed. 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, are classified as restricted assets on the balance sheet since their use is limited by applicable bond and note indentures.

Capital Assets - Expenditures having a useful life greater than one year are capitalized. Capital assets are stated at cost. Depreciation is provided over the estimated useful lives of the related assets using the straight-line method as follows:

Buildings and improvements	15-40 years
Utility plant	15-40 years
Furniture, fixtures and equipment	7-10 years
Transportation and work equipment	5-10 years

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

Deferred Charges - The discounts and premiums associated with issuing debt are deferred and amortized to interest expense, using the straight-line method over the life of the related debt. The discounts and premiums are included with long-term debt on the statement of net position.

Contracts Payable - Contracts payable reflect amounts due to contractors for work on construction projects, which were incurred but unpaid at year end. This liability includes amounts held by the Water and Sewer Service for retainage, which is to be paid upon completion of the construction projects.

Long-Term Obligations - Long-term liabilities include (a) principal outstanding on revenue bonds and notes, and (b) accrued compensated absences, which reflect the extent that future benefits have been earned as it relates to rights attributable to employee services already rendered, and are probable of being paid out. Management has estimated a portion of the compensated absences to be a current liability.

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

Restricted Net Position - Restricted net position reflect funds held in various reserve accounts to meet the various covenants as may be specified and defined in the revenue bond and note indentures or as deemed appropriate by management.

When both restricted and unrestricted resources are available for use, it is the Water and Sewer Service's policy to use restricted resources first, then unrestricted resources as they are needed.

**CITY OF GEORGETOWN
 GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2017 and 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Management's Review of Subsequent Events

The Water and Sewer Service has evaluated and considered the need to recognize or disclose subsequent events through September 29, 2017; which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended June 30, 2017, have not been evaluated by the Water and Sewer Service.

2. CASH AND INVESTMENTS

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Water and Sewer Service funds on deposit with the banks may not be returned or the Water and Sewer Service will not be able to recover collateral securities in the possession of an outside party. The Water and Sewer Service's policy requires bank balances to be 100% secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation (FDIC) insurance. At June 30, 2017, all of the Water and Sewer Service's funds were entirely covered by the Federal Depository Insurance Corporation (FDIC) or by collateral held by custodial banks. At June 30, 2017, the bank balance of the Company's deposits was \$4,657,348 of which \$1,156,087 was covered by FDIC insurance and \$3,501,261 was collateralized by securities held by the pledging financial institution.

Under KRS 66.480, the Water and Sewer Service is allowed to invest in obligations of the U.S. treasury and U.S. agencies, repurchase agreements, obligations of the Commonwealth of Kentucky and its agencies, insured savings and loans, or interest-bearing deposits of insured national or state banks.

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 Water and Sewer Service does not have a policy related to interest rate risk.

Concentration of credit risk is the risk of loss attributed to the magnitude of the Water and Sewer Service's investment in a single issuer. The Water and Sewer Service's policy is that with the exception of fully insured or fully collateralized investments and demand deposit accounts, no more than 20% of the total investment portfolio shall be invested in a single security type of a single financial institution.

The Water and Sewer Service's book value of investments at June 30, 2017 and 2016 were as follows:

<u>Type of Investments</u>	<u>Book Value 6/30/2017</u>	<u>Book Value 6/30/2016</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
Kentucky Bank:				
Certificate of deposit	\$ 201,201	\$ 201,201	0.560%	8/4/2018
Certificate of deposit	123,271	123,265	1.050%	4/24/2019
United Bank:				
Certificate of deposit	524,029	524,029	0.420%	11/18/2018
Central Bank & Trust Company:				
Certificate of deposit	<u>250,000</u>	<u>250,000</u>	0.750%	3/26/2019
	<u>\$ 1,098,501</u>	<u>\$ 1,098,495</u>		

**CITY OF GEORGETOWN
 GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2017 and 2016**

3. CAPITAL ASSETS

The following is a summary of changes in capital assets and accumulated depreciation for the year ended June 30, 2017:

	Balance July 01, 2016	Additions	Deletions	Balance June 30, 2017
Land and easements	\$ 740,815	\$ 177,145	\$ (61,736)	\$ 856,224
Buildings, property, and equipment	8,872,255	332,078	(1,056,378)	8,147,955
Utility plants in service	146,452,196	2,681,508	(36,357)	149,097,347
Transportation and work equipment	1,717,941	296,903	(24,708)	1,990,136
Construction in progress	<u>257,519</u>	<u>1,724,251</u>	<u>(1,113,213)</u>	<u>868,557</u>
	<u>158,040,726</u>	<u>5,211,885</u>	<u>(2,292,392)</u>	<u>160,960,219</u>
Accumulated depreciation	<u>(70,943,714)</u>	<u>(3,578,737)</u>	<u>798,518</u>	<u>(73,723,933)</u>
	<u>\$ 87,097,012</u>	<u>\$ 1,633,148</u>	<u>\$ (1,493,874)</u>	<u>\$ 87,236,286</u>

The following is a summary of changes in capital assets and accumulated depreciation for the year ended June 30, 2016:

	Balance July 01, 2015	Additions	Deletions	Balance June 30, 2016
Land and easements	\$ 736,302	\$ 4,513	\$ -	\$ 740,815
Buildings, property, and equipment	7,522,320	1,349,935	-	8,872,255
Utility plants in service	144,508,871	1,947,595	(4,270)	146,452,196
Transportation and work equipment	1,653,713	116,629	(52,401)	1,717,941
Construction in progress	<u>235,915</u>	<u>1,839,563</u>	<u>(1,817,959)</u>	<u>257,519</u>
	<u>154,657,121</u>	<u>5,258,235</u>	<u>(1,874,630)</u>	<u>158,040,726</u>
Accumulated depreciation	<u>(67,604,396)</u>	<u>(3,395,988)</u>	<u>56,670</u>	<u>(70,943,714)</u>
	<u>\$ 87,052,725</u>	<u>\$ 1,862,247</u>	<u>\$ (1,817,960)</u>	<u>\$ 87,097,012</u>

Depreciation expense was charged to operations as follows, for the year ended June 30:

	2017	2016
Administration	\$ 81,690	\$ 44,732
Customer accounts	10,050	19,051
Water treatment plant	169,356	168,114
Water distribution	1,142,332	1,104,553
Engineering	14,369	12,298
Waste water treatment plant No. 1	1,285,726	1,208,565
Wastewater collections	380,301	348,964
Sewer plant No. 2	<u>494,913</u>	<u>489,711</u>
	<u>\$ 3,578,737</u>	<u>\$ 3,395,988</u>

CITY OF GEORGETOWN
GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

4. RETIREMENT PLAN

Georgetown Municipal Water and Sewer Service 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 publicly available financial statements which may be downloaded from the Kentucky Retirement Systems website.

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

Contributions – For the years ended June 30, 2017 and 2016, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the years ended June 30, 2017 and 2016, participating employers contributed 18.68% and 17.06% of each employee's wages, respectively, 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.

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5.00% of wages to their own account and 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

The Water and Sewer Service contributed \$542,397 for the year ended June 30, 2017, or 100% of the required contribution. The contribution was allocated \$405,056 to the CERS pension fund and \$137,341 to the CERS insurance fund. The Water and Sewer Service contributed \$494,217 for the year ended June 30, 2016, or 100% of the required contribution. The contribution was allocated \$359,799 to the CERS pension fund and \$134,418 to the CERS insurance fund.

**CITY OF GEORGETOWN
 GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE
 NOTES TO FINANCIAL STATEMENTS
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4. RETIREMENT PLAN (CONTINUED)

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

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

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

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2017, the Water and Sewer Service reported a liability of \$5,979,178 or its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Water and Sewer Service's proportion of the net pension liability was based on a projection of the Water and Sewer Service's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2016, the Water and Sewer Service's proportion was .1214 percent, which was a decrease of .0012% from its proportion measured as of June 30, 2015. At June 30, 2016, the Water and Sewer Service reported a liability of \$5,270,574 or its proportionate share of the net pension liability. At June 30, 2015, the Water and Sewer Service's proportion was .1226 percent, which was an increase of .0023% from its proportion measured as of June 30, 2014.

**CITY OF GEORGETOWN
 GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE
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 June 30, 2017 and 2016**

4. RETIREMENT PLAN (CONTINUED)

For the years ended June 30, 2017 and 2016, the Water and Sewer Service recognized pension expense of \$825,117 and \$702,355, respectively. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ 26,104	\$ -
Changes of assumptions	316,745	-
Net difference between projected and actual earnings on Plan investments	562,104	-
Changes in proportion and differences between Company contributions and proportionate share of contributions	35,041	30,717
Company contributions subsequent to the measurement date	<u>405,056</u>	<u>-</u>
Total	<u>\$ 1,345,050</u>	<u>\$ 30,717</u>

At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ 47,246	\$ -
Changes of assumptions	531,480	-
Net difference between projected and actual earnings on Plan investments	43,800	-
Changes in proportion and differences between Company contributions and proportionate share of contributions	58,247	-
Company contributions subsequent to the measurement date	<u>359,799</u>	<u>-</u>
Total	<u>\$ 1,040,572</u>	<u>\$ -</u>

The \$405,056 of deferred outflows of resources resulting from the Water and Sewer Service's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending June 30,	
2018	\$ 347,729
2019	224,053
2020	212,640
2021	124,855

**CITY OF GEORGETOWN
 GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2017 and 2016**

4. RETIREMENT PLAN (CONTINUED)

Actuarial Assumptions – The total pension liability in the June 30, 2016 and 2015 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used in the June 30, 2016 and 2015 valuations were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013.

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

The target allocation and best estimates of nominal real rates of return for each major asset class used in the June 30, 2016 and 2015 valuations are summarized in the following table:

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

**CITY OF GEORGETOWN
 GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE
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4. RETIREMENT PLAN (CONTINUED)

Discount Rate – The discount rate used to measure the total pension liability was 7.50 percent for the June 30, 2016 and 2015 valuations. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 27 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate does not use a municipal bond rate.

Sensitivity of the Water and Sewer Service’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the Water and Sewer Service’s proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the Water and Sewer Service’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate at June 30, 2017:

	<u>Discount rate</u>		<u>Company’s proportionate share of net pension liability</u>
1% decrease	6.50%	\$	7,451,022
Current discount rate	7.50%	\$	5,979,178
1% increase	8.50%	\$	4,717,512

The following presents the Water and Sewer Service’s proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the Water and Sewer Service’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate at June 30, 2016:

	<u>Discount rate</u>		<u>Company’s proportionate share of net pension liability</u>
1% decrease	6.50%	\$	6,728,549
Current discount rate	7.50%	\$	5,270,574
1% increase	8.50%	\$	4,021,957

Payable to the Pension Plan – At June 30, 2017 and 2016, the Water and Sewer Service reported a payable of \$52,482 and \$49,826, respectively, for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2017 and 2016. The payable includes both the pension and insurance contribution allocation.

**CITY OF GEORGETOWN
 GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2017 and 2016**

5. LONG-TERM DEBT

Bonds Payable, Notes Payable and Compensated Absences as of June 30, 2017:

	<u>Interest Rates</u>	<u>Final Maturity</u>	<u>Outstanding Principal</u>
Revenue bonds:			
Kentucky Rural Water & Sewer, Series 2007A	4.00-4.375%	2027	\$ 4,141,083
Revenue Bonds, Series 2013A	2.00-4.250%	2033	4,035,000
Revenue Bonds, Series 2013B	1.00-3.000%	2023	1,615,000
Bond premium			<u>24,454</u>
Total revenue bonds			9,815,537
Other long-term obligations:			
Net pension liability			5,979,178
Line of credit			909,797
Compensated absences			<u>498,908</u>
Total obligations			<u>17,203,420</u>
Less current portion of:			
Revenue bonds			<u>816,250</u>
Total long-term obligations			<u>\$ 16,387,170</u>

Bonds Payable, Notes Payable and Compensated Absences as of June 30, 2016:

	<u>Interest Rates</u>	<u>Final Maturity</u>	<u>Outstanding Principal</u>
Revenue bonds:			
Kentucky Rural Water & Sewer, Series 2007A	4.00-4.375%	2027	\$ 4,487,916
Revenue Bonds, Series 2013A	2.00-4.250%	2033	4,230,000
Revenue Bonds, Series 2013B	1.00-3.000%	2023	1,870,000
Bond premium			<u>25,422</u>
Total revenue bonds			10,613,338
Other long-term obligations:			
Net pension liability			5,270,574
Compensated absences			<u>457,603</u>
Total obligations			<u>16,341,515</u>
Less current portion of:			
Revenue bonds			<u>796,833</u>
Total long-term obligations			<u>\$ 15,544,682</u>

**CITY OF GEORGETOWN
 GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2017 and 2016**

5. LONG-TERM DEBT (CONTINUED)

Summary of Bonds, Net Pension Liability and Compensated Absences Transactions

	Balance <u>July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2017</u>
Revenue bonds	\$ 10,587,916	\$ -	\$ 796,833	\$ 9,791,083
Bond premium	25,422	-	968	24,454
Line of credit	-	1,381,968	472,171	909,797
Net pension liability	5,270,574	708,604	-	5,979,178
Compensated absences	457,603	41,305	-	498,908
	<u>\$ 16,341,515</u>	<u>\$ 2,131,877</u>	<u>\$ 1,269,972</u>	<u>\$ 17,203,420</u>

	Balance <u>July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2016</u>
Revenue bonds	\$ 11,361,333	\$ -	\$ 773,417	\$ 10,587,916
Bond premium	26,387	-	965	25,422
Net pension liability	3,903,302	1,367,272	-	5,270,574
Compensated absences	414,708	42,895	-	457,603
	<u>\$ 15,705,730</u>	<u>\$ 1,410,167</u>	<u>\$ 774,382</u>	<u>\$ 16,341,515</u>

The annual requirements to amortize the Water and Sewer Service's indebtedness as of June 30, 2017 (including interest payments) are as follows:

<u>Fiscal Year</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2018	\$ 351,906	\$ 816,250	\$ 1,168,156
2019	329,121	841,250	1,170,371
2019	304,641	866,250	1,170,891
2021	278,171	892,083	1,170,254
2022	249,628	924,083	1,173,711
2023-2027	786,028	3,671,167	4,457,195
2028-2032	255,000	1,455,000	1,710,000
2033	13,813	325,000	338,813
	<u>\$ 2,568,308</u>	<u>\$ 9,791,083</u>	<u>\$ 12,359,391</u>

Description of Bonds and Notes Payable

2007A Kentucky Rural Water Finance Corporation Bonds

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

**CITY OF GEORGETOWN
GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016**

5. LONG-TERM DEBT (CONTINUED)

Description of Bonds and Notes Payable (continued)

2013A Revenue Bonds and 2013B Refunding Revenue Bonds

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

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

The Series 2013B Bonds 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. As a result the Series 2003A bonds were refunded. As a result of the refunding the Water and Sewer Service reduced debt service by \$531,377 over the next 10 years. The present value of the cash flow savings and economic gain was \$456,925.

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

Bond and Interest Reserve- This reserve includes the sinking fund payments as required by the Revenue Bond ordinance, plus a Sinking Fund Reserve equal to the maximum annual debt service required on all revenue bonds outstanding of Water and Wastewater Treatment Plant No.1. The balance in the reserve was \$960,173 and \$958,824 at June 30, 2017 and 2016, respectively. This reserve was fully funded at June 30, 2017 and 2016.

Depreciation Reserve- All excess cash flow generated each month over and above that required for three month's operating expenses and sinking fund requirements, or \$5,000 per month, whichever is greater, are to be deposited into this reserve for use in financing contingencies or for the retirement of revenue bonds. The reserve has been funded as required. The balance in the reserve was \$2,069,920 and \$2,184,914 at June 30, 2017 and 2016, respectively.

6. CONTRIBUTED ASSETS

Contributed assets totaling \$907,841 and \$652,173 have been reported in the accompanying statements of revenues, expenses, and changes in fund assets for the years ended June 30, 2017 and 2016, respectively. These contributions include \$674,976 and \$533,788 of cash contributions made by various state and local governments and developers for the years ended June 30, 2017 and 2016, respectively. In addition, for the years ended June 30, 2017 and 2016, \$232,865 and \$118,385 [Fund 02] of capital contributions were received from a commercial customer, respectively. These funds were used to construct various water and sewer projects.

**CITY OF GEORGETOWN
 GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2017 and 2016**

7. ECONOMIC DEPENDENCE

One manufacturing plant accounted for 68% and 86% of the revenues of Wastewater Treatment Plant No.2 for the years ended June 30, 2017 and 2016, respectively. Ten customers accounted for 8% of the operating revenues of the Water and Wastewater Treatment Plant No.1 for the years ended June 30, 2017 and 2016.

8. COMMITMENTS AND CONTINGENCIES

The Water and Sewer Service entered into a \$3 million line of credit agreement with Kentucky Bank on August 31, 2009, on behalf of the Water and Sewer Service for the purpose of financing wastewater improvements and additions. The line of credit was renewed during July 2014 at an interest rate of 2.75%. The note was renewed in September 2016 and is scheduled to mature on September 4, 2018. At June 30, 2017, there was a balance of \$909,797 included in long-term liabilities.

	<u>July 1, 2016</u>	<u>Advances</u>	<u>Payments</u>	<u>June 30, 2017</u>
Line of credit	\$ 381,968	\$ 1,000,000	\$ 472,171	\$ 909,797
	<u>July 1, 2015</u>	<u>Advances</u>	<u>Payments</u>	<u>June 30, 2016</u>
Line of credit	\$ -	\$ 500,000	\$ 118,032	\$ 381,968

The Water and Sewer Service is subject to legal proceedings arising from normal business activities. Administrative officials believe that these actions are without merit or that the ultimate liability, if any, resulting from them will not materially affect the accompanying financial statements. The Water and Sewer Service has insurance coverage from various entities, thus transferring risk of loss.

9. RISK MANAGEMENT

The Water and Sewer Service is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disasters. In addition to its general liability insurance, the Water and Sewer Service also carries commercial insurance for all other risks of loss such as worker's compensation and employee health and accident insurance.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF GEORGETOWN
 GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE
 REQUIRED SUPPLEMENTAL SCHEDULE OF
 PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 Last Four Fiscal Years**

	2017	2016	2015	2014
Company's proportion of the net pension liability	0.1214%	0.1226%	0.1203%	0.1200%
Company's proportionate share of the net pension liability (asset)	\$ 5,979,178	\$ 5,270,574	\$ 3,903,302	\$ 3,590,261
Company's covered employee payroll	\$ 2,896,935	\$ 2,854,866	\$ 2,760,282	\$ 2,624,486
Company's share of the net pension liability (asset) as a percentage of its covered employee payroll	206.40%	184.62%	141.41%	136.80%
Plan fiduciary net position as a percentage of the total pension liability	55.50%	59.97%	66.80%	61.22%

Notes:

There were no changes in benefit terms, size or composition of the population covered by the benefit terms, or the assumptions used in the current fiscal year.

The measurement date of the net pension liability is one year preceding the fiscal year of the Water & Sewer Service.

The Water & Sewer Services' covered payroll reported above is payroll for the corresponding measurement date of the net pension liability and differs from the Water & Sewer Service's fiscal year payroll, reported on the Schedule of Contributions.

**CITY OF GEORGETOWN
 GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE
 REQUIRED SUPPLEMENTAL
 SCHEDULE OF CONTRIBUTIONS
 Last Five Fiscal Years**

	2017	2016	2015	2014	2013
Contractually required employer contribution	\$ 405,056	\$ 359,799	\$ 364,660	\$ 379,263	\$ 331,210
Contributions relative to contractually required employer contribution	<u>\$ 405,056</u>	<u>\$ 359,799</u>	<u>\$ 364,660</u>	<u>\$ 379,263</u>	<u>\$ 331,210</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Company's covered employee payroll	\$ 2,904,499	\$ 2,896,935	\$ 2,854,866	\$ 2,760,282	\$ 2,624,486
Employer contributions as a percentage of covered-employee payroll	13.95%	12.42%	12.77%	13.74%	12.62%

Notes:

There were no changes in benefit terms, size or composition of the population covered by the benefit terms, or the assumptions used in the current fiscal year.

The Water & Sewer Services' covered payroll reported above is payroll for the Water & Sewer Service's corresponding fiscal year and differs from the covered payroll reported on the Schedule of Proportionate Share of the Net Pension Liability.

SUPPLEMENTARY INFORMATION

COMBINING STATEMENTS

CITY OF GEORGETOWN
GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE
COMBINING STATEMENT OF FUND NET POSITION
June 30, 2017

	Water & Wastewater Treatment Plant No. 1	Wastewater Treatment Plant No. 2	Totals
ASSETS			
Current assets			
Cash and cash equivalents	\$ 722,870	\$ 2,844	\$ 725,714
Accounts receivable (net)	1,186,958	81,861	1,268,819
Interfund receivable (payable)	1,539,624	(1,539,624)	-
Prepaid expenses	<u>68,731</u>	<u>10,161</u>	<u>78,892</u>
Total current assets	<u>3,518,183</u>	<u>(1,444,758)</u>	<u>2,073,425</u>
Noncurrent assets			
Restricted cash	2,237,759	-	2,237,759
Restricted investments - certificate of deposit	1,098,501	-	1,098,501
Accrued interest receivable	1,787	-	1,787
Other assets	14,297	-	14,297
Capital assets			
Construction in progress	868,557	-	868,557
Land and easements	726,205	130,019	856,224
Buildings, property and equipment	3,341,753	4,806,202	8,147,955
Utility plants in service	130,462,720	18,634,627	149,097,347
Transportation and work equipment	1,813,053	177,083	1,990,136
Less accumulated depreciation	<u>(57,913,635)</u>	<u>(15,810,298)</u>	<u>(73,723,933)</u>
Total noncurrent assets	<u>82,650,997</u>	<u>7,937,633</u>	<u>90,588,630</u>
Total assets	<u>86,169,180</u>	<u>6,492,875</u>	<u>92,662,055</u>
DEFERRED OUTFLOWS OF RESOURCES			
Defeasance on refunding	9,035	-	9,035
Deferred outflows - pension	<u>1,091,176</u>	<u>253,874</u>	<u>1,345,050</u>
Total assets and deferred outflows of resources	<u>\$ 87,269,391</u>	<u>\$ 6,746,749</u>	<u>\$ 94,016,140</u>
LIABILITIES			
Current liabilities			
Accounts payable	\$ 82,905	\$ 203,385	\$ 286,290
Accrued liabilities	806,746	52,758	859,504
Current portion of long-term debt	816,250	-	816,250
Line of credit payable	-	-	-
Customer deposits	241,740	-	241,740
Accrued interest payable	<u>31,245</u>	<u>-</u>	<u>31,245</u>
Total current liabilities	<u>1,978,886</u>	<u>256,143</u>	<u>2,235,029</u>
Noncurrent liabilities			
Accrued expenses	415,062	83,846	498,908
Net pension liability	4,862,978	1,116,200	5,979,178
Line of credit payable	909,797	-	909,797
Bonds, notes, and loans payable	<u>8,999,287</u>	<u>-</u>	<u>8,999,287</u>
Total noncurrent liabilities	<u>15,187,124</u>	<u>1,200,046</u>	<u>16,387,170</u>
Total liabilities	<u>17,166,010</u>	<u>1,456,189</u>	<u>18,622,199</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows - pension	<u>24,913</u>	<u>5,804</u>	<u>30,717</u>
NET POSITION			
Net invested in capital assets	69,483,116	7,937,633	77,420,749
Restricted for debt service	3,065,062	-	3,065,062
Unrestricted	<u>(2,469,710)</u>	<u>(2,652,877)</u>	<u>(5,122,587)</u>
Total net position	<u>70,078,468</u>	<u>5,284,756</u>	<u>75,363,224</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 87,269,391</u>	<u>\$ 6,746,749</u>	<u>\$ 94,016,140</u>

CITY OF GEORGETOWN
GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET POSITION
for the year ended
June 30, 2017

	Water & Wastewater Treatment Plant No. 1	Wastewater Treatment Plant No. 2	Totals
Operating revenues			
Water revenue	\$ 4,346,824	\$ -	\$ 4,346,824
Sewer revenue	4,085,932	383,329	4,469,261
Connection fees	1,360,899	-	1,360,899
Commercial user fees	-	989,368	989,368
Miscellaneous	156,528	85,517	242,045
Penalties	<u>133,478</u>	<u>-</u>	<u>133,478</u>
Total operating revenues	<u>10,083,661</u>	<u>1,458,214</u>	<u>11,541,875</u>
Operating expenses			
Depreciation	3,083,824	494,913	3,578,737
Salaries and wages	2,483,349	558,704	3,042,053
Employee benefits	1,678,278	388,320	2,066,598
Purchased water	723,430	-	723,430
Utilities	650,801	161,035	811,836
Supplies	414,985	419,838	834,823
Maintenance and repairs	439,440	93,647	533,087
Insurance	171,165	28,234	199,399
Professional services	222,558	76,139	298,697
Conferences, training, and meetings	64,176	5,425	69,601
Miscellaneous	<u>81,696</u>	<u>-</u>	<u>81,696</u>
Total operating expenses	<u>10,013,702</u>	<u>2,226,255</u>	<u>12,239,957</u>
Operating gain (loss)	<u>69,959</u>	<u>(768,041)</u>	<u>(698,082)</u>
Nonoperating revenues (expenses)			
(Loss) on disposal of fixed assets	(373,038)	-	(373,038)
Interest income	8,324	-	8,324
Interest expense	(386,778)	-	(386,778)
Amortization expense	<u>(2,145)</u>	<u>-</u>	<u>(2,145)</u>
Total nonoperating (expenses)	<u>(753,637)</u>	<u>-</u>	<u>(753,637)</u>
(Loss) before capital contributions	(683,678)	(768,041)	(1,451,719)
Developer contributions	674,976	-	674,976
Commercial user contributions	<u>-</u>	<u>232,865</u>	<u>232,865</u>
Change in net position	(8,702)	(535,176)	(543,878)
Net position at beginning of year	<u>70,087,170</u>	<u>5,819,932</u>	<u>75,907,102</u>
NET POSITION AT END OF YEAR	<u>\$ 70,078,468</u>	<u>\$ 5,284,756</u>	<u>\$ 75,363,224</u>

CITY OF GEORGETOWN
GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE
COMBINING STATEMENT OF CASH FLOWS
for the year ended
June 30, 2017

	<u>Water & Wastewater Treatment Plant No. 1</u>	<u>Wastewater Treatment Plant No. 2</u>	<u>Totals</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 9,762,341	\$ 1,447,772	\$ 11,210,113
Payments to suppliers	(2,759,233)	(586,417)	(3,345,650)
Payments for employee services and benefits	(3,731,053)	(870,641)	(4,601,694)
Internal activity - payments from (to) other funds	73,387	(73,387)	-
Other receipts	<u>156,528</u>	<u>85,517</u>	<u>242,045</u>
Net cash provided by operating activities	<u>3,501,970</u>	<u>2,844</u>	<u>3,504,814</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(3,864,848)	(232,865)	(4,097,713)
Capital contributions	674,976	232,865	907,841
Proceeds from disposal of capital assets	7,625	-	7,625
Principal paid on capital debt	(797,802)	-	(797,802)
Net draws on line of credit	527,829	-	527,829
Interest paid on capital debt	<u>(386,778)</u>	<u>-</u>	<u>(386,778)</u>
Net cash (used) by capital and related financing activities	<u>(3,838,998)</u>	<u>-</u>	<u>(3,838,998)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income	<u>6,978</u>	<u>-</u>	<u>6,978</u>
Net cash provided by investing activities	<u>6,978</u>	<u>-</u>	<u>6,978</u>
Net increase (decrease) in cash and cash equivalents	(330,050)	2,844	(327,206)
Cash and cash equivalents at beginning of year	<u>3,290,679</u>	<u>-</u>	<u>3,290,679</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,960,629</u>	<u>\$ 2,844</u>	<u>\$ 2,963,473</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 69,959	\$ (768,041)	\$ (698,082)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	3,083,824	494,913	3,578,737
Change in assets and liabilities:			
Receivables, net	(166,712)	75,075	(91,637)
Interfund activity	73,387	(73,387)	-
Prepaid expense	(9,392)	1,996	(7,396)
Accounts payable and other accrued liabilities	96,306	190,123	286,429
Customer deposits	1,920	-	1,920
Net pension liability	<u>352,678</u>	<u>82,165</u>	<u>434,843</u>
Net cash provided by operating activities	<u>\$ 3,501,970</u>	<u>\$ 2,844</u>	<u>\$ 3,504,814</u>
Supplemental disclosures of cash flow information:			
Non-cash capital and related financing activities:			
Increase in accounts payable for capital items	\$ 8,407	\$ -	\$ 8,407
Amortization expense	\$ 2,145	\$ -	\$ 2,145

**FINANCIAL STATEMENTS
WATER AND WASTEWATER TREATMENT PLANT NO. 1**

CITY OF GEORGETOWN
GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE
WATER AND WASTEWATER TREATMENT PLANT NO. 1
STATEMENTS OF FUND NET POSITION
June 30,

ASSETS	<u>2017</u>	<u>2016</u>
Current assets		
Cash and cash equivalents	\$ 722,870	\$ 659,808
Accounts receivable (net)	1,186,958	1,020,246
Interfund receivable	1,539,624	1,613,011
Prepaid expenses	<u>68,731</u>	<u>59,339</u>
Total current assets	<u>3,518,183</u>	<u>3,352,404</u>
Noncurrent assets		
Restricted cash	2,237,759	2,630,871
Restricted investments - certificate of deposit	1,098,501	1,098,495
Accrued interest receivable	1,787	440
Other assets	14,297	15,963
Capital assets		
Construction in progress	868,557	257,519
Land and easements	726,205	610,796
Buildings, property and equipment	3,341,753	4,124,146
Utility plants in service	130,462,720	127,949,119
Transportation and work equipment	1,813,053	1,540,858
Less accumulated depreciation	<u>(57,913,635)</u>	<u>(55,585,106)</u>
Total noncurrent assets	<u>82,650,997</u>	<u>82,643,101</u>
Total assets	<u>86,169,180</u>	<u>85,995,505</u>
DEFERRED OUTFLOWS OF RESOURCES		
Defeasance on refunding	9,035	10,481
Deferred outflows - pension	<u>1,091,176</u>	<u>844,231</u>
Total assets and deferred outflows of resources	<u>\$ 87,269,391</u>	<u>\$ 86,850,217</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 82,905	\$ 64,495
Accrued liabilities	806,746	778,878
Current portion of long-term debt	816,250	796,833
Line of credit payable	-	381,968
Customer deposits	241,740	239,820
Accrued interest payable	<u>31,245</u>	<u>31,245</u>
Total current liabilities	<u>1,978,886</u>	<u>2,293,239</u>
Noncurrent liabilities		
Accrued expenses	415,062	365,034
Net pension liability	4,862,978	4,288,269
Line of credit payable	909,797	-
Bonds, notes, and loans payable	<u>8,999,287</u>	<u>9,816,505</u>
Total noncurrent liabilities	<u>15,187,124</u>	<u>14,469,808</u>
Total liabilities	<u>17,166,010</u>	<u>16,763,047</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows - pension	<u>24,913</u>	<u>-</u>
NET POSITION		
Net invested in capital assets	69,483,116	67,902,026
Restricted for debt service	3,065,062	3,458,741
Unrestricted	<u>(2,469,710)</u>	<u>(1,273,597)</u>
Total net position	<u>70,078,468</u>	<u>70,087,170</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 87,269,391</u>	<u>\$ 86,850,217</u>

CITY OF GEORGETOWN
GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE
WATER AND WASTEWATER TREATMENT PLANT NO. 1
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
for the years ended
June 30,

	2017	2016
Operating revenues		
Water revenue	\$ 4,346,824	\$ 4,176,900
Sewer revenue	4,085,932	3,991,636
Connection fees	1,360,899	1,034,484
Miscellaneous	156,528	195,983
Penalties	133,478	113,520
Total operating revenues	10,083,661	9,512,523
Operating expenses		
Administration		
Depreciation	81,690	44,732
Salaries and wages	336,633	418,753
Employee benefits	229,714	224,801
Utilities	18,736	23,508
Supplies	18,453	16,988
Maintenance and repairs	43,211	46,062
Insurance	13,004	11,051
Professional services	3,576	8,026
Conferences, training, and meetings	21,186	17,007
Miscellaneous	541	508
Total administration expenses	766,744	811,436
Customer accounts		
Depreciation	10,050	19,051
Salaries and wages	225,478	274,555
Employee benefits	192,326	194,308
Utilities	7,241	11,963
Supplies	126,997	137,885
Maintenance and repairs	26,290	24,078
Insurance	5,840	5,493
Professional services	2,769	4,604
Conferences, training, and meetings	2,352	3,604
Miscellaneous	81,155	64,614
Total customer accounts expenses	680,498	740,155

CITY OF GEORGETOWN
GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE
WATER AND WASTEWATER TREATMENT PLANT NO. 1
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
for the years ended
June 30,

	2017	2016
Water treatment plant		
Depreciation	\$ 169,356	\$ 168,114
Salaries and wages	441,495	424,241
Employee benefits	259,158	229,398
Purchased water	723,430	421,872
Utilities	151,008	156,027
Supplies	157,178	149,505
Maintenance and repairs	57,312	44,798
Insurance	15,380	13,919
Professional services	29,567	30,045
Conferences, training, and meetings	7,129	7,254
Total water treatment plant expenses	2,011,013	1,645,173
Water distribution		
Depreciation	1,142,332	1,104,553
Salaries and wages	527,853	531,041
Employee benefits	343,630	312,695
Utilities	44,258	42,042
Supplies	22,716	15,677
Maintenance and repairs	69,806	60,753
Insurance	49,337	49,308
Professional services	10,150	12,384
Conferences, training, and meetings	11,576	12,338
Total water distribution expenses	2,221,658	2,140,791
Wastewater treatment plant No. 1		
Depreciation	1,285,726	1,208,565
Salaries and wages	325,293	312,232
Employee benefits	238,528	206,069
Utilities	223,768	217,693
Supplies	64,348	53,130
Maintenance and repairs	112,745	153,645
Insurance	56,127	56,484
Professional services	163,323	134,994
Conferences, training, and meetings	7,243	7,820
Total wastewater treatment plant #1 expenses	2,477,101	2,350,632

CITY OF GEORGETOWN
GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE
WATER AND WASTEWATER TREATMENT PLANT NO. 1
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
for the years ended
June 30,

	<u>2017</u>	<u>2016</u>
Engineering		
Depreciation	\$ 14,369	\$ 12,298
Salaries and wages	295,259	206,664
Employee benefits	181,783	139,339
Utilities	7,778	5,970
Supplies	6,458	5,755
Maintenance and repairs	10,669	6,376
Insurance	6,290	5,563
Professional services	4,728	5,313
Conferences, training, and meetings	<u>4,725</u>	<u>3,145</u>
Total engineering expenses	<u>532,059</u>	<u>390,423</u>
Wastewater collections		
Depreciation	380,301	348,964
Salaries and wages	331,338	310,863
Employee benefits	233,139	207,641
Utilities	198,012	191,495
Supplies	18,835	11,038
Maintenance and repairs	119,407	100,384
Insurance	25,187	24,025
Professional services	8,445	(438)
Conferences, training, and meetings	<u>9,965</u>	<u>10,369</u>
Total wastewater collections expenses	<u>1,324,629</u>	<u>1,204,341</u>
Total operating expenses	<u>10,013,702</u>	<u>9,282,951</u>
Operating income	<u>69,959</u>	<u>229,572</u>
Nonoperating revenues (expenses)		
Gain (loss) on disposal of fixed assets	(373,038)	6,677
Interest income	8,324	8,444
Interest expense	(386,778)	(393,666)
Amortization expense	<u>(2,145)</u>	<u>(2,145)</u>
Total nonoperating (expenses)	<u>(753,637)</u>	<u>(380,690)</u>
Income before capital contributions and other expense	(683,678)	(151,118)
Developer contributions	<u>674,976</u>	<u>533,788</u>
Change in net position	(8,702)	382,670
Net position at beginning of year	<u>70,087,170</u>	<u>69,704,500</u>
NET POSITION AT END OF YEAR	<u>\$ 70,078,468</u>	<u>\$ 70,087,170</u>

**FINANCIAL STATEMENTS
WASTEWATER TREATMENT PLANT NO. 2**

CITY OF GEORGETOWN
GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE
WASTEWATER TREATMENT PLANT NO. 2
STATEMENTS OF FUND NET POSITION
June 30,

	2017	2016
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,844	\$ -
Accounts receivable (net)	81,861	156,936
Prepaid expenses	10,161	12,157
Total current assets	94,866	169,093
Noncurrent assets		
Capital assets		
Land and easements	130,019	130,019
Buildings, property and equipment	4,806,202	4,748,109
Utility plants in service	18,634,627	18,503,077
Transportation and work equipment	177,083	177,083
Less accumulated depreciation	(15,810,298)	(15,358,608)
Total noncurrent assets	7,937,633	8,199,680
Total assets	8,032,499	8,368,773
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows - pension	253,874	196,341
Total assets and deferred outflows of resources	\$ 8,286,373	\$ 8,565,114
LIABILITIES		
Current liabilities		
Accounts payable	\$ 203,385	\$ 7,480
Accrued liabilities	52,758	49,817
Interfund payable	1,539,624	1,613,011
Total current liabilities	1,795,767	1,670,308
Noncurrent liabilities		
Accrued expenses	83,846	92,569
Net pension liability	1,116,200	982,305
Total liabilities	2,995,813	2,745,182
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows - pension	5,804	-
NET POSITION		
Net invested in capital assets	7,937,633	8,199,680
Unrestricted	(2,652,877)	(2,379,748)
Total net position	5,284,756	5,819,932
Total liabilities, deferred inflows of resources and net position	\$ 8,286,373	\$ 8,565,114

CITY OF GEORGETOWN
GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE
WASTEWATER TREATMENT PLANT NO. 2
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
for the years ended
June 30,

	<u>2017</u>	<u>2016</u>
Operating revenues		
Sewer revenue	\$ 383,329	\$ 341,207
Commercial user fees	989,368	1,137,075
Miscellaneous	<u>85,517</u>	<u>85,945</u>
 Total operating revenues	 <u>1,458,214</u>	 <u>1,564,227</u>
 Operating expenses		
Depreciation	494,913	489,711
Salaries and wages	558,704	575,907
Employee benefits	388,320	334,626
Utilities	161,035	143,464
Supplies	419,838	383,639
Maintenance and repairs	93,647	99,352
Insurance	28,234	23,365
Professional services	76,139	67,405
Conferences, training, and meetings	<u>5,425</u>	<u>6,333</u>
 Total operating expenses	 <u>2,226,255</u>	 <u>2,123,802</u>
 Operating (loss)	 <u>(768,041)</u>	 <u>(559,575)</u>
 Capital contributed		
Commercial user contributions	<u>232,865</u>	<u>118,385</u>
 Change in net position	 (535,176)	 (441,190)
 Net position at beginning of year	 <u>5,819,932</u>	 <u>6,261,122</u>
 NET POSITION AT END OF YEAR	 <u>\$ 5,284,756</u>	 <u>\$ 5,819,932</u>



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

Board of Water and Sanitary
Sewer Commissioners
City of Georgetown
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 Georgetown Municipal Water and Sewer Service, a component unit of the City of Georgetown, Kentucky, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Georgetown Municipal Water and Sewer Service's basic financial statements, and have issued our report thereon dated September 29, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Georgetown Municipal Water and Sewer Service'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Georgetown Municipal Water and Sewer Service's internal control. Accordingly, we do not express an opinion on the effectiveness of the Georgetown Municipal Water and Sewer Service's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

RFH

RFH, PLLC
Lexington, Kentucky
September 29, 2017