

CITY OF WILLIAMSTOWN, KENTUCKY

June 30, 2012

*FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS'
REPORT*

TABLE OF CONTENTS

FINANCIAL SECTION	PAGE
Independent Auditors' Report	
Management's Discussion and Analysis (MD&A)	1 – 6
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	7
Statement of Activities	8
Fund Financial Statements	
Balance Sheet – Governmental Fund	9
Reconciliation of the Balance Sheet – Governmental Fund to the Statement of Net Assets	10
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Fund	11
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Fund to the Statement of Activities	12
Statement of Net Assets – Proprietary Funds	13
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds	14
Statement of Cash Flows – Proprietary Funds	15
Notes to the Financial Statements	16 – 24
REQUIRED SUPPLEMENTARY INFORMATION	
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	25
SINGLE AUDIT SECTION	
Schedule of Expenditures of Federal Awards	26
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	27 – 28
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	29 – 30
Schedule of Findings and Questioned Costs	31

INDEPENDENT AUDITORS' REPORT

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

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 as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. 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 and the standards applicable to financial audits contained in *Governmental 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 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 opinions.

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, 2012, and the respective changes in financial position and cash flows, where applicable, 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 a report dated December 04, 2012 on our consideration of the City of Williamstown, Kentucky's internal control over financial reporting and 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 the 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 and budgetary comparison information on pages 1 through 6 and page 26 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Williamstown, Kentucky basic financial statements. The other supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented

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

for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The other supplementary information and schedule of expenditures of federal awards 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.

Maddox & Associates CPAs Inc.

Fort Thomas, Kentucky
December 04, 2012

CITY OF WILLIAMSTOWN, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED

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, 2012. 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 2012 are as follows:

- In total, net assets increased \$473,000. Net assets of governmental activities decreased \$205,000, or 8% from fiscal year 2011. Net assets of the business-type activities, increased \$679,000 or 6% from fiscal year 2011.
- Governmental activities general revenues accounted for \$1,672,000 in revenue or 80% of all governmental activity revenues. Program specific revenues, in the form of charges for services and sales, grants, and contributions, accounted for \$416,000 or 20% of total governmental activity revenues.
- The City had \$2,295,000 in expenses related to governmental activities; only \$416,000 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 \$1,672,000 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 assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets 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.

The government-wide financial statements can be found on pages 7 and 8 of this report.

CITY OF WILLIAMSTOWN, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED
(Continued)

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.

The basic governmental fund financial statements can be found on pages 9 through 12 and the proprietary funds financial statements are found on pages 13 through 15 of this report.

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. The notes to the financial statements can be found on pages 17 through 26 of this report.

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 2011 compared to 2010:

Table 1
Net Assets
(In Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Assets						
Current and other assets	\$ 502	\$ 588	\$ 4,684	\$ 4,780	\$ 5,186	\$ 5,368
Capital assets, net	3,177	3,178	28,446	24,593	31,623	27,771
Total Assets	3,679	3,766	33,130	29,373	36,809	33,139
Liabilities						
Current and other liabilities	272	238	2,096	1,987	2,368	2,225
Long-term liabilities	56	-	18,216	15,247	18,272	15,247
Total Liabilities	328	238	20,312	17,234	20,640	17,472
Net Assets						
Invested in capital assets net of related debt	3,095	3,178	9,884	9,051	12,979	12,229
Restricted	80	-	-	247	80	247
Unrestricted	177	379	2,933	2,841	3,110	3,220
Total Net Assets	\$ 3,352	\$ 3,557	\$ 12,817	\$ 12,139	\$ 16,169	\$ 15,696

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$16.1 million as of June 30, 2012.

CITY OF WILLIAMSTOWN, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED
(Continued)

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.

Total assets increased \$3,670,000, current assets decreased \$182,000, and capital assets increased by \$3,852,000. These changes are combined with an increase in accounts payable and other current liabilities of \$143,000 and an increase in long term debt payable of \$3,025,000 resulting in an increase in net assets of \$473,000.

Table 2 reflects the change in net assets for fiscal year 2012.

Table 2
Change in Net Assets
(In Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Program Revenues						
Charges for services	\$ 286	\$ 152	\$ 8,378	\$ 8,679	\$ 8,664	\$ 8,831
Grants and contributions	130	270	969	359	1,099	629
Total Program Revenues	416	422	9,347	9,038	9,763	9,460
General Revenues						
Property taxes	662	684	-	-	662	684
Insurance premium tax	261	307	-	-	261	307
Interest	-	2	10	47	10	49
Transfers	701	756	(677)	(756)	24	-
Other revenues	48	66	-	-	48	66
Total General Revenues	1,672	1,815	(667)	(709)	1,005	1,106
Total Revenues	2,088	2,237	8,680	8,329	10,768	10,566

(Continued)

CITY OF WILLIAMSTOWN, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED
(Continued)

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

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Program Expenses						
General Government	\$ 348	\$ 434	\$ -	\$ -	\$ 348	\$ 434
Police	715	632	-	-	715	632
Fire	174	141	-	-	174	141
Streets	556	403	-	-	556	403
Cemetery	31	32	-	-	31	32
Sanitation	150	122	-	-	150	122
Recreation	55	15	-	-	55	15
Main Street	-	56	-	-	-	56
Maintenance and Repairs	43	111	-	-	43	111
Utility Operation	-	-	6,701	6,965	6,701	6,965
Sewer Operation	-	-	1,276	1,111	1,276	1,111
Depreciation	223	186	-	-	223	186
Total Expenses	2,295	2,132	7,977	8,076	10,272	10,208
(Decrease) Increase in Net Assets	\$ (207)	\$ 105	\$ 679	\$ 253	\$ 472	\$ 358

CITY OF WILLIAMSTOWN, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED
(Continued)

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	
	2012	2011	2012	2011
General government	\$ 348	\$ 434	\$ 366	\$ 434
Police	715	632	537	432
Fire	175	141	171	137
Streets	556	403	473	336
Cemetery	31	32	(9)	(1)
Sanitation	150	121	51	3
Recreation	55	15	25	15
Main Street	-	56	-	56
Maintenance and repairs	43	112	43	112
Depreciation	222	186	222	187
Total Expenses	\$ 2,295	\$ 2,132	\$ 1,879	\$ 1,711

Business-Type Activities

The business-type activities of the City consisted of the utility and sewer enterprise funds. These activities had revenues of \$9,348,000 and expenses and transfers of \$8,668,000 for fiscal year 2012.

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 \$2,235,000 and expenditures and other financing uses of \$2,303,000.

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 \$1,425,000, exceeded budgeted revenues by \$75,000. The major difference comes from the difference in intergovernmental revenues.

Expenditures and other financing uses were budgeted at \$2,418,000 while actual expenditures were \$2,304,000.

CITY OF WILLIAMSTOWN, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED
(Continued)

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the City's finances and to reflect the City's accountability for the monies it receives. 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 Assets
June 30, 2012

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Total
Assets:			
Cash and cash equivalents	302,276	1,662,835	\$ 1,965,111
Receivables:			
Taxes	69,078	0	69,078
Accounts	2,850	1,166,521	1,169,371
Intergovernmental	17,330	0	17,330
Due from other funds	110,767	1,195,690	1,306,457
Other current assets	0	659,168	659,168
Nondepreciable capital assets	537,390	16,128,344	16,665,734
Depreciable capital assets, net	2,639,771	12,317,667	14,957,438
Total assets	3,679,462	33,130,225	\$ 36,809,687
Liabilities:			
Accounts payable	33,149	324,130	357,279
Payroll related liabilities	35,452	125,808	161,260
Compensated absences	25,246	12,646	37,892
Accrued interest payable	0	9,238	9,238
Customer deposits	0	118,287	118,287
Other current liabilities	6,038		6,038
Due to other funds	145,679	1,160,778	1,306,457
Due within one year	26,459	345,602	372,061
Due in more than one year	55,646	18,215,863	18,271,509
Total liabilities	327,669	20,312,352	20,640,021
Net assets:			
Invested in capital assets, net of related debt	3,095,056	9,884,546	12,979,602
Restricted for:			
Street maintenance	51,527	0	51,527
Other purposes	28,156	0	28,156
Unrestricted	177,054	2,933,327	3,110,381
Total net assets	\$ 3,351,793	12,817,873	\$ 16,169,666

The accompanying footnotes are an integral part of these financial statements

City of Williamstown, Kentucky
Statement of Activities
For the Year Ended June 30, 2012

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 348,358	\$ -	\$ (17,503)	\$ -	\$ (365,861)	\$ -	\$ (365,861)
Police	715,285	147,959	30,570	0	(536,756)	0	(536,756)
Fire	174,980	0	4,209	0	(170,771)	0	(170,771)
Streets	555,892	0	82,736	0	(473,156)	0	(473,156)
Cemetery	30,491	40,028	0	0	9,537	0	9,537
Recreation	55,034	0	29,963	0	(25,071)	0	(25,071)
Sanitation	149,904	98,593	0	0	(51,311)	0	(51,311)
Maintenance and repairs	42,666	0	0	0	(42,666)	0	(42,666)
Depreciation - unallocated	222,614	0	0	0	(222,614)	0	(222,614)
Total governmental activities	2,295,224	286,580	129,975	0	(1,878,669)	-	(1,878,669)
Business-type activities:							
Water	6,701,094	6,736,525	246,436	388,973	0	670,840	670,840
Sewer	1,276,307	1,641,860	0	333,737	0	699,290	699,290
Total business-type activities	7,977,401	8,378,385	246,436	722,710	0	1,370,130	1,370,130
Total primary government	\$ 10,272,625	\$ 8,664,965	\$ 376,411	\$ 722,710	(1,878,669)	1,370,130	(508,539)
General revenues:							
Property and other taxes					662,695	0	662,695
Insurance premium tax					261,476	0	261,476
Other revenues					47,638	0	47,638
Payment in lieu of taxes					325,600	(325,600)	0
Transfers					375,000	(375,000)	0
Investment income					421	9,527	9,948
Total general revenues					1,672,830	(691,073)	981,757
Change in net assets					(205,839)	679,057	473,218
Net assets - beginning					3,557,632	12,138,816	15,696,448
Net assets - ending					\$ 3,351,793	\$ 12,817,873	\$ 16,169,666

The accompanying footnotes are an integral part of these financial statements

City of Williamstown, Kentucky
Balance Sheet
Governmental Funds
June 30, 2012

	General Fund	Total Governmental Funds
Assets:		
Cash and cash equivalents	\$ 299,915	\$ 299,915
Receivables:		
Taxes	69,078	69,078
Accounts	2,850	2,850
Intergovernmental	19,691	19,691
Due from other funds	110,767	110,767
Total assets	<u>\$ 502,301</u>	<u>\$ 502,301</u>
Liabilities:		
Accounts payable	\$ 33,149	\$ 33,149
Payroll liabilities	35,452	35,452
Compensated absences	5,365	5,365
Deferred revenue	22,238	22,238
Other liabilities	6,038	6,038
Due to other funds	145,679	145,679
Total liabilities	<u>247,921</u>	<u>247,921</u>
Fund balances:		
Nonspendable	110,767	110,767
Restricted	67,811	67,811
Unassigned	75,802	75,802
Total fund balances	<u>254,380</u>	<u>254,380</u>
Total liabilities and fund balances	<u>\$ 502,301</u>	<u>\$ 502,301</u>

The accompanying footnotes are an integral part of these financial statements

City of Williamstown, Kentucky
Reconciliation of Total Governmental Fund Balances
To Net Assets of Governmental Activities
June 30, 2012

Total governmental fund balances	\$ 254,380
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.	3,177,161
Some liabilities do not require the use of current financial resources and therefore not reported in the funds	2,357
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(82,105)</u>
Net assets of governmental activities	<u>\$ 3,351,793</u>

City of Williamstown, Kentucky
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2012

	General Fund	Total Governmental Funds
Revenues		
Property taxes	\$ 636,838	\$ 636,838
Insurance premium taxes	261,476	261,476
Licenses, permits, and fees	4,765	4,765
Investment income	421	421
Charges for services	230,593	230,593
Intergovernmental	181,720	181,720
Grants and contributions	15,076	15,076
Other revenue	93,522	93,522
Total revenues	1,424,411	1,424,411
Expenditures		
General government	347,474	347,474
Public safety - police	706,919	706,919
Public safety - fire	173,502	173,502
Streets	603,851	603,851
Sanitation	149,904	149,904
Recreation	55,034	55,034
Capital Outlay	266,914	266,914
Total expenditures	2,303,598	2,303,598
Excess (deficiency) of revenues over expenditures	(879,187)	(879,187)
Other financing sources (uses):		
Proceeds of loans	111,354	111,354
Payment in lieu of taxes	325,600	325,600
Transfers in	375,000	375,000
Total other financing sources (uses)	811,954	811,954
Net change in fund balances	(67,233)	(67,233)
Fund balances, July 1, 2011	321,613	321,613
Fund balances, June 30, 2012	\$ 254,380	\$ 254,380

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, 2012

Net change in fund balances - total governmental funds	\$ (67,233)
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Amounts reported for governmental activities in the statement of
activities are different 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	250,870
Depreciation expense	(222,615)

Revenues in the statement of activities that do not provide
current financial resources are not reported as revenue in the funds

Deferred revenue	(35,626)
Loan proceeds	(111,354)

Expenses reported in the statement of activities that do not require
current financial resources are not reported as expenses in the funds

Compensated absences	(19,881)
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Change in net assets of governmental activities	<u>\$ (205,839)</u>
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City of Williamstown, Kentucky
Statement of Net Assets
Proprietary Funds
June 30, 2012

	Utility Fund	Sewer Fund	Total
Assets:			
Current assets:			
Cash and cash equivalents	\$ 851,871	\$ 810,964	\$ 1,662,835
Customer receivables	945,507	221,014	1,166,521
Due from other funds	676,478	519,212	1,195,690
Other current assets	659,168	0	659,168
Total current assets	3,133,024	1,551,190	4,684,214
Noncurrent assets:			
Land and construction in progress	141,594	15,986,750	16,128,344
Capital assets, net of depreciation	10,590,750	1,726,917	12,317,667
Total noncurrent assets	10,732,344	17,713,667	28,446,011
Total assets	\$ 13,865,368	\$ 19,264,857	\$ 33,130,225
Liabilities:			
Accounts payable	\$ 322,772	\$ 1,358	\$ 324,130
Accrued payroll liabilities	102,442	23,366	125,808
Compensated absences	12,646	0	12,646
Accrued interest	9,238	0	9,238
Customer deposits	118,287	0	118,287
Due to other funds	620,516	540,262	1,160,778
Long-term obligations			
Due within one year	345,602	0	345,602
Due in more than one year	3,154,300	15,061,563	18,215,863
Total liabilities	4,685,803	15,626,549	20,312,352
Net assets:			
Invested in capital assets, net of related debt	7,232,442	2,652,104	9,884,546
Unrestricted	1,947,123	986,204	2,933,327
Total net assets	9,179,565	3,638,308	12,817,873
Total liabilities and net assets	\$ 13,865,368	\$ 19,264,857	\$ 33,130,225

The accompanying footnotes are an integral part of these financial statements

City of Williamstown, Kentucky
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Fund
For the Year Ended June 30, 2012

	Utility Fund				Sewer Fund Total	Total
	Electric System	Water System	Cable TV and Internet	Total		
OPERATING REVENUES						
Charges for services	\$ 3,690,867	\$ 1,412,976	\$ 1,275,452	\$ 6,379,295	\$ 1,641,860	\$ 8,021,155
Other revenue	228,241	128,989	0	357,230	0	357,230
TOTAL OPERATING REVENUES	3,919,108	1,541,965	1,275,452	6,736,525	1,641,860	8,378,385
OPERATING EXPENSES						
Personnel services						
Salaries and wages	325,809	431,185	283,313	1,040,307	227,855	1,268,162
Medical insurance	64,800	78,765	48,765	192,330	46,583	238,913
Employers FICA	23,307	32,693	20,748	76,748	16,220	92,968
Employee retirement	54,535	76,974	52,071	183,580	45,672	229,252
Workers' compensation and unemployment	1,883	16,918	14,997	33,798	7,719	41,517
Total personnel services	470,334	636,535	419,894	1,526,763	344,049	1,870,812
Contractual services						
Utility purchases	2,802,532	0	0	2,802,532	0	2,802,532
Distribution	0	45,249	26,408	71,657	0	71,657
Repairs and maintenance	25,531	86,392	16,185	128,108	110,510	238,618
Utilities	32,181	66,512	29,955	128,648	274,902	403,550
Other contract services	59,614	10,133	33,466	103,213	44,543	147,756
Education and training	2,975	4,692	1,717	9,384	2,190	11,574
Lab tests	-	9,618	0	9,618	7,698	17,316
Communications and postage	12,647	8,191	10,481	31,319	11,011	42,330
Insurance	14,715	16,620	13,727	45,062	40,573	85,635
Advertising and printing	0	1,394	0	1,394	0	1,394
Professional fees	13,983	7,427	2,984	24,394	2,040	26,434
Royalties	0	0	457,458	457,458	0	457,458
Vehicle maintenance	15,844	30,142	18,406	64,392	29,591	93,983
Total contractual services	2,980,022	286,370	610,787	3,877,179	523,058	4,400,237
Materials and supplies						
Equipment parts	4,247	8,851	24,802	37,900	14,622	52,522
Technical supplies	5,952	0	95,412	101,364	1,659	103,023
Uniforms	1,925	1,508	757	4,190	811	5,001
Chemicals and chlorine	0	108,804	0	108,804	9,462	118,266
Lab materials	0	5,900	0	5,900	8,665	14,565
Construction materials	37,697	0	5,257	42,954	0	42,954
Office supplies	8,704	0	7,397	16,101	0	16,101
Total materials and supplies	58,525	125,063	133,625	317,213	35,219	352,432
Depreciation and amortization	119,034	562,582	170,073	851,689	229,080	1,080,769
Miscellaneous						
Dues and subscriptions	1,972	400	288	2,660	218	2,878
Safety committee	360	0	0	360	0	360
Miscellaneous	6,015	4,819	6,802	17,636	3,561	21,197
Total miscellaneous	8,347	5,219	7,090	20,656	3,779	24,435
TOTAL OPERATING EXPENSES	3,636,262	1,615,769	1,341,469	6,593,500	1,135,185	7,728,685
OPERATING PROFIT	\$ 282,846	\$ (73,804)	\$ (66,017)	143,025	506,675	649,700
NON-OPERATING REVENUE AND (EXPENSES)						
Interest Income				8,439	1,088	9,527
Grants and contributions				635,409	333,737	969,146
Amortization				(7,373)	0	(7,373)
Interest expense				(100,222)	(165,474)	(265,696)
Payment in lieu of taxes				(325,600)	0	(325,600)
Transfers in (out)				(350,647)	0	(350,647)
TOTAL NON-OPERATING REVENUE AND (EXPENSES)				(139,994)	169,351	29,357
Change in Net Assets				3,031	676,026	679,057
Net assets - July 1, 2011				9,176,534	2,962,282	12,138,816
Net assets - June 30, 2012				\$ 9,179,565	\$ 3,638,308	\$ 12,817,873

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, 2012

Cash flows from operating activities	
Change in net assets	\$ 679,057
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Amortization and depreciation	1,080,769
(Increase) decrease in:	
Current assets	44,449
Due from other funds	(340,578)
Increase (decrease) in:	
Current liabilities	(289,334)
Due to other funds	<u>348,043</u>
Net cash provided (used) by operating activities	<u>1,522,406</u>
Cash flows from capital financing activities	
Acquisition of capital assets	(4,934,003)
Proceeds from long term obligations	3,559,075
Principal payments on long term obligations	<u>(539,864)</u>
Net cash used by capital financing activities	<u>(1,914,792)</u>
Net increase in cash and cash equivalents	(392,386)
Cash and cash equivalents, beginning of year	2,055,221
Cash and cash equivalents, end of year	<u><u>\$ 1,662,835</u></u>
Supplemental disclosures of cash flow information:	
Cash paid during the year for interest expense	<u><u>\$ 14,565</u></u>

**CITY OF WILLIAMSTOWN, KENTUCKY
NOTES TO THE 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, for financial purposes, includes all of the funds relevant to the operations of the City of Williamstown. As required by U.S. generally accepted accounting principles, these financial statements present the primary government. The City has no component units or entities for which the government is considered to be financially accountable.

The City of Williamstown is a Charter City, in which citizens elect the mayor at large and six council members.

Use of Estimates

The process of preparing financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Basis of Presentation

Government-Wide Financial Statements – The statement of net assets 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 government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide 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 – Fund financial statements report detailed information about the City. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column.

NOTE 1 – ACCOUNTING POLICIES (Continued)

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus.

The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

The City has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the main operating fund of the City. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any unrestricted fund balances are considered as resources available for use. This is a major fund of the City.

II. Proprietary Fund Types (Enterprise Fund)

- (A) The Utility Fund is used to account for utility service activities. The Utility Fund is a major fund.
- (B) The Sewer Fund is used to account for sewer service activities. The Sewer Fund is a major fund.

The City applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

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 use the accrual basis of accounting.

Revenues resulting from exchange transactions, in which each party receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and 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.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, and grants. On an 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 a modified accrual basis, revenues from non-exchange transactions must also be available before they can be recognized.

Expenses are recognized at the time they are incurred.

NOTE 1 – ACCOUNTING POLICIES (Continued)

The measurement focus of governmental fund accounting is on 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.

Budgets

Budgets are adopted on a basis consistent with U.S. generally accepted accounting principles. Annually appropriated budgets are adopted for all government funds. All annual appropriations continue in effect until a new budget is adopted.

Stewardship, Compliance and Accountability

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 assets, but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported in both the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of one thousand dollars 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.

NOTE 1 – ACCOUNTING POLICIES (Continued)

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. 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

Restricted Assets

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

Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Vested or accumulated vacation leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees.

Employees accrue unused accumulated sick leave up to a maximum of 960 hours. Under the City's policy, employees can utilize sick leave only when sick or upon retirement. Since the employees' accumulating rights to receive compensation for unused accumulated sick leave are contingent upon the absences being caused by illnesses or retirement and such amounts cannot be reasonably estimated, a liability for unused sick leave is not recorded in the financial statements.

Fund Equity

Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

Interfund Transactions

Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

Advertising

All advertising costs are expensed to operations when incurred.

NOTE 2 – 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, 2012, \$500,000 of the City's deposits are insured by the FDIC, and \$1,802,000 of the City's deposits are collateralized with securities held by the pledging institution's trust department or agent, but not in the City's name. As of June 30, 2012, the City did not have any deposits in excess of insured and/or collateralized amounts.

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 RECEIVABLE

Property taxes attached as an enforceable lien on property as of January 1, 2011. Taxes were levied in August, 2011, and were due and payable at that time. All unpaid taxes levied in August become delinquent January 1 of the following year.

A deferred revenue account is established for delinquent taxes to the extent that their collectability is improbable.

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable 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. Based on these criteria, the City has estimated no allowance for doubtful accounts at June 30, 2012 because it expects no material losses.

NOTE 5 – PROPERTY AND EQUIPMENT

Capital Asset activity for the fiscal year ended June 30, 2012 was as follows:

	Balance June 30, 2011	Additions	Disposals	Balance June 30, 2012
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 532,769	\$ 4,621	\$ -	\$ 537,390
Depreciable Capital Assets				
Street Improvements	739,147	13,401	-	752,548
Building and Building Improvements	2,235,280	-	-	2,235,280
Furniture and Fixtures	44,287	-	-	44,287
General Equipment	960,822	203,597	-	1,164,419
Total Depreciable Capital Assets	3,979,536	216,998	-	4,196,534
Total Capital Assets at Historical Cost	4,512,305	221,619	-	4,733,924
Less: Accumulated Depreciation				
Street Improvements	209,440	43,663	-	253,103
Building Improvements	508,858	64,325	-	573,183
Furniture and Fixtures	33,398	3,911	-	37,309
General Equipment	582,453	110,715	-	693,168
Total Accumulated Depreciation	1,334,149	222,614	-	1,556,763
Depreciable Capital Assets, Net	2,645,387	(5,616)	-	2,639,771
Governmental Activities Capital Assets, Net	\$ 3,178,156	\$ (995)	\$ -	\$ 3,177,161
Business-Type Activities				
Capital Assets Not Being Depreciated				
Land and Construction in Progress	\$ 12,907,840	\$ 3,220,504	\$ -	\$ 16,128,344
Depreciable Capital Assets				
Water System	13,881,957	582,398	-	14,464,355
Electric System	3,751,672	265,550	-	4,017,222
Cable TV System	3,782,153	181,873	-	3,964,026
Sewer System	8,013,924	683,676	-	8,697,600
Total Depreciable Capital Assets	29,429,706	1,713,497	-	31,143,203
Total at Historical Cost	42,337,546	4,934,001	-	47,271,547
Less: Accumulated Depreciation				
Water System	7,834,920	562,582	-	8,397,502
Electric System	2,618,880	119,034	-	2,737,914
Cable TV System	1,199,836	170,073	-	1,369,909
Sewer System	6,091,131	229,080	-	6,320,211
Total Accumulated Depreciation	17,744,767	1,080,769	-	18,825,536
Depreciable Capital Assets, Net	11,684,939	632,728	-	12,317,667
Business-Type Activities Capital Assets, Net	\$ 24,592,779	\$ 3,853,232	\$ -	\$ 28,446,011

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 6 – NOTES/BONDS PAYABLE

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

	Balance June 30, 2011	Additions	Disposals	Balance June 30, 2012	Amount Due Within A Year
Governmental Activities					
Capital lease obligation	\$ -	\$ 111,354	\$ 29,249	\$ 82,105	\$ 26,459
Business-Type Activities					
Series 2003 Bonds	\$ 225,000	\$ -	\$ 110,000	\$ 115,000	\$ 115,000
Series 2004 Bonds	1,830,000	-	105,000	1,725,000	110,000
KIA Loan A08-09	12,929,645	2,132,088	-	15,061,733	-
KIA Loan F11-02	-	940,591	-	940,591	-
KLC Richmond Pool 2006	237,269	-	65,704	171,565	68,747
KLC Waterline Replacement	327,505	-	18,836	308,669	19,557
Bank of Kentucky	-	490,000	250,293	239,707	32,298
Total Business-Type Activities	\$ 15,549,419	\$ 3,562,679	\$ 549,833	\$ 18,562,265	\$ 345,602

Capital Lease Obligation

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

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

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

KIA Loan F11-02

Monthly 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.

NOTE 7 – CONTINGENT LIABILITIES

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 8 – INTEREST EXPENSE

Interest expense for the year ended June 30, 2012 consisted of the following:

Series 2003 Bonds	\$ 9,000
Series 2004 Bonds	87,640
KIA Loan A08-09	144,439
KIA Loan F11-02	2,785
KLC Richmond Pool 2006	9,908
KLC Waterline Replacement	7,188
Bank of Kentucky	507
Deferred refunding costs	4,229
	<u>\$ 265,696</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 18.95% of the employees' compensation (35.75% for hazardous duty participants) during the fiscal year ended June 30, 2012.

The City of Williamstown's required contribution for pension obligations to CERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$1408,823, \$376,156 and \$307,308, respectively; 100 percent has been contributed for fiscal years 2012, 2011, and 2010.

NOTE 10 – CONTINGENCIES

The City receives funding from federal, state and local government agencies. 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.

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, 2012 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.

REQUIRED SUPPLEMENTARY INFORMATION

City of Williamstown, Kentucky
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
General Fund
For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance
Revenues				
Taxes	\$ 974,000	\$ 974,000	\$ 897,900	\$ (76,100)
Licenses and permits	16,200	16,200	5,000	(11,200)
Intergovernmental revenues	52,000	52,000	182,000	130,000
Charges for services	250,000	250,000	231,000	(19,000)
Other revenue	58,000	58,000	109,000	51,000
Total revenues	<u>1,350,200</u>	<u>1,350,200</u>	<u>1,424,900</u>	<u>74,700</u>
Expenditures				
General government	<u>2,358,350</u>	<u>2,418,350</u>	<u>2,304,000</u>	<u>54,350</u>
Total expenditures	<u>2,358,350</u>	<u>2,418,350</u>	<u>2,304,000</u>	<u>54,350</u>
Excess of revenues over expenditures	<u>(1,008,150)</u>	<u>(1,068,150)</u>	<u>(879,100)</u>	<u>129,050</u>
Other financing sources (uses)	1,000,000	1,000,000	812,000	(188,000)
Budgetary fund balances, beginning of year	115,200	175,200	322,000	206,800
Budgetary fund balance - end of year	<u>\$ 107,050</u>	<u>\$ 107,050</u>	<u>\$ 254,900</u>	<u>\$ 147,850</u>

SINGLE AUDIT SECTION

City of Williamstown, Kentucky
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

<u>Federal Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
Environmental Protection Agency		
Passed through Kentucky Infrastructure Authority		
Capitalization Grant for Clean Water		
State Revolving Funds - ARRA	66.458	2,132,088
 Passed through Kentucky Infrastructure Authority		
Capitalization Grant for Drinking Water		
State Revolving Funds - ARRA	66.468	940,590
 Department of Commerce / NTIA		
ARRA - Deployment of Broadband	11.557	246,426

NOTE A - GENERAL

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 the requirement of 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 fina

**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 the financial statements of the governmental activities, the business-type activities, and each major fund of City of Williamstown, Kentucky as of and for the year ended June 30, 2012, which collectively comprise City of Williamstown, Kentucky's basic financial statements and have issued our report thereon dated December 04, 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

In planning and performing our audit, we considered the City of Williamstown, Kentucky's internal control over financial reporting as a basis for designing our auditing procedures for purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Williamstown, Kentucky's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Williamstown, Kentucky'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 misstatement 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 the 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. We consider the deficiency identified in the schedule of finding and questioned costs as Finding 2011-1 to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Williamstown, Kentucky'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 that are required to be reported under *Government Auditing Standards*.

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

This report is intended solely for the information and use of the audit committee, management, City Council, 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.

Maddox & Associates CPAs Inc.

Fort Mitchell, Kentucky
December 04, 2012

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS THAT COULD HAVE
A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Mayor
Members of City Council
City of Williamstown, Kentucky

Compliance

We have audited the compliance of the City of Williamstown, Kentucky with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2012. The City of Williamstown, Kentucky's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Williamstown, Kentucky's management. Our responsibility is to express an opinion on City of Williamstown, Kentucky's compliance based on our audit.

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 of Williamstown, Kentucky'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. Our audit does not provide a legal determination on the City of Williamstown, Kentucky's compliance with those requirements.

In our opinion, the City of Williamstown, Kentucky complied, in all material respects, with the 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, 2012.

Internal Control Over Compliance

The management of the City of Williamstown, Kentucky is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Williamstown, Kentucky's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 of Williamstown, Kentucky'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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statement of the governmental activities, each major fund, and the aggregate remaining fund information for the City of Williamstown, Kentucky, as of and for the year ended June 30, 2012, and have issued our report thereon dated December 04, 2012. Our audit was performed for the purpose of forming opinions of the financial statements that collectively comprise the City's basic financial statements. The accompanying schedules of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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Maddox & Associates CPAs, Inc.

Fort Mitchell, Kentucky
December 04, 2012

CITY OF WILLIAMSTOWN, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012

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 #66.458)
Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: > all others
Low Risk Auditee?	No

SECTION II – FINANCIAL STATEMENT FINDINGS

None

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None