

CITY OF WILLIAMSTOWN, KENTUCKY

June 30, 2013

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

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INDEPENDENT AUDITORS' REPORT

City of Williamstown, Kentucky
400 North Main Street
Williamstown, KY 41097

To the Honorable Mayor
and Members of the City Council

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund, of the City of Williamstown, Kentucky, as of June 30, 2013, and the respective changes in financial position

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

Emphasis of Matter

As discussed in Note 2 to the financial statements, during the year ended June 30, 2013, the City adopted the provisions of Governmental Accounting Standard No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison, listed in the table of contents, to supplement the basic financial statements. Although this information is not a part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.

Maddox & Associates CPAs Inc.

Fort Thomas, Kentucky
November 29, 2013

As management of the City of Williamstown, Kentucky (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2013 are as follows:

- In total, net position increased \$540,884. Net position of governmental activities decreased \$164,027 from fiscal year 2012. Net assets of the business-type activities, increased \$704,911 from fiscal year 2012.
- Governmental activities general revenues accounted for \$1,562,794 in revenue or 73% of all governmental activity revenues. Program specific revenues, in the form of charges for services and sales, grants, and contributions, accounted for \$585,142 or 27% of total governmental activity revenues.
- The City had \$2,311,963 in expenses related to governmental activities; only \$585,412 of these expenses were offset by program specific charges for services and sales, grants, and contributions. General revenues (primarily property taxes and grants and entitlements) of \$1,562,794 were adequate to provide for these programs.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the City that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the City include general government, police, public works, and sanitation. Capital assets and related debt are also supported by taxes and intergovernmental revenues.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental and proprietary funds. The proprietary funds consist of the Utility and Sewer Funds. All other activities of the City are included in the governmental funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-Wide Financial Analysis

The perspective of the statement of net assets is of the City as a whole. Table 1 provides a summary of the City's net assets for 2013 compared to 2012:

Table 1
Net Position
(in Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Assets						
Current and other assets	\$ 518	\$ 502	\$ 6,202	\$ 4,684	\$ 6,720	\$ 5,186
Capital assets, net	3,024	3,177	28,242	28,446	31,266	31,623
Total Assets	3,542	3,679	34,444	33,130	37,986	36,809
Liabilities						
Current and other liabilities	265	272	2,004	2,096	2,269	2,368
Long-term liabilities	72	56	18,918	18,216	18,990	18,272
Total Liabilities	337	328	20,922	20,312	21,259	20,640
Net Position						
Invested in capital assets net of related debt	2,952	3,095	9,324	9,884	12,276	12,979
Restricted	51	80	0	0	51	80
Unrestricted	202	177	4,199	2,933	4,401	3,110
Total Net Position	\$ 3,205	\$ 3,352	\$ 13,523	\$ 12,817	\$ 16,728	\$ 16,169

Net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$16.7 million as of June 30, 2013.

CITY OF WILLIAMSTOWN, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
UNAUDITED

The largest portion of the City's net assets reflects its investment in capital assets (e.g. land and improvements, buildings and improvements, vehicles, furniture and equipment); less any related debt used to acquire those assets that is still outstanding.

The City's financial position is the product of several financial transactions, including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Table 2 reflects the change in net assets for fiscal year 2013.

Table 2
Change in Net Assets
(In Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues						
Program revenues						
Charges for services	\$ 361	\$ 286	\$ 9,286	\$ 8,378	\$ 9,647	\$ 8,664
Grants and contributions	224	130	534	969	758	1,099
Total Program Revenues	585	416	9,820	9,347	10,405	9,763
General revenues						
Property taxes	682	662	0	0	682	662
Insurance premium tax	264	261	0	0	264	261
Interest	0	0	4	10	4	10
Transfers	577	701	(577)	(701)	0	0
Other revenues	40	48	0	0	40	48
Total General Revenues	1,563	1,672	(573)	(691)	990	981
Total Revenues	2,148	2,088	9,247	8,656	11,395	10,744

CITY OF WILLIAMSTOWN, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
UNAUDITED

Table 2 (Continued)
Change in Net Position
(In Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Program Expenses						
General Government	\$ 407	\$ 348	\$ -	\$ -	\$ 407	\$ 348
Police	714	715	-	-	714	715
Fire	171	174	-	-	171	174
Streets	566	556	-	-	566	556
Cemetery	35	31	-	-	35	31
Sanitation	153	150	-	-	153	150
Recreation	8	55	-	-	8	55
Maintenance and Repairs	35	43	-	-	35	43
Utility Operation	-	-	7,428	6,701	7,428	6,701
Sewer Operation	-	-	1,115	1,276	1,115	1,276
Depreciation	222	223	-	-	222	223
	<u>2,311</u>	<u>2,295</u>	<u>8,543</u>	<u>7,977</u>	<u>10,854</u>	<u>10,272</u>
Total Expenses						
(Decrease) Increase in Net Position	<u>\$ (163)</u>	<u>\$ (207)</u>	<u>\$ 704</u>	<u>\$ 679</u>	<u>\$ 541</u>	<u>\$ 472</u>

Governmental Activities

The statement of activities reflects the cost of program services and the charges for services and sales, grants, and contributions offsetting those services. Table 3, for government activities, indicates the total cost of services and the net cost of services. It identifies the cost of these services supported by tax revenues and unrestricted state entitlements.

Table 3
Governmental Activities
(In Thousands)

	Total Cost of Services		Net Cost of Services	
	2013	2012	2013	2012
General government	\$ 407	\$ 348	\$ 402	\$ 366
Police	714	715	494	537
Fire	171	175	168	171
Streets	566	556	437	473
Cemetery	35	31	(13)	(9)
Sanitation	153	150	(1)	51
Recreation	8	55	(17)	25
Maintenance and repairs	35	43	36	43
Depreciation	222	222	221	222
Total Expenses	<u>\$ 2,311</u>	<u>\$ 2,295</u>	<u>\$ 1,727</u>	<u>\$ 1,879</u>

Business-Type Activities

The business-type activities of the City consisted of the utility and sewer enterprise funds. These activities had revenues of \$9,286,544 and expenses and transfers of \$8,542,980 for fiscal year 2013.

The City's Funds

The City's governmental funds are accounted for using the modified accrual basis of accounting. Total governmental funds had revenues and other financing sources of \$2,137,127 and expenditures and other financing uses of \$2,152,152.

General Fund Budgeting Highlights

The City's budget is prepared according to City Charter and is based on accounting for certain transactions using a flow of current financial resources measurement focus. The only budgeted fund is the General Fund.

For the General Fund, actual revenues, in the amount of \$1,560,127 exceeded budgeted revenues by \$55,852. Expenditures and other financing uses were budgeted at \$2,398,050 while actual expenditures were \$2,152,152.

Contacting the City's Financial Management

Questions about this report or additional financial information needs should be directed to Vivian Link, the Clerk/Treasurer, City of Williamstown, 400 North Main Street, P.O. Box 147, Williamstown, Kentucky 41097.

City of Williamstown, Kentucky
Statement of Net Position
June 30, 2013

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Assets:			
Cash and cash equivalents	307,727	2,667,700	\$ 2,975,427
Receivables:			
Taxes	71,515	0	71,515
Accounts	3,580	1,487,240	1,490,820
Intergovernmental	24,568	0	24,568
Due from other funds	110,088	1,388,658	1,498,746
Other current assets	0	659,168	659,168
Nondepreciable capital assets	537,390	16,281,019	16,818,409
Depreciable capital assets, net	2,486,911	11,960,548	14,447,459
Total assets	3,541,779	34,444,333	\$ 37,986,112
Liabilities:			
Accounts payable	34,251	329,920	364,171
Payroll related liabilities	55,136	108,822	163,958
Compensated absences	24,917	61,580	86,497
Accrued interest payable	0	9,238	9,238
Customer deposits	0	141,172	141,172
Other current liabilities	4,974		4,974
Due to other funds	145,679	1,353,063	1,498,742
Due within one year	43,540	931,174	974,714
Due in more than one year	28,288	17,986,580	18,014,868
Total liabilities	336,785	20,921,549	21,258,334
Net position:			
Net investment in capital assets	2,952,473	9,323,813	12,276,286
Restricted	50,539	0	50,539
Unrestricted	201,982	4,198,971	4,400,953
Total net position	\$ 3,204,994	13,522,784	\$ 16,727,778

The accompanying footnotes are an integral part of these financial statements

City of Williamstown, Kentucky
Statement of Activities
For the Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 406,682	\$ 0	\$ 4,786	\$ 0	\$ (401,896)	\$ 0	\$ (401,896)
Police	714,094	157,934	61,812	0	(494,348)	0	(494,348)
Fire	170,634	0	2,774	0	(167,860)	0	(167,860)
Streets	566,547	0	128,895	0	(437,652)	0	(437,652)
Cemetery	35,638	49,564	0	0	13,926	0	13,926
Recreation	8,347	0	25,886	0	17,539	0	17,539
Sanitation	152,814	153,491	0	0	677	0	677
Maintenance and repairs	35,946	0	0	0	(35,946)	0	(35,946)
Depreciation - unallocated	221,261	0	0	0	(221,261)	0	(221,261)
Total governmental activities	2,311,963	360,989	224,153	0	(1,726,821)	0	(1,726,821)
Business-type activities:							
Water	7,428,416	7,658,966	0	508,047	0	738,597	738,597
Sewer	1,114,564	1,627,618	0	26,191	0	539,245	539,245
Total business-type activities	8,542,980	9,286,584	0	534,238	0	1,277,842	1,277,842
Total primary government	\$ 10,854,943	\$ 9,647,573	\$ 224,153	\$ 534,238	(1,726,821)	1,277,842	(448,979)
General revenues:							
Property and other taxes					682,153	0	682,153
Insurance premium tax					264,489	0	264,489
Other revenues					38,630	0	38,630
Payment in lieu of taxes					535,000	(535,000)	0
Transfers					42,000	(42,000)	0
Investment income					522	4,069	4,591
Total general revenues					1,562,794	(572,931)	989,863
Change in net position					(164,027)	704,911	540,884
Prior period adjustment					17,228	0	17,228
Net position - beginning					3,351,793	12,817,873	16,169,666
Net position - ending					\$ 3,204,994	\$ 13,522,784	\$ 16,710,550

The accompanying footnotes are an integral part of these financial statements

City of Williamstown, Kentucky
 Balance Sheet
 Governmental Funds
 June 30, 2013

	General Fund	Total Governmental Funds
	<u> </u>	<u> </u>
Assets:		
Cash and cash equivalents	305,366	\$ 305,366
Receivables:		
Taxes	71,515	71,515
Accounts	3,580	3,580
Intergovernmental	26,929	26,929
Due from other funds	110,088	110,088
	<u> </u>	<u> </u>
Total assets	<u>\$ 517,478</u>	<u>\$ 517,478</u>
Liabilities:		
Accounts payable	34,251	\$ 34,251
Payroll liabilities	55,136	55,136
Compensated absences	5,036	5,036
Other liabilities	4,974	4,974
Due to other funds	145,679	145,679
	<u> </u>	<u> </u>
Total liabilities	<u>245,076</u>	<u>245,076</u>
Deferred inflows of resources		
	<u> </u>	<u> </u>
Unavailable revenue	33,047	33,047
Fund balances:		
Nonspendable	110,088	110,088
Restricted	50,539	50,539
Unassigned	78,728	78,728
	<u> </u>	<u> </u>
Total fund balances	<u>239,355</u>	<u>239,355</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 517,478</u>	<u>\$ 517,478</u>

The accompanying footnotes are an integral part of these financial statements

City of Williamstown, Kentucky
Reconciliation of Total Governmental Fund Balances
To Net Position of Governmental Activities
June 30, 2013

Total governmental fund balances	\$ 239,355
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	3,024,301
Some assets are not currently available and are therefore not reported in the funds	33,047
Some liabilities do not require the use of current financial resources and therefore not reported in the funds	(19,881)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(71,828)</u>
Net position of governmental activities	<u>\$ 3,204,994</u>

City of Williamstown, Kentucky
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2013

	General Fund	Total Governmental Funds
Revenues		
Property taxes	\$ 618,084	\$ 618,084
Insurance premium taxes	247,184	247,184
Licenses, permits, and fees	15,174	15,174
Investment income	522	522
Charges for services	296,491	296,491
Intergovernmental	235,993	235,993
Grants and contributions	47,464	47,464
Other revenue	99,215	99,215
	<u>1,560,127</u>	<u>1,560,127</u>
Total revenues		
Expenditures		
Current		
General government	404,850	404,850
Public safety - police	700,796	700,796
Public safety - fire	168,754	168,754
Streets	464,189	464,189
Sanitation	152,814	152,814
Recreation	8,347	8,347
Debt service	46,483	46,483
Capital outlay	205,919	205,919
	<u>2,152,152</u>	<u>2,152,152</u>
Total expenditures		
Deficiency of revenues over expenditures	<u>(592,025)</u>	<u>(592,025)</u>
Other financing sources (uses):		
Sale of assets	0	0
Proceeds of loans	0	0
Payment in lieu of taxes	535,000	535,000
Transfers in	42,000	42,000
Transfers out	0	0
	<u>577,000</u>	<u>577,000</u>
Total other financing sources (uses)		
Net change in fund balances	(15,025)	(15,025)
Fund balances - beginning	<u>254,380</u>	<u>254,380</u>
Fund balances - ending	<u>\$ 239,355</u>	<u>\$ 239,355</u>

The accompanying footnotes are an integral part of these financial statements

City of Williamstown, Kentucky
 Reconciliation of the Statement of Revenues, Expenditures, and
 Changes in Fund Balances of Governmental Funds to the
 Statement of Activities
 For the Year Ended June 30, 2013

Net change in fund balances - total governmental funds	\$ (15,025)
Amounts reported for governmental activities in the statement of activities are difference because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital outlay	35,238
Depreciation expense	(236,709)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds	
Deferred revenue	10,815
Expenses reported in the statement of activities that do not require current financial resources are not reported as expenses in the funds	
Principal payments	41,654
Change in net position of governmental activities	<u>\$ (164,027)</u>

City of Williamstown, Kentucky
Statement of Net Position
Proprietary Funds
June 30, 2013

	<u>Utility Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Assets:			
Current assets:			
Cash and cash equivalents	\$ 1,439,844	\$ 1,227,856	\$ 2,667,700
Customer receivables	1,234,601	252,639	1,487,240
Due from other funds	676,478	712,180	1,388,658
Other current assets	659,168	0	659,168
Total current assets	<u>4,010,091</u>	<u>2,192,675</u>	<u>6,202,766</u>
Noncurrent assets:			
Land and construction in progress	141,594	16,139,425	16,281,019
Capital assets, net of depreciation	10,427,862	1,532,686	11,960,548
Total noncurrent assets	<u>10,569,456</u>	<u>17,672,111</u>	<u>28,241,567</u>
Total assets	<u>\$ 14,579,547</u>	<u>\$ 19,864,786</u>	<u>\$ 34,444,333</u>
Liabilities:			
Accounts payable	\$ 314,529	\$ 15,391	\$ 329,920
Accrued payroll liabilities	99,005	9,817	108,822
Compensated absences	45,389	16,191	61,580
Accrued interest	9,238	0	9,238
Customer deposits	141,172	0	141,172
Due to other funds	812,801	540,262	1,353,063
Long-term obligations			
Due within one year	240,375	690,799	931,174
Due in more than one year	3,463,141	14,523,439	17,986,580
Total liabilities	<u>5,125,650</u>	<u>15,795,899</u>	<u>20,921,549</u>
Net position:			
Net investment in capital assets	6,865,940	2,457,873	9,323,813
Restricted	0	0	0
Unrestricted	2,587,957	1,611,014	4,198,971
Total net position	<u>9,453,897</u>	<u>4,068,887</u>	<u>13,522,784</u>
Total liabilities and net position	<u>\$ 14,579,547</u>	<u>\$ 19,864,786</u>	<u>\$ 34,444,333</u>

The accompanying footnotes are an integral part of these financial statements

City of Williamstown, Kentucky
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Fund
For the Year Ended June 30, 2013

	Utility Fund				Sewer Fund Total	Total
	Electric System	Water System	Cable TV and Internet	Total		
OPERATING REVENUES						
Charges for services	\$ 4,458,535	\$ 1,177,488	\$ 1,346,767	\$ 6,982,790	\$ 1,627,618	\$ 8,610,408
Other revenue	533,199	142,977	0	676,176	0	676,176
TOTAL OPERATING REVENUES	4,991,734	1,320,465	1,346,767	7,658,966	1,627,618	9,286,584
OPERATING EXPENSES						
Personnel services						
Salaries and wages	307,111	398,638	309,129	1,014,878	222,724	1,237,602
Medical insurance	66,677	79,964	59,334	205,975	50,179	256,154
Employers FICA	22,123	28,393	22,939	73,455	16,066	89,521
Employee retirement	61,098	74,363	62,115	197,576	47,039	244,615
Workers' compensation and unemployment	(296)	15,413	10,343	25,460	7,106	32,566
Total personnel services	456,713	596,771	463,860	1,517,344	343,114	1,860,458
Contractual services						
Utility purchases	2,920,933	0	0	2,920,933	0	2,920,933
Distribution	0	52,221	4,299	56,520	0	56,520
Repairs and maintenance	7,977	77,143	6,737	91,857	103,460	195,317
Utilities	36,151	112,724	42,270	191,145	167,294	358,439
Other contract services	46,213	18,596	13,327	78,136	29,387	107,523
Education and training	7,351	3,040	6,581	16,972	2,946	19,918
Lab tests	-	9,937	0	9,937	10,216	20,153
Communications and postage	10,753	8,907	10,991	30,651	10,632	41,283
Insurance	15,557	23,436	13,311	52,304	18,728	71,032
Advertising and printing	0	928	0	928	0	928
Professional fees	4,156	15,626	6,231	26,013	10,157	36,170
Royalties	0	0	411,684	411,684	0	411,684
Internet expenses	0	0	193,034	193,034	0	193,034
Vehicle maintenance	23,266	28,851	28,377	80,494	26,498	106,992
Total contractual services	3,072,357	351,409	736,842	4,160,608	379,318	4,539,926
Materials and supplies						
Equipment parts	2,908	3,282	(9,545)	(3,355)	3,224	(131)
Technical supplies	2,807	0	54,055	56,862	989	57,851
Uniforms	1,801	117	532	2,450	667	3,117
Chemicals and chlorine	0	115,271	0	115,271	8,828	124,099
Lab materials	0	2,895	0	2,895	1,294	4,189
Construction materials	36,556	0	15,900	52,456	0	52,456
Office supplies	13,733	0	4,622	18,355	0	18,355
Total materials and supplies	57,805	121,565	65,564	244,934	15,002	259,936
Depreciation	1,037,965	112,458	174,605	1,325,028	221,306	1,546,334
Miscellaneous						
Dues and subscriptions	1,986	217	475	2,678	208	2,886
Safety committee	1,613	0	0	1,613	0	1,613
Miscellaneous	7,488	3,226	4,449	15,163	1,701	16,864
Total miscellaneous	11,087	3,443	4,924	19,454	1,909	21,363
TOTAL OPERATING EXPENSES	4,635,927	1,185,646	1,445,795	7,267,368	960,649	8,228,017
OPERATING PROFIT	\$ 355,807	\$ 134,819	\$ (99,028)	391,598	666,969	1,058,567
NON-OPERATING REVENUE AND (EXPENSES)						
Interest Income				2,734	1,335	4,069
Grants and contributions				508,047	26,191	534,238
Other expenses				0	0	0
Amortization				(7,373)	0	(7,373)
Interest expense				(153,674)	(153,916)	(307,590)
Payment in lieu of taxes				(425,000)	(110,000)	(535,000)
Transfers out				(42,000)	0	(42,000)
TOTAL NON-OPERATING REVENUE AND (EXPENSES)				(117,266)	(236,390)	(353,656)
Change in net position				274,332	430,579	704,911
Net position - beginning				9,179,565	3,638,308	12,817,873
Net position - ending				\$ 9,453,897	\$ 4,068,887	\$ 13,522,784

The accompanying footnotes are an integral part of these financial statements

City of Williamstown, Kentucky
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2013

Cash flows from operating activities	
Change in net assets	\$ 704,911
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Amortization and depreciation	1,553,717
Increase in current assets	(513,687)
Increase in current liabilities	<u>252,908</u>
Net cash provided by operating activities	<u>1,997,849</u>
Cash flows from capital financing activities	
Acquisition of capital assets	(1,349,273)
Proceeds from long term obligations	585,572
Principal payments on long term obligations	<u>(229,283)</u>
Net cash used by capital financing activities	<u>(992,984)</u>
Net increase in cash	1,004,865
Cash - beginning	<u>1,662,835</u>
Cash ending	<u><u>\$ 2,667,700</u></u>
Supplemental disclosures of cash flow information:	
Cash paid during the year for interest expense	<u><u>\$ 314,963</u></u>

The accompanying footnotes are an integral part of these financial statements

City of Williamstown, Kentucky
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
General Fund
For the Year Ended June 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Fund balance - beginning	\$ 219,150	\$ 219,150	\$ 254,380	\$ 35,230
Revenues				
Taxes	938,000	938,000	865,268	(72,732)
Licenses and permits	15,300	15,300	15,174	(126)
Intergovernmental revenues	105,800	169,175	235,993	66,818
Charges for services	285,000	285,000	296,491	11,491
Other revenue	72,300	96,800	147,201	50,401
Total revenues	<u>1,416,400</u>	<u>1,504,275</u>	<u>1,560,127</u>	<u>55,852</u>
Total resources	<u>1,635,550</u>	<u>1,723,425</u>	<u>1,814,507</u>	<u>91,082</u>
Expenditures				
General government	419,900	419,900	404,850	15,050
Police	789,400	789,400	700,796	88,604
Fire	185,600	185,600	168,754	16,846
Streets and cemetery	546,500	546,500	464,189	82,311
Parks and recreation	13,250	13,250	8,347	4,903
Garbage and sanitation	152,400	152,400	152,814	(414)
Capital outlay	197,800	291,000	252,402	38,598
Total expenditures	<u>2,304,850</u>	<u>2,398,050</u>	<u>2,152,152</u>	<u>245,898</u>
Deficiency of revenues over expenditures	<u>(669,300)</u>	<u>(674,625)</u>	<u>(337,645)</u>	
Other financing sources (uses)	<u>785,000</u>	<u>785,000</u>	<u>577,000</u>	
Budgetary fund balance - end of year	<u>\$ 115,700</u>	<u>\$ 110,375</u>	<u>\$ 239,355</u>	

The accompanying footnotes are an integral part of these financial statements

NOTE 1 – ACCOUNTING POLICIES

Kentucky Revised Statutes and Ordinances of the City Council of the City of Williamstown, Kentucky (the "City") designate the purpose, function and restrictions of the various funds. The financial statements included herein consist of the General, Utility and Sewer Enterprise Funds.

The Reporting Entity

The City operates under a City Council government comprised of the Mayor and six council members. The financial statements of the City include all of the funds for which the Mayor and City Council are financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards was determined on the basis of the City's ability to significantly influence operations, select the governing authority, participate in fiscal management, and the scope of public services. The City has no component units or entities for which the government is considered to be financially accountable.

Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-Wide Financial Statements – The statement of net position and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net position presents the financial condition of the governmental and business-type activities of the City at year end. The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function or program of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function.

Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements – During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to determine legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds, if any, are presented in a single column.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the City's proprietary funds are charges for services. Operating expenses for the proprietary funds include personnel and other expenses related to water and sewer operations. All revenues not meeting these

definitions are reported as nonoperating revenues and expenses.

Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are two categories of funds: governmental and proprietary.

Governmental Funds – Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or may not be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets, deferred outflow, liabilities, and deferred inflows is reported as fund balance. The following are the City's major governmental funds:

General Fund - The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Kentucky.

Proprietary Funds – Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. Proprietary funds are classified as either enterprise or internal service.

Enterprise Funds – The enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the City's major enterprise funds:

Utility Fund – This fund accounts for the operations of providing utility services to customers and to maintain the local water systems.

Sewer Fund – This fund accounts for the operations of providing sewer services to customers and to maintain the sewer systems.

Measurement Focus

Government-wide Financial Statements – The government-wide financial statements are prepared using the economic resources measurement focus. All assets, deferred outflows, liabilities, and deferred inflows associated with the operation of the City are included on the statement of net position. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net position.

Fund Financial Statements – All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows and current liabilities and deferred inflows are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (e.g. revenues and other financing sources) and uses (e.g. expenditures and other financing uses) of current financial resources. This approach differs from the manner in which governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide financial statements and the financial statements for governmental funds.

Like the government-wide financial statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets, deferred outflows, liabilities, and deferred inflows associated with the operation of these funds included on the statement of net position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary funds also use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred inflows and deferred outflows, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Nonexchange Transactions - Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within thirty days of year end.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, and grants. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, for which the City must provide local resources to be used for a specified purpose, and expenditure requirements, for which the resources are provided to the City on a reimbursement basis.

On the modified accrual basis, revenue from non-exchange transactions must also be available before it is recognized. Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: state-levied locally shared taxes.

Deferred Inflows of Resources and Deferred Outflows of Resources – A deferred inflow of resources is an acquisition of net position by the City that is applicable to a future reporting period. A deferred outflow of resources is a consumption of net position by the City that is applicable to a future operating period.

Taxes not received within the available period are recorded as deferred inflows in the governmental fund financial statements.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on the decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Budgetary Data

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1) In accordance with City code, prior to June 1, the Mayor submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
- 2) Public hearings are conducted to obtain taxpayer comment.
- 3) Prior to June 30, the budget is legally enacted through passage of an ordinance.
- 4) The Mayor is required by Kentucky Revised Statutes to present a quarterly report to the City Council explaining any variance from the approved budget.
- 5) Appropriations continue in effect until a new budget is adopted.
- 6) The City Council may authorize supplemental appropriations during the year.

Expenditures may not legally exceed budgeted appropriations at the function level. Any revisions to the budget that would alter total revenues and expenditures of any fund must be approved by the City Council.

Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with an initial maturity date of ninety days or less.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements. The City's infrastructure consists of sidewalks, streets, and water and sewer lines. Infrastructure acquired prior to the implementation of GASB Statement No. 34 has been reported. Capital assets utilized by the proprietary funds are reported in both the business-type activities column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and disposals during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$1,000 with the exception of computers and real property for which there is no threshold. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value to the asset or materially extend an asset's life are not.

All reported capital assets are depreciated except for land. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund capital assets:

<u>Description</u>	<u>Estimated Lives</u>
Building and Building Improvements	10 – 40 Years
Infrastructure	15 – 25 Years

General Equipment	5 – 15	Years
Water System	5 – 50	Years
Electric System	5 – 30	Years
Cable T.V. System	5 – 30	Years
Sewer System	5 – 30	Years

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported on the government-wide financial statements, and all payables, accrued liabilities, and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences, and retirement incentives that will be paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds and capital lease obligations are recognized as a liability on the governmental fund financial statements when due.

Restricted Assets

Certain cash accounts have been classified as restricted assets to indicate that they have been earmarked for a specific use.

Interfund Balances

On the fund financial statements, unpaid amounts for interfund services are reported as “due from/to other funds”. These amounts are eliminated in the governmental and business-type activity columns of the statement of net position, except any net residual amounts due between governmental and business-type activities, which are presented as “internal balances”.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable – The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted – Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Committed – The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance) of City Council (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of City Council.

Unassigned – Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The City applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within restricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any unrestricted fund balance classifications could be used.

Use of Estimates

The preparation of financial statements in conformity GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results could differ from those estimates.

Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component of “net investment in capital assets”, consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through enabling legislation or through external restrictions imposed by creditors, grantors, laws, or regulations of other governments. Net position restricted for other purposes consists primarily of programs to enhance the security of persons and property.

The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature an infrequent in occurrence. Special items are transactions or events that are within the control of the City administration

and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year.

NOTE 2 – ACCOUNTABILITY AND COMPLIANCE

Change in Accounting Principles

In the fiscal year, the City implemented GASB Statement No. 62, "*Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncements*", GASB Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*"; and GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities*". The implementation of GASB statements did not have an effect on the financial statements of the City.

NOTE 3 – DEPOSITS

It is the policy of the City to invest public funds in a manner that will provide the highest investment with the maximum security of principal while meeting the daily cash flow demands of the City and conforming to all state statutes and city regulations governing the investments of public funds.

The City is authorized to invest in:

- 1) Obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, provided that delivery of these obligations subject to repurchase agreements is taken either directly or through an authorized custodian.
- 2) Obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United States government agency.
- 3) Obligations of any corporation of the United States government.
- 4) Certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or similar entity or which are collateralized, to the extent uninsured, by any obligations permitted by the Kentucky Revised Statutes.

Custodial Credit Risk – Deposits. For deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned. The City maintains deposits with financial institutions insured by the FDIC. As allowed by law, the depository bank should pledge securities along with FDIC insurance at least equal to the amount on deposit at all times. As of June 30, 2013, all of the City's deposits are insured by the FDIC.

For purposes of the cash flows statement, cash includes cash in checking accounts and short-term deposits with an initial maturity of ninety days or less. Restricted cash held in escrow for the purpose of debt service is not included in cash for this statement.

NOTE 3 – PROPERTY TAXES

Property taxes include amounts levied against all real, public utility, and tangible property located in the City. Property taxes attached as an enforceable lien on property as of January 1, 2012. Taxes were levied on August 1, 2012, and were due and payable at that time. All unpaid taxes levied in August become delinquent January 1 of the following year.

NOTE 4 – INTERFUND TRANSACTIONS

Interfund transfers for the fiscal year ended June 30, 2013, consisted of the following:

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>
Utility Fund	General Fund	\$42,000

NOTE 5 – PAYMENTS IN LIEU OF TAXES (“PILOT”)

Payments on lieu of taxes for the fiscal year ended June 30, 2013, consisted of the following:

<u>PILOT From</u>	<u>PILOT To</u>	<u>Amount</u>
Utility Fund	General Fund	\$425,000
Sewer Fund	General Fund	\$110,000

NOTE 6 – RECEIVABLES

Receivables at June 30, 2013, consisted of taxes, intergovernmental, and accounts are stated at their contractual outstanding balances, net of any allowance for doubtful accounts. Accounts are considered past due if any portion of an account has not been paid in full within the contractual terms of the account. The City begins to assess its ability to collect receivables that are over 90 days past due and provides for an adequate allowance for doubtful accounts based on the City's collection history, the financial stability and recent payment history of the customer, and other pertinent factors.

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NOTE 7 – PROPERTY AND EQUIPMENT

Capital Asset activity for the fiscal year ended June 30, 2013 was as follows:

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013
Governmental Activities				
Land	\$ 537,390	\$ 0	\$ 0	\$ 537,390
Street improvements	752,548	0	0	752,548
Buildings and improvements	2,235,280	0	0	2,235,280
Furniture and fixtures	44,287	0	0	44,287
General equipment	1,164,419	83,849	0	1,248,268
Total cost	4,733,924	83,849	0	4,817,773
Less accumulated depreciation				
Street improvements	253,103	43,664	0	296,767
Buildings and improvements	573,183	63,779	0	636,962
Furniture and fixtures	37,309	2,675	0	39,984
General equipment	693,168	126,591	0	819,759
Total accumulated depreciation	1,556,763	236,709	0	1,793,472
Net governmental capital assets	\$ 3,177,161	\$ (152,860)	\$ 0	\$ 3,024,301
Business-Type Activities				
Land and construction in progress	\$ 16,128,344	\$ 179,750	\$ 0	\$ 16,308,094
Water system	14,464,355	1,018,351	0	15,482,706
Electric system	4,017,222	131,189	0	4,148,411
Cable TV system	3,964,026	12,600	0	3,976,626
Sewer system	8,697,600	0	0	8,697,600
Total cost	47,271,547	1,341,890	0	48,613,437
Less accumulated depreciation				
Water system	8,397,502	1,037,965	0	9,435,467
Electric system	2,737,914	112,458	0	2,850,372
Cable TV system	1,369,909	174,605	0	1,544,514
Sewer system	6,320,211	221,306	0	6,541,517
Total accumulated depreciation	18,825,536	1,546,334	0	20,371,870
Net business-type capital assets	\$ 28,446,011	\$ (204,444)	\$ 0	\$ 28,241,567

Most depreciation expense was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

Prior to 1980, the City of Williamstown did not maintain a record of general fixed assets and proprietary fund fixed assets. The City conducted an inventory of its property, plant and equipment to determine costs or estimated costs by reviewing contracts, engineering reports, minutes of City Council meetings and actual disbursement records to the extent practical in the circumstances.

NOTE 8 – LONG-TERM OBLIGATIONS

A schedule of changes in long-term obligations of the City during the current year is as follows:

	Balance June 30, 2012	Additions	Disposals	Balance June 30, 2013	Amount Due Within One Year
Governmental Activities					
Capital lease obligation	\$ 82,105	\$ 0	\$ 26,459	\$ 55,646	\$ 27,358
Capital lease obligation	31,377	0	15,195	16,182	16,182
Total governmental activities	<u>\$ 113,482</u>	<u>\$ 0</u>	<u>\$ 41,654</u>	<u>\$ 71,828</u>	<u>\$ 43,540</u>
Business-Type Activities					
Series 2003 Bonds	\$ 115,000	\$ 0	\$ 115,000	\$ 0	\$ 0
Series 2004 Bonds	1,725,000	0	110,000	1,615,000	115,000
KIA Loan A08-09	15,061,733	152,675	0	15,214,408	690,799
KIA Loan F11-02	940,591	548,586	0	1,489,176	0
KLC Richmond Pool 2006	171,565	0	68,747	102,818	71,895
KLC Waterline Replacement	308,669	0	19,557	289,112	20,270
Bank of Kentucky	239,707	0	32,467	207,240	33,210
Total business-type activities	<u>\$ 18,562,264</u>	<u>\$ 701,261</u>	<u>\$ 345,771</u>	<u>\$ 18,917,754</u>	<u>\$ 931,174</u>

Capital Lease Obligations

Annual principal and interest payments of \$29,249. Fixed rate of 3.40%. Due October 15, 2014.

Annual principal and interest payments of \$17,234. Fixed rate of 3.40%. Due August 17, 2013.

Utility System Revenue Refunding Bonds, Series 2003

Annual principal and semi-annual interest payments. Variable rates from 1.875% to 4.190%. Due June 1, 2013.

Utility System Revenue Refunding Bonds, Series 2004

Annual principal and semi-annual interest payments. Variable rates from 2.0% to 5.0%. Due June 1, 2024.

KIA Loan A08-09

Semiannual principal and interest payments of \$420,610. Fixed rate of 1.0%. Due June 1, 2033.

KIA Loan F11-02

Semiannual principal and interest payments at completion of loan. Amortized over 20 years at 1.0% interest.

KLC Richmond Pool

Monthly principal and interest payments of \$6,348. Fixed rate of 3.80%. Due November 1, 2014.

KLC Waterline Replacement

Monthly principal and interest payments of \$2,218. Variable rates from 2.43% to 3.31%. Due February 1, 2025.

Bank of Kentucky

Monthly principal and interest payments of \$3,214. Fixed rate of 2.75%. Due April 20, 2019.

Future minimum principal and interest payments are as follows:

	Governmental Activities				
	Capital lease obligation		Capital lease obligation		Total
	Principal	Interest	Principal	Interest	
2014	\$ 27,358	\$ 1,891	\$ 16,182	\$ 1,052	\$ 46,483
2015	28,288	961	0	0	29,249
2016	0	0	0	0	0
2017	0	0	0	0	0
2018	0	0	0	0	0
2019 - 2023	0	0	0	0	0
2024 - 2028	0	0	0	0	0
	<u>\$ 55,646</u>	<u>\$ 2,852</u>	<u>\$ 16,182</u>	<u>\$ 1,052</u>	<u>\$ 75,732</u>

	Business-Type Activities			
	Series 2004 Bonds		KIA Loan A08-09	
	Principal	Interest	Principal	Interest
2014	\$ 115,000	\$ 78,930	\$ 690,799	\$ 150,421
2015	120,000	74,100	697,724	143,496
2016	125,000	69,000	704,719	136,501
2017	130,000	62,750	711,784	129,437
2018	140,000	56,250	718,919	122,301
2019 - 2023	800,000	170,250	3,704,160	501,942
2024 - 2028	185,000	9,250	3,893,592	312,510
2029 - 2033	0	0	4,092,711	113,392
	<u>\$ 1,615,000</u>	<u>\$ 520,530</u>	<u>\$ 15,214,408</u>	<u>\$ 1,610,000</u>

	Business-Type Activities			
	KIA Loan F12-02		KLC Richmond Pool	
	Principal	Interest	Principal	Interest
2014	\$ 61,229	\$ 29,479	\$ 71,895	\$ 78,930
2015	62,459	28,248	30,923	74,100
2016	63,715	26,993	0	0
2017	64,995	25,712	0	0
2018	66,301	24,406	0	0
2019 - 2023	352,042	101,495	0	0
2024 - 2028	388,874	64,663	0	0
2029 - 2033	429,561	23,978	0	0
	<u>\$ 1,489,176</u>	<u>\$ 324,974</u>	<u>\$ 102,818</u>	<u>\$ 153,030</u>

	Business-Type Activities				
	KLC Waterline Replacement		Bank of Kentucky		Total
	Principal	Interest	Principal	Interest	
2014	\$ 20,270	\$ 10,485	\$ 33,210	\$ 5,358	\$ 1,346,005
2015	21,022	9,732	34,148	4,420	1,300,372
2016	21,785	8,969	35,103	3,465	1,195,250
2017	22,608	8,146	36,103	2,465	1,194,000
2018	23,436	7,318	37,123	1,445	1,197,499
2019 - 2023	130,833	22,937	31,722	418	5,815,799
2024 - 2028	49,158	2,099	0	0	4,905,146
2029 - 2033	0	0	0	0	4,659,642
	<u>\$ 289,112</u>	<u>\$ 69,685</u>	<u>\$ 207,409</u>	<u>\$ 17,571</u>	<u>\$ 21,613,713</u>

Interest expense for the year ended June 30, 2013 consisted of the following:

Governmental Activities	
Capital lease obligation	\$ 2,790
Capital lease obligation	2,039
Total governmental activities	\$ 4,829
Business-Type Activities	
Series 2003 Bonds	\$ 4,600
Series 2004 Bonds	83,440
KIA Loan A08-09	153,916
KIA Loan F11-02	48,783
KLC Richmond Pool 2006	7,429
KLC Waterline Replacement	6,748
Bank of Kentucky	6,903
Bond amortization	7,373
Deferred refunding costs	(4,229)
	<u>\$ 314,963</u>

NOTE 9 – EMPLOYEES' RETIREMENT PLAN

Employees who work an average of 100 hours per month participate in the County Employees Retirement System of Kentucky ("CERS") which is a cost sharing multiple-employer public employee's retirement system created by and operating under Kentucky Law.

The County Employees Retirement System covers substantially all regular non-certified full-time employees of each county and school board, and any additional local agencies electing to participate.

The plan provides for retirement, disability and death benefits. CERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained in writing from the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky, 40601.

Participating employees contribute 5% of the creditable compensation (8% for hazardous duty participants). Employer contribution rates are intended to fund the normal cost on a current basis plus one percent (1%) of unfunded past service costs per annum plus interest at the actuarial assumed rate. Such contribution rates are determined by the Board of Trustees of Kentucky Retirement Systems each biennium. The City contributed 19.55% of the employees' compensation (37.60% for hazardous duty participants) during the fiscal year ended June 30, 2013.

The City of Williamstown's required contribution for pension obligations to CERS for the fiscal years ended June 30, 2013, 2012 and 2011 were \$451,339, \$408,823 and \$376,156, respectively; 100 percent has been contributed for fiscal years 2013, 2012, and 2011.

NOTE 10 – CONTINGENCIES

Grants

The City receives funding from federal and state agencies in the form of grants. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the City for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the City's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

Litigation

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City Management the resolution of these matters will not result in a material uninsured liability to the City.

NOTE 11 – RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The City has obtained insurance coverage through a commercial insurance company. In addition, the City has effectively managed risk through various employee education and prevention programs. All risk general liability management activities are accounted for in the General Fund. Expenditures and claims are recognized when probable that a loss has occurred and the amount of loss can be reasonably estimated.

Management estimates that the amount of actual or potential claims against the City as of June 30, 2013 will not materially affect the financial condition of the City. Therefore, the General Fund contains no provision for estimated claims. No claim has exceeded insurance coverage amounts in the past three fiscal years.

NOTE 12 – SUBSEQUENT EVENTS

The City evaluated subsequent events through November 29, 2013, which is the date the financial statements were available to be issued. No subsequent events were identified that required adjustment or disclosure within the financial statements.

City of Williamstown, Kentucky
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2013

Federal Grantor / Program Title	Federal CFDA Number	Expenditures
Environmental Protection Agency Passed through Kentucky Infrastructure Authority Capitalization Grant for Clean Water State Revolving Funds - ARRA	66.458	\$ 152,675
 Passed through Kentucky Infrastructure Authority Capitalization Grant for Drinking Water State Revolving Funds - ARRA	 66.468	 548,586
 Total federal expenditures		 <u>\$ 701,261</u>

This schedule of federal awards presents the federal grant activity for the City of Williamstown, Kentucky and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.



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

Honorable Mayor
Members of the City Council
City of Williamstown, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Williamstown, Kentucky (the "City"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated November 29, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City's internal control. Accordingly, we do not express an opinion on the effectiveness of City's internal control.³

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results

of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Maddox & Associates CPAs Inc

November 29, 2013
Fort Thomas, Kentucky



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Honorable Mayor
Members of City Council
City of Williamstown, Kentucky

Report on Compliance for Each Major Federal Program

We have audited City of Williamstown, Kentucky's (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City's major federal programs for the year ended June 30, 2013. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on

compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Maddox & Associates CPAs, Inc.

November 29, 2013
Fort Thomas, Kentucky

CITY OF WILLIAMSTOWN, KENTUCKY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year Ended June 30, 2013

SECTION I – SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS	
Type of Financial Statement Opinion	Unqualified
Were there any significant deficiencies in internal control reported at the financial statements level (GAGAS)?	No
Were there any material weaknesses reported at the financial statement level (GAGAS)?	No
Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
FEDERAL AWARDS	
Were there any significant deficiencies in internal control reported for major federal programs?	No
Were there any material weaknesses reported for major federal programs?	None Reported
Type of Major Programs Compliance Opinion	Unqualified
Is there any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510?	No
Major Programs (list):	Capitalization Grant for Clean Water State Revolving Funds (CFDA #66.468)
Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: > all others
Low Risk Auditee?	Yes

SECTION II – FINANCIAL STATEMENT FINDINGS

None

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None