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PUBLIC SERVICE
COMMISSION

Attorney At Law

August 12, 2013

E-mail: drtalley@windstream.net

Mr. Jeff Derouen
Executive Director
Public Service Commission
PO Box 615
Frankfort, KY 40602

RE: Transfer Application
From: Mallard Point Disposal Systems, Inc.
To: City of Georgetown, Kentucky

Dear Mr. Derouen:

Enclosed for filing are the original and ten (10) copies of the Joint Application for the transfer of assets from Mallard Point Disposal Systems, Inc. to the City of Georgetown, Kentucky.

The tentative Closing date is **September 30, 2013**.

Should you need any additional information, please let me know.

Yours truly,

DAMON R. TALLEY, P.S.C.



DAMON R. TALLEY, ATTORNEY FOR
JOINT APPLICANTS

Enclosures

cc: Mallard Point Disposal Systems, Inc.
City of Georgetown, Kentucky

COMMONWEALTH of KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE JOINT APPLICATION OF MALLARD)	
POINT DISPOSAL SYSTEMS, INC. AND)	
THE CITY OF GEORGETOWN, KENTUCKY)	
FOR AN ORDER APPROVING THE)	
TRANSFER OF OWNERSHIP OF THE)	
WASTEWATER COLLECTION SYSTEM OF)	CASE NO. 2013- _____
THE MALLARD POINT DISPOSAL)	
SYSTEMS, INC. TO THE CITY OF)	
GEORGETOWN, KENTUCKY PURSUANT)	
TO THE PROVISIONS OF KRS 278.020(5))	
AND (6) AND 807 KAR 5:001)	

APPLICATION

The Joint Applicants, Mallard Point Disposal Systems, Inc. (“Mallard Point”) and the City of Georgetown, Kentucky (“City”), file this Petition and Application pursuant to the provisions of KRS 278.020(5) and (6), 807 KAR 5:001, and all other applicable rules and regulations of the Commission, seeking approval of the transfer of the ownership of Mallard Point’s wastewater collection system, as described in the Asset Purchase Agreement. In support of this Petition and Application, the Joint Applicants state as follows:

1. The Joint Applicant, Mallard Point is a Kentucky corporation duly organized and existing under the laws of the Commonwealth of Kentucky, specifically KRS Chapter 271B. It operates in a portion of Scott County, Kentucky and serves approximately 535 wastewater customers¹.

2. Mallard Point's mailing address, telephone number, and electronic mailing address are:

Mallard Point Disposal Systems, Inc.
118 South Broadway
Georgetown, Kentucky 40324
Attention: Mark S. Smith, President
Telephone: (859) 963-8259
mdmillion@aol.com

3. A certified copy of the Articles of Incorporation of Mallard Point, including all amendments thereto, were filed with the Commission in Case No. 2005-0025 and Case No. 2003-00284, as required by 807 KAR 5:001, Section 14(2)(a).

4. The Joint Applicant, City, is a duly organized and existing municipal corporation and city of the fourth class of the Commonwealth of Kentucky.

5. The City's mailing address, telephone number, and electronic mailing address are:

City of Georgetown, Kentucky
c/o Georgetown Municipal Water and Sewer Service
P.O. Box 640
125 West Clinton Street
Georgetown, Kentucky 40324
Attention: Robert Wilhite, General Manager
Telephone: (502) 863-7816
rwilhite@gmwss.com

¹ Annual Report of Mallard Point Disposal Systems, Inc. to the Kentucky Public Service Commission for the Year Ending December 31, 2012 ("Annual Report") at pages 9 and 27.

6. Mallard Point currently owns, operates, and maintains both a wastewater collection system ("Collection System") and a wastewater treatment plant for the purpose of providing wastewater collection and treatment services for customers in a portion of Scott County, Kentucky.

7. The City currently owns water treatment, supply and distribution facilities, as well as wastewater collection and treatment facilities, which are operated as a combined and consolidated municipal utilities system by the Georgetown Municipal Water and Wastewater Service ("GMWSS"), an entity of the City.

REGIONAL WASTEWATER SERVICE PROVIDER

8. The City, by and through GMWSS, currently serves approximately 12,320 water customers and approximately 10,920 wastewater customers².

9. In recent years, the City has become a regional wastewater service provider. Not only does the City provide wastewater service within its corporate limits, but it also owns and operates the wastewater facilities in the City of Stamping Ground ("Stamping Ground") and the City of Sadieville ("Sadieville"). Stamping Ground is located in western Scott County. Sadieville is located in northeastern Scott County.

10. In 2006 the City acquired Stamping Ground's wastewater collection and treatment system as well as its water distribution system.

11. In 2012 the City acquired Sadieville's wastewater collection and conveyance system.

² Hereafter, unless the context requires otherwise, the City and GMWSS will be jointly referred to as the City.

12. The wastewater collected in Sadieville is pumped via a force main to the City and treated at the Georgetown Wastewater Treatment Plant No. 2 (“WWTP 2”).

13. The force main which conveys the Sadieville wastewater is known as The City's North U.S. 25 Sewer Force Main. It is adjacent to Mallard Point's Collection System.

14. The City designed and constructed the North U.S. 25 sewer force main with adequate capacity for the anticipated wastewater flow from Mallard Point.

15. Following the Closing, the City plans to construct a wastewater pump station to pump the Mallard Point wastewater through the City's North U.S. 25 sewer force main to the City's WWTP 2 for treatment.

16. The City's WWTP 2 has sufficient reserve capacity to accommodate the wastewater flows which are currently being treated at Mallard Point's wastewater treatment plant.

ADVANTAGES OF PROPOSED TRANSFER

17. The Joint Applicants represent that combining and consolidating Mallard Point's Collection System with the City's wastewater system will eliminate the need for the Mallard Point wastewater treatment plant and will enable Mallard Point to decommission its wastewater treatment plant.

18. The City represents that combining and consolidating the Mallard Point wastewater collection system with the City's wastewater system will result in economies of scale and will allow the combined system to be managed, operated, and maintained in a more cost effective manner.

19. The City, pursuant to various sections of KRS Chapters 58, 96 and 106, is authorized to expand its existing wastewater system by acquiring existing wastewater systems, including the wastewater collection system of Mallard Point.

20. The public policy of the Commonwealth, as declared in KRS 224A.300(1), is to encourage regionalization, consolidation, and merger of wastewater utilities wherever feasible. The City's proposed acquisition of the Mallard Point Collection System is consistent with, and in furtherance of, this public policy.

FINANCIAL AND TECHNICAL STRENGTHS OF GMWSS

21. GMWSS is a separate, independent operating entity of the City. It has its own Board of Commissioners, employees, and Operating Budget. It manages, operates, and maintains both the water and wastewater systems owned by the City. All water and sewer revenues are collected by GMWSS and deposited to GMWSS accounts. All expenses for both these utilities are paid for by GMWSS.

22. GMWSS prepares its own financial statements which are audited annually by an independent auditor. A copy of GMWSS' audited financial statements for the fiscal year ending June 30, 2012 (the FYE 2013 audit is not yet completed) is attached hereto and incorporated herein by reference as **Exhibit 1**.

23. For the fiscal year ended June 30, 2012, GMWSS reported total assets of \$91,897,429 and total liabilities of \$12,623,852. Its net assets were \$79,273,577³.

24. For the fiscal year ending June 30, 2012, GMWSS' water and wastewater operations had total operating revenues of \$9,936,043 and total operating expenses of \$9,985,497.

³ *Georgetown Municipal Water and Sewer Service Independent Auditor's Report for the Fiscal Year Ended June 30, 2012 ("Audit")* at page 6.

25. As of June 30, 2012, GMWSS had cash reserves on hand of \$2,919,127⁴.

26. The City has a total of 23 operators who hold valid wastewater certification licenses issued by the Kentucky Board of Certification of Wastewater System Operators. Four (4) are certified as Wastewater Collection System Operators. Eight (8) are certified as Wastewater Treatment Operators. The remaining eleven (11) are certified as both Wastewater Collection System and Wastewater Treatment Operators. A list of the names, qualifications, and license numbers of the City's Certified Wastewater Operators is attached hereto and incorporated herein by reference as **Exhibit 4**.

27. The City has the financial, technical, and managerial abilities to provide reasonable wastewater collection and treatment services for the existing customers of Mallard Point without causing a financial burden on those customers or the City's existing customers or adversely affecting the quality of service presently afforded the existing customers of Mallard Point or the City.

THE PROPOSED TRANSACTION

28. On June 10, 2013, the City adopted Resolution No. 13-006 authorizing the proposed purchase of assets from Mallard Point and approving the Asset Purchase Agreement. A copy of the City's Resolution is attached hereto and incorporated herein by reference as **Exhibit 2**.

29. The sole shareholder and President of Mallard Point and the City have determined that it is economically feasible, desirable, beneficial, and in the best interests of Mallard Point's customers, the City's customers, and the general public for the proposed transfer of assets to take place.

⁴ Audit at pages 17 and 20.

30. On July 23, 2013, Mallard Point and the City entered into an Asset Purchase Agreement (the "Agreement") whereby Mallard Point agreed to convey and transfer to the City, and the City agreed to acquire from Mallard Point, certain assets of Mallard Point, including Mallard Point's wastewater collection system. A copy of the Agreement is attached hereto and incorporated herein by reference as **Exhibit 3**.

31. The Agreement provides that Mallard Point shall transfer the following assets:

- A. Wastewater collection and conveyance lines;
- B. Mallard Point wastewater pump station;
- C. Harbor Village wastewater pump station; and
- D. Other assets itemized in paragraph 2 of the Agreement.

32. Collectively, the assets being transferred shall be referred to as the "Assets."

33. Mallard Point's wastewater treatment plant is **excluded** from the transaction. As previously stated in paragraph 15 of this Application, the City will treat the wastewater flow from Mallard Point Collection System at the City's WWTP 2.

34. Essentially, the City is acquiring all of Mallard Point's utility assets except for the Mallard Point wastewater treatment plant.

35. The purchase price is \$2,900,000.00.

36. No liabilities of Mallard Point are being assumed by the City.

37. The purchase price represents the fair market value of the Assets. Both the purchase price and the other terms of the Agreement were mutually agreed by Mallard Point and the City following many months of negotiations.

38. The City is not obligated, either contractually or otherwise, to hire any of the Mallard Point employees.

39. The Agreement provides in paragraph 12 that the Agreement shall not become effective and the transfer of Mallard Point's Assets shall not take place until and unless the Commission grants approval of the proposed transfer.

40. Mallard Point and the City respectfully petition the Commission to enter an Order pursuant to KRS 278.020(5) and (6) authorizing the transfer of Assets from Mallard Point to the City as provided in the Agreement.

WASTEWATER RATES

41. The City proposes to charge Mallard Point's customers the same rates that those customers are currently being charged by Mallard Point. A copy of Mallard Point's current rate schedule, which was approved by the Commission on April 17, 2006 in Case No. 2005-00235, is attached as Exhibit 1 to the Agreement.

42. The City has agreed, pursuant to paragraph 8 of the Agreement, that it will not increase the rates to the existing customers of Mallard Point nor to any future customers located with Mallard Point's service area for at least three (3) years from the date of the Closing.

43. The City is not a public utility within the meaning of KRS Chapter 278. Therefore, it will not be necessary for the City to file an Adoption Notice pursuant to the provisions of 807 KAR5:011, Section 11.

CUSTOMER DEPOSITS

44. The Joint Applicant, Mallard Point, represents that it has not collected any customer deposits from its wastewater customers.⁵ Consequently, there is no need for the Commission to address the issue of refunding customer deposits in its Order approving the proposed transfer of Assets.

WASTEWATER TREATMENT AFTER CLOSING

45. The City shall acquire ownership of, and commence operating, the Collection System immediately following the Closing. The City cannot treat the wastewater from the Collection System, however, until it constructs and places into service a wastewater pump station to pump the wastewater to the City's WWTP 2. It will take approximately six (6) to eight (8) months following the Closing to construct the new wastewater pump station.

46. During this interim, Mallard Point has agreed to treat the wastewater from the Collection System until the City constructs the new wastewater pump station.

47. The City and Mallard Point have executed a Wastewater Treatment Agreement, a copy of which is attached hereto and incorporated herein by reference as **Exhibit 5**. The Wastewater Treatment Agreement describes the terms and conditions of the treatment and the responsibilities of the Joint Applicants during this temporary period.

⁵ Asset Purchase Agreement at page 6, paragraph 5.

48. Pursuant to paragraph 5 of the Wastewater Treatment Agreement, Mallard Point shall not provide wastewater treatment services for any customer other than the City. Therefore, immediately following the Closing, Mallard Point shall no longer be deemed a “utility” within the meaning of KRS 278.010(3)(f) because it will cease providing wastewater collection, transmission, or treatment services for the public.

DECOMMISSIONING WASTEWATER TREATMENT PLANT

49. Once the City constructs its wastewater pumping station and commences treating the Mallard Point wastewater flow at the City’s WWTP 2, the Mallard Point wastewater treatment plant will cease treatment operations. Mallard Point will then submit a Closure Plan to the Kentucky Energy and Environment Cabinet, Division of Water, for closing and decommissioning the Mallard Point wastewater treatment plant.

50. Once this process is completed, Mallard Point anticipates that it will dismantle the wastewater treatment plant and sell the salvageable metal for scrap.

DECLARATORY RELIEF

51. The City is **not** a utility within the meaning of KRS 278.010(3) and is not subject to Commission jurisdiction except when it contracts to provide utility services to a jurisdictional utility.

52. The City seeks a declaration from the Commission, pursuant to 807 KAR5:001, Section 18, that upon acquisition of the Mallard Point Collection System neither the City nor the acquired facilities will be subject to Commission jurisdiction.

53. The Wastewater Treatment Agreement between the City and Mallard Point attached hereto as **Exhibit 5** does not become effective until after the Closing of the proposed transaction.⁶ At that time, Mallard Point will no longer be a utility subject to Commission jurisdiction.

54. The City seeks a declaration from the Commission that the City's contractual relationship with Mallard Point for temporary wastewater treatment will not subject the City to Commission jurisdiction.

55. This Joint Application is being made, and the proposed acquisition will be made, in accordance with law, for a proper purpose and is consistent with the public interest.


WHEREFORE, the Joint Applicants, Mallard Point Disposal Systems, Inc. and the City of Georgetown, Kentucky, respectfully request the Commission to issue an Order:

- A. Approving the proposed transfer of ownership of the Assets of Mallard Point Disposal Systems, Inc. to the City of Georgetown, Kentucky pursuant to the provisions of the Asset Purchase Agreement attached hereto as **Exhibit 3**;
- B. Declaring that upon acquisition of the Mallard Point Collection System neither the City nor the acquired facilities will be subject to Commission jurisdiction;
- C. Declaring that the City's contractual relationship with Mallard Point, as set forth in the Wastewater Treatment Agreement attached hereto as **Exhibit 5** will not subject the City to Commission jurisdiction; and
- D. Granting Mallard Point and the City such other relief as the Commission deems appropriate.


⁶ Wastewater Treatment Agreement at page 5, paragraph 4.

Respectfully submitted this 12th day of August, 2013.

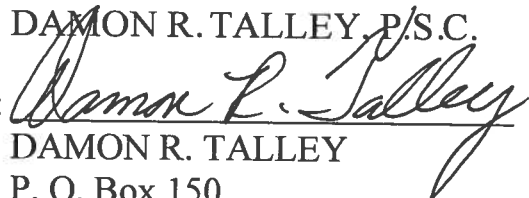
**MALLARD POINT
DISPOSAL SYSTEMS, INC.**

BY: 
Mark S. Smith, President

**CITY OF GEORGETOWN,
KENTUCKY**

BY: 
Robert Wilhite, General Manager
Georgetown Municipal Water
and Sewer Service

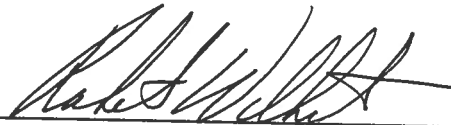
DAMON R. TALLEY, P.S.C.

BY: 
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(270) 358-3187 FAX (270) 358-9560
Counsel for Joint Applicants
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STATE OF KENTUCKY .
COUNTY OF Franklin

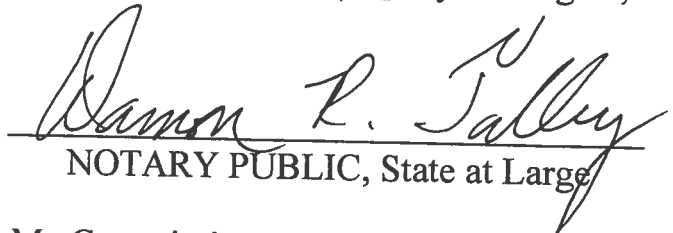
The Affiant, Robert Wilhite, being first duly sworn, deposes and states: that he is the General Manager of the Georgetown Municipal Water and Sewer Service of the City of Georgetown, Kentucky, one of the Joint Applicants in this case; that he has read the foregoing Application and has noted the contents thereof; that the same are true of his own knowledge, except as to matters which are therein stated to be based on information or belief, and that as to those matters, he believes the same to be true.

IN TESTIMONY WHEREOF, witness the signature of the undersigned on the 12th day of August, 2013.



Robert Wilhite, General Manager
Georgetown Municipal Water and Sewer
Service

SUBSCRIBED AND SWORN to before me by Robert Wilhite, as General Manager of Georgetown Municipal Water and Sewer Service of the City of Georgetown, Kentucky, for and on behalf of the City, on this 12th day of August, 2013.



NOTARY PUBLIC, State at Large

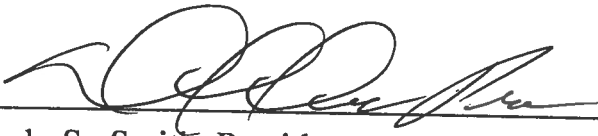
My Commission Expires: 6-9-15

STATE OF KENTUCKY

COUNTY OF Hardin

The Affiant, Mark S. Smith, being first duly sworn, deposes and states: that he is the President of Mallard Point Disposal Systems, Inc., one of the Joint Applicants in this case; that he has read the foregoing Application and has noted the contents thereof; that the same are true of his own knowledge, except as to matters which are therein stated to be based on information or belief, and that as to those matters, he believes the same to be true.

IN TESTIMONY WHEREOF, witness the signature of the undersigned on the 11th day of August, 2013.



Mark S. Smith, President

SUBSCRIBED AND SWORN to before me by Mark S. Smith, as President of Mallard Point Disposal Systems, Inc., for and on behalf of the Corporation, on this 11th day of August, 2013.



NOTARY PUBLIC, State at Large

My Commission Expires: 6-9-15

EXHIBIT LIST

1. AUDIT
2. RESOLUTION OF CITY OF GEORGETOWN, KENTUCKY
3. ASSET PURCHASE AGREEMENT
4. CERTIFIED WASTEWATER OPERATORS
5. WASTEWATER TREATMENT AGREEMENT

EXHIBIT 1

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

**FINANCIAL STATEMENTS
June 30, 2012**

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**GEORGETOWN. MUNICIPAL WATER AND SEWER SERVICE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012**

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, 2012. This information should be read in conjunction with the Auditor's Reports and the financial statements immediately following this analysis.

FINANCIAL HIGHLIGHTS

- The assets of GMWSS exceeded its liabilities at the close of the fiscal year by \$79.3 million, compared to the previous fiscal year balance of \$78.9 million (net assets).
- GMWSS's total net assets increased \$285,000 from fiscal year 2011.
- GMWSS had total assets of \$93.5 million at June 30, 2012 with capital assets, net of depreciation comprising \$86.6 million of the total.
- GMWSS's debt decreased \$0.3 million to \$11.2 million at June 30, 2012.

FINANCIAL STATEMENTS

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

The Statement of Net Assets presents information on all the assets and liabilities of GMWSS as of June 30, 2012. Net assets are the difference between assets and liabilities. Over time, increases or decreases in net assets is one indicator of whether financial health is improving or deteriorating. Information on other factors, such as changes in the revenue structure and the condition of GMWSS's assets, is also needed to assess the overall financial situation of the GMWSS.

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

The Statement of Cash Flows presents the changes in the GMWSS's cash and cash equivalents for the year ended June 30, 2012, summarized by operating, capital and noncapital financing, and investing activities. The statement is prepared using the direct method of reporting cash flows, and, therefore, presents gross rather than net amounts for the year's activities.

REPORTING ON FUNDS

The combining and individual Enterprise Fund financial statements report GMWSS's activities in more detail than the consolidated financial statements. Plant No. 1 (which comprises the primary water plant, distribution, and two waste water plants) financial statements are presented on pages 20 through 23. 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 24 through 25.

ANALYSIS OF GMWSS

Net Assets

As of June 30, 2012, GMWSS had net assets greater than its liabilities of \$79.3 million. Of these net assets, \$75.4 million or 91% is invested in capital assets, net of related debt. Restricted net assets total \$3.3 million or 4.0%. This reflects funds held in various reserve accounts to meet the various bond and note covenants, or as deemed appropriate by management. Total assets were \$93.5 million and decreased by \$100,000 over the prior year.

As of June 30, 2011, GMWSS had net assets greater than its liabilities of \$79.0 million. Of these net assets, \$76.3 million or 96.6% is invested in capital assets, net of related debt. Restricted net assets total \$2.3 million or 3.0%. This reflects funds held in various reserve accounts to meet the various bond and note covenants, or as deemed appropriate by management. Total assets were \$93.6 million and decreased by \$195,000 over the prior year.

Revenues

Revenues for GMWSS for the fiscal year ended June 30, 2012, totaled \$9.9 million. Water and sewer revenues represent \$7.7 million or 77.8% of the total. Other major sources of revenue are connection fees and commercial user fees. Budgeted revenues for this same fiscal year were \$9.3 million. Water and sewer revenues decreased approximately \$28,000 or 0.4% over the previous fiscal year.

Revenues for GMWSS for the fiscal year ended June 30, 2011, totaled \$9.3 million. Water and sewer revenues represent \$7.7 million or 82.4% of the total. Other major sources of revenue are connection fees and commercial user fees. Budgeted revenues for this same fiscal year were \$9.3 million. Water and sewer revenues increased approximately \$440,000 or 6.1% over the previous fiscal year.

Expenses

Expenses for GMWSS for the fiscal year ended June 30, 2012, totaled \$9.9 million; of which \$3.5 million represented depreciation expense. Budgeted expenses for this same fiscal year were \$10.4 million. Actual expenses for water treatment & distribution and sewer collection & treatment totaled \$8.4 million or 81.0% of the total. Expenses increased approximately \$17,000 or 0.2% over the previous fiscal year.

Expenses for GMWSS for the fiscal year ended June 30, 2011, totaled \$9.9 million; of which \$3.5 million represented depreciation expense. Budgeted expenses for this same fiscal year were \$10.2 million. Actual expenses for water treatment & distribution and sewer collection & treatment totaled \$8.4 million or 83.9% of the total. Expenses increased approximately \$616,000 or 6.6% over the previous fiscal year.

Operating Income

For the year ended June 30, 2012, operating loss before non-operating revenues and expenses was approximately \$49,000, which includes an allowance of \$3.5 million for depreciation expense. Non-operating expenses total \$459,000. Contributed capital, which consists primarily of assets constructed by developers and contributed to GMWSS, totals \$700,000. The increase in net assets is \$285,000.

For the year ended June 30, 2011, operating loss before non-operating revenues and expenses was approximately \$635,000, which includes an allowance of \$3.5 million for depreciation expense. Non-operating expenses total \$490,000. Contributed capital which consists primarily of assets constructed by developers and contributed to GMWSS and grant proceeds total \$2.1 million. The increase in net assets is \$944,000.

Liabilities

Total liabilities as of June 30, 2012, were \$14.2 million. Of this amount approximately \$2.6 million is classified as current liabilities to be paid from unrestricted assets. Additionally, \$1.3 million in current liabilities is to be paid from restricted assets. GMWSS maintains sufficient balances in unrestricted & restricted assets to cover these liabilities. Long-term liabilities consist primarily of bonds payable and notes payable, which is funds borrowed by GMWSS to finance major capital improvement projects. These amounts, along with an accrual for compensated absences, total \$10.2 million.

Total liabilities as of June 30, 2011, were \$14.6 million. Of this amount approximately \$2.8 million is classified as current liabilities to be paid from unrestricted assets. Additionally, \$1.3 million in current liabilities is to be paid from restricted assets. GMWSS maintains sufficient balances in unrestricted & restricted assets to cover these liabilities. Long-term liabilities consist primarily of bonds payable and notes payable, which is funds borrowed by GMWSS to finance major capital improvement projects. These amounts, along with an accrual for compensated absences, total \$10.6 million.

Capital Assets

GMWSS has been recording the value of capital assets on an ongoing basis. GMWSS's investment in capital assets totaled \$144 million as of June 30, 2012, an increase of \$2 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 \$702,000.
- Water and sewer system improvements constructed by GMWSS in the amount of \$3,680,000.

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 \$11.2 million in bonds and notes outstanding, of which \$1.3 million is the current portion payable. The Board of Commissioners for GMWSS has authorized a debt to equity ratio of 28%. As of June 30, 2012, the debt to equity ratio was 12.2%. Additional information about long-term debt can be found in the notes beginning on page 14.

BUDGET FOR FISCAL YEAR 2013

FY 2013 revenues are budgeted to be \$9.9 million, an increase of approximately \$573,000 or 6.15% from fiscal year 2012 budgeted revenues. Expenses (including depreciation) are budgeted to be \$10.6 million, an increase of approximately \$234,000 or 2.3% from 2013 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 Finance Director, Georgetown Municipal Water and Sewer Service, P O Box 640, Georgetown, Kentucky 40324.

Stephen R. Allen, CPA/PFS
Dennis H. England, CPA
Michael D. Foley, CPA
Lyman Hager, Jr., CPA/PFS
Jerry W. Hensley, CPA

INDEPENDENT AUDITOR'S REPORT

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

J. Carroll Luby, CPA

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 year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Georgetown Municipal Water and Sewer Service's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Georgetown Municipal Water and Sewer Service, as of June 30, 2012, and the respective changes in financial position, and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 2012, on our consideration of the Georgetown Municipal Water and Sewer Service's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 3 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.

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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 financial statements as a whole. The combining and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC

September 7, 2012

CITY OF GEORGETOWN
GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE
STATEMENT OF NET ASSETS
June 30, 2012

ASSETS

Current assets

Cash and cash equivalents	\$ 485,556
Accounts receivable	967,951
Prepaid expenses	<u>25,672</u>

Total current assets 1,479,179

Noncurrent assets

Restricted cash	2,024,456
Restricted investments	1,527,337
Accrued interest receivable	1,951
Other assets	214,600

Capital assets

Construction in progress	360,265
Land and easements	705,308
Buildings, property and equipment	7,743,278
Utility plants in service	133,915,612
Transportation and work equipment	1,590,064
Less accumulated depreciation	<u>(57,664,621)</u>

Total noncurrent assets 90,418,250

Total assets \$ 91,897,429

LIABILITIES

Current liabilities

Accounts payable	\$ 75,487
Accrued liabilities	658,427
Contracts payable	52,009
Current portion of long-term debt	1,329,183
Customer deposits	209,365
Accrued interest payable	<u>63,005</u>

Total current liabilities 2,387,476

Noncurrent liabilities

Accrued expenses	354,787
Bonds, notes, and loans payable	<u>9,881,589</u>

Total noncurrent liabilities 10,236,376

Total liabilities 12,623,852

NET ASSETS

Invested in capital assets, net of related debt	75,439,134
Restricted for debt service	3,281,374
Unrestricted	<u>553,069</u>

Total net assets 79,273,577

Total liabilities and net assets \$ 91,897,429

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

**CITY OF GEORGETOWN
 GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE
 STATEMENT OF REVENUES, EXPENSES AND CHANGES
 IN NET ASSETS
 for the year ended June 30, 2012**

Operating revenues	
Water revenue	\$ 4,067,307
Sewer revenue	3,593,623
Connection fees	814,425
Commercial user fees	1,057,639
Miscellaneous	322,663
Penalties	<u>80,386</u>
Total operating revenues	<u>9,936,043</u>
Operating expenses	
Administration	534,926
Customer accounts	633,754
Water treatment plant	1,416,014
Water distribution	1,926,043
Wastewater treatment plant #1	2,477,887
Engineering	396,406
Wastewater collections	783,650
Wastewater treatment plant # 2	<u>1,816,817</u>
Total operating expenses	<u>9,985,497</u>
Operating income (loss)	<u>(49,454)</u>
Nonoperating revenues (expenses)	
Interest income	28,905
Interest expense	(451,107)
Amortization expense	<u>(36,949)</u>
Total nonoperating expenses	<u>(459,151)</u>
Loss before capital contributions	(508,605)
Developer contributions	702,444
Commercial user contributions	81,700
Grant revenues	<u>10,000</u>
Change in net assets	285,539
Net assets at beginning of year	<u>78,988,038</u>
NET ASSETS AT END OF YEAR	<u>\$ 79,273,577</u>

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

CITY OF GEORGETOWN
GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE
STATEMENT OF CASH FLOWS
for the year ended
June 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 9,563,908
Payments to suppliers	(2,705,627)
Payments for employee services and benefits	(3,706,997)
Other receipts	<u>322,663</u>
Net cash provided by operating activities	<u>3,473,947</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(2,075,646)
Capital contributions	375,103
Grants in aid of construction	10,000
Principal paid on capital debt	(1,281,647)
Draws on line of credit	1,000,000
Interest paid on capital debt	<u>(522,190)</u>
Net cash (used) by capital and related financing activities	<u>(2,494,380)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(4,598)
Interest income	<u>27,789</u>
Net cash provided by investing activities	<u>23,191</u>
Net increase in cash and cash equivalents	1,002,758
Cash and cash equivalents at beginning of year	<u>1,507,254</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,510,012</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating loss	\$ (49,454)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	3,456,185
Change in assets and liabilities:	
Receivables, net	(63,107)
Prepaid expense	(1,768)
Other assets	24,302
Accounts payable and other accrued liabilities	94,154
Customer deposits	<u>13,635</u>
Net cash provided by operating activities	<u>\$ 3,473,947</u>
Supplemental disclosures of cash flow information:	
Noncash capital and related financing activities:	
Capital contributions	\$ 409,041
Increase (decrease) in contracts payable for capital items	\$ (254,673)
Deferred bond cost included with bonds payable	\$ 12,648

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, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

The City retains certain control over the Board including:

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

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

B. Basis of Presentation, Fund Accounting

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

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

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

CITY OF GEORGETOWN
GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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. The enterprise funds have elected not to follow FASB pronouncements issued after November 30, 1989 as allowed by GASB Statement 20. When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Use of Estimates

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

E. Budgetary Control and Encumbrances

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

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

F. Assets, Liabilities, and Net Assets

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 assets accounts).

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

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

**CITY OF GEORGETOWN
GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, 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 are items 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 costs associated with issuing debt are deferred and amortized to non-operating expenses, using the straight-line method over the life of the related debt.

Contracts Payable- Contracts payable reflect amounts due to contractors for work on construction projects, which were incurred at June 30, 2012, but unpaid at that date. 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.

Restricted Net Asset- Restricted net assets 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.

**CITY OF GEORGETOWN
 GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2012**

2. CASH AND INVESTMENTS

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Water and Sewer Service funds on deposit with the banks may not be returned or the Water and Sewer Service will not be able to recover collateral securities in the possession of an outside party. The Water and Sewer Service's policy requires bank balances to be 100% secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation (FDIC) insurance. At June 30, 2012, all of the Water and Sewer Service's funds were fully insured or collateralized.

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

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The Water and Sewer Service does not have a policy related to interest rate risk.

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

The Water and Sewer Service's investments at June 30, 2012 are as follows:

<u>Type of Investments</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
United Bank:				
Certificate of deposit	\$ 483,111	\$ 483,111	1.54%	11/17/2012
Certificate of deposit	201,201	201,201	1.59%	8/2/2012
Certificate of deposit	300,680	300,680	1.59%	8/2/2012
Central Bank of Jefferson County:				
Certificate of deposit	171,297	171,297	0.896%	5/5/2014
Salt Lick Deposit Bank (Central Bank):				
Certificate of deposit	121,048	121,048	1.34%	4/15/2013
Central Bank & Trust Company:				
Certificate of deposit	250,000	250,000	1.391%	3/26/2013
	<u>\$ 1,527,337</u>	<u>\$ 1,527,337</u>		

**CITY OF GEORGETOWN
 GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2012**

3. CAPITAL ASSETS

The following is a summary of changes in capital assets and accumulated depreciation for the year ended June 30, 2012:

	Balance <u>July 01, 2011</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2012</u>
Land and easements	\$ 704,751	\$ 557	\$ -	\$ 705,308
Buildings, property, and equipment	7,686,667	56,611		7,743,278
Utility plants in service	128,951,534	4,964,078	-	133,915,612
Transportation and work equipment	1,584,173	74,315	(68,424)	1,590,064
Construction in progress	<u>3,225,814</u>	<u>816,723</u>	<u>(3,682,272)</u>	<u>360,265</u>
	<u>142,152,939</u>	<u>5,912,284</u>	<u>(3,750,696)</u>	<u>144,314,527</u>
Accumulated depreciation	<u>(54,276,860)</u>	<u>(3,456,185)</u>	<u>68,424</u>	<u>(57,664,621)</u>
	<u>\$ 87,876,079</u>	<u>\$ 2,456,099</u>	<u>\$ (3,682,274)</u>	<u>\$ 86,649,906</u>

Depreciation expense was charged to operations as follows:

Administration	\$ 36,240
Customer accounts	23,576
Water treatment plant	197,533
Water distribution	1,055,077
Engineering	7,149
Waste water treatment plant No. 1	1,571,968
Wastewater collections	71,323
Sewer plant No. 2	493,319
	<u>\$ 3,456,185</u>

4. RETIREMENT PLAN

The 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 separate financial statements which may be obtained by request from Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

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

Contributions – For the year ended June 30, 2012, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky

**CITY OF GEORGETOWN
 GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2012**

4. RETIREMENT PLAN, continued

Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2012, participating employers contributed 18.96%, of each employee's wages, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

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

<u>Year</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
2012	\$ 590,238	100%
2011	\$ 537,238	100%
2010	\$ 517,624	100%

5. LONG-TERM DEBT

Bonds Payable, Notes Payable and Compensated Absences

	<u>Interest Rates</u>	<u>Final Maturity</u>	<u>Outstanding Principal</u>
Revenue bonds:			
Water and Sewer, Series 2003A	2.00-4.125%	2023	\$ 3,045,000
Water and Sewer, Series 2003B Refunding	2.00-3.500%	2014	775,000
Kentucky Rural Water & Sewer, Series 2007A	4.00-4.375%	2027	5,747,750
Deferred cost of refunding			<u>(22,133)</u>
Total revenue bonds			<u>9,545,617</u>
Notes payable and lines of credit:			
Kentucky Infrastructure Authority Subordinated Note, Series 2004	2.25-5.25%	2014	20,000
Kentucky Infrastructure Authority Subordinated Note, Series 1993	4.00%	2014	645,155
Kentucky Bank line of credit	2.98%	2014	<u>1,000,000</u>
Total notes payable and lines of credit			<u>1,665,155</u>
Other long-term obligations:			
Compensated absences			<u>354,787</u>
Total obligations			<u>11,565,559</u>
Less current portion of:			
Revenue bonds			906,000
Notes payable			435,831
Deferred cost of refunding			<u>(12,648)</u>
Total current portion			<u>1,329,183</u>
Total long-term obligations			<u>\$ 10,236,376</u>

**CITY OF GEORGETOWN
 GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2012**

5. LONG-TERM DEBT, continued

Summary of Bonds, Notes and Compensated Absences Transactions

	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2012</u>
Revenue bonds	\$ 10,407,970	\$ -	\$ 862,353	\$ 9,545,617
Notes payable	1,084,450	1,000,000	419,295	1,665,155
Compensated absences	358,177	-	3,390	354,787
	<u>\$ 11,850,597</u>	<u>\$ 1,000,000</u>	<u>\$ 1,285,038</u>	<u>\$ 11,565,559</u>

The annual requirement to amortize the Water and Sewer Service's indebtedness as of June 30, 2012 (including interest payments) are as follows:

<u>Fiscal Year</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2013	\$ 434,143	\$ 1,341,831	\$ 1,775,974
2014	383,749	2,167,324	2,551,073
2015	314,958	565,417	880,374
2016	293,076	588,417	881,493
2017	270,049	611,833	881,883
2018-2022	962,965	3,439,917	4,402,882
2023-2027	284,647	2,518,167	2,802,814
	<u>\$ 2,943,587</u>	<u>\$ 11,232,906</u>	<u>\$ 14,176,493</u>

Description of Bonds and Notes Payable- The Water and Sewer Revenue Bonds, Series of 2003A, and 2003B are secured by a pledge of a fixed portion of the gross income and revenues of the water and sewer system other than from Wastewater Treatment Plant No.2. The Kentucky Rural Water Finance Corporation Water and Sewer Revenue Bonds, Series of 2007A are secured by a pledge of all system gross income and revenues. The bonds are subject to redemption prior to maturity at various times, along with a call premium, as more fully described in the ordinance.

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

The City entered into a \$3 million line of credit agreement with Kentucky Bank August 31, 2009, on behalf of the Water and Sewer Service for the purpose of financing wastewater improvements and additions.

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

Bond and Interest Reserve- This reserve includes the sinking fund payments as required by the Revenue Bond ordinance, plus a Sinking Fund Reserve equal to the maximum annual debt service required on all revenue bonds outstanding of Water and Wastewater Treatment Plant No.1 which approximated \$775,456 at June 30, 2012. This reserve was fully funded at June 30, 2012.

Depreciation Reserve- All excess cash flow generated each month over and above that required for three month's operating expenses and sinking fund requirements, or \$5,000 per month, whichever is greater, are to be deposited into this reserve for use in financing contingencies or for the retirement of revenue bonds. The reserve has been funded as required. The balance in the reserve was \$1,842,991 at June 30, 2012.

**CITY OF GEORGETOWN
GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

5. LONG-TERM DEBT, continued

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

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

6. CONTRIBUTED ASSETS

Contributed assets totaling \$784,144 have been reported in the accompanying statement of revenues, expenses, and changes in fund assets. These contributions include \$409,041 [Fund 01] of water and sewer lines, which were constructed by developers and were contributed to the Water & Sewer Service and \$293,403 of cash contributions made by various state and local governments and developers. In addition, \$81,700 [Fund 02] of capital contributions were received from a commercial customer. These funds were used to construct various water and sewer projects.

7. ECONOMIC DEPENDENCE

One manufacturing plant accounted for 80% of the revenues of Wastewater Treatment Plant No.2. Ten customers accounted for 7% of the operating revenues of the Water and Wastewater Treatment Plant No.1.

8. COMMITMENTS AND CONTINGENCIES

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

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.

The following commitments to construction projects have been made as of June 30, 2012:

<u>Projects</u>	<u>Amount</u>
Frankfort Booster Station Upgrade	\$ 3,545

9. SUBSEQUENT EVENTS

The Water and Sewer Service has evaluated and considered the need to recognize or disclose subsequent events through September 7, 2012; which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended June 30, 2012, have not been evaluated by the Water and Sewer Service.

SUPPLEMENTARY INFORMATION

COMBINING STATEMENTS

CITY OF GEORGETOWN
GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE
COMBINING STATEMENT OF NET ASSETS
June 30, 2012

	<u>Water & Wastewater Treatment Plant No. 1</u>	<u>Wastewater Treatment Plant No. 2</u>	<u>Totals</u>
ASSETS			
Current assets			
Cash and cash equivalents	\$ 485,556	\$ -	\$ 485,556
Accounts receivable	867,755	100,196	967,951
Interfund receivable	1,554,878	(1,554,878)	-
Prepaid expenses	21,562	4,110	25,672
Total current assets	<u>2,929,751</u>	<u>(1,450,572)</u>	<u>1,479,179</u>
Noncurrent assets			
Restricted cash	2,024,456	-	2,024,456
Restricted investments	1,527,337	-	1,527,337
Accrued interest receivable	1,951	-	1,951
Other assets	214,600	-	214,600
Capital assets			
Construction in progress	360,265	-	360,265
Land and easements	575,289	130,019	705,308
Buildings, property and equipment	3,035,432	4,707,846	7,743,278
Utility plants in service	115,841,576	18,074,036	133,915,612
Transportation and work equipment	1,426,307	163,757	1,590,064
Less accumulated depreciation	<u>(44,262,567)</u>	<u>(13,402,054)</u>	<u>(57,664,621)</u>
Total noncurrent assets	<u>80,744,646</u>	<u>9,673,604</u>	<u>90,418,250</u>
Total assets	<u>\$ 83,674,397</u>	<u>\$ 8,223,032</u>	<u>\$ 91,897,429</u>
LIABILITIES			
Current liabilities			
Accounts payable	\$ 71,216	\$ 4,271	\$ 75,487
Accrued liabilities	622,268	36,159	658,427
Contracts payable	52,009	-	52,009
Current portion of long-term debt	1,329,183	-	1,329,183
Customer deposits	209,365	-	209,365
Accrued interest payable	63,005	-	63,005
Total current liabilities	<u>2,347,046</u>	<u>40,430</u>	<u>2,387,476</u>
Noncurrent liabilities			
Accrued expenses	264,641	90,146	354,787
Bonds, notes, and loans payable	<u>9,881,589</u>	<u>-</u>	<u>9,881,589</u>
Total noncurrent liabilities	<u>10,146,230</u>	<u>90,146</u>	<u>10,236,376</u>
Total liabilities	<u>12,493,276</u>	<u>130,576</u>	<u>12,623,852</u>
NET ASSETS			
Invested in capital assets, net of related debt	65,765,530	9,673,604	75,439,134
Restricted for debt service	3,281,374	-	3,281,374
Unrestricted	<u>2,134,217</u>	<u>(1,581,148)</u>	<u>553,069</u>
Total net assets	<u>71,181,121</u>	<u>8,092,456</u>	<u>79,273,577</u>
Total liabilities and net assets	<u>\$ 83,674,397</u>	<u>\$ 8,223,032</u>	<u>\$ 91,897,429</u>

CITY OF GEORGETOWN
GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS
for the year ended
June 30, 2012

	Water & Wastewater Treatment Plant No. 1	Wastewater Treatment Plant No. 2	Totals
Operating revenues			
Water revenue	\$ 4,067,307	\$ -	\$ 4,067,307
Sewer revenue	3,370,648	222,975	3,593,623
Connection fees	814,425	-	814,425
Commercial user fees	-	1,057,639	1,057,639
Miscellaneous	287,851	34,812	322,663
Penalties	<u>80,386</u>	<u>-</u>	<u>80,386</u>
Total operating revenues	<u>8,620,617</u>	<u>1,315,426</u>	<u>9,936,043</u>
Operating expenses			
Depreciation	2,962,866	493,319	3,456,185
Salaries and wages	2,097,992	451,510	2,549,502
Employee benefits	1,028,609	206,561	1,235,170
Purchased water	394,053	-	394,053
Utilities	485,672	117,109	602,781
Supplies	380,371	373,165	753,536
Maintenance and repairs	376,124	102,022	478,146
Insurance	143,364	24,639	168,003
Professional services	176,683	44,135	220,818
Conferences, training, and meetings	74,753	3,942	78,695
Miscellaneous	<u>48,193</u>	<u>415</u>	<u>48,608</u>
Total operating expenses	<u>8,168,680</u>	<u>1,816,817</u>	<u>9,985,497</u>
Operating (loss)	<u>451,937</u>	<u>(501,391)</u>	<u>(49,454)</u>
Nonoperating revenues (expenses)			
Interest income	28,905	-	28,905
Interest expense	(451,107)	-	(451,107)
Amortization expense	<u>(36,949)</u>	<u>-</u>	<u>(36,949)</u>
Total nonoperating revenue (expenses)	<u>(459,151)</u>	<u>-</u>	<u>(459,151)</u>
Loss before capital contributions	(7,214)	(501,391)	(508,605)
Developer contributions	702,444	-	702,444
Commercial user contributions	-	81,700	81,700
Grants	<u>10,000</u>	<u>-</u>	<u>10,000</u>
Change in net assets	705,230	(419,691)	285,539
Net assets at beginning of year	<u>70,475,891</u>	<u>8,512,147</u>	<u>78,988,038</u>
NET ASSETS AT END OF YEAR	<u>\$ 71,181,121</u>	<u>\$ 8,092,456</u>	<u>\$ 79,273,577</u>

**CITY OF GEORGETOWN
 GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE
 COMBINING STATEMENT OF CASH FLOWS
 for the year ended
 June 30, 2012**

	Water & Wastewater Treatment Plant No. 1	Wastewater Treatment Plant No. 2	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 8,269,259	\$ 1,294,649	\$ 9,563,908
Payments to suppliers	(2,043,788)	(661,839)	(2,705,627)
Payments for employee services and benefits	(3,054,977)	(652,020)	(3,706,997)
Internal activity - payments to other funds	15,602	(15,602)	-
Other receipts	<u>287,851</u>	<u>34,812</u>	<u>322,663</u>
Net cash provided by operating activities	<u>3,473,947</u>	<u>-</u>	<u>3,473,947</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(1,993,946)	(81,700)	(2,075,646)
Capital contributions	293,403	81,700	375,103
Grants in aid of construction	10,000	-	10,000
Principal paid on capital debt	(1,281,647)	-	(1,281,647)
Draws on line of credit	1,000,000	-	1,000,000
Interest paid on capital debt	<u>(522,190)</u>	<u>-</u>	<u>(522,190)</u>
Net cash used by capital and related financing activities	<u>(2,494,380)</u>	<u>-</u>	<u>(2,494,380)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	(4,598)	-	(4,598)
Interest income	<u>27,789</u>	<u>-</u>	<u>27,789</u>
Net cash provided by investing activities	<u>23,191</u>	<u>-</u>	<u>23,191</u>
Net decrease in cash and cash equivalents	1,002,758	-	1,002,758
Cash and cash equivalents at beginning of year	<u>1,507,254</u>	<u>-</u>	<u>1,507,254</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,510,012</u>	<u>\$ -</u>	<u>\$ 2,510,012</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating gain (loss)	\$ 451,937	\$ (501,391)	\$ (49,454)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	2,962,866	493,319	3,456,185
Change in assets and liabilities:			
Receivables, net	(77,142)	14,035	(63,107)
Interfund activity	15,602	(15,602)	-
Prepaid expense	(2,004)	236	(1,768)
Other assets	24,302	-	24,302
Accounts payable and other accrued liabilities	84,751	9,403	94,154
Customer deposits	<u>13,635</u>	<u>-</u>	<u>13,635</u>
Net cash provided by operating activities	<u>\$ 3,473,947</u>	<u>\$ -</u>	<u>\$ 3,473,947</u>
Supplemental disclosures of cash flow information:			
Noncash capital and related financing activities:			
Capital contributions	\$ 409,041	\$ -	\$ 409,041
Increase (decrease) in contracts payable for capital items	\$ (254,673)	\$ -	\$ (254,673)
Deferred bond cost included with bonds payable	\$ 12,648	\$ -	\$ 12,648

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

CITY OF GEORGETOWN
GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE
WATER AND WASTEWATER TREATMENT PLANT NO. 1
STATEMENT OF NET ASSETS
June 30, 2012

	2012	2011
ASSETS		
Current assets		
Cash and cash equivalents	\$ 485,556	\$ 393,095
Accounts receivable	867,755	790,613
Interfund receivable	1,554,878	1,570,480
Prepaid expenses	21,562	19,558
Total current assets	2,929,751	2,773,746
Noncurrent assets		
Restricted cash	2,024,456	1,114,159
Restricted investments	1,527,337	1,522,739
Accrued interest receivable	1,951	835
Other assets	214,600	238,902
Capital assets		
Construction in progress	360,265	3,225,814
Land and easements	575,289	574,732
Buildings, property and equipment	3,035,432	2,978,821
Utility plants in service	115,841,576	110,950,250
Transportation and work equipment	1,426,307	1,379,363
Less accumulated depreciation	(44,262,567)	(41,318,124)
Total noncurrent assets	80,744,646	80,667,491
Total assets	\$ 83,674,397	\$ 83,441,237
LIABILITIES		
Current liabilities		
Accounts payable	\$ 71,216	\$ 58,087
Accrued liabilities	622,268	546,241
Interfund payable	-	-
Contracts payable	52,009	306,682
Current portion of long-term debt	1,329,183	1,280,647
Customer deposits	209,365	195,730
Accrued interest payable	63,005	97,142
Total current liabilities	2,347,046	2,484,529
Noncurrent liabilities		
Accrued expenses	264,641	269,044
Bonds, notes, and loans payable	9,881,589	10,211,773
Total noncurrent liabilities	10,146,230	10,480,817
Total liabilities	12,493,276	12,965,346
NET ASSETS		
Invested in capital assets, net of related debt	65,765,530	66,298,436
Restricted for debt service	3,281,374	2,344,861
Unrestricted	2,134,217	1,832,594
Total net assets	71,181,121	70,475,891
Total liabilities and net assets	\$ 83,674,397	\$ 83,441,237

CITY OF GEORGETOWN
GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE
WATER AND WASTEWATER TREATMENT PLANT NO. 1
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
for the years ended
June 30, 2012

	<u>2012</u>	<u>2011</u>
Operating revenues		
Water revenue	\$ 4,067,307	\$ 4,082,321
Sewer revenue	3,370,648	3,341,369
Connection fees	814,425	444,450
Miscellaneous	287,851	282,671
Penalties	<u>80,386</u>	<u>82,589</u>
Total operating revenues	<u>8,620,617</u>	<u>8,233,400</u>
Operating expenses		
Administration		
Depreciation	36,240	43,653
Salaries and wages	273,712	237,032
Employee benefits	124,918	106,027
Utilities	12,779	13,217
Supplies	15,695	7,782
Maintenance and repairs	34,019	32,397
Insurance	6,152	5,210
Professional services	6,762	14,729
Conferences, training, and meetings	20,407	16,677
Miscellaneous	<u>4,242</u>	<u>2,071</u>
Total administration expenses	<u>534,926</u>	<u>478,795</u>
Customer accounts		
Depreciation	23,576	21,809
Salaries and wages	262,561	267,386
Employee benefits	134,723	126,179
Utilities	9,189	9,502
Supplies	120,380	109,994
Maintenance and repairs	32,880	28,952
Insurance	4,826	4,200
Professional services	4,192	6,249
Conferences, training, and meetings	3,971	7,975
Miscellaneous	<u>37,456</u>	<u>36,012</u>
Total customer accounts expenses	<u>633,754</u>	<u>618,258</u>

CITY OF GEORGETOWN
GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE
WATER AND WASTEWATER TREATMENT PLANT NO. 1
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
for the years ended
June 30, 2012

	<u>2012</u>	<u>2011</u>
Water treatment plant		
Depreciation	197,533	253,538
Salaries and wages	324,258	307,494
Employee benefits	145,538	134,622
Purchased water	394,053	608,487
Utilities	124,063	117,389
Supplies	158,473	120,038
Maintenance and repairs	39,061	42,926
Insurance	12,992	14,996
Professional services	9,610	13,408
Conferences, training, and meetings	9,617	5,107
Miscellaneous	816	1,507
Wellhead Protection	-	1,398
	<u>1,416,014</u>	<u>1,620,910</u>
Total water treatment plant expenses		
Water distribution		
Depreciation	1,055,077	1,092,693
Salaries and wages	451,107	463,233
Employee benefits	224,330	214,481
Utilities	50,039	72,030
Supplies	15,173	14,120
Maintenance and repairs	66,969	82,051
Insurance	44,377	46,583
Professional services	6,306	8,390
Conferences, training, and meetings	12,395	14,796
Miscellaneous	270	1,034
	<u>1,926,043</u>	<u>2,009,411</u>
Total water distribution expenses		
Wastewater treatment plant #1		
Depreciation	1,571,968	1,562,635
Salaries and wages	261,136	248,771
Employee benefits	125,785	115,609
Utilities	180,416	173,772
Supplies	40,780	39,327
Maintenance and repairs	116,756	84,210
Insurance	33,091	33,798
Professional services	134,892	142,750
Conferences, training, and meetings	9,110	8,917
Miscellaneous	3,953	3,992
	<u>2,477,887</u>	<u>2,413,781</u>
Total wastewater treatment plant #1 expenses		

CITY OF GEORGETOWN
GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE
WATER AND WASTEWATER TREATMENT PLANT NO. 1
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
for the years ended
June 30, 2012

	<u>2012</u>	<u>2011</u>
Engineering		
Depreciation	7,149	10,337
Salaries and wages	218,861	315,376
Employee benefits	124,485	138,435
Utilities	6,124	5,863
Supplies	5,639	3,523
Maintenance and repairs	17,019	16,879
Insurance	5,959	4,338
Professional services	4,621	5,825
Conferences, training, and meetings	5,665	3,801
Miscellaneous	884	958
Total engineering expenses	<u>396,406</u>	<u>505,335</u>
Wastewater collections		
Depreciation	71,323	48,159
Salaries and wages	306,357	278,907
Employee benefits	148,830	122,517
Utilities	103,062	90,996
Supplies	24,231	25,518
Maintenance and repairs	69,420	60,765
Insurance	35,967	36,808
Professional services	10,300	7,642
Conferences, training, and meetings	13,588	11,112
Miscellaneous	572	1,706
Total wastewater collections expenses	<u>783,650</u>	<u>684,130</u>
Total operating expenses	<u>8,168,680</u>	<u>8,330,620</u>
Operating income (loss)	<u>451,937</u>	<u>(97,220)</u>
Nonoperating revenues (expenses)		
Interest income	28,905	42,014
Interest expense	(451,107)	(495,287)
Amortization expense	(36,949)	(36,949)
Total nonoperating revenue (expenses)	<u>(459,151)</u>	<u>(490,222)</u>
Income (loss) before capital contributions and other expense	(7,214)	(587,442)
Developer contributions	702,444	217,170
Grant revenues	10,000	1,802,636
Settlement on sewer damages	-	(63,241)
Change in net assets	705,230	1,369,123
Net assets at beginning of year	<u>70,475,891</u>	<u>69,106,768</u>
NET ASSETS AT END OF YEAR	<u>\$ 71,181,121</u>	<u>\$ 70,475,891</u>

**CITY OF GEORGETOWN
 GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE
 WASTEWATER TREATMENT PLANT NO. 2
 STATEMENT OF NET ASSETS
 June 30, 2012**

	<u>2012</u>	<u>2011</u>
ASSETS		
Current assets		
Accounts receivable	\$ 100,196	\$ 114,231
Prepaid expenses	<u>4,110</u>	<u>4,346</u>
Total current assets	<u>104,306</u>	<u>118,577</u>
Noncurrent assets		
Capital assets		
Land and easements	130,019	130,019
Buildings, property and equipment	4,707,846	4,707,846
Utility plants in service	18,074,036	18,001,284
Transportation and work equipment	163,757	204,810
Less accumulated depreciation	<u>(13,402,054)</u>	<u>(12,958,736)</u>
Total noncurrent assets	<u>9,673,604</u>	<u>10,085,223</u>
Total assets	<u>\$ 9,777,910</u>	<u>\$ 10,203,800</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 4,271	\$ 919
Accrued liabilities	36,159	31,121
Interfund payable	<u>1,554,878</u>	<u>1,570,480</u>
Total current liabilities	1,595,308	1,602,520
Noncurrent liabilities		
Accrued expenses	<u>90,146</u>	<u>89,133</u>
Total liabilities	<u>1,685,454</u>	<u>1,691,653</u>
NET ASSETS		
Invested in capital assets, net of related debt	9,673,604	10,085,223
Unrestricted	<u>(1,581,148)</u>	<u>(1,573,076)</u>
Total net assets	<u>8,092,456</u>	<u>8,512,147</u>
Total liabilities and net assets	<u>\$ 9,777,910</u>	<u>\$ 10,203,800</u>

**CITY OF GEORGETOWN
 GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE
 WASTEWATER TREATMENT PLANT NO. 2
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
 for the years ended
 June 30, 2012**

	<u>2012</u>	<u>2011</u>
Operating revenues		
Sewer revenue	\$ 222,975	\$ 265,320
Commercial user fees	1,057,639	816,910
Miscellaneous	<u>34,812</u>	<u>17,806</u>
Total operating revenues	<u>1,315,426</u>	<u>1,100,036</u>
Operating expenses		
Depreciation	493,319	527,090
Salaries and wages	451,510	456,750
Employee benefits	206,561	176,317
Utilities	117,109	114,648
Supplies	373,165	202,539
Maintenance and repairs	102,022	92,206
Insurance	24,639	27,600
Professional services	44,135	35,975
Conferences, training, and meetings	3,942	4,051
Miscellaneous	<u>415</u>	<u>957</u>
Total operating expenses	<u>1,816,817</u>	<u>1,638,133</u>
Operating income (loss)	<u>(501,391)</u>	<u>(538,097)</u>
Capital contributed		
Commercial user contributions	<u>81,700</u>	<u>112,756</u>
Change in net assets	(419,691)	(425,341)
Net assets at beginning of year	<u>8,512,147</u>	<u>8,937,488</u>
NET ASSETS AT END OF YEAR	<u>\$ 8,092,456</u>	<u>\$ 8,512,147</u>



Certified Public Accountants and Consultants

**CITY OF GEORGETOWN
GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE
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**

Stephen R. Allen, CPA/PFS
Dennis H. England, CPA
Michael D. Foley, CPA
Lyman Hager, Jr., CPA/PFS
Jerry W. Hensley, CPA

J. Carroll Luby, CPA

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

We have audited the financial statements of Georgetown Municipal Water and Sewer Service ("Water and Sewer Service"), a component unit of the City of Georgetown, Kentucky, as of and for the year ended June 30, 2012 and have issued our report thereon dated September 7, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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**CITY OF GEORGETOWN
GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE
REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS (Continued)**

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

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
September 7, 2012

EXHIBIT 2

RESOLUTION

RESOLUTION NO. 13-006

A RESOLUTION OF THE CITY OF GEORGETOWN, KENTUCKY AUTHORIZING THE ACQUISITION OF THE WASTEWATER COLLECTION SYSTEM OWNED BY MALLARD POINT DISPOSAL SYSTEMS, INC.; APPROVING THE ASSET PURCHASE AGREEMENT BETWEEN MALLARD POINT DISPOSAL SYSTEMS, INC., AS SELLER, AND THE CITY OF GEORGETOWN, KENTUCKY, AS BUYER; AND AUTHORIZING THE MAYOR TO EXECUTE SAID AGREEMENT AND OTHER DOCUMENTS NECESSARY TO CONSUMMATE THE ACQUISITION.

WHEREAS, the City of Georgetown, Kentucky (the "BUYER") currently owns water treatment, supply and distribution facilities, as well as wastewater collection and treatment facilities, which are operated as a combined and consolidated municipal utilities system by the Georgetown Municipal Water and Sewer Service (the "GMWSS"), an entity of the BUYER;

WHEREAS, the BUYER's North U.S. 25 Sewer Force Main is adjacent to the wastewater collection system (the "Collection System") owned by Mallard Point Disposal Systems, Inc. (the "SELLER");

WHEREAS, the BUYER's wastewater treatment plant identified as the Georgetown Wastewater Treatment Plant No. 2 (the "WWTP 2") has sufficient reserve capacity to accommodate the wastewater flows which are currently being treated at the SELLER's WWTP;

WHEREAS, combining and consolidating the SELLER's Collection System with the BUYER's Wastewater System will eliminate the need for the SELLER's WWTP and will enable the SELLER to decommission its WWTP;

WHEREAS, the SELLER has indicated a willingness to transfer and convey its Collection System to the BUYER, subject to the terms, conditions and provisions contained in the attached Asset Purchase Agreement (the "Agreement");

WHEREAS, GMWSS has determined that it is necessary, desirable, and in the public interest for GMWSS, by and through the City of Georgetown, Kentucky to acquire the SELLER's Collection System and incorporate the Collection System into the BUYER's Wastewater System;

WHEREAS, the BUYER, by and through GMWSS, has the financial, technical, and managerial abilities to provide reasonable wastewater collection and treatment services for the SELLER's existing customers and the SELLER's entire Service Area without adversely affecting the quality of service presently afforded the existing customers of GMWSS;

WHEREAS, the BUYER and GMWSS have the authority, pursuant to KRS Chapters 58, 96, and 106 and other applicable laws, to acquire the SELLER's Collection System;

WHEREAS, the City Council of the City of Georgetown, Kentucky, by action taken on February 25, 2013, has approved the purchase of the SELLER's Collection System for the sum of \$2,900,000.00 and has authorized GMWSS to negotiate the terms of the Agreement, subject to final approval by the City Council;

WHEREAS, certain representatives of GMWSS and certain representatives of the SELLER have negotiated the terms of the Agreement whereby the BUYER, for the use and benefit of GMWSS, will acquire the SELLER's Collection System, subject to the approval and execution of the Agreement by the SELLER and the approval and execution of the Agreement by GMWSS and the BUYER;

WHEREAS, the SELLER has approved the Agreement; and

WHEREAS, the Board of Commissioners of GMWSS, by Resolution adopted on May 14, 2013, has approved the Agreement and recommended that the City Council of the City of Georgetown, Kentucky approve the Agreement and authorize GMWSS to take all necessary actions to effectuate the acquisition of the SELLER's Collection System;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY OF GEORGETOWN, KENTUCKY, ACTING BY AND THROUGH ITS CITY COUNCIL, AS FOLLOWS:

Section 1. The facts, recitals, and statements contained in the foregoing preamble of this Resolution are true and correct and are hereby affirmed and incorporated as a part of this Resolution.

Section 2. It is hereby determined and declared to be necessary, desirable and in the public interest for the City of Georgetown, Kentucky to acquire the wastewater collection system (the "Collection System") owned by Mallard Point Disposal Systems, Inc. pursuant to the terms, conditions, and provisions contained in the Agreement. The Agreement, in substantially the form submitted to the City of Georgetown, Kentucky with such modifications as the Mayor, upon advice of counsel, may subsequently approve, as evidenced by his signature thereon, is hereby approved, and the Mayor is authorized and directed to execute and deliver the Agreement for and on behalf of the City of Georgetown, Kentucky.

Section 3. The Mayor, the Chairman and General Manager of GMWSS, and all other appropriate officials, employees or representatives of the City of Georgetown, Kentucky and GMWSS are hereby authorized and directed to take any and all actions and to execute and deliver all documents as may be reasonably necessary to effectuate the acquisition of the SELLER's Collection System and consummation of the transactions contemplated by the Agreement.

Section 4. Following the closing of the Mallard Point acquisition, GMWSS shall incorporate the SELLER's Collection System into the BUYER's Wastewater System.

Section 5. This Resolution shall take effect upon its adoption.

The Mayor declared the foregoing Resolution adopted on June 10, 2013.

CITY OF GEORGETOWN, KENTUCKY

By: Everette Varney
Everette Varney, Mayor

ATTEST:

Tracie Hoffman
Tracie Hoffman, City Clerk

CERTIFICATION

I, the undersigned, do hereby certify that I am the duly qualified and acting City Clerk of the City of Georgetown, Kentucky. As such City Clerk, I further certify that the foregoing is a true, correct, and complete copy of Resolution No. 13-006 which was duly adopted by the City Council of said City at a duly convened meeting held on June 10 , 2013, signed by the Mayor, attested under seal by me as City Clerk, and now in full force and effect, all as appears from the official records of said City in my possession and under my control.

IN WITNESS WHEREOF, I have hereunto set my hand this day of July, 2013.

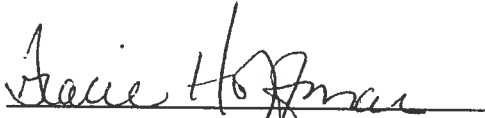

Tracie Hoffman, City Clerk

EXHIBIT 3

**ASSET
PURCHASE
AGREEMENT**

ASSET PURCHASE AGREEMENT

BETWEEN

**MALLARD POINT
DISPOSAL SYSTEMS, INC.**

AND

CITY OF GEORGETOWN

FOR THE USE AND BENEFIT OF

**GEORGETOWN MUNICIPAL WATER
AND SEWER SERVICE**

JULY 23, 2013

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ASSET PURCHASE AGREEMENT

This is an Asset Purchase Agreement (the “Agreement”) to be effective as of July 23, 2013, and made and entered into by and between the **MALLARD POINT DISPOSAL SYSTEMS, INC.**, 118 South Broadway, Georgetown, Kentucky 40324, hereinafter referred to as the “SELLER”; and the **GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE** by and through the **CITY OF GEORGETOWN, KENTUCKY**, a municipal corporation, 100 Court Street, Georgetown, Kentucky 40324, hereinafter referred to as the “BUYER”;

WITNESSETH

WHEREAS, the SELLER is a duly organized and existing Kentucky corporation which currently owns and operates both a wastewater collection system (the “Collection System”) and a wastewater treatment plant (the “WWTP”) in Scott County, Kentucky;

WHEREAS, the BUYER is a duly organized and existing municipal corporation and city of the fourth class of the Commonwealth of Kentucky;

WHEREAS, the BUYER currently owns water treatment, supply and distribution facilities, as well as wastewater collection and treatment facilities, which are operated as a combined and consolidated municipal utilities system by the Georgetown Municipal Water and Sewer Service (the “GMWSS”), an entity of the City of Georgetown, Kentucky;

WHEREAS, the BUYER’s North U.S. 25 Sewer Force Main is adjacent to the SELLER’s Collection System;

WHEREAS, the BUYER’s wastewater treatment plant identified as the Georgetown Wastewater Treatment Plant No. 2 (the “WWTP 2”) has sufficient reserve capacity to accommodate the wastewater flows which are currently being treated at the SELLER’s WWTP;

WHEREAS, combining and consolidating the SELLER’s Collection System with the BUYER’s Wastewater System will eliminate the need for the SELLER’s WWTP and will enable the SELLER to decommission its WWTP;

WHEREAS, it appears that combining and consolidating the SELLER’s Collection System with the BUYER’s Wastewater System will result in economies of scale and will allow the combined system to be managed, operated and maintained in a more cost effective manner; and

WHEREAS, the SELLER desires to transfer and convey and the BUYER desires to acquire, subject to the terms, conditions and provisions hereinafter set forth, the SELLER's Collection System;

NOW, THEREFORE, FOR AND IN CONSIDERATION of the mutual promises, covenants and conditions contained herein, it is agreed by and between the Parties as follows:

1. TRANSFER OF CERTAIN ASSETS. Subject to the terms and conditions of this Agreement, SELLER hereby agrees to transfer and convey to the BUYER and the BUYER hereby agrees to acquire from SELLER, those assets described in paragraph 2 of this Agreement (the "Assets") for the consideration set forth in paragraph 3 of this Agreement.

2. ASSETS BEING TRANSFERRED. At the Closing, SELLER shall transfer to the BUYER its entire Collection System. The assets being transferred to the BUYER (the "Assets") include, but are not limited to, the following:

A. All of SELLER's wastewater collection and conveyance lines which are utilized, or could be utilized, in providing wastewater service to the residents of Cedar Hills, Harbor Village, Mallard Point, and Westwoods subdivisions located in Scott County, Kentucky. Also included is the force main along the U.S. Highway 25 corridor from Rogers Gap Road (Kentucky

Highway 620) to Wright's Lane. Collectively, the area encompassed by these subdivisions and the U.S. Highway 25 corridor shall be referred to as the SELLER's "Service Area." These wastewater lines are approximately 18 miles in length and range in size from 8-inches to 1 ½ -inches in diameter;

B. The Mallard Point wastewater pump station, the two (2) Meyer submersible pumps (5 horsepower each), and related appurtenances, located on Drake Dam;

C. The Harbor Village wastewater pump station, the three (3) Meyer submersible pumps (15 horsepower each), and related appurtenances, located adjacent to Harbor Village Drive;

D. The spare Meyer submersible 15 horsepower pump which can be used in the Harbor Village wastewater pump station;

E. All other facilities owned by SELLER and necessary or convenient to collect and convey the wastewater from its customers to its WWTP;

F. All real estate easements and the improvements thereon, licenses, encroachment permits, rights-of-way, or other interests in real estate owned by the SELLER and used in the operation of the SELLER's

Collection System;

G. All maps, drawings, engineering reports and "As Built" plans pertaining to the SELLER's Collection System;

H. All business records pertaining to the SELLER's Collection System, including, but not limited to, all customer records and customer agreements;

I. Any and all service rights that SELLER has to provide wastewater service to the residents of its Service Area;

J. Any and all other tangible and intangible rights, permits, licenses or authorizations owned by the SELLER and used in the operation of its Collection System; and

K. A site for a future pump station to be constructed by BUYER. The site is located at the intersection of Wright's Lane with U.S. Highway 25. It is located on the west side of U. S. Highway 25 and on the north side of Wright's Lane. Access will be from Wright's Lane. The exact dimensions of the parcel shall be agreed upon by the Parties. The BUYER shall pay the surveying costs and other associated expenses. In the event the BUYER's consulting engineers determine that the site is unsuitable for a pump station, then the SELLER shall not be obligated to convey the site to

the BUYER.

3. CONSIDERATION. The amount of the consideration for the sale of the Assets is the sum of **\$2,900,000.00**, which shall be paid at the Closing.

4. EXCLUDED ASSETS. The Parties acknowledge and agree that the SELLER's WWTP, as well as the parcel of real estate on which it is located, shall be excluded from this transaction, and shall not be transferred to the BUYER.

5. CUSTOMER DEPOSITS. SELLER represents and warrants that it has not collected any customer deposits from its wastewater customers. SELLER's Tariff, which has been approved by the Kentucky Public Service Commission (the "PSC"), does not allow SELLER to collect customer deposits.

6. LIABILITIES EXCLUDED. The BUYER is not assuming nor paying any of SELLER's liabilities or debts. The SELLER shall, at the Closing, utilize the purchase proceeds to pay its obligations which are secured by the Assets.

7. CONTINUED OPERATION OF SYSTEM. Until the time of the Closing, SELLER shall continue to operate and maintain the Collection System and WWTP in substantially the same manner as it has previously been operated and maintained.

8. **RATES.** Attached as **Exhibit 1** is a copy of the SELLER's current wastewater rate schedule. Following the Closing, GMWSS shall charge SELLER's existing customers the same rates which they are being charged by the SELLER. The BUYER agrees that it will **not** increase these wastewater rates for at least three (3) years from the date of the Closing.

9. **EMPLOYEES.** The BUYER does not intend to offer employment to any of the SELLER's employees.

10. **REPRESENTATIONS AND WARRANTIES OF SELLER.** SELLER represents and warrants to the BUYER as follows:

A. SELLER is a corporation duly organized and validly existing under the laws of the Commonwealth of Kentucky. It has the requisite right, power and authority: (1) to carry on its wastewater utility business as it is now being conducted; and (2) to own and operate its facilities which it currently owns and operates. SELLER has, and at all relevant times has had, full power and authority to own its facilities, including the Assets, and to conduct its wastewater utility business.

B. SELLER has full capacity, right, power, and authority to enter into, deliver, and perform this Agreement. This Agreement has been approved by its sole shareholder. All other consents, approvals,

authorizations, or other requirements prescribed by law, rule or regulation which must be obtained or satisfied by SELLER and which are necessary in order for it to enter into and perform this Agreement have been satisfied, except for approval by the PSC. This Agreement has been duly executed and delivered by SELLER and constitutes a legal, valid, and binding obligation, enforceable against it in accordance with its terms.

C. The execution, delivery, performance and the consummation of the transactions contemplated in this Agreement do not and will not: (1) conflict with or result in a violation or breach of any of the terms, conditions, or provisions of or constitute a default of SELLER's Articles of Incorporation or Bylaws, or any instrument, agreement, mortgage, judgment, order, writ, award, decree, or other restriction to which either SELLER is a Party, or to which any of SELLER's Assets are subject, or by which SELLER is bound or any statute or regulatory provision affecting SELLER; (2) require the approval, consent, or authorization of any federal, state, or local court, governmental authority, or regulatory body (except as provided in paragraph 12 of this Agreement) or of any creditor of SELLER or of any other person or entity; nor (3) give any party with rights under any instrument, agreement, mortgage, judgment, order, writ, award, decree or

other restriction the right to terminate, modify, or otherwise change SELLER's rights or obligations thereunder.

D. SELLER has complied with all existing laws, rules, regulations, ordinances, orders, judgments and decrees now or hereafter applicable to SELLER's Assets. SELLER is not aware of any proposed laws, rules, regulations, ordinances, orders, judgments, decrees, governmental takings, condemnations, or other proceedings which would be applicable to SELLER's Assets or which might adversely affect SELLER's Assets either before or after the date of this Agreement.

E. SELLER's operation of its wastewater utility business complies in all respects with all governmental requirements relating to the collection, treatment, and disposal of wastewater. SELLER has not received any notice or notification from any court or governmental agency, authority, or body that it is in violation of, or not in compliance with, any federal, state, or local law, statute, ordinance, rule, regulation, decree, or order or permit relating to its wastewater utility business or that upon the passage of time it will be in violation of any of the foregoing except as described in the proposed Agreed Order DOW 110147, which is attached hereto and incorporated herein by reference as **Exhibit 2**.

F. SELLER is the true and lawful owner of the Assets and has good, marketable, and insurable title to all of the Assets. None of the Assets will, after Closing, be subject to any mortgage, pledge, lien, charge, security interest, encumbrance, restriction, lease, license, easement, liability or adverse claim of any nature whatsoever, direct or indirect, whether accrued, absolute, contingent or otherwise. All the Assets are in good operating condition and repair and are suitable for the purposes used.

G. Upon execution and delivery of the necessary deed, bills of sale, easements, assignments and other instruments of transfer by the SELLER pursuant to this Agreement, the BUYER shall acquire good and valid title to the Assets, free and clear of all claims, liens, security interests, agreements, restrictions, charges, and encumbrances of any nature whatsoever.

H. No other person or entity, except for the BUYER, now has, nor at any time prior to the Closing will have, the right to purchase, own, use, or sell any of the Assets.

I. SELLER is not insolvent as of the date of this Agreement. SELLER is able to meet all business obligations as they become due and will not be insolvent or unable to meet its business obligations as a result of

completing the transactions described herein.

J. All tax returns of every kind relating to the SELLER and the conduct of its wastewater utility business that are due to be filed have been duly filed. All taxes shown to be due on such returns have been paid in full.

K. With the exception of the matters listed in **Exhibit 2**, there is no claim, legal action, suit, arbitration, governmental investigation or other legal or administrative proceeding, nor any order, decree or judgment in progress, pending or in effect, or threatened, against or relating to the SELLER, its officer, director, employees or wastewater utility business, the Assets, or the transactions contemplated by this Agreement, and SELLER neither knows nor has reason to be aware of any basis for the same.

L. Between the date of this Agreement and the Closing, SELLER shall conduct its wastewater utility business diligently and substantially in the same manner as heretofore conducted prior to the date of this Agreement. Prior to the Closing, the SELLER shall not, without the BUYER'S prior written approval, change its rates or charges, institute any new methods of accounting or operation or engage in any transaction or activity, enter into any agreement or make any commitment, except in the ordinary course of business and consistent with past practice.

M. Prior to the Closing, the SELLER shall not permit any of the Assets to be subjected to a mortgage, pledge, lien, or encumbrance, without notice to, and approval of, the BUYER, and further shall not dispose of any of the Assets.

N. SELLER shall maintain until the Closing the insurance policies presently in effect on the Assets.

O. SELLER shall not perform any act or omit to perform any act or permit any act or omission that will cause a breach or default in this Agreement.

P. No representation or warranty by the SELLER in this Agreement, nor any statement or certificate furnished or to be furnished by it to the BUYER or its representatives in connection herewith or pursuant hereto, contains or will contain any untrue statement of material fact or will omit a statement of any material fact required to make the statements herein or therein contained not misleading. SELLER has disclosed to the BUYER in writing all material adverse facts known to it relating to the SELLER, its wastewater utility business or the Assets. SELLER is not aware of any circumstances or facts which could be detrimental to its wastewater utility business other than those disclosed to the BUYER in writing.

Q. All minute books, books and records and other documents maintained by the SELLER with respect to the Assets are true, complete, and accurate.

R. All representations and warranties of the SELLER contained in this Agreement or in any certificate or other writing delivered pursuant hereto or in connection herewith shall be true as of the Closing as well as of the date of this Agreement.

11. BUYER'S REPRESENTATIONS AND WARRANTIES. The BUYER represents and warrants to SELLER as follows:

A. That it is a duly organized and existing municipal corporation and City of the fourth class of the Commonwealth of Kentucky.

B. That the execution and delivery of this Agreement and the consummation of the transactions herein contemplated have been duly authorized by its City Council and the GMWSS Board of Commissioners.

C. That it has the financial, technical, and managerial abilities to provide reasonable wastewater collection and treatment services for SELLER's existing customers and the entire Service Area.

12. PSC APPROVAL. Because SELLER is subject to the jurisdiction of the PSC, this Agreement shall not become effective and the transfer of the Assets shall not take place until, and unless, the PSC grants approval of the proposed transfer in accordance with the provisions of KRS 278.020(5). Should the PSC disapprove this proposed transfer of Assets, then this Agreement shall be null and void and of no further force and effect.

To expedite PSC approval, the SELLER and the BUYER shall file, and pursue with diligence, a joint application with the PSC seeking complete approval of this Agreement and all its terms.

13. ACCESS TO BOOKS. Between the date of this Agreement and the Closing, the BUYER and its authorized representatives shall have the right to examine and to obtain copies of any and all pertinent books, plats, maps, plans and records of SELLER upon reasonable notice and at mutually convenient times.

14. FINAL BILLING. No later than two (2) weeks prior to the Closing, SELLER shall provide the BUYER with a current list of all names, addresses, and account numbers of the SELLER's customers. SELLER shall bill all its customers for wastewater services rendered prior to the Closing. SELLER shall be entitled to all revenue derived from the final bill it sends its customers. The BUYER shall be

entitled to all revenue derived from wastewater services rendered on and after the date of the Closing.

15. CLOSING REQUIREMENTS. The obligations of the Parties are expressly conditioned on the following, each of which is a condition precedent to the validity and enforcement of this Agreement:

A. The representations and warranties of each of the Parties shall be true and correct as of the Closing, as though such representations and warranties were made at, and as of, the Closing.

B. Each of the Parties to this Agreement shall have performed and complied in all material respects with all of its respective obligations under this Agreement which are due to be performed or complied with by such Party prior to or at the Closing.

C. At and as of the Closing, no litigation, proceedings, investigations or inquiries shall be pending or threatened by any person, firm, corporation, governmental agency, or governmental official to enjoin or prevent the consummation of this transaction.

D. The PSC shall have entered a final order (from which no appeal is taken) which approves this Agreement and all its terms and conditions.

E. The PSC shall not have attached to its order any terms, conditions, or limitations which, in the sole opinion of the BUYER, shall adversely affect the economic feasibility of the proposed transfer of Assets and the consummation of this Agreement, or requires either the SELLER or BUYER to take any action or refrain from taking any action which might require either of them to breach any of its obligations under any mortgage, indenture, ordinance, or any other agreement to which either of them might be a party.

16. CLOSING. The closing of this transaction (the “Closing”) shall take place at a mutually convenient date, time and place once the Closing Requirements set forth in paragraph 15 have been satisfied.

17. CONVEYANCE AND TRANSFERS. SELLER shall not convey, lease, or in any other way dispose of the Assets until the Closing. At the Closing, SELLER shall execute and deliver to the BUYER such deeds, assignments, bills of sale, and other instruments of transfer as are necessary or requested by the BUYER to vest the BUYER with good and marketable, unencumbered title to the Assets, without the need for further approval or consent by any other person or entity.

18. DUE AT CLOSING.

A. DUE FROM SELLER TO BUYER: Unless the BUYER provides a written waiver of any item listed herein, SELLER shall deliver to the BUYER at Closing the following:

- (1) General warranty deed and an Assignment of Easements conveying SELLER's ownership interests in the real property described in paragraph 2 of this Agreement;
- (2) Such bills of sale, assignments and other instruments of transfer, all dated the Closing Date, as shall be necessary or requested by the BUYER to vest the BUYER with good and marketable, unencumbered title to the Assets;
- (3) A schedule which contains a current listing of the name, address, and account number for each customer;
- (4) Duly certified copy of the resolutions of the Board of Directors and sole shareholder authorizing the execution, delivery and performance of this Agreement by the SELLER, which resolutions shall be in full force and effect at, and as of, the Closing;
- (5) An opinion from SELLER's counsel, dated the Closing Date and in a form satisfactory to the BUYER, as to the representations, warranties and other matters set forth in paragraph 10 of this Agreement;
- (6) A certificate, signed by the sole officer and shareholder of the SELLER and dated as of the Closing Date, representing and warranting to the BUYER (i) that the representations, warranties and other matters set forth in paragraph 10 of this Agreement are true and correct as of the Closing, as though such representations and warranties were made at, and as of, the Closing, and (ii) that the Closing Requirements set forth in paragraph 15 of this Agreement have been fully satisfied;

- (7) All records for the wastewater utility customers;
- (8) Possession of the Assets;
- (9) Such other documents as may be necessary to effectuate the transactions contemplated by this Agreement.

B. DUE FROM BUYER TO SELLER: Unless the SELLER provides a written waiver of any item listed herein, the BUYER shall deliver to the SELLER at Closing the following:

- (1) The consideration set forth in paragraph 3 of this Agreement;
- (2) A certified copy of the GMWSS resolution approving this Agreement, authorizing the Chairman to execute and deliver this Agreement, further authorizing the appropriate officials to take all actions necessary to consummate the transactions contemplated by this Agreement, and recommending that the City Council approve this Agreement;
- (3) A certified copy of the City Council resolution approving this Agreement, authorizing the Mayor to execute and deliver this Agreement, and further authorizing the appropriate officials to take all actions necessary to consummate the transactions contemplated by this Agreement.
- (4) An opinion from Damon R. Talley, P.S.C., special counsel to the BUYER, dated the Closing Date and in a form satisfactory to SELLER, as to the representations, warranties and other matters set forth in paragraph 11 of this Agreement; and
- (5) Such receipts as may be reasonably requested by the SELLER and such other documents as may be necessary to effectuate the transactions contemplated by this Agreement.

19. IRS SECTION 1031 EXCHANGE. The Parties hereby acknowledge that the sale and purchase of Assets contemplated by this Agreement is to be part of a simultaneous exchange of like-kind property pursuant to Section 1031 of the Internal Revenue Code of 1986, as amended (the "Code"). BUYER agrees to cooperate with SELLER in effectuating a simultaneous or deferred exchange of the Assets pursuant to the Code, including but not limited to, cooperating with SELLER's use of a qualified intermediary, exchange agent, or service, assigning this Agreement to such an intermediary or other party and taking all actions reasonably requested by SELLER, so as to qualify said exchange for tax-deferred treatment under the provisions of the Code, at no additional cost or liability to BUYER.

20. SURVIVAL OF REPRESENTATIONS AND WARRANTIES. The representations, warranties, and agreements of the Parties contained in this Agreement, or in any certificate or other writing delivered pursuant hereto, shall survive the making of this Agreement and the Closing.

21. RESPONSIBLE PARTIES. SELLER shall be solely responsible for any loss, claim, action, suit, proceeding, deficiency or expense, including reasonable attorneys' fees, relating to or arising from or in connection with (a) any misrepresentation, breach of representation, warranty or obligation, covenant or agreement or default by SELLER under this Agreement, including the exhibits, or any documents delivered to the BUYER in connection with this Agreement; (b) claims of negligence or strict liability in connection with the wastewater utility business conducted prior to the Closing; and (c) all contingent liabilities relating to SELLER, the wastewater utility business or the Assets with respect to any state of facts or occurrences existing at or prior to the Closing.

The BUYER shall be solely responsible for any loss, claim, action, suit, proceeding, deficiency or expense, including reasonable attorneys' fees, relating to or arising from or in connection with (a) any misrepresentation, breach of representation, warranty or obligation, covenant or agreement or default by BUYER under this Agreement, including the exhibits, or any documents delivered to the SELLER in connection with this Agreement; and (b) claims of negligence or strict liability in connection with the wastewater utility business conducted after the Closing.

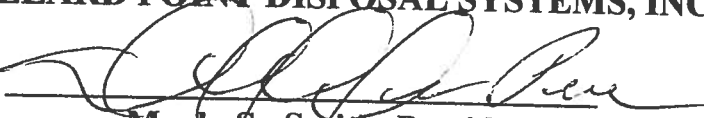
22. ENTIRE AGREEMENT. This Agreement, including all of its exhibits, which are hereby incorporated by reference, constitutes the entire agreement of the Parties with respect to the subject matter hereof and may not be modified or amended or terminated except by written agreement specifically referring to this Agreement, and signed by all of the Parties hereto.

[Remainder of page intentionally left blank]

IN TESTIMONY WHEREOF, this Agreement has been executed in multiple counterparts, each of which is deemed to be an original, by the duly authorized officers of the Parties, as of the effective date of this Agreement.

SELLER:

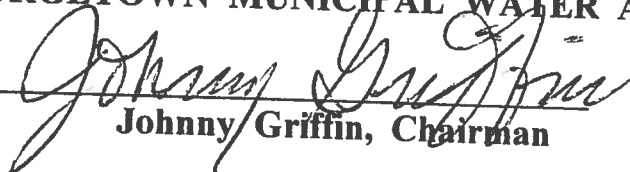
MALLARD POINT DISPOSAL SYSTEMS, INC.

BY: 
Mark S. Smith, President

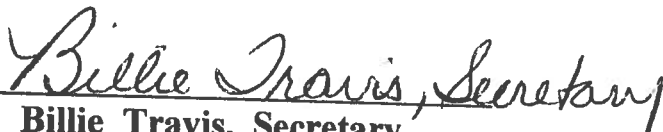
DATE: 7-23-13

BUYER:

GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE

BY: 
Johnny Griffin, Chairman

DATE: 7-23-13

ATTEST: 
Billie Travis, Secretary

CITY OF GEORGETOWN, KENTUCKY

BY: Everette Varney
Everette Varney, Mayor

DATE: 7-23-13

ATTEST: Tracie Hoffman
CITY CLERK

EXHIBITS

Exhibit 1 – Mallard Point Rate Schedule

Exhibit 2 – Proposed Agreed Order

EXHIBIT 1

FOR Entire Area Served
Community, Town or City

P.S.C. KY. NO. _____

SHEET NO. _____

CANCELLING P.S.C. KY. NO. _____

SHEET NO. _____

Mallard Point Disposal Systems, Inc.
(Name of Utility)

RATES AND CHARGES

Monthly Rate:

Residential \$41.35


Commercial/Schools \$41.35 per R.E.¹

Late Penalty Fee \$5.00

¹ R.E. means residential equivalent, which is defined as 12,000 gallons or fraction thereof. A fraction shall not be rounded to the next whole number.

DATE OF ISSUE 04/17/06
Month / Date / Year

DATE EFFECTIVE 04/17/06
Month / Date / Year

ISSUED BY 
Mark S. Smith (Signature of Officer)

TITLE President

BY AUTHORITY OF ORDER OF THE PUBLIC SERVICE COMMISSION
IN CASE NO. 2005-00235 DATED April 17, 2006

PUBLIC SERVICE
COMMISSION OF KENTUCKY
EFFECTIVE
4/17/2006
PURSUANT TO 807 KAR 5:011
SECTION 9 (1)

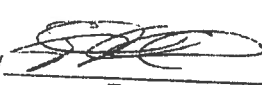
By 
Executive Director

EXHIBIT 2

PROPOSED AGREED ORDER

BETWEEN

KENTUCKY DIVISION OF WATER

AND

**MALLARD POINT
DISPOSAL SYSTEMS, INC.**

COMMONWEALTH OF KENTUCKY
ENERGY AND ENVIRONMENT CABINET
DIVISION OF ENFORCEMENT
CASE NO. DOW 110147

IN RE: Mallard Point Disposal Systems, Inc.
Wright Lane
Georgetown, KY 40324
AI No. 3917
Activity ID No. ERF 20110001

AGREED ORDER

WHEREAS, the parties to this Agreed Order, the Energy and Environment Cabinet (hereinafter "Cabinet") and Mallard Point Disposal Systems, Inc (hereinafter "MPDS") state:

STATEMENTS OF FACT

1. The Cabinet is charged with the statutory duty of enforcing KRS Chapter 224 and the regulations promulgated pursuant thereto.
2. MPDS, a Kentucky corporation in good standing with the Kentucky Secretary of State Office, owns and operates a wastewater treatment plant (hereinafter "facility"), as that term is defined in 401 KAR 5:002, in Georgetown, Scott County, Kentucky.
3. MPDS holds Kentucky Pollutant Discharge Elimination System (hereinafter "KPDES") Permit Number KY0074829, issued by the Cabinet's Division of Water, for the facility described in paragraph 2.
4. On or about August 26, 2008, an authorized representative of the Cabinet conducted a file review of MPDS's Discharge Monitoring Reports, and identified alleged violations of KRS Chapter 224 and the regulations promulgated pursuant thereto at the facility described in paragraph 2. On September 4, 2008, the Cabinet issued MPDS a Notice of Violation citing 401 KAR 5:065 Section 1(1)(a), for the following alleged violations:

- a. MPDS failed to comply with the terms and conditions of KPDES Permit No. KY0074829, for Ammonia during the months of June and July of 2007, June, July, August, and September of 2008; and for E. coli during the month of July 2007.

5. On or about September 13, 2010, an authorized representative of the Cabinet conducted a file review of MPDS's Discharge Monitoring Reports, and identified alleged violations of KRS Chapter 224 and the regulations promulgated pursuant thereto at the facility described in paragraph 2. On September 22, 2010, the Cabinet issued MPDS a Notice of Violation citing 401 KAR 5:065 Section 1(1)(a), for the following alleged violations:

- a. MPDS failed to comply with the terms and conditions of KPDES Permit No. KY0074829, for Ammonia during the months of May and June of 2009, March, May, and July of 2010; for Biochemical Oxygen Demand during the months of June of 2009 and February of 2010; for Total Suspended Solids during the month of January of 2010; and for Total Residual Chlorine during the month of May of 2010.

6. On or about April 14, 2011, an authorized representative of the Cabinet conducted an inspection of the facility described in paragraph 2, and identified the following alleged violations of KRS Chapter 224 and the regulations promulgated pursuant thereto:

- a. 401 KAR 5:055 Section 2: Unpermitted discharge of sewage from MPDS' lift station to a drainage ditch on April 12, 2011;
- b. 401 KAR 5:010 Section 2: MPDS was operating without the supervision of a properly certified collection system operator;

- c. 401 KAR 5:065 Section 2(1): MPDS was not properly operating and maintaining its facility as required;
- d. KRS 224.70-110: MPDS cause pollutants to enter and contribute to the pollution of the waters of the Commonwealth by a release of sewage;
- e. 401 KAR 10:031 Section 2: MPDS degraded the waters of the Commonwealth by a release of sewage;
- f. 401 KAR 5:065 Section 2(1): MPDS failed to report a release of sewage as required; and
- g. 401 KAR 5:015 Section 2: MPDS failed to notify the Division of Water of a release of sewage.

7. On May 12, 2011, the Cabinet issued MPDS a Notice of Violation for the alleged violations described in paragraph 6, above.

8. MPDS represents that the City of Georgetown will accept all of its flow and connection will be completed no later than one year from the execution of this Agreed Order.

9. A representative of MPDS attended administrative conferences at the Cabinet's Division of Enforcement (hereinafter "DENE") in Frankfort, Kentucky on July 21, 2011, and July 30, 2012. After continued negotiations, MPDS agreed to the entry of this Agreed Order to resolve the alleged violations. MPDS neither admits nor denies the allegations contained in the Notices of Violation.

NOW THEREFORE, in the interest of settling all civil claims and controversies involving the alleged violations described above, the parties hereby consent to the entry of this Agreed Order and agree as follows:

REMEDIAL MEASURES

10. MPDS shall perform the following remedial measures as specified herein:
 - a. At all times, report to the Cabinet all spills, bypass discharges, upset condition discharges, or the releases of substances from its facility, which would result in or contribute to the pollution of the waters of the Commonwealth, including emergency and accidental releases, in accordance with KRS 224.01-400, 401 KAR 5:015, and 401 KAR 5:065. MPDS shall make its initial report of the above discharges or releases to the Division of Water's Frankfort Regional Office or the Cabinet's 24-hour notification number;
 - b. At all times, provide for proper and regular operation and maintenance to its sewage collection system and wastewater treatment plant, in accordance with 401 KAR 5:065 and its permit conditions; and,
 - c. Within one year of the execution of this Agreed Order, connect to Georgetown's wastewater treatment plant, and submit a Closure Plan and a completed No Discharge Certification for the existing wastewater treatment plant, to the Division of Water in accordance with 401 KAR 5:005.

CIVIL PENALTIES

11. MPDS shall pay the Cabinet a civil penalty in the amount of four thousand dollars (\$4,000) for the alleged violations described in paragraphs 4 through 7 above. The civil penalty shall be paid in four (4) equal installments of one thousand dollars (\$1,000) each. The first payment shall be due within thirty (30) days of the execution of the Agreed Order. The remaining three (3) payments shall be due within one hundred twenty (120), two hundred ten (210), and three hundred (300) days of the execution of the Agreed Order. If MPDS fails to pay any installment in full by the due dates stated in this paragraph, the entire outstanding balance of

the civil penalty shall be immediately due and payable in full within fifteen (15) days of receipt of written notice from the Cabinet.

12. Payment of the civil penalty shall be by cashier's check, certified check, or money order, made payable to "Kentucky State Treasurer" and sent to the attention of the Director, Division of Enforcement, Department for Environmental Protection, 300 Fair Oaks Lane, Frankfort, Kentucky 40601; note DOW 110147 on the instrument of payment.

MISCELLANEOUS PROVISIONS

13. This Agreed Order addresses only the alleged violations specifically described above. Other than those matters resolved by entry of this Agreed Order nothing contained herein shall be construed to waive or to limit any remedy or cause of action by the Cabinet based on statutes or regulations under its jurisdiction and MPDS reserves its defenses thereto. The Cabinet expressly reserves its right at any time to issue administrative orders and to take any other action it deems necessary that is not inconsistent with this Agreed Order, including the right to order all necessary remedial measures, assess penalties for violations, or recover all response costs incurred, and MPDS reserves its defenses thereto.

14. This Agreed Order shall not prevent the Cabinet from issuing, reissuing, renewing, modifying, revoking, suspending, denying, terminating, or reopening any permit to MPDS. MPDS reserves its defenses thereto, except that MPDS shall not use this Agreed Order as a defense.

15. MPDS waives its right to any hearing on the matters admitted herein. However, failure by MPDS to comply strictly with any or all of the terms of this Agreed Order shall be grounds for the Cabinet to seek enforcement of this Agreed Order in Franklin Circuit Court and to pursue any other appropriate administrative or judicial action under KRS Chapter 224, and the

regulations promulgated pursuant thereto.

16. The Agreed Order may not be amended except by a written order of the Cabinet's Secretary or his designee. MPDS may request an amendment by writing the Director of the Division of Enforcement at 300 Fair Oaks Lane, Frankfort, Kentucky 40601 and stating the reasons for the request. If granted, the amended Agreed Order shall not affect any provision of this Agreed Order unless expressly provided in the amended Agreed Order.

17. The Cabinet does not, by its consent to the entry of this Agreed Order, warrant or aver in any manner that MPDS's complete compliance with this Agreed Order will result in compliance with the provisions of KRS Chapter 224, and the regulations promulgated pursuant thereto. Notwithstanding the Cabinet's review and approval of any plans formulated pursuant to this Agreed Order, MPDS shall remain solely responsible for compliance with the terms of KRS Chapter 224, and the regulations promulgated pursuant thereto, this Agreed Order and any permit and compliance schedule requirements.

18. MPDS shall give notice of this Agreed Order to any purchaser, lessee or successor in interest prior to the transfer of ownership and/or operation of any part of its now-existing facility occurring prior to termination of this Agreed Order, shall notify the Cabinet that such notice has been given, and shall follow all statutory and regulatory requirements for a transfer. Whether or not a transfer takes place, MPDS shall remain fully responsible for payment of all civil penalties and response costs and for performance of all remedial measures identified in this Agreed Order.

19. The Cabinet agrees to allow the performance of the above-listed remedial measures and payment of civil penalties by MPDS to satisfy MPDS's obligations to the Cabinet generated by the violations described above.

20. The Cabinet and MPDS agree that the remedial measures agreed to herein are facility-specific and designed to comply with the statutes and regulations cited herein. This Agreed Order applies specifically and exclusively to the unique facility referenced herein and is inapplicable to any other facility.

21. Compliance with this Agreed Order is not conditional on the receipt of any federal, state, or local funds.

22. This Agreed Order shall be of no force and effect unless and until it is entered by the Secretary or his designee as evidenced by his signature thereon. If this Agreed Order contains any date by which MPDS is to take any action or cease any activity, and the Secretary enters the Agreed Order after that date, then MPDS is nonetheless obligated to have taken the action or ceased the activity by the date contained in this Agreed Order.

TERMINATION

23. This Agreed Order shall terminate upon MPDS's completion of all requirements described in this Agreed Order. MPDS may submit written notice to the Cabinet when it believes all requirements have been performed. The Cabinet shall respond to MPDS's written request within sixty (60) days of receipt. The Cabinet reserves its right to enforce this Agreed Order, and MPDS reserves its right to file a petition for hearing pursuant to KRS 224.10-420(2) contesting the Cabinet's determination.

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AGREED TO BY:

Mark Smith, President
Mallard Point Disposal Systems, Inc.

Date

APPROVAL RECOMMENDED BY:

Jeffrey A. Cummins, Director
Division of Enforcement

Date

Mary Stephens, Attorney Manager
Water Legal Section
Environmental Protection Legal Division

Date

C. Michael Haines, General Counsel
Energy and Environment Cabinet

Date

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ORDER

Wherefore, the foregoing Agreed Order is entered as the final Order of the Energy and Environment Cabinet this ___ day of _____, 201__.

ENERGY AND ENVIRONMENT CABINET

LEONARD K. PETERS, SECRETARY

CERTIFICATE OF SERVICE

I hereby certify that a true and accurate copy of the foregoing **AGREED ORDER** was mailed, postage prepaid, to the following this _____ day of _____, 201__.

Mr. Mark Smith
Mallard Point Disposal Systems, Inc.
118 South Broadway
Georgetown, KY 40324

And mailed, messenger to:

Jeffrey A Cummins, Director
Division of Enforcement
300 Fair Oaks Lane
Frankfort, Kentucky 40601

Mary Stephens, Attorney Manager
Office of General Counsel
Water Legal Section
200 Fair Oaks Lane, First Floor
Frankfort, Kentucky 40601

DOCKET COORDINATOR

EXHIBIT 4

**CERTIFIED WASTEWATER TREATMENT OPERATORS
 CERTIFIED WASTEWATER COLLECTION SYSTEM OPERATORS
 GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE**

Name	COLLECTION SYSTEM		WASTEWATER TREATMENT	
	Certification Level	License #	Certification Level	License #
Joe Arnold	Class II	19953	Class II	14466
Alfred C. Burberry	Class I	24289		
Hubert Caudill	Class I	22024	Class I	6110
Samantha Chisley	Class II	19998	Class III	21150
Kimberly Cooch			Class III	6384
Paul Davis			Class III	20956
Ricky Dearinger	Class IV	20684	Class III	17116
Timothy Fain			Class II	25360
Derek Helms	Class III	20664	Class II	19656
Kenneth Hogsten	Class IV	19971	Class IV	19422
Jason Jarrell	Class II	24873		
Douglas Jones			Class II	24288
Kevin McGill			Class III	10183
James R. Mulberry			Class IV	7014
Bradley Parrent	Class IV	20319	Class IV	10194
Randy Power			Class IV	6590
Calvin Rodgers	Class IV	21051	Class IV	19423
Harry C. Rodgers			Class III	7538
Boyd Roland	Class III	24440	Class III	19435
Jeffrey A. Smith	Class IV	24371	Class III	10040
Douglas Wilhoite	Class II	24894		
Robert Williamson	Class III	21050	Class II	19270
Jeremy Wood	Class II	24893		

EXHIBIT 5

WASTEWATER

TREATMENT

AGREEMENT

WASTEWATER TREATMENT AGREEMENT

This is a Wastewater Treatment Agreement, made and entered into by and between the **GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE**, PO Box 640, Georgetown, Kentucky 40324, hereinafter referred to as "GMWSS"; and the **MALLARD POINT DISPOSAL SYSTEMS, INC.**, 118 South Broadway, Georgetown, Kentucky 40324, hereinafter referred to as "Mallard Point";

WITNESSETH

WHEREAS, Mallard Point is a duly organized and existing Kentucky corporation which currently owns and operates both a wastewater collection system (the "Collection System") and a wastewater treatment plant in Scott County, Kentucky;

WHEREAS, the City of Georgetown, Kentucky (the "City") currently owns water treatment, supply and distribution facilities, as well as wastewater collection and treatment facilities, which are operated as a combined and consolidated municipal utilities system by GMWSS, an entity of the City;

WHEREAS, on July 23, 2013, Mallard Point, the City, and GMWSS executed an Asset Purchase Agreement (the “Agreement”) whereby Mallard Point agreed to transfer and the City, for the use and benefit of GMWSS, agreed to acquire, subject to the terms, conditions and provisions of the Agreement, Mallard Point’s Collection System;

WHEREAS, formal transfer of ownership of Mallard Point’s Collection System cannot be completed until the Kentucky Public Service Commission (the “PSC”) has entered a final order authorizing Mallard Point to transfer its Collection System to the City for the use and benefit of GMWSS (the “PSC Approval”);

WHEREAS, the Agreement requires the Closing to take place as soon as conveniently possible following the PSC Approval;

WHEREAS, GMWSS will acquire ownership of, and commence operating, the Collection System immediately following the Closing. GMWSS cannot treat the wastewater from the Collection System, however, until it constructs and places into service a wastewater pumping station adjacent to or near Wrights Lane (the “Wright’s Lane PS”) to pump the wastewater to its Georgetown Wastewater Treatment Plant No. 2 (the “WWTP 2”);

WHEREAS, GMWSS cannot commence constructing the Wrights Lane PS until the plans and specifications have been approved by the Kentucky Energy and Environment Cabinet, Division of Water;

WHEREAS, GMWSS estimates that it will take six (6) to eight (8) months to construct the Wrights Lane PS;

WHEREAS, following the Closing, Mallard Point is willing to treat the wastewater from the Collection System at its existing wastewater treatment plant (the "MP WWTP") until GMWSS constructs the new Wrights Lane PS; and

WHEREAS, GMWSS desires to engage the services of Mallard Point to treat the wastewater following the Closing until the new Wrights Lane PS is constructed and placed into service;

NOW, THEREFORE, FOR AND IN CONSIDERATION of the mutual promises, covenants and conditions contained herein and in the Agreement, it is agreed by and between the Parties as follows:

1. **Defined Terms.** The terms used in this Wastewater Treatment Agreement and not defined herein shall have the meanings assigned to them in the Agreement.

2. **Ownership of Assets.** Mallard Point shall retain ownership of its Collection System until the Closing. Following the Closing, the Collection System shall be owned by the City for the use and benefit of GMWSS. Mallard Point shall

continue to own its MP WWTP following the Closing.

3. **Closing.** Transfer of ownership of the Collection System and closing of the transaction contemplated by the Agreement (the “Closing”) shall take place at a mutually convenient date, time and place once the PSC Approval has been obtained and the other Closing Requirements set forth in paragraph 15 of the Agreement have been satisfied.

4. **Term.** The term of this Wastewater Treatment Agreement shall commence at the Closing and shall continue until GMWSS has constructed and placed into service the new Wrights Lane PS or one (1) year from the Closing, whichever first occurs.

5. **Mallard Point’s Responsibilities.** During the term of this Wastewater Treatment Agreement, Mallard Point shall manage, operate, repair, and maintain its MP WWTP for the sole purpose of treating the wastewater collected by GMWSS from the Collection System and conveyed by GMWSS to the MP WWTP. Mallard Point shall not provide wastewater treatment services for any customer other than GMWSS. Immediately following the Closing, Mallard Point shall no longer be deemed a “utility” within the meaning of KRS 278.010(3)(f) because it will cease providing wastewater collection, transmission, or treatment services for the public. Mallard Point shall be responsible for all expenses incurred in the operation, repair, and maintenance of its MP WWTP.

6. **Electricity.** Following the Closing, GMWSS shall be responsible for the costs of all electric utility services incurred for the Harbor Village Pump Station and the Mallard Point Pump Station, which are part of the Collection System. Mallard Point shall be responsible for the costs of all electric utility services incurred for operation of its MP WWTP.

7. **Compensation.** Commencing 30 days following the Closing, Mallard Point shall be compensated by GMWSS for treating GMWSS' wastewater from the Collection System at a monthly rate of \$16,500.00. GMWSS shall pay Mallard Point monthly on or before the 15th day of the month following the month the treatment services were provided. In the event Mallard Point performs treatment services for a partial month, the daily rate shall be \$500.00.

8. **Waste Hauler Fee.** As part of the consideration for Mallard point's agreement to transfer its Collection System to GMWSS for the sum of \$2,900,000.00, GMWSS shall waive its Waste Hauler Fee for all sludge or waste transported from the MP WWTP commencing on the day following the execution of the Agreement and terminating at the end of this Wastewater Treatment Agreement.

9. **Operational Standards.** During the term of this Wastewater Treatment Agreement, Mallard Point shall, at all times, provide for proper and regular operation of, and maintenance to its MP WWTP in accordance with KRS

Chapter 224, all applicable administrative regulations, its permit conditions, and all other applicable laws.

10. **Closure of MP WWTP.** Upon the termination of this Wastewater Treatment Agreement, Mallard point shall timely submit a Closure Plan to the Kentucky Energy and Environment Cabinet, Division of Water, for closing and decommissioning the MP WWTP. To facilitate the decommissioning of the MP WWTP, GMWSS shall pay the cost of transporting the sludge remaining in the MP WWTP basins following the cessation of wastewater treatment. In addition, GMWSS shall waive its Waste Hauler Fee as provided in paragraph 8 of this Wastewater Treatment Agreement. Mallard Point shall be responsible for all other costs associated with closing and decommissioning the MP WWTP.

11. **Insurance.** During the term of this Wastewater Treatment Agreement, Mallard Point shall, at its expense, keep the MP WWTP insured with an insurance company or companies against fire and such hazards as are included within extended coverage in an amount at least equal to the amount that it currently in force. Mallard Point shall, at its expense, maintain comprehensive public liability insurance in an amount not less than \$1,000,000 combined single limits for each occurrence for claims for bodily injury or death and property damage. The City and GMWSS shall be named as "Additional Insureds" on the insurance policy.

12. **Indemnification.** Mallard Point hereby agrees to indemnify the City and GMWSS for, and hold the City and GMWSS harmless from, any and all losses, liabilities, costs and expenses (including, but not limited to, reasonable attorneys' fees) incurred by the City or GMWSS as a result of any negligence or willful misconduct by Mallard Point, its employees, contractors and agents, arising from Mallard Point's management, operation, repair and maintenance of the MP WWTP pursuant to the provisions of this Wastewater Treatment Agreement. To that end, immediately upon notification by the City or GMWSS, Mallard Point shall assume, at its own cost, the defense of any such action or suit which may be brought against the City or GMWSS because of the Mallard Point's operation and maintenance of the MP WWTP.

13. **No Assignment.** Mallard Point shall not assign this Wastewater Treatment Agreement.

[Remainder of page intentionally left blank]

IN TESTIMONY WHEREOF, this Wastewater Treatment Agreement has been executed in multiple counterparts, each of which is deemed to be an original, by the duly authorized officers of the Parties.

GEORGETOWN MUNICIPAL WATER AND SEWER SERVICE

BY: *Johnny Griffin*
Johnny Griffin, Chairman

DATE: 7-19-2013

ATTEST: *Billie Travis*, Secretary
Billie Travis, Secretary

MALLARD POINT DISPOSAL SYSTEMS, INC.

BY: *Mark S. Smith*
Mark S. Smith, President

DATE: 7-19-2013