

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

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**FINANCIAL STATEMENTS  
June 30, 2019 and 2018**

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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, 2019 and 2018, 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, 2019 and 2018, 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 schedules of proportionate share of the net pension and other post-employment benefit liability and the schedules of contributions on pages 3–5 and 28–31 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 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 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 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 October 4, 2019, 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 solely 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 the effectiveness of the Georgetown Municipal Water and Sewer Service's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Georgetown Municipal Water and Sewer Service's internal control over financial reporting and compliance.

**RFH**

RFH, PLLC  
Lexington, Kentucky  
October 4, 2019

**GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2019**

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, 2019. This information should be read in conjunction with the Auditors' Reports and the financial statements.

**FINANCIAL HIGHLIGHTS**

- The assets of GMWSS exceeded its liabilities at the close of the fiscal year by \$79.1 million.
- GMWSS's total net position, increased \$2,521,907 from fiscal year 2018.
- GMWSS had total assets of \$99 million at June 30, 2019 with capital assets, net of depreciation comprising \$94.4 million of the total.
- GMWSS's debt decreased approximately \$.45 million to \$9.1 million at June 30, 2019.

**FINANCIAL STATEMENTS**

Financial statements include the Statements of Net Position and the Statements 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 Statements of Net Position presents information on all the assets and liabilities of GMWSS as of June 30, 2019 and 2018. Net position is the difference between assets, deferred outflows and liabilities. Over time, increases or decreases in net position are 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 Statements 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 Statements of Cash Flows presents the changes in the GMWSS's cash and cash equivalents for the years ended June 30, 2019 and 2018, 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 wastewater plants) financial statements are presented on pages 35 - 38. 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 39 and 40.

## **ANALYSIS OF GMWSS**

### ***Net Position***

As of June 30, 2019, 2018 and 2017, GMWSS had net position of \$79.1 million, \$76.6 million, and \$75.4 million respectively. Of this net position as of June 30, 2019, \$85.6 million, or 108.2%, is net investment in capital assets. Restricted net position total \$2.4 million or 3%. This reflects funds held in various reserve accounts to meet the various bond and note covenants, or as deemed appropriate by management. Unrestricted net deficit totaled \$8,913,044, which was a decrease of approximately \$1.5 million.

### ***Revenues***

Revenues for GMWSS for the fiscal years ended June 30, 2019, 2018, and 2017, totaled \$11.8 million, \$12.5 million, and \$11.5 million, respectively. For the year ended June 30, 2019, water and sewer revenues represent \$9 million or 76% of the total. Other major sources of revenue are connection fees and commercial user fees. Budgeted revenues for this same fiscal year were \$12.4 million. Total revenues decreased approximately \$690,000 or 5.5% over the previous fiscal year.

### ***Expenses***

Expenses for GMWSS for the fiscal years ended June 30, 2019, 2018, and 2017, totaled \$13.6 million, \$12.6 million, and \$12.2 million, respectively. Depreciation expense comprised \$3.8 million of total expenses for the year ended June 30, 2019. Budgeted expenses for this same fiscal year were \$13 million. Actual expenses for water treatment & distribution and sewer collection & treatment totaled \$11.3 million or 83% of the total. Expenses increased approximately \$965,000 or 7.7% over the previous fiscal year.

### ***Operating Income***

For the years ended June 30, 2019, 2018, and 2017, operating (loss) before non-operating revenues and expenses was approximately \$(1,726,000), \$(72,000), and \$(698,000), respectively. These operating losses included allowances of \$3.8 million, \$3.7 million, and \$3.6 million for depreciation expense, respectively. For the year ended June 30, 2019, non-operating expenses totaled approximately \$312,000. Contributed capital, which consists primarily of assets constructed by developers and contributed to GMWSS, totaled approximately \$4,560,000. The increase in net position was approximately \$2.5 million.

### ***Liabilities***

Total liabilities as of June 30, 2019, 2018, and 2017, were \$21.5 million, \$20.8 million, and \$18.6 million, respectively. As of June 30, 2019, approximately \$2 million are classified as current liabilities to be paid from unrestricted assets. Additionally, \$971,000 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, net pension liability, and net OPEB liability, total \$18.6 million.

### ***Capital Assets***

GMWSS has been recording the value of capital assets on an ongoing basis. GMWSS's investment in capital assets totaled approximately \$175 million as of June 30, 2019, an increase of \$8.8 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 \$4,213,747.

### *Capital Assets, continued*

- Water and sewer system improvements constructed and acquired by GMWSS in the amount of \$8.8 million, which includes construction of the Distribution and Collections building and shop across the street from the main offices, replacing Pump Station #8, Stamping Ground and Lancaster Tank modifications and other smaller projects.

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 \$9.2 million in bonds and lines of credit outstanding, of which \$887,000 is the current portion payable. The Board of Commissioners for GMWSS has authorized a debt to equity ratio of 28%. As of June 30, 2019, the debt to equity ratio was 11.6%. Additional information about long-term debt can be found in the notes beginning on page 23.

### *Deferred Inflows and Outflows of Resources*

At the end of the fiscal year, GMWSS had \$2.3 million of deferred outflows of resources and approximately \$656,000 of deferred inflows of resources. The majority of the deferred outflows and inflows of resources are related to the net pension liability and the net OPEB liability accruals.

### **BUDGET FOR FISCAL YEAR 2020**

FY 2020 revenues are budgeted to be \$13.7 million, an increase of approximately \$1,378,000 or 11% from fiscal year 2019 budgeted revenues. This increase includes a rate increase for water of 28% and sewer of 25%. Expenses (including depreciation) are budgeted to be \$13.5 million, an increase of approximately \$542,000 or 4% from 2019 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,**

<b>ASSETS</b>	<b>2019</b>	<b>2018</b>
Current assets		
Cash and cash equivalents	\$ 378,313	\$ 560,692
Accounts receivable (net)	1,443,984	1,302,968
Prepaid expenses	<u>41,918</u>	<u>77,122</u>
Total current assets	<u>1,864,215</u>	<u>1,940,782</u>
Noncurrent assets		
Restricted cash	1,332,895	2,897,452
Restricted investments - certificate of deposit	1,418,292	1,100,707
Accrued interest receivable	4,607	1,840
Other assets	-	12,632
Capital assets		
Land and easements	858,687	858,687
Construction in progress	3,755,040	2,075,471
Buildings, property and equipment	9,275,678	9,199,069
Utility plants in service	159,455,151	152,436,542
Transportation and work equipment	2,054,525	2,024,217
Less accumulated depreciation	<u>(81,036,051)</u>	<u>(77,301,195)</u>
Total noncurrent assets	<u>97,118,824</u>	<u>93,305,422</u>
Total assets	<u>98,983,039</u>	<u>95,246,204</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Defeasance on refunding	6,144	7,589
Deferred outflows - pension	1,620,292	1,837,844
Deferred outflows - OPEB	<u>683,460</u>	<u>694,773</u>
Total deferred outflows of resources	<u>2,309,896</u>	<u>2,540,206</u>
Total assets and deferred outflows of resources	<u>\$ 101,292,935</u>	<u>\$ 97,786,410</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	\$ 134,255	\$ 61,961
Accrued liabilities	842,871	830,654
Contract payable	703,789	38,556
Customer deposits	266,915	250,340
Liabilities payable from restricted assets:		
Current portion of long-term debt	887,000	841,250
Accrued interest payable	<u>83,575</u>	<u>28,633</u>
Total current liabilities	<u>2,918,405</u>	<u>2,051,394</u>
Noncurrent liabilities		
Accrued expenses	581,866	565,650
Net pension liability	7,509,285	6,982,586
Net OPEB liability	2,189,060	2,398,197
Line of credit payable	470,077	631,548
Bonds, notes, and loans payable	<u>7,826,049</u>	<u>8,157,071</u>
Total noncurrent liabilities	<u>18,576,337</u>	<u>18,735,052</u>
Total liabilities	<u>21,494,742</u>	<u>20,786,446</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows - pension	240,495	254,067
Deferred inflows - OPEB	<u>415,457</u>	<u>125,563</u>
Total deferred inflows of resources	<u>655,952</u>	<u>379,630</u>
<b>NET POSITION</b>		
Net invested in capital assets	85,649,981	80,294,470
Restricted for debt service	2,405,304	3,721,026
Unrestricted	<u>(8,913,044)</u>	<u>(7,395,162)</u>
Total net position	<u>79,142,241</u>	<u>76,620,334</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 101,292,935</u>	<u>\$ 97,786,410</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,

	<b>2019</b>	<b>2018</b>
<b>Operating revenues</b>		
Water revenue	\$ 4,404,434	\$ 4,367,887
Sewer revenue	4,611,243	4,485,928
Connection fees	977,273	1,972,783
Commercial user fees	1,399,505	1,342,800
Miscellaneous	355,383	257,891
Penalties	<u>98,254</u>	<u>108,542</u>
Total operating revenues	<u>11,846,092</u>	<u>12,535,831</u>
<b>Operating expenses</b>		
Administration	853,782	795,343
Customer accounts	733,652	645,767
Water treatment plant	1,985,109	1,895,457
Water distribution	2,421,805	2,370,001
Wastewater treatment plant No. 1	2,609,185	2,528,302
Engineering	704,010	668,148
Wastewater collections	1,721,945	1,492,609
Wastewater treatment plant No. 2	<u>2,542,785</u>	<u>2,211,934</u>
Total operating expenses	<u>13,572,273</u>	<u>12,607,561</u>
Operating (loss)	<u>(1,726,181)</u>	<u>(71,730)</u>
<b>Nonoperating revenues (expenses)</b>		
Gain on disposal of fixed assets	9,313	6,556
Interest income	24,038	9,922
Interest expense	(319,090)	(371,111)
Amortization expense	<u>(26,063)</u>	<u>(2,145)</u>
Total nonoperating (expenses)	<u>(311,802)</u>	<u>(356,778)</u>
(Loss) before capital contributions	(2,037,983)	(428,508)
Developer contributions	4,213,747	2,132,283
Commercial user contributions	<u>346,143</u>	<u>1,281,978</u>
<b>Change in net position</b>	2,521,907	2,985,753
Net position at beginning of year	<u>76,620,334</u>	<u>73,634,581</u>
<b>NET POSITION AT END OF YEAR</b>	<u>\$ 79,142,241</u>	<u>\$ 76,620,334</u>

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,**

	<b>2019</b>	<b>2018</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 11,366,268	\$ 12,252,391
Payments to suppliers	(3,684,718)	(3,398,329)
Payments for employee services and benefits	(5,095,252)	(4,900,471)
Other receipts	<u>355,383</u>	<u>257,891</u>
Net cash provided by operating activities	<u>2,941,681</u>	<u>4,211,482</u>
<b>CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	(8,250,615)	(5,677,070)
Capital contributions	4,559,890	3,414,261
Proceeds from sale of capital assets	9,313	6,556
Proceeds from deb issuance	3,949,000	-
Principal paid on capital debt	(4,234,272)	(1,094,498)
Net draws on line of credit	(161,471)	527,829
Interest paid on capital debt	<u>(264,148)</u>	<u>(373,723)</u>
Net cash (used) by capital and related financing activities	<u>(4,392,303)</u>	<u>(3,724,474)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of certificate of deposit	(311,863)	-
Interest income	21,271	9,869
Interest income reinvested in restricted investments	<u>(5,722)</u>	<u>(2,206)</u>
Net cash provided by investing activities	<u>(296,314)</u>	<u>7,663</u>
Net increase in cash and cash equivalents	(1,746,936)	494,671
Cash and cash equivalents at beginning of year	<u>3,458,144</u>	<u>2,963,473</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u><u>\$ 1,711,208</u></u>	<u><u>\$ 3,458,144</u></u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>		
Operating (loss)	\$ (1,726,181)	\$ (71,730)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	3,839,868	3,660,628
Net changes in OPEB liability	92,070	100,344
Net changes in pension liability	730,679	733,964
Change in assets and liabilities:		
Receivables, net	(141,016)	(34,149)
Prepaid expense	35,204	1,770
Accounts payable and other accrued liabilities	94,482	(187,945)
Customer deposits	<u>16,575</u>	<u>8,600</u>
Net cash provided by operating activities	<u>\$ 2,941,681</u>	<u>\$ 4,211,482</u>
Reconciliation of total cash and cash equivalents		
Current assets - cash and cash equivalents	\$ 378,313	\$ 560,692
Restricted cash	<u>1,332,895</u>	<u>2,897,452</u>
	<u>\$ 1,711,208</u>	<u>\$ 3,458,144</u>
Supplemental disclosures of cash flow information:		
Non-cash capital and related financing activities:		
Net change in capital assets payable	<u>\$ 671,478</u>	<u>\$ 40,064</u>
Amortization expense	<u>\$ 26,063</u>	<u>\$ 2,145</u>

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, 2019 and 2018**

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**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 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 Water and Sewer Service financial statement include all activities for which the Water and Sewer Service exercise oversight responsibility.

For internal reporting purposes, 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. These “funds” constitute the entire Water and Sewer Service’s operations and are combined in the financial statements. The “funds” are not legally required to be maintained and the same operating activities occur in both “funds”.

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, 2019 and 2018**

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**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. As a result, 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 for the years ending June 30, 2019 and 2018.

**CITY OF GEORGETOWN**  
**GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019 and 2018**

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**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.

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

**F. Assets, Liabilities, and Net Position, continued**

**Postemployment Benefits Other Than Pensions (OPEB)** - For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB 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.

**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 October 4, 2019; 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, 2019, have not been evaluated by the Water and Sewer Service.

**2. CASH AND INVESTMENTS**

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, interest-bearing deposits of insured national or state banks and other allowed investments under KRS 66.480. The Water and Sewer Service is currently invested in certificates of deposit.

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.

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, 2019, almost 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, 2019, the bank balance of the Company's deposits totaled \$3,817,768, of which \$1,548,968 was covered by FDIC insurance, \$2,002,235 was collateralized by securities held by the pledging financial institution and \$266,565 was unsecured.

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

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, 2019 were as follows:

Type of Investments	Book Value 6/30/2019	Interest Rate	Maturity Date
Kentucky Bank:			
Certificate of deposit	\$ 123,271	2.64%	4/29/2021
Certificate of deposit	250,000	2.60%	3/26/2020
Whitaker Bank:			
Certificate of deposit	528,456	2.71%	11/20/2020
Central Bank & Trust Company:			
Certificate of deposit	204,702	2.13%	8/06/2020
Certificate of deposit	<u>311,863</u>	3.05%	1/3/2022
	<u>\$ 1,418,292</u>		

The Water and Sewer Service's book value of investments at June 30, 2018 were as follows:

Type of Investments	Book Value 6/30/2018	Interest Rate	Maturity Date
Kentucky Bank:			
Certificate of deposit	\$ 201,201	0.56%	8/04/2018
Certificate of deposit	526,235	0.42%	11/18/2018
Whitaker Bank:			
Certificate of deposit	123,271	1.05%	4/24/2019
Central Bank & Trust Company:			
Certificate of deposit	<u>250,000</u>	0.75%	3/26/2019
	<u>\$ 1,100,707</u>		

**3. CAPITAL ASSETS**

The following is a summary of changes in capital assets and accumulated depreciation for the year ended June 30, 2019:

	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019
Capital assets not depreciated:				
Land and easements	\$ 858,687	\$ -	\$ -	\$ 858,687
Construction in progress	2,075,471	3,691,888	(2,012,319)	3,755,040
Capital assets that are depreciated:				
Buildings, property, and equipment	9,199,069	76,609	-	9,275,678
Utility plants in service	152,436,542	7,018,609	-	159,455,151
Transportation and work equipment	<u>2,024,217</u>	<u>135,320</u>	<u>(105,012)</u>	<u>2,054,525</u>
Total plant and equipment	166,593,986	10,922,426	(2,117,331)	175,399,081
Accumulated depreciation	<u>(77,301,195)</u>	<u>(3,839,868)</u>	<u>105,012</u>	<u>(81,036,051)</u>
Capital assets, net	<u>\$ 89,292,791</u>	<u>\$ 7,082,558</u>	<u>\$ (2,012,319)</u>	<u>\$ 94,363,030</u>

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**3. CAPITAL ASSETS (CONTINUED)**

The following is a summary of changes in capital assets and accumulated depreciation for the year ended June 30, 2018:

	<b>Balance July 1, 2017</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2018</b>
Capital assets not depreciated:				
Land and easements	\$ 856,224	\$ 2,463	\$ -	\$ 858,687
Construction in progress	868,557	2,439,447	(1,232,533)	2,075,471
Capital assets that are depreciated:				
Buildings, property, and equipment	8,147,955	1,062,500	(11,386)	9,199,069
Utility plants in service	149,097,347	3,339,195	-	152,436,542
Transportation and work equipment	<u>1,990,136</u>	<u>106,062</u>	<u>(71,981)</u>	<u>2,024,217</u>
Total plant and equipment	160,960,219	6,949,667	(1,315,900)	166,593,986
Accumulated depreciation	<u>(73,723,933)</u>	<u>(3,660,628)</u>	<u>83,366</u>	<u>(77,301,195)</u>
Capital assets, net	<u>\$ 87,236,286</u>	<u>\$ 3,289,039</u>	<u>\$ (1,232,534)</u>	<u>\$ 89,292,791</u>

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

	<b>2019</b>	<b>2018</b>
Administration	\$ 81,013	\$ 77,445
Customer accounts	2,935	2,626
Water treatment plant	223,126	179,558
Water distribution	1,231,836	1,171,817
Engineering	12,220	12,487
Wastewater treatment plant No. 1	1,308,466	1,289,586
Wastewater collections	454,669	416,905
Wastewater treatment Plant No. 2	<u>525,603</u>	<u>510,204</u>
Total	<u>\$ 3,839,868</u>	<u>\$ 3,660,628</u>

**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.

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**4. RETIREMENT PLAN (CONTINUED)**

*Contributions* – For the years ended June 30, 2019 and 2018, plan members were required to contribute 5% 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 are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the years ended June 30, 2019 and 2018, participating employers contributed 21.48% and 19.18% of each employee’s wages for non-hazardous job classifications. The contributions are allocated to both the pension and insurance trusts. The insurance trust is more fully described in Note 5. For the years ended June 30, 2019 and 2018, plan members contributed 16.22% and 14.48% to the pension trust for non-hazardous job classifications, respectively. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, January 1, 2014, are 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 \$502,810 for the year ended June 30, 2019, or 100% of the required contribution. The Water and Sewer Service contributed \$442,501 for the year ended June 30, 2018, or 100% of the required contribution.

*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 and 4 years service 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+ and sum of service years plus age equal to 87+ At least 10 years service and 60 years old
Tier 3	Participation date Unreduced retirement Reduced retirement	After December 31, 2013 At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal to 87+ Not available

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**4. RETIREMENT PLAN (CONTINUED)**

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, 2019, the Water and Sewer Service reported a liability of \$7,509,285 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, 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, 2018, the Water and Sewer Service's proportion was .1233 percent, which was an increase of .004% from its proportion measured as of June 30, 2017. At June 30, 2018, the Company reported a liability of its proportionate share of the net pension liability of \$6,982,586. The Company's proportionate share at June 30, 2017 was .1193 percent, which was a decrease of .0021 percent from its proportion measured as of June 30, 2016.

For the years ended June 30, 2019 and 2018, the Water and Sewer Service recognized pension expense of \$1,233,485 and \$1,176,465, respectively. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual results	\$ 244,932	\$ 109,920
Changes of assumptions	733,876	-
Net difference between projected and actual earnings on Plan investments	-	90,041
Changes in proportion and differences between Water and Sewer Service contributions and proportionate share of contributions	138,674	40,534
Water and Sewer Service contributions subsequent to the measurement date	<u>502,810</u>	<u>-</u>
Total	<u>\$ 1,620,292</u>	<u>\$ 240,495</u>

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**4. RETIREMENT PLAN (CONTINUED)**

At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual results	\$ 8,661	\$ 177,248
Changes of assumptions	1,288,480	-
Net difference between projected and actual earnings on Plan investments	86,367	-
Changes in proportion and differences between Water and Sewer Service contributions and proportionate share of contributions	11,835	76,819
Water and Sewer Service contributions subsequent to the measurement date	<u>442,501</u>	<u>-</u>
<b>Total</b>	<b><u>\$ 1,837,844</u></b>	<b><u>\$ 254,067</u></b>

The \$502,810 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

<b>Year ending June 30,</b>	
2020	\$ 632,564
2021	\$ 345,970
2022	\$ (61,243)
2023	\$ (40,304)

*Actuarial Assumptions* – The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Salary increases	3.05%, average, including inflation
Investment rate of return	6.25%, 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, 2017 valuation was based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013. The total pension liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018.

The long-term expected rate of return was determined by using a building-block method in which best estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

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**4. RETIREMENT PLAN (CONTINUED)**

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

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
<b>US Equity</b>	<b>17.50%</b>	
US Large Cap	5.00%	4.50%
US Mid Cap	6.00%	4.50%
US Small Cap	6.50%	5.50%
<b>Non US Equity</b>	<b>17.50%</b>	
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	3.00%
<b>Credit Fixed</b>	<b>24.00%</b>	
Global IG Credit	2.00%	3.75%
High Yield	7.00%	5.50%
EMD	5.00%	6.00%
Illiquid Private	10.00%	8.50%
Private Equity	10.00%	6.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Cash	2.00%	1.50%
<b>Total</b>	<b>100.00%</b>	<b>6.09%</b>

*Discount Rate* – The discount rate used to measure the total pension liability was 6.25 percent. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25-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 6.25 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 (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate at June 30, 2019:

	<b>Discount rate</b>	<b>Company’s proportionate share of net pension liability</b>
1% decrease	5.25%	\$ 9,453,412
Current discount rate	6.25%	\$ 7,509,285
1% increase	7.25%	\$ 5,880,447

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**5. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)**

*Plan Description* – As more fully described in Note 4, the Water and Sewer Service participates in the County Employees’ Retirement System (CERS). 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. In addition to retirement benefits, the plan provides for health insurance benefits to plan members (other postemployment benefits or OPEB). OPEB benefits may be extended to beneficiaries of plan members under certain circumstances.

*Contributions* – As more fully described in Note 4, plan members contribute to CERS for non-hazardous job classifications. For the year ending June 30, 2019, the employer’s contribution was 4.70% to the insurance trust 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 are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

For the year ended June 30, 2019, the Water and Sewer Service contributed \$163,057, or 100% of the required contribution for non-hazardous job classifications. For the year ended June 30, 2018, the Water and Sewer Service contributed \$143,630, or 100% of the required contribution for non-hazardous job classifications.

*Benefits* – CERS provides health insurance benefits to Plan employees and beneficiaries.

For retirement purposes, employees are grouped into three tiers based on hire date:

Tier 1	Participation date Insurance eligibility Benefit	Before July 1, 2003 10 years of service credit required Set percentage of single coverage health insurance based on service credit accrued at retirement
Tier 1	Participation date Insurance eligibility Benefit	Before September 1, 2008 but after July 1, 2003 10 years of service credit required Set dollar amount based on service credit accrued, increased annually
Tier 2	Participation date Insurance eligibility Benefit	After September 1, 2008 and before December 31, 2013 15 years of service credit required Set dollar amount based on service credit accrued, increased annually
Tier 3	Participation date Insurance eligibility Benefit	After December 31, 2013 15 years of service credit required Set dollar amount based on service credit accrued, increased annually

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**5. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)**

*OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources* – At June 30, 2019, the Water and Sewer Service reported a liability for its proportionate share of the net OPEB liability of \$2,189,060. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Water and Sewer Service's proportion of the net OPEB liability was based on a projection of the Water and Sewer Service's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. The Water and Sewer Service's proportionate share at June 30, 2018 was .1233 percent, which was an increase of .004 percent from its proportion measured as of June 30, 2017. At June 30, 2018, the Company reported a liability of its proportionate share of the net OPEB liability of \$2,398,197. The Company's proportionate share at June 30, 2018 was .1193 percent.

For the years ended June 30, 2019 and 2018, the Water and Sewer Service recognized OPEB expense of \$287,257 and \$273,284, respectively. At June 30, 2019, the Water and Sewer Service reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual results	\$ -	\$ 255,106
Changes of assumptions	437,188	5,058
Net difference between projected and actual earnings on Plan investments	-	150,783
Changes in proportion and differences between Water and Sewer Service contributions and proportionate share of contributions	47,901	4,510
Water and Sewer Service contributions subsequent to the measurement date	<u>198,371</u>	<u>-</u>
Total	<u>\$ 683,460</u>	<u>\$ 415,457</u>

At June 30, 2018, the Water and Sewer Service reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual results	\$ -	\$ 6,661
Changes of assumptions	521,833	-
Net difference between projected and actual earnings on Plan investments	-	113,338
Changes in proportion and differences between Water and Sewer Service contributions and proportionate share of contributions	-	5,564
Water and Sewer Service contributions subsequent to the measurement date	<u>172,940</u>	<u>-</u>
Total	<u>\$ 694,773</u>	<u>\$ 125,563</u>

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**5. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)**

The \$198,371 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 OPEB liability in the year ending June 30, 2020. This includes an adjustment of \$35,314 related to the implicit subsidy, which is required to be recognized as a deferred outflow of resources. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

<b>Year ending June 30,</b>		
2019	\$	15,775
2020	\$	15,775
2021	\$	15,775
2022	\$	45,060
2023	\$	(11,055)
2024	\$	(11,698)

*Actuarial Assumptions* – The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

**Non-hazardous**

Inflation	2.30%
Salary increases	3.05%, average, including inflation
Investment rate of return	6.25%, net of Plan investment expense, including inflation
Healthcare trend	

Pre – 65: Initial trend starting at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.

Post – 65: Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.

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, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013. The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2018 was based on an actuarial valuation date of June 30, 2017. The total OPEB liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018.

The long-term expected rate of return was determined by using a building-block method in which best estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

**CITY OF GEORGETOWN  
 GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2019 and 2018**

**5. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)**

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

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
<b>US Equity</b>	<b>17.50%</b>	
US Large Cap	5.00%	4.50%
US Mid Cap	6.00%	4.50%
US Small Cap	6.50%	5.50%
<b>Non US Equity</b>	<b>17.50%</b>	
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	3.00%
<b>Credit Fixed</b>	<b>24.00%</b>	
Global IG Credit	2.00%	3.75%
High Yield	7.00%	5.50%
EMD	5.00%	6.00%
Illiquid Private	10.00%	8.50%
Private Equity	10.00%	6.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Cash	2.00%	1.50%
<b>Total</b>	<b>100.00%</b>	<b>6.09%</b>

*Discount Rate* – The discount rate used to measure the total OPEB liability was 5.85% for non-hazardous classifications. 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 25-year amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.62%, as reported in Fidelity Index’s “20 –Year Municipal GO AA Index” as of June 30, 2018. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System’s actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System’s trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

*Sensitivity of the Water and Sewer Service’s Proportionate Share of the Net OPEB 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 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 or 1-percentage-point higher than the current rate at June 30, 2018:

	<b>Discount rate</b>	<b>Proportionate share of net OPEB liability</b>
1% decrease	4.84%	\$ 2,843,239
Current discount rate	5.84%	\$ 2,189,060
1% increase	6.84%	\$ 1,631,820

**CITY OF GEORGETOWN**  
**GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019 and 2018**

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**5. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)**

*Sensitivity of the Water and Sewer Service's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate* – The following presents the Water and Sewer Service's proportionate share of the net OPEB liability calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates at June 30, 2018:

		<b>Proportionate share of net OPEB liability</b>
1% decrease	\$	1,629,777
Current trend rate	\$	2,189,060
1% increase	\$	2,848,294

**6. LONG-TERM DEBT**

**Bonds Payable, Notes Payable and Compensated Absences as of June 30, 2019:**

	Interest Rates	Final Maturity	Outstanding Principal
Revenue bonds:			
Revenue Bonds, Series 2013A	2.00-4.250%	2033	\$ 3,630,000
Revenue Bonds, Series 2013B	1.00-3.000%	2023	1,100,000
Revenue Bonds, Series 2018A	2.800%	2027	3,949,000
Bond premium			<u>34,049</u>
Total revenue bonds			8,713,049
Other long-term obligations:			
Net pension liability			7,509,285
Net OPEB liability			2,189,060
Line of credit			470,077
Compensated absences			<u>581,866</u>
Total obligations			<u>19,463,337</u>
Less current portion of:			
Revenue bonds			<u>887,000</u>
Total long-term obligations			<u>\$ 18,576,337</u>

**CITY OF GEORGETOWN  
 GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2019 and 2018**

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

**Bonds Payable, Notes Payable and Compensated Absences as of June 30, 2018:**

	<b>Interest Rates</b>	<b>Final Maturity</b>	<b>Outstanding Principal</b>
Revenue bonds:			
Kentucky Rural Water & Sewer, Series 2007A	4.00-4.375%	2027	\$ 3,779,833
Revenue Bonds, Series 2013A	2.00-4.250%	2033	3,835,000
Revenue Bonds, Series 2013B	1.00-3.000%	2023	1,360,000
Bond premium			<u>23,488</u>
Total revenue bonds			8,998,321
Other long-term obligations:			
Net pension liability			6,982,586
Net OPEB liability			2,398,197
Line of credit			631,548
Compensated absences			<u>565,650</u>
Total obligations			<u>19,576,302</u>
Less current portion of:			
Revenue bonds			<u>841,250</u>
Total long-term obligations			<u>\$ 18,735,052</u>

**Summary of Bonds, Net Pension Liability and Compensated Absences Transactions**

	<b>Balance July 1, 2018</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2019</b>
Revenue bonds	\$ 8,794,833	\$ 3,949,000	\$ 4,244,833	\$ 8,679,000
Bond premium	23,488	10,561	-	34,049
Line of credit	631,548	134,415	295,886	470,077
Net pension liability	6,982,586	526,699	-	7,509,285
Net OPEB liability	2,398,197	-	209,137	2,189,060
Compensated absences	<u>565,650</u>	<u>16,216</u>	<u>-</u>	<u>581,866</u>
	<u>\$ 19,576,302</u>	<u>\$ 4,636,891</u>	<u>\$ 4,749,856</u>	<u>\$ 19,463,337</u>
	<b>Balance July 1, 2017</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2018</b>
Revenue bonds	\$ 9,791,083	\$ -	\$ 816,250	\$ 8,974,833
Bond premium	24,454	-	966	23,488
Line of credit	909,797	-	278,249	631,548
Net pension liability	5,979,178	1,003,408	-	6,982,586
Net OPEB liability	1,881,074	517,123	-	2,398,197
Compensated absences	<u>498,908</u>	<u>66,742</u>	<u>-</u>	<u>565,650</u>
	<u>\$ 19,084,494</u>	<u>\$ 1,587,273</u>	<u>\$ 1,095,465</u>	<u>\$ 19,576,302</u>

The beginning balance of long-term debt as of July 1, 2017 has been restated to include the net OPEB liability. See Note 10 for the effect of the restatement on net position from the year ended June 30, 2017.

**CITY OF GEORGETOWN  
 GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2019 and 2018**

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

**Summary of Bonds, Net Pension Liability and Compensated Absences Transactions, continued**

The annual requirements to amortize the Water and Sewer Service's indebtedness as of June 30, 2019 (including interest payments) are as follows:

Fiscal Year	Interest	Principal	Total
2020	\$ 274,166	\$ 887,000	\$ 1,161,166
2021	250,581	909,000	1,159,581
2022	226,449	935,000	1,161,449
2023	200,109	958,000	1,158,109
2024	172,265	691,000	863,265
2025-2029	525,022	3,069,000	3,594,022
2030-2034	<u>132,513</u>	<u>1,230,000</u>	<u>1,362,513</u>
	<u>\$ 1,781,105</u>	<u>\$ 8,679,000</u>	<u>\$ 10,460,105</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 were secured by a pledge of all system gross income and revenues. The bonds were redeemed with the issuance of the 2018A Revenue bonds during the year ended June 30, 2019.

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.

**CITY OF GEORGETOWN  
 GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2019 and 2018**

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

**Description of Bonds and Notes Payable, continued**

2018A Revenue Refunding Bonds

During 2019, the City of Georgetown sold \$3,949,000 of Water and Sewer Revenue Bonds, Series 2018A. The Bonds are secured by gross revenues of the System as more fully described in the ordinance.

The Series 2018A Bonds were issued for the purposes of: (a) redeem the 2007A Kentucky Rural Water Finance Corporation bonds; and (b) paying costs of issuance of the Series 2018A Bonds.

As a result of the refunding the Water and Sewer Service reduced debt service by \$206,566 over the next 8 years. The present value of the cash flow savings and economic gain was \$178,155.

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 \$1,552,269 and \$967,554 at June 30, 2019 and 2018, respectively. This reserve was fully funded at June 30, 2019 and 2018.

**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 \$886,949 and \$2,724,165 at June 30, 2019 and 2018, respectively.

**7. CONTRIBUTED ASSETS**

Contributed assets totaling \$4,559,890 and \$3,414,261 have been reported in the accompanying statements of revenues, expenses, and changes in fund assets for the years ended June 30, 2019 and 2018, respectively. These contributions include \$4,213,747 and \$2,132,283 of cash and capital contributions made by various state and local governments and developers for the years ended June 30, 2019 and 2018, respectively. In addition, \$346,143 and \$1,281,978 [Fund 02] of capital contributions were received from a commercial customer for the years ended June 30, 2019 and 2018, respectively. These funds were used to construct various water and sewer projects.

**8. COMMITMENTS AND CONTINGENCIES**

**Line of Credit**

The City entered into a \$3 million line of credit agreement with Kentucky Bank on August 31, 2009, on behalf of the Water and Sewer Service for the purpose of financing wastewater improvements and additions. The line of credit was renewed during July 2014 at an interest rate of 2.75%, and it was renewed again in September 2016 for the same rate. In August 2018, the line of credit was renewed for an additional twenty-four months at an interest rate of 1.75%. At June 30, 2019, there was a balance of \$470,077 included in long-term liabilities.

	<u>July 1, 2018</u>	<u>Advances</u>	<u>Payments</u>	<u>June 30, 2019</u>
Line of credit	\$ 631,548	\$ 134,415	\$ 295,886	\$ 470,077

**CITY OF GEORGETOWN  
 GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2019 and 2018**

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**8. COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**Line of Credit, continued**

	July 1, 2017	Advances	Payments	June 30, 2018
Line of credit	\$ <u>909,797</u>	\$ <u>          -</u>	\$ <u>278,249</u>	\$ <u>631,548</u>

**Risk Management**

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.

**Construction commitments**

The following commitments to construct projects and purchase materials have been made by the Water and Sewer Service as of June 30, 2019:

Collections and distribution center	\$ 109,125
South sewer extension	102,852
WWTP No. 2 improvements	<u>288,286</u>
Total	<u>\$ 500,263</u>

**9. ECONOMIC DEPENDENCE**

One manufacturing plant accounted for 74% and 77% of the revenues of Wastewater Treatment Plant No. 2 for the years ended June 30, 2019 and 2018, respectively. Ten customers accounted for 8% and 7% of the operating revenues of the Water and Wastewater Treatment Plant No. 1 for the years ended June 30, 2019 and 2018, respectively.

**REQUIRED SUPPLEMENTARY INFORMATION**

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

	2019	2018	2017	2016	2015	2014
Water and Sewer Service's proportion of the net pension liability	0.1233%	0.1193%	0.1214%	0.1226%	0.1203%	0.1200%
Water and Sewer Service's proportionate share of the net pension liability (asset)	\$ 7,509,285	\$ 6,982,586	\$ 5,979,178	\$ 5,270,574	\$ 3,903,302	\$ 3,590,261
Water and Sewer Service's covered employee payroll	\$ 3,055,947	\$ 2,904,499	\$ 2,896,935	\$ 2,854,866	\$ 2,760,282	\$ 2,624,486
Water and Sewer Service's share of the net pension liability (asset) as a percentage of its covered employee payroll	245.73%	240.41%	206.40%	184.62%	141.41%	136.80%
Plan fiduciary net position as a percentage of the total pension liability	53.54%	53.32%	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 and Sewer Service.

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

The above schedule will present 10 years of historical data, once available.

**CITY OF GEORGETOWN  
 GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE  
 REQUIRED SUPPLEMENTARY  
 SCHEDULE OF PENSION CONTRIBUTIONS  
 Last Seven Fiscal Years**

	2019	2018	2017	2016	2015	2014	2013
Contractually required employer contribution	\$ 502,810	\$ 442,501	\$ 405,056	\$ 359,799	\$ 364,660	\$ 379,263	\$ 331,210
Contributions relative to contractually required employer contribution	<u>502,810</u>	<u>442,501</u>	<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>	<u>\$ -</u>	<u>\$ -</u>
Water and Sewer Service's covered employee payroll	\$ 3,099,942	\$ 3,055,947	\$ 2,904,499	\$ 2,896,935	\$ 2,854,866	\$ 2,760,282	\$ 2,624,486
Employer contributions as a percentage of covered-employee payroll	16.22%	14.48%	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.

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

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

The above schedule will present 10 years of historical data, once available.

**CITY OF GEORGETOWN  
 GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE  
 REQUIRED SUPPLEMENTARY SCHEDULE OF  
 PROPORTIONATE SHARE OF THE NET OPEB LIABILITY  
 Last Three Fiscal Years**

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	2019	2018	2017
Water and Sewer Service's proportion of the net OPEB liability	0.1233%	0.1193%	0.1193%
Water and Sewer Service's proportionate share of the net OPEB liability (asset)	\$ 2,189,060	\$ 2,398,197	\$ 1,881,074
Water and Sewer Service's covered employee payroll	\$ 3,055,947	\$ 2,904,499	\$ 2,896,935
Water and Sewer Service's share of the net OPEB liability (asset) as a percentage of its covered employee payroll	71.63%	82.57%	64.93%
Plan fiduciary net position as a percentage of the total OPEB liability	57.62%	52.39%	unavailable

**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 OPEB liability is one year preceding the fiscal year of the Water and Sewer Services.

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

The above schedule will present 10 years of historical data, once available.

**CITY OF GEORGETOWN  
 GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE  
 REQUIRED SUPPLEMENTARY SCHEDULE OF  
 OPEB CONTRIBUTIONS  
 Last Seven Fiscal Years**

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	2019	2018	2017	2016	2015	2014	2013
Contractually required employer contribution	\$ 163,057	\$ 143,630	\$ 137,341	\$ 134,418	\$ 140,716	\$ 142,154	\$ 181,877
Contributions relative to contractually required employer contribution	<u>163,057</u>	<u>143,630</u>	<u>137,341</u>	<u>134,418</u>	<u>140,716</u>	<u>142,154</u>	<u>181,877</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Water and Sewer Service's covered employee payroll	\$ 3,099,942	\$ 3,055,947	\$ 2,904,499	\$ 2,896,935	\$ 2,854,866	\$ 2,760,282	\$ 2,624,486
Employer contributions as a percentage of covered-employee payroll	5.26%	4.70%	4.73%	4.64%	4.93%	5.15%	6.93%

**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.

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

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

The above schedule will present 10 years of historical data, once available.

## **SUPPLEMENTARY INFORMATION**

## **COMBINING STATEMENTS**

**CITY OF GEORGETOWN**  
**GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE**  
**COMBINING STATEMENT OF NET POSITION**  
**June 30, 2019**

	Water & Wastewater Treatment Plant No. 1	Wastewater Treatment Plant No. 2	Totals
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 378,313	\$ -	\$ 378,313
Accounts receivable (net)	1,029,189	414,795	1,443,984
Interfund receivable (payable)	1,834,540	(1,834,540)	-
Prepaid expenses	39,008	2,910	41,918
Total current assets	<u>3,281,050</u>	<u>(1,416,835)</u>	<u>1,864,215</u>
Noncurrent assets			
Restricted cash	1,332,895	-	1,332,895
Restricted investments - certificate of deposit	1,418,292	-	1,418,292
Accrued interest receivable	4,607	-	4,607
Capital assets			
Land and easements	728,668	130,019	858,687
Construction in progress	3,065,342	689,698	3,755,040
Buildings, property and equipment	4,451,754	4,823,924	9,275,678
Utility plants in service	139,443,952	20,011,199	159,455,151
Transportation and work equipment	1,871,291	183,234	2,054,525
Less accumulated depreciation	<u>(64,208,739)</u>	<u>(16,827,312)</u>	<u>(81,036,051)</u>
Total noncurrent assets	<u>88,108,062</u>	<u>9,010,762</u>	<u>97,118,824</u>
Total assets	<u>91,389,112</u>	<u>7,593,927</u>	<u>98,983,039</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Defeasance on refunding	6,144	-	6,144
Deferred outflows - pension	1,311,988	308,304	1,620,292
Deferred outflows - OPEB	558,204	125,256	683,460
Total deferred outflows of resources	<u>1,876,336</u>	<u>433,560</u>	<u>2,309,896</u>
Total assets and deferred outflows of resources	<u>\$ 93,265,448</u>	<u>\$ 8,027,487</u>	<u>\$ 101,292,935</u>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	\$ 119,163	\$ 15,092	\$ 134,255
Accrued liabilities	782,506	60,365	842,871
Contract payable	222,906	480,883	703,789
Customer deposits	266,915	-	266,915
Liabilities payable from restricted assets:			
Current portion of long-term debt	887,000	-	887,000
Accrued interest payable	83,575	-	83,575
Total current liabilities	<u>2,362,065</u>	<u>556,340</u>	<u>2,918,405</u>
Noncurrent liabilities			
Accrued expenses	490,280	91,586	581,866
Net pension liability	6,123,007	1,386,278	7,509,285
Net OPEB liability	1,784,637	404,423	2,189,060
Line of credit payable	470,077	-	470,077
Bonds, notes, and loans payable	<u>7,826,049</u>	<u>-</u>	<u>7,826,049</u>
Total noncurrent liabilities	<u>16,694,050</u>	<u>1,882,287</u>	<u>18,576,337</u>
Total liabilities	<u>19,056,115</u>	<u>2,438,627</u>	<u>21,494,742</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows - pension	196,057	44,438	240,495
Deferred inflows - OPEB	344,876	70,581	415,457
Total deferred inflows of resources	<u>540,933</u>	<u>115,019</u>	<u>655,952</u>
<b>NET POSITION</b>			
Net investment in capital assets	76,639,219	9,010,762	85,649,981
Restricted for debt service	2,405,304	-	2,405,304
Unrestricted	<u>(5,376,123)</u>	<u>(3,536,921)</u>	<u>(8,913,044)</u>
Total net position	<u>73,668,400</u>	<u>5,473,841</u>	<u>79,142,241</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 93,265,448</u>	<u>\$ 8,027,487</u>	<u>\$ 101,292,935</u>

**CITY OF GEORGETOWN**  
**GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
for the year ended  
June 30, 2019

	<b>Water &amp; Wastewater Treatment Plant No. 1</b>	<b>Wastewater Treatment Plant No. 2</b>	<b>Totals</b>
<b>Operating revenues</b>			
Water revenue	\$ 4,404,434	\$ -	\$ 4,404,434
Sewer revenue	4,290,913	320,330	4,611,243
Connection fees	977,273	-	977,273
Commercial user fees	-	1,399,505	1,399,505
Miscellaneous	179,331	176,052	355,383
Penalties	<u>98,254</u>	<u>-</u>	<u>98,254</u>
Total operating revenues	<u>9,950,205</u>	<u>1,895,887</u>	<u>11,846,092</u>
<b>Operating expenses</b>			
Depreciation	3,314,265	525,603	3,839,868
Salaries and wages	2,745,276	554,624	3,299,900
Employee benefits	2,212,538	433,996	2,646,534
Utilities	696,347	187,057	883,404
Supplies	457,024	583,182	1,040,206
Maintenance and repairs	404,783	96,599	501,382
Purchased water	416,181	-	416,181
Professional services	331,613	125,166	456,779
Insurance	172,660	27,459	200,119
Miscellaneous	190,684	-	190,684
Conferences, training, and meetings	<u>88,117</u>	<u>9,099</u>	<u>97,216</u>
Total operating expenses	<u>11,029,488</u>	<u>2,542,785</u>	<u>13,572,273</u>
Operating gain (loss)	<u>(1,079,283)</u>	<u>(646,898)</u>	<u>(1,726,181)</u>
<b>Nonoperating revenues (expenses)</b>			
Gain on disposal of fixed assets	9,313	-	9,313
Interest income	24,038	-	24,038
Interest expense	(319,090)	-	(319,090)
Amortization expense	<u>(26,063)</u>	<u>-</u>	<u>(26,063)</u>
Total nonoperating (expenses)	<u>(311,802)</u>	<u>-</u>	<u>(311,802)</u>
Income (loss) before capital contributions	(1,391,085)	(646,898)	(2,037,983)
Developer contributions	4,213,747	-	4,213,747
Commercial user contributions	<u>-</u>	<u>346,143</u>	<u>346,143</u>
<b>Change in net position</b>	2,822,662	(300,755)	2,521,907
Net position at beginning of year	<u>70,845,738</u>	<u>5,774,596</u>	<u>76,620,334</u>
<b>NET POSITION AT END OF YEAR</b>	<u>\$ 73,668,400</u>	<u>\$ 5,473,841</u>	<u>\$ 79,142,241</u>

**CITY OF GEORGETOWN**  
**GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE**  
**COMBINING STATEMENT OF CASH FLOWS**  
**for the year ended June 30, 2019**

	<b>Water &amp; Wastewater Treatment Plant No. 1</b>	<b>Wastewater Treatment Plant No. 2</b>	<b>Totals</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 9,793,923	\$ 1,572,345	\$ 11,366,268
Payments to suppliers	(2,663,798)	(1,020,920)	(3,684,718)
Payments for employee services and benefits	(4,207,586)	(887,666)	(5,095,252)
Internal activity - payments from (to) other funds	(160,189)	160,189	-
Other receipts	179,331	176,052	355,383
Net cash provided (used) by operating activities	<u>2,941,681</u>	<u>-</u>	<u>2,941,681</u>
<b>CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition and construction of capital assets	(7,904,472)	(346,143)	(8,250,615)
Capital contributions	4,213,747	346,143	4,559,890
Proceeds from sale of capital assets	9,313	-	9,313
Proceeds from debt issuance	3,949,000	-	3,949,000
Principal paid on capital debt	(4,234,272)	-	(4,234,272)
Net payments on line of credit	(161,471)	-	(161,471)
Interest paid on capital debt	(264,148)	-	(264,148)
Net cash provided (used) by capital and related financing activities	<u>(4,392,303)</u>	<u>-</u>	<u>(4,392,303)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of certificate of deposit	(311,863)	-	(311,863)
Interest income	21,271	-	21,271
Interest income reinvested in restricted investments	(5,722)	-	(5,722)
Net cash provided (used) by investing activities	<u>(296,314)</u>	<u>-</u>	<u>(296,314)</u>
Net increase (decrease) in cash and cash equivalents	(1,746,936)	-	(1,746,936)
Cash and cash equivalents at beginning of year	3,458,144	-	3,458,144
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 1,711,208</u>	<u>\$ -</u>	<u>\$ 1,711,208</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>			
Operating income (loss)	\$ (1,079,283)	\$ (646,898)	\$ (1,726,181)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	3,314,265	525,603	3,839,868
Net OPEB liability	76,949	15,121	92,070
Net pension liability	610,681	119,998	730,679
Change in assets and liabilities:			
Receivables, net	6,474	(147,490)	(141,016)
Interfund activity	(160,189)	160,189	-
Prepaid expense	26,017	9,187	35,204
Accounts payable and other accrued liabilities	130,192	(35,710)	94,482
Customer deposits	16,575	-	16,575
Net cash provided (used) by operating activities	<u>\$ 2,941,681</u>	<u>\$ -</u>	<u>\$ 2,941,681</u>
<b>Reconciliation of total cash and cash equivalents</b>			
Current assets - cash and cash equivalents	\$ 378,313	\$ -	\$ 378,313
Restricted cash	1,332,895	-	1,332,895
Total cash and cash equivalents	<u>\$ 1,711,208</u>	<u>\$ -</u>	<u>\$ 1,711,208</u>
<b>Supplemental disclosures of cash flow information:</b>			
<b>Non-cash capital and related financing activities:</b>			
Net change in capital assets payable	\$ 190,595	\$ 480,883	\$ 671,478
Amortization expense	<u>\$ 26,063</u>	<u>\$ -</u>	<u>\$ 26,063</u>

**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 NET POSITION**  
**June 30,**

<b>ASSETS</b>	<b>2019</b>	<b>2018</b>
Current assets		
Cash and cash equivalents	\$ 378,313	\$ 560,692
Accounts receivable (net)	1,029,189	1,035,663
Interfund receivable	1,834,540	1,674,351
Prepaid expenses	<u>39,008</u>	<u>65,025</u>
Total current assets	<u>3,281,050</u>	<u>3,335,731</u>
Noncurrent assets		
Restricted cash	1,332,895	2,897,452
Restricted investments - certificate of deposit	1,418,292	1,100,707
Accrued interest receivable	4,607	1,840
Other assets	-	12,632
Capital assets		
Land and easements	728,668	728,668
Construction in progress	3,065,342	855,635
Buildings, property and equipment	4,451,754	4,375,145
Utility plants in service	139,443,952	133,757,563
Transportation and work equipment	1,871,291	1,865,927
Less accumulated depreciation	<u>(64,208,739)</u>	<u>(60,999,486)</u>
Total noncurrent assets	<u>88,108,062</u>	<u>84,596,083</u>
Total assets	<u>91,389,112</u>	<u>87,931,814</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Defeasance on refunding	6,144	7,589
Deferred outflows - pension	1,311,988	1,493,810
Deferred outflows - OPEB	<u>558,204</u>	<u>567,659</u>
Total deferred outflows of resources	<u>1,876,336</u>	<u>2,069,058</u>
Total assets and deferred outflows of resources	<u>\$ 93,265,448</u>	<u>\$ 90,000,872</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	\$ 119,163	\$ 45,324
Accrued liabilities	782,506	756,970
Contract payable	222,906	38,556
Line of credit payable	-	-
Customer deposits	266,915	250,340
Liabilities payable from restricted assets:		
Current portion of long-term debt	887,000	841,250
Accrued interest payable	<u>83,575</u>	<u>28,633</u>
Total current liabilities	<u>2,362,065</u>	<u>1,961,073</u>
Noncurrent liabilities		
Accrued expenses	490,280	453,218
Net pension liability	6,123,007	5,682,805
Net OPEB liability	1,784,637	1,959,429
Line of credit payable	470,077	631,548
Bonds, notes, and loans payable	<u>7,826,049</u>	<u>8,157,071</u>
Total noncurrent liabilities	<u>16,694,050</u>	<u>16,884,071</u>
Total liabilities	<u>19,056,115</u>	<u>18,845,144</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows - pension	196,057	207,400
Deferred inflows - OPEB	<u>344,876</u>	<u>102,590</u>
Total deferred inflows of resources	<u>540,933</u>	<u>309,990</u>
<b>NET POSITION</b>		
Net investment in capital assets	76,639,219	71,585,131
Restricted for debt service	2,405,304	3,721,026
Unrestricted	<u>(5,376,123)</u>	<u>(4,460,419)</u>
Total net position	<u>73,668,400</u>	<u>70,845,738</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 93,265,448</u>	<u>\$ 90,000,872</u>

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

	<b>2019</b>	<b>2018</b>
<b>Operating revenues</b>		
Water revenue	\$ 4,404,434	\$ 4,367,887
Sewer revenue	4,290,913	4,162,034
Connection fees	977,273	1,972,783
Miscellaneous	179,331	188,521
Penalties	<u>98,254</u>	<u>108,542</u>
Total operating revenues	<u>9,950,205</u>	<u>10,799,767</u>
 <b>Operating expenses</b>		
Administration		
Depreciation	81,013	77,445
Salaries and wages	341,948	332,799
Employee benefits	270,372	275,375
Utilities	12,923	13,133
Supplies	14,021	19,047
Maintenance and repairs	27,070	37,937
Insurance	10,717	12,879
Professional services	28,074	3,822
Conferences, training, and meetings	21,226	22,438
Miscellaneous	<u>46,418</u>	<u>468</u>
Total administration expenses	<u>853,782</u>	<u>795,343</u>
 Customer accounts		
Depreciation	2,935	2,626
Salaries and wages	222,709	212,897
Employee benefits	190,703	175,459
Utilities	6,203	6,857
Supplies	120,541	131,147
Maintenance and repairs	20,178	21,494
Insurance	3,826	5,220
Professional services	18,569	2,049
Conferences, training, and meetings	3,722	3,210
Miscellaneous	<u>144,266</u>	<u>84,808</u>
Total customer accounts expenses	<u>733,652</u>	<u>645,767</u>

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

	<b>2019</b>	<b>2018</b>
Water treatment plant		
Depreciation	\$ 223,126	\$ 179,558
Salaries and wages	501,096	452,621
Employee benefits	384,621	327,278
Purchased water	416,181	477,261
Utilities	158,956	166,908
Supplies	187,789	173,276
Maintenance and repairs	45,247	43,202
Insurance	16,888	17,509
Professional services	41,048	48,155
Conferences, training, and meetings	<u>10,157</u>	<u>9,689</u>
Total water treatment plant expenses	<u>1,985,109</u>	<u>1,895,457</u>
Water distribution		
Depreciation	1,231,836	1,171,817
Salaries and wages	530,191	558,205
Employee benefits	438,491	432,796
Utilities	51,142	49,938
Supplies	22,499	21,627
Maintenance and repairs	57,703	53,716
Insurance	48,827	50,891
Professional services	23,377	15,082
Conferences, training, and meetings	<u>17,739</u>	<u>15,929</u>
Total water distribution expenses	<u>2,421,805</u>	<u>2,370,001</u>
Wastewater treatment plant No. 1		
Depreciation	1,308,466	1,289,586
Salaries and wages	352,210	356,799
Employee benefits	302,088	286,870
Utilities	235,324	236,588
Supplies	67,457	36,725
Maintenance and repairs	110,437	109,783
Insurance	53,659	57,318
Professional services	169,218	144,649
Conferences, training, and meetings	<u>10,326</u>	<u>9,984</u>
Total wastewater treatment plant No. 1 expenses	<u>2,609,185</u>	<u>2,528,302</u>

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

	<b>2019</b>	<b>2018</b>
Engineering		
Depreciation	\$ 12,220	\$ 12,487
Salaries and wages	346,981	354,681
Employee benefits	271,129	252,775
Utilities	8,500	8,013
Supplies	3,881	7,841
Maintenance and repairs	18,165	9,982
Insurance	8,444	8,108
Professional services	24,446	6,341
Conferences, training, and meetings	<u>10,244</u>	<u>7,920</u>
Total engineering expenses	<u>704,010</u>	<u>668,148</u>
Wastewater collections		
Depreciation	454,669	416,905
Salaries and wages	450,141	359,079
Employee benefits	355,134	290,495
Utilities	223,299	208,372
Supplies	40,836	28,362
Maintenance and repairs	125,983	127,988
Insurance	30,299	32,035
Professional services	26,881	18,799
Conferences, training, and meetings	<u>14,703</u>	<u>10,574</u>
Total wastewater collections expenses	<u>1,721,945</u>	<u>1,492,609</u>
Total operating expenses	<u>11,029,488</u>	<u>10,395,627</u>
Operating income (loss)	<u>(1,079,283)</u>	<u>404,140</u>
<b>Nonoperating revenues (expenses)</b>		
Gain on disposal of fixed assets	9,313	6,556
Interest income	24,038	9,922
Interest expense	(319,090)	(371,111)
Amortization expense	<u>(26,063)</u>	<u>(2,145)</u>
Total nonoperating (expenses)	<u>(311,802)</u>	<u>(356,778)</u>
Income before capital contributions and other expense	(1,391,085)	47,362
Developer contributions	<u>4,213,747</u>	<u>2,132,283</u>
<b>Change in net position</b>	2,822,662	2,179,645
Net position at beginning of year	<u>70,845,738</u>	<u>68,666,093</u>
<b>NET POSITION AT END OF YEAR</b>	<u>\$ 73,668,400</u>	<u>\$ 70,845,738</u>

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

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

	2019	2018
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ -	\$ -
Accounts receivable (net)	414,795	267,305
Prepaid expenses	<u>2,910</u>	<u>12,097</u>
Total current assets	<u>417,705</u>	<u>279,402</u>
Noncurrent assets		
Capital assets		
Land and easements	130,019	130,019
Construction in progress	689,698	-
Buildings, property and equipment	4,823,924	4,823,924
Utility plants in service	20,011,199	19,898,815
Transportation and work equipment	183,234	158,290
Less accumulated depreciation	<u>(16,827,312)</u>	<u>(16,301,709)</u>
Total noncurrent assets	<u>9,010,762</u>	<u>8,709,339</u>
Total assets	<u>9,428,467</u>	<u>8,988,741</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflows - pension	308,304	344,034
Deferred outflows - OPEB	<u>125,256</u>	<u>127,114</u>
Total deferred outflows of resources	<u>433,560</u>	<u>471,148</u>
Total assets and deferred outflows of resources	<u>\$ 9,862,027</u>	<u>\$ 9,459,889</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	\$ 15,092	\$ 16,637
Contracts payable	480,883	-
Accrued liabilities	60,365	73,684
Interfund payable	<u>1,834,540</u>	<u>1,674,351</u>
Total current liabilities	2,390,880	1,764,672
Noncurrent liabilities		
Accrued expenses	91,586	112,432
Net pension liability	1,386,278	1,299,781
Net OPEB liability	<u>404,423</u>	<u>438,768</u>
Total noncurrent liabilities	<u>1,882,287</u>	<u>1,850,981</u>
Total liabilities	<u>4,273,167</u>	<u>3,615,653</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows - pension	44,438	46,667
Deferred inflows - OPEB	<u>70,581</u>	<u>22,973</u>
Total deferred inflows of resources	<u>115,019</u>	<u>69,640</u>
<b>NET POSITION</b>		
Net investment in capital assets	9,010,762	8,709,339
Unrestricted	<u>(3,536,921)</u>	<u>(2,934,743)</u>
Total net position	<u>5,473,841</u>	<u>5,774,596</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 9,862,027</u>	<u>\$ 9,459,889</u>

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

	<b>2019</b>	<b>2018</b>
<b>Operating revenues</b>		
Sewer revenue	\$ 320,330	\$ 323,894
Commercial user fees	1,399,505	1,342,800
Miscellaneous	<u>176,052</u>	<u>69,370</u>
 Total operating revenues	 <u>1,895,887</u>	 <u>1,736,064</u>
 <b>Operating expenses</b>		
Depreciation	525,603	510,204
Salaries and wages	554,624	627,374
Employee benefits	433,996	477,168
Utilities	187,057	170,790
Supplies	583,182	225,305
Maintenance and repairs	96,599	101,593
Insurance	27,459	26,609
Professional services	125,166	67,489
Conferences, training, and meetings	<u>9,099</u>	<u>5,402</u>
 Total operating expenses	 <u>2,542,785</u>	 <u>2,211,934</u>
 Operating (loss)	 <u>(646,898)</u>	 <u>(475,870)</u>
 Capital contributed		
Commercial user contributions	<u>346,143</u>	<u>1,281,978</u>
 <b>Change in net position</b>	 (300,755)	 806,108
 Net position at beginning of year	 <u>5,774,596</u>	 <u>4,968,488</u>
 <b>NET POSITION AT END OF YEAR</b>	 <u>\$ 5,473,841</u>	 <u>\$ 5,774,596</u>



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

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, 2019, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements, and have issued our report thereon dated October 4, 2019.

**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 the 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  
October 4, 2019