

**CITY OF WILLIAMSTOWN, KENTUCKY**

**JUNE 30, 2010**

*FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS'  
REPORT*



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## 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, 2010, 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, 2010, 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 February 22, 2011 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

Honorable Mayor  
Members of the City Council  
City of Williamstown, Kentucky  
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required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented 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.

*VonLehman & Company Inc.*

Fort Mitchell, Kentucky  
February 22, 2011

**CITY OF WILLIAMSTOWN, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
UNAUDITED**

As management of the City of Williamstown, Kentucky (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, 2010. 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 2010 are as follows:

- In total, net assets increased \$1,270,000. Net assets of governmental activities decreased \$24,000, which represents less than a 1 percent decrease from fiscal year 2009. Net assets of the business-type activities, increased \$1,293,000 or 12.2 percent from fiscal year 2009.
- Governmental activities general revenues accounted for \$1.6 million in revenue or 80 percent of all governmental activity revenues. Program specific revenues, in the form of charges for services and sales, grants, and contributions, accounted for \$407,000 or 20 percent of total governmental activity revenues.
- The City had \$2.0 million in expenses related to governmental activities; only \$407,000 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 \$1.6 million 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, 2010  
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 2010 compared to 2009:

**Table 1  
Net Assets  
(In Thousands)**

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
<b>Assets</b>						
Current and Other Assets	\$ 561	\$ 469	\$ 5,002	\$ 3,170	\$ 5,563	\$ 3,639
Capital Assets, Net	<u>3,195</u>	<u>3,330</u>	<u>14,098</u>	<u>11,533</u>	<u>17,293</u>	<u>14,863</u>
Total Assets	<u>3,756</u>	<u>3,799</u>	<u>19,100</u>	<u>14,703</u>	<u>22,856</u>	<u>18,502</u>
<b>Liabilities</b>						
Current and Other Liabilities	304	323	1,830	1,561	2,134	1,884
Long-Term Liabilities	<u>-</u>	<u>-</u>	<u>5,384</u>	<u>2,549</u>	<u>5,384</u>	<u>2,549</u>
Total Liabilities	<u>304</u>	<u>323</u>	<u>7,214</u>	<u>4,110</u>	<u>7,518</u>	<u>4,433</u>
<b>Net Assets</b>						
Invested in Capital Assets						
Net of Related Debt	3,195	3,330	8,423	8,718	11,618	12,048
Restricted	-	60	591	333	591	393
Unrestricted	<u>257</u>	<u>86</u>	<u>2,872</u>	<u>1,542</u>	<u>3,129</u>	<u>1,628</u>
Total Net Assets	<u>\$ 3,452</u>	<u>\$ 3,476</u>	<u>\$ 11,886</u>	<u>\$ 10,593</u>	<u>\$ 15,338</u>	<u>\$ 14,069</u>

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 \$15.3 million as of June 30, 2010.

**CITY OF WILLIAMSTOWN, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
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 \$4,354,000, current assets increased \$1,924,000, and capital assets increased by \$2,430,000. These changes are combined with an increase in accounts payable and other current liabilities of \$250,000 and an increase in long term debt payable of \$2,835,000 resulting in an increase in net assets of \$1,269,000.

Net assets of the City's governmental activities decreased \$24,000. The net assets of the City's business-type activities increased \$1,293,000.

Table 2 reflects the change in net assets for fiscal year 2010.

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

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
<b>Revenues</b>						
Program Revenues						
Charges for Services	\$ 145	\$ 152	\$ 8,834	\$ 8,426	\$ 8,979	\$ 8,578
Operating Capital Grants and Contributions	<u>262</u>	<u>229</u>	<u>1,102</u>	<u>468</u>	<u>1,364</u>	<u>697</u>
Total Program Revenues	<u>407</u>	<u>381</u>	<u>9,936</u>	<u>8,894</u>	<u>10,343</u>	<u>9,275</u>
General Revenues						
Property Taxes	697	692	-	-	697	692
Licenses and Permits	344	365	-	-	344	365
Interest	3	2	15	9	18	11
Transfers	549	416	(549)	(416)	-	-
Other Revenues	<u>31</u>	<u>81</u>	<u>173</u>	<u>142</u>	<u>204</u>	<u>223</u>
Total General Revenues	<u>1,624</u>	<u>1,556</u>	<u>(361)</u>	<u>(265)</u>	<u>1,263</u>	<u>1,291</u>
Total Revenues	<u>2,031</u>	<u>1,937</u>	<u>9,575</u>	<u>8,629</u>	<u>11,606</u>	<u>10,566</u>

(Continued)

**CITY OF WILLIAMSTOWN, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
UNAUDITED  
(Continued)**

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

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
<b>Program Expenses</b>						
General Government	\$ 391	\$ 414	\$ -	\$ -	\$ 391	\$ 414
Police	626	703	-	-	626	703
Fire	148	156	-	-	148	156
Streets	422	380	-	-	422	380
Cemetery	31	28	-	-	31	28
Sanitation	121	113	-	-	121	113
Recreation	10	7	-	-	10	7
Main Street	35	29	-	-	35	29
Maintenance and Repairs	81	15	-	-	81	15
Utility Operation	-	-	7,288	6,683	7,288	6,683
Sewer Operation	-	-	994	971	994	971
Depreciation	<u>190</u>	<u>192</u>	<u>-</u>	<u>-</u>	<u>190</u>	<u>192</u>
Total Expenses	<u>2,055</u>	<u>2,037</u>	<u>8,282</u>	<u>7,654</u>	<u>10,337</u>	<u>9,691</u>
(Decrease) Increase in Net Assets	<u>\$ (24)</u>	<u>\$ (100)</u>	<u>\$ 1,293</u>	<u>\$ 975</u>	<u>\$ 1,269</u>	<u>\$ 875</u>

**CITY OF WILLIAMSTOWN, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
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)**

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
General Government	\$ 391	\$ 414	\$ 391	\$ 414
Police	626	703	479	543
Fire	148	156	95	152
Streets	422	380	359	315
Cemetery	31	28	5	(5)
Sanitation	121	113	2	(6)
Recreation	10	7	10	7
Main Street	35	29	35	29
Maintenance and Repairs	81	15	81	15
Depreciation	<u>190</u>	<u>192</u>	<u>190</u>	<u>192</u>
Total Expenses	<u>\$ 2,055</u>	<u>\$ 2,037</u>	<u>\$ 1,647</u>	<u>\$ 1,656</u>

**Business-Type Activities**

The business-type activities of the City consisted of the utility and sewer enterprise funds. These activities had revenues of \$10.1 million and expenses and transfers of \$8.8 million for fiscal year 2010. Total revenues increased \$1.1 million and expenses and transfers increased \$762,000 from the prior fiscal year.

**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 \$2.0 million and expenditures and other financing uses of \$1.9 million.

**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, budgeted revenues and other financing sources, in the amount of \$2.3 million, exceeded actual revenues and other financing sources by \$253,000. The major difference comes from the difference in other financing sources.

Expenditures and other financing uses were budgeted at \$2.4 million while actual expenditures were \$1.9 million.

General Fund revenues and other financing sources were greater than expenditures and other financing uses by \$100,000.

**CITY OF WILLIAMSTOWN, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
UNAUDITED  
(Continued)**

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of fiscal year 2010, the City had \$17.3 million invested in capital assets.

Table 4 reflects fiscal year 2010 balances compared to fiscal year 2009.

**Table 4  
Capital Assets at June 30  
(Net of Depreciation, In Thousands)**

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land and Construction In Progress	\$ 533	\$ 533	\$ 2,969	\$ 348	\$ 3,502	\$ 881
Buildings and Building Improvements	1,784	1,847	-	-	1,784	1,847
Infrastructure	501	540	-	-	501	540
Furniture and Fixtures	15	19	-	-	15	19
General Equipment	362	391	-	-	362	391
Water System	-	-	5,476	5,515	5,476	5,515
Electric System	-	-	1,172	993	1,172	993
Cable T.V. System	-	-	2,353	2,353	2,353	2,353
Sewer System	-	-	2,128	2,324	2,128	2,324
	<u>\$ 3,195</u>	<u>\$ 3,330</u>	<u>\$ 14,098</u>	<u>\$ 11,533</u>	<u>\$ 17,293</u>	<u>\$ 14,863</u>

**Debt**

At June 30, 2010, the City had \$5.7 million in outstanding bonds and notes payable.

**Current Issues**

The construction of a new Wastewater Treatment Plant is planned for the future as well as the Railroad Bridge Construction Project.

**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, 2010**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Assets</b>			
Current Assets			
Cash and Cash Equivalents	\$ 278,087	\$ 1,673,225	\$ 1,951,312
Accounts Receivable			
Property Taxes	32,012	-	32,012
Accounts	98,219	1,421,903	1,520,122
Intergovernmental	48,614	380,250	428,864
Accrued Interest Receivable	636	15,674	16,310
Bond Issuance Costs (Net of Accumulated Amortization of \$48,791)	-	64,501	64,501
Due from Other Funds	103,302	855,112	958,414
Restricted Escrow Accounts	-	234,519	234,519
Reserved Assets - Cash	-	357,166	357,166
Total Current Assets	<u>560,870</u>	<u>5,002,350</u>	<u>5,563,220</u>
Capital Assets			
Land and Construction in Progress	532,769	2,968,687	3,501,456
Depreciable Capital Assets	3,809,727	27,881,450	31,691,177
Less Accumulated Depreciation	<u>(1,147,530)</u>	<u>(16,752,114)</u>	<u>(17,899,644)</u>
Total Capital Assets	<u>3,194,966</u>	<u>14,098,023</u>	<u>17,292,989</u>
Total Assets	<u>3,755,836</u>	<u>19,100,373</u>	<u>22,856,209</u>
<b>Liabilities</b>			
Current Liabilities			
Accounts Payable	102,704	561,404	664,108
Other Current Liabilities	25,804	46,890	72,694
Due to Other Funds	145,679	812,735	958,414
Customer Deposits	-	69,255	69,255
Accrued Interest Payable	-	9,238	9,238
Compensated Absences Payable	29,391	39,453	68,844
Current Portion of Bonds Payable	-	210,000	210,000
Current Portion of Notes Payable	-	81,016	81,016
Total Current Liabilities	<u>303,578</u>	<u>1,829,991</u>	<u>2,133,569</u>
Long-Term Liabilities			
Bonds Payable - Long-Term Portion	-	2,043,725	2,043,725
Notes Payable - Long-Term Portion	-	3,340,473	3,340,473
Total Long-Term Liabilities	<u>-</u>	<u>5,384,198</u>	<u>5,384,198</u>
Total Liabilities	<u>303,578</u>	<u>7,214,189</u>	<u>7,517,767</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	3,194,966	8,422,809	11,617,775
Restricted for Debt Service	-	591,685	591,685
Unrestricted	<u>257,292</u>	<u>2,871,690</u>	<u>3,128,982</u>
<b>Total Net Assets</b>	<u>\$ 3,452,258</u>	<u>\$ 11,886,184</u>	<u>\$ 15,338,442</u>

See accompanying notes

**CITY OF WILLIAMSTOWN, KENTUCKY**  
**STATEMENT OF ACTIVITIES**  
Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Assets Primary Government		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Primary Government</b>							
Governmental Activities							
General Government	\$ 391,317	\$ -	\$ -	\$ -	\$ (391,317)	\$ -	\$ (391,317)
Police	625,560	-	147,063	-	(478,497)	-	(478,497)
Fire	147,546	-	52,472	-	(95,074)	-	(95,074)
Streets	421,816	-	62,399	-	(359,417)	-	(359,417)
Cemetery	30,513	25,935	-	-	(4,578)	-	(4,578)
Sanitation	120,788	118,977	-	-	(1,811)	-	(1,811)
Recreation	10,339	-	-	-	(10,339)	-	(10,339)
Main Street	35,206	-	-	-	(35,206)	-	(35,206)
Maintenance and Repairs	81,304	-	-	-	(81,304)	-	(81,304)
Depreciation - Unallocated	189,571	-	-	-	(189,571)	-	(189,571)
Total Governmental Activities	<u>2,053,960</u>	<u>144,912</u>	<u>261,934</u>	<u>-</u>	<u>(1,647,114)</u>		<u>(1,647,114)</u>
Business-Type Activities							
Utility Fund	7,287,987	7,779,520	-	1,102,067	-	1,593,600	1,593,600
Sewer Fund	993,530	1,054,142	-	-	-	60,612	60,612
Total Business-Type Activities	<u>8,281,517</u>	<u>8,833,662</u>	<u>-</u>	<u>1,102,067</u>	<u>-</u>	<u>1,654,212</u>	<u>1,654,212</u>
<b>Total Government</b>	<u>\$ 10,335,477</u>	<u>\$ 8,978,574</u>	<u>\$ 261,934</u>	<u>\$ 1,102,067</u>	<u>(1,647,114)</u>	<u>1,654,212</u>	<u>7,098</u>
<b>General Revenues:</b>							
Property Taxes Levied for General Purposes					697,140	-	697,140
Licenses and Permits					343,666	-	343,666
Unrestricted Investment Earnings					2,865	15,118	17,983
Miscellaneous					30,796	173,142	203,938
Operating Transfers					549,112	(549,112)	-
Total General Revenues					<u>1,623,579</u>	<u>(360,852)</u>	<u>1,262,727</u>
Change in Net Assets					(23,535)	1,293,360	1,269,825
<b>Net Assets July 1, 2009</b>					<u>3,475,793</u>	<u>10,592,824</u>	<u>14,068,617</u>
<b>Net Assets June 30, 2010</b>					<u>\$ 3,452,258</u>	<u>\$ 11,886,184</u>	<u>\$ 15,338,442</u>

See accompanying notes.

**CITY OF WILLIAMSTOWN, KENTUCKY**  
**BALANCE SHEET**  
**GOVERNMENTAL FUND**  
**June 30, 2010**

	<b>General Fund</b>
<b>Assets</b>	
Cash and Cash Equivalents	\$ 278,087
Accounts Receivable	
Property Taxes	32,012
Accounts	98,219
Intergovernmental	48,614
Accrued Interest Receivable	636
Due from Other Funds	103,302
<b>Total Assets</b>	<b>\$ 560,870</b>
<b>Liabilities and Fund Balances</b>	
Liabilities	
Accounts Payable	\$ 102,704
Other Accrued Liabilities	25,804
Due to Other Funds	145,679
Deferred Revenue	32,012
Total Liabilities	306,199
Fund Balances	
Reserved for	
Municipal Aid	76,809
LGEA	9,359
Unreserved	168,503
Total Fund Balances	254,671
<b>Total Liabilities and Fund Balances</b>	<b>\$ 560,870</b>

See accompanying notes.

**CITY OF WILLIAMSTOWN, KENTUCKY**  
**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUND TO**  
**THE STATEMENT OF NET ASSETS**  
**June 30, 2010**

Amounts reported for governmental activities in the Statement of Net Assets are different because:

<b>Total Fund Balances - Governmental Fund</b>	\$ 254,671
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Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental fund.

Cost of Capital Assets	\$ 4,342,496	
Accumulated Depreciation	<u>(1,147,530)</u>	
		3,194,966

Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the governmental funds.	32,012
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Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in governmental funds.	<u>(29,391)</u>
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<b>Total Net Assets - Governmental Activities</b>	<b>\$ <u><u>3,452,258</u></u></b>
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See accompanying notes.

**CITY OF WILLIAMSTOWN, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUND**  
**Year Ended June 30, 2010**

	<b>General Fund</b>
<b>Revenues</b>	
Property Taxes	\$ 683,823
Licenses and Permits	343,666
Grants and Contributions	261,934
Charges for Services	144,912
Total Revenues	1,434,335
<b>Expenditures</b>	
General Government	391,580
Police	624,794
Fire	150,519
Streets	421,387
Cemetery	35,205
Sanitation	120,788
Recreation	10,339
Main Street	35,206
Maintenance and Capital Outlay	127,129
Total Expenditures	1,916,947
Deficit of Revenues Over Expenditures	(482,612)
<b>Other Financing Sources</b>	
Interest	2,865
Other	30,796
Operating Transfers In	549,112
Total Other Financing Sources	582,773
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Sources	100,161
<b>Fund Balance July 1, 2009</b>	<b>154,510</b>
<b>Fund Balance June 30, 2010</b>	<b>\$ 254,671</b>

See accompanying notes.

**CITY OF WILLIAMSTOWN, KENTUCKY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUND TO**  
**THE STATEMENT OF ACTIVITIES**  
**Year Ended June 30, 2010**

Amounts reported for Governmental Activities in the Statement of Activities are different because:

**Change in Fund Balances - Total Governmental Fund** \$ 100,161

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which depreciation exceeds capital outlays in the current period.

Depreciation Expense	\$	(189,571)	
Capital Outlay		<u>54,497</u>	
			<u>(135,074)</u>

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned. 13,317

In the Statement of Activities, compensated absences (accrued vacation and sick) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). The additional expense reported in the statement of activities is a result of the change in long-term accumulated vacation and sick leave. (1,939)

**Change in Net Assets - Governmental Activities** \$ (23,535)

See accompanying notes.

**CITY OF WILLIAMSTOWN, KENTUCKY**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**June 30, 2010**

	<b>Business-Type Activities</b>		
	<b>Enterprise Funds</b>		
	<u>Utility Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
<b>Assets</b>			
Current Assets			
Cash and Cash Equivalents	\$ 942,085	\$ 731,140	\$ 1,673,225
Reserved Cash	357,166	-	357,166
Total Cash	1,299,251	731,140	2,030,391
Accounts Receivable			
Customers	1,220,405	201,498	1,421,903
Intergovernmental	380,250	-	380,250
Accrued Interest Receivable	15,674	-	15,674
Due from Other Funds	676,478	178,634	855,112
Restricted Escrow Accounts	234,519	-	234,519
Bond Issuance Costs (Net of Accumulated Amortization of \$48,791)	64,501	-	64,501
Total Current Assets	3,891,078	1,111,272	5,002,350
Capital Assets			
Construction in Progress	-	2,968,687	2,968,687
Depreciable Capital Assets	19,934,303	7,947,147	27,881,450
Less Accumulated Depreciation	(10,932,921)	(5,819,193)	(16,752,114)
Total Capital Assets	9,001,382	5,096,641	14,098,023
Total Assets	12,892,460	6,207,913	19,100,373
<b>Liabilities</b>			
Current Liabilities			
Accounts Payable	525,312	36,092	561,404
Other Current Liabilities	41,133	5,757	46,890
Due to Other Funds	272,473	540,262	812,735
Customer Deposits	69,255	-	69,255
Accrued Interest Payable	9,238	-	9,238
Compensated Absences Payable	35,548	3,905	39,453
Current Portion of Bonds Payable	210,000	-	210,000
Current Portion of Notes Payable	81,016	-	81,016
Total Current Liabilities	1,243,975	586,016	1,829,991
<b>Long-Term Liabilities</b>			
Bonds Payable	2,043,725	-	2,043,725
Notes Payable	564,774	2,775,699	3,340,473
Total Long-Term Liabilities	2,608,499	2,775,699	5,384,198
Total Liabilities	3,852,474	3,361,715	7,214,189
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	6,101,867	2,320,942	8,422,809
Reserved for Debt Service	591,685	-	591,685
Unreserved	2,346,434	525,256	2,871,690
<b>Total Net Assets</b>	<b>\$ 9,039,986</b>	<b>\$ 2,846,198</b>	<b>\$ 11,886,184</b>

See accompanying notes.

**CITY OF WILLIAMSTOWN, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**PROPRIETARY FUNDS**  
**Year Ended June 30, 2010**

	<b>Business-Type Activities</b>		
	<b>Enterprise Funds</b>		
	<u>Utility Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
<b>Operating Revenues</b>			
Charges for Services			
Electric Services	\$ 5,070,258	\$ -	\$ 5,070,258
Water Services	1,369,713	-	1,369,713
Cable TV Services	909,601	-	909,601
Sewer Services	-	1,054,142	1,054,142
Other Operating Revenues	429,948	173,142	603,090
	<u>7,779,520</u>	<u>1,227,284</u>	<u>9,006,804</u>
Total Operating Revenues			
<b>Operating Expenses</b>			
Personnel Services	1,254,478	268,102	1,522,580
Contractual Services	4,987,781	335,416	5,323,197
Materials and Supplies	277,255	46,344	323,599
Depreciation and Amortization	680,181	234,247	914,428
Miscellaneous	32,835	3,555	36,390
	<u>7,232,530</u>	<u>887,664</u>	<u>8,120,194</u>
Total Operating Expenses			
Operating Income	<u>546,990</u>	<u>339,620</u>	<u>886,610</u>
<b>Other Income (Expense)</b>			
Interest Income	14,647	471	15,118
Capital Grants and Contributions	1,102,067	-	1,102,067
Interest Expense	(55,457)	(105,866)	(161,323)
Fund Transfer (Out) In	(634,736)	85,624	(549,112)
	<u>426,521</u>	<u>(19,771)</u>	<u>406,750</u>
Total Other Income (Expense)			
Change in Net Assets	973,511	319,849	1,293,360
<b>Net Assets July 1, 2009</b>	<u>8,066,475</u>	<u>2,526,349</u>	<u>10,592,824</u>
<b>Net Assets June 30, 2010</b>	<u>\$ 9,039,986</u>	<u>\$ 2,846,198</u>	<u>\$ 11,886,184</u>

See accompanying notes.

**CITY OF WILLIAMSTOWN, KENTUCKY**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**Year Ended June 30, 2010**

	<b>Business-Type Activities</b>		
	<b>Enterprise Funds</b>		
	<u>Utility Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
<b>Cash Flows From Operating Activities</b>			
Cash Received from Customers	\$ 7,531,796	\$ 1,251,162	\$ 8,782,958
Cash Paid to/for			
Employees	(1,251,845)	(267,789)	(1,519,634)
Contractual Services	(4,987,781)	(335,416)	(5,323,197)
Supplies	<u>(7,373)</u>	<u>(86,076)</u>	<u>(93,449)</u>
Net Cash Provided by Operating Activities	<u>1,284,797</u>	<u>561,881</u>	<u>1,846,678</u>
<b>Cash Flows from Non-Capital Financing Activities</b>			
Fund Transfer (Out) In	<u>(606,748)</u>	<u>57,636</u>	<u>(549,112)</u>
<b>Cash Flows from Capital and Related Financing Activities</b>			
Payments on Bonds Payable	(196,544)	-	(196,544)
Proceeds from Notes Payable	350,000	2,775,699	3,125,699
Payments on Notes Payable	(64,384)	-	(64,384)
Interest Paid	(59,811)	(105,866)	(165,677)
Increase in Restricted Escrow Account	(234,519)	-	(234,519)
Acquisition of Capital Assets	<u>(812,774)</u>	<u>(2,659,309)</u>	<u>(3,472,083)</u>
Net Cash (Used) Provided by Capital and Related Financing Activities	<u>(1,018,032)</u>	<u>10,524</u>	<u>(1,007,508)</u>
<b>Cash Flows from Investing Activities</b>			
Interest Income	<u>9,270</u>	<u>471</u>	<u>9,741</u>
Net Change in Cash	771,354	630,512	1,401,866
<b>Cash and Cash Equivalents July 1, 2009</b>	<u>527,897</u>	<u>100,628</u>	<u>628,525</u>
<b>Cash and Cash Equivalents June 30, 2010</b>	<u>\$ 1,299,251</u>	<u>\$ 731,140</u>	<u>\$ 2,030,391</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating Income	\$ 546,990	\$ 339,620	\$ 886,610
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Depreciation and Amortization	680,181	234,247	914,428
Change in Assets and Liabilities			
Accounts Receivable	(249,579)	23,878	(225,701)
Accounts Payable	302,717	(36,177)	266,540
Other Current Liabilities	2,633	313	2,946
Customer Deposits	<u>1,855</u>	<u>-</u>	<u>1,855</u>
Net Cash Provided by Operating Activities	<u>\$ 1,284,797</u>	<u>\$ 561,881</u>	<u>\$ 1,846,678</u>

The City had no non-cash financing and investing transactions during the year.

See accompanying notes.

**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, 2010, \$500,000 of the City's deposits are insured by the FDIC, and \$1,726,025 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, 2010, 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, 2009. Taxes were levied in August, 2009, 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, 2010 because it expects no material losses.

## NOTE 5 – PROPERTY AND EQUIPMENT

Capital Asset activity for the fiscal year ended June 30, 2010 was as follows:

	Balance July 1, 2009	Additions	Disposals	Balance June 30, 2010
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated				
Land	\$ 532,769	\$ -	\$ -	\$ 532,769
Depreciable Capital Assets				
Street Improvements	672,816	-	-	672,816
Building and Building Improvements	2,228,150	-	-	2,228,150
Furniture and Fixtures	44,287	-	-	44,287
General Equipment	809,977	54,497	-	864,474
Total Depreciable Capital Assets	3,755,230	54,497	-	3,809,727
Total Capital Assets at Historical Cost	4,287,999	54,497	-	4,342,496
Less: Accumulated Depreciation				
Street Improvements	132,744	38,348	-	171,092
Building Improvements	380,982	64,101	-	445,083
Furniture and Fixtures	25,025	4,336	-	29,361
General Equipment	419,208	82,786	-	501,994
Total Accumulated Depreciation	957,959	189,571	-	1,147,530
Depreciable Capital Assets, Net	2,797,271	(135,074)	-	2,662,197
Governmental Activities Capital Assets, Net	\$ 3,330,040	\$ (135,074)	\$ -	\$ 3,194,966
<b>Business-Type Activities</b>				
Capital Assets Not Being Depreciated				
KIA Construction Loan	\$ -	\$ 2,075,130	\$ -	\$ 2,075,130
Construction in Progress	347,635	545,922	-	893,557
Total Capital Assets Not Being Depreciated	347,635	2,621,052	-	2,968,687
Depreciable Capital Assets				
Water System	12,459,959	394,425	-	12,854,384
Electric System	3,398,862	275,942	-	3,674,804
Cable TV System	3,262,708	142,407	-	3,405,115
Sewer System	7,908,890	38,257	-	7,947,147
Total Depreciable Capital Assets	27,030,419	851,031	-	27,881,450
Total Capital Assets at Historical Cost	27,378,054	3,472,083	-	30,850,137
Less: Accumulated Depreciation				
Water System	6,944,318	435,666	-	7,376,984
Electric System	2,405,798	97,671	-	2,503,469
Cable TV System	909,996	142,472	-	1,052,468
Sewer System	5,584,946	234,247	-	5,819,193
Total Accumulated Depreciation	15,845,058	907,056	-	16,752,114
Depreciable Capital Assets, Net	11,185,361	(56,025)	-	11,129,336
Business-Type Activities Capital Assets, Net	\$11,532,996	\$ 2,565,027	\$ -	\$14,098,023

**NOTE 5 – PROPERTY AND EQUIPMENT (Continued)**

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**

**Utility System Revenue Refunding Bonds, Series 2003**

The City issued \$1,345,000 of “Water Revenue Bonds” dated June, 1993 bearing interest rates varying from 3.05% to 5.80% to finance the construction of the water system.

On March 1, 2004, the City issued utility revenue refunding bonds of \$1,075,000; with interest rates varying from 1.875% to 4.100% to advance refund the 1993 water revenue bonds. The new issue redeemed the outstanding 1993 bonds maturing after June 1, 2005 in the principal amount of \$930,000 on June 1, 2004 at the redemption price of 102%.

The outstanding balance at June 30, 2010 is \$330,000, payments on which are due June 1 of each year through 2013. The City incurred deferred refunding costs in the amount of \$ 42,288, which were capitalized and netted against the outstanding balance of the bonds. The deferred refunding costs are being written off over 10 years as a component of interest expense.

**Utility System Revenue Refunding Bonds, Series 2004**

On July 1, 2004, the City issued Utility Revenue Refunding Bonds of \$2,490,000, with interest rates varying from 2.0% to 5.0%.

The Outstanding balance at June 30, 2010 is \$1,935,000, payments on which are due June 1, of each year through 2024.

The bonds may be called prior to maturity at dates and redemption premiums specified in each issue. Assuming no issues are called prior to maturity, the minimum obligations of the City at June 30, 2010 for debt service, (principal and interest) are as follows:

Fiscal Years Ending June 30,	Bonds		
	Principal	Interest	Total
2011	\$ 210,000	\$ 104,830	\$ 314,830
2012	215,000	96,640	311,640
2013	225,000	88,040	313,040
2014	115,000	78,930	193,930
2015	120,000	74,100	194,100
2016	125,000	69,000	194,000
2017	130,000	62,750	192,750
2018	140,000	56,250	196,250
2019	145,000	49,250	194,250
2020	150,000	42,000	192,000
2021	160,000	34,500	194,500
2022	170,000	26,500	196,500
2023	175,000	18,000	193,000
2024	185,000	8,890	193,890
Totals	2,265,000	\$ <u>809,680</u>	\$ <u>3,074,680</u>
Unamortized Deferred Refunding Costs	(11,275)		
Net Bonds Payable Business-Type Activities	\$ <u>2,253,725</u>		

**NOTE 6 – NOTES/BONDS PAYABLE (Continued)**

The following is a summary of the City's bond transactions for the year ended June 30, 2010:

	Outstanding July 1, 2009	Additions of New Debt	Repayments	Outstanding June 30, 2010	Amounts Expected to be Paid Within One Year
Bonds Payable	\$ <u>2,470,000</u>	\$ <u>-</u>	\$ <u>205,000</u>	\$ <u>2,265,000</u>	\$ <u>210,000</u>

**Other Notes Payable**

Kentucky League of Cities loan has an outstanding balance of \$300,102 as of June 30, 2010, bearing an interest rate of 3.8% with monthly principal and interest payments of \$6,345, with final maturity due November, 2014. The note is a project reimbursement note and proceeds are only obtained through reimbursed project expenses up to the maximum amount of \$455,000.

Kentucky League of Cities loan has an outstanding balance of \$2,775,699 as of June 30, 2010, bearing an interest rate of 1% with monthly principal and interest payments and final maturity yet to be determined. The note is a project reimbursement note and full principal and interest payments will commence within one year of the initiation of operation of the treatment plant for which these proceeds are to be used.

Kentucky League of Cities loan has an outstanding balance of \$345,688 as of June 30, 2010, bearing an interest rate of 1.8% with monthly principal and interest payments of \$2,563, with final maturity due February, 2025. The note is a project reimbursement note and proceeds are only obtained through reimbursed project expenses up to the maximum amount of \$350,000.

Fiscal Years Ending June 30,	Notes Payable		
	Principal	Interest	Total
2011	\$ 81,016	15,839	96,855
2012	84,540	13,544	98,084
2013	88,304	10,327	98,631
2014	92,165	7,670	99,835
2015	51,944	4,959	56,903
2016 – 2020	117,329	17,279	134,608
2021 – 2025	<u>130,492</u>	<u>5,342</u>	<u>135,834</u>
Subtotal	645,790	\$ <u>74,960</u>	\$ <u>720,750</u>
Undetermined Payment Schedule	<u>2,775,699</u>		
Total	\$ <u>3,421,489</u>		

The following is a summary of the City's notes payable transactions for the year ended June 30, 2010:

	Outstanding July 1, 2009	Additions of New Debt	Repayments	Outstanding June 30, 2010	Amounts Expected to be Paid Within One Year
KIA LOAN (1)	\$ 360,174	\$ -	\$ 60,072	\$ 300,102	\$ 62,833
KIA LOAN (2)	-	350,000	4,312	345,688	18,183
KIA LOAN (3)	-	<u>2,775,699</u>	-	<u>2,775,699</u>	-
Total Notes Payable	\$ <u>360,174</u>	\$ <u>3,125,699</u>	\$ <u>64,384</u>	\$ <u>3,421,489</u>	\$ <u>81,016</u>

**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, 2010 consisted of the following:

Proprietary Funds	
Interest Expense on Utility Revenue Refunding Bonds, Series 2003	\$ 17,138
Interest Expense on Utility Revenue Refunding Bonds, Series 2004	95,230
Interest Expense on Kentucky League of Cities Note Payable	12,485
Interest Expense on Kentucky League of Cities Note Payable	231
Interest Expense on Kentucky League of Cities Note Payable	31,940
Deferred Refunding Costs	<u>4,229</u>
	<u>\$ 161,323</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 16.16% of the employees' compensation (32.97% for hazardous duty participants) during the fiscal year ended June 30, 2010.

The City of Williamstown's required contribution for pension obligations to CERS for the fiscal years ended June 30, 2010, 2009 and 2008 were \$307,308, \$273,520 and \$305,103, respectively; 100 percent has been contributed for fiscal years 2010, 2009, and 2008.

**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, 2010 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 BALANCE**  
**BUDGET AND ACTUAL**  
**GENERAL FUND**  
**Year Ended June 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance with Final Budget Favorable (Unfavorable)</b>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Property Taxes	\$ 600,000	\$ 600,000	\$ 683,823	\$ 83,823
Licenses and Permits	335,600	335,600	343,666	8,066
Grants and Contributions	279,000	279,000	261,934	(17,066)
Charges for Services	148,000	148,000	144,912	(3,088)
Total Revenues	<u>1,362,600</u>	<u>1,362,600</u>	<u>1,434,335</u>	<u>71,735</u>
<b>Expenditures</b>				
General Government	443,900	443,900	391,580	52,320
Police	765,700	765,700	624,794	140,906
Fire	165,600	165,600	150,519	15,081
Streets	492,900	492,900	421,387	71,513
Cemetery	-	-	35,205	(35,205)
Sanitation	113,000	113,000	120,788	(7,788)
Recreation	13,950	13,950	10,339	3,611
Main Street	35,500	35,500	35,206	294
Maintenance and Capital Outlay	404,500	404,500	127,129	277,371
Total Expenditures	<u>2,435,050</u>	<u>2,435,050</u>	<u>1,916,947</u>	<u>518,103</u>
<b>(Deficit) Excess of Revenues Over Expenditures</b>				
	<u>(1,072,450)</u>	<u>(1,072,450)</u>	<u>(482,612)</u>	<u>589,838</u>
<b>Other Financing Sources</b>				
Interest	1,000	1,000	2,865	1,865
Other	31,100	31,100	30,796	(304)
Operating Transfers In (Out)	875,000	875,000	549,112	(325,888)
Total Other Financing Sources and (Uses)	<u>907,100</u>	<u>907,100</u>	<u>582,773</u>	<u>(324,327)</u>
<b>(Deficit) Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>				
	(165,350)	(165,350)	100,161	265,511
<b>Fund Balance July 1, 2009</b>	<u>154,510</u>	<u>154,510</u>	<u>154,510</u>	<u>-</u>
<b>Fund Balance June 30, 2010</b>	<u><u>\$ (10,840)</u></u>	<u><u>\$ (10,840)</u></u>	<u><u>\$ 254,671</u></u>	<u><u>\$ 265,511</u></u>

See accompanying notes.

**OTHER SUPPLEMENTARY INFORMATION**

**CITY OF WILLIAMSTOWN, KENTUCKY**  
**SCHEDULE OF CURRENT EXPENDITURES**  
**GENERAL FUND**  
**Year Ended June 30, 2010**

	<b>General Government</b>	<b>Police</b>	<b>Fire</b>	<b>Streets</b>	<b>Cemetery</b>	<b>Sanitation</b>	<b>Recreation</b>	<b>Main Street</b>	<b>Maintenance and Capital Outlay</b>	<b>Total</b>
<b>Expenditures</b>										
Salaries	\$ 157,399	\$ 358,464	\$ 37,555	\$ 195,436	\$ -	\$ -	\$ -	\$ 29,208	\$ -	\$ 778,062
Medical Insurance	23,799	57,231	9,258	53,254	-	-	-	-	-	143,542
FICA	16,623	26,386	2,862	14,307	-	-	-	2,187	-	62,365
Employee Retirement	11,176	118,635	13,395	27,947	-	-	-	570	-	171,723
Workers Compensation	171	4,303	-	2,893	-	-	-	-	-	7,367
Advertising and Printing	1,860	-	-	-	-	-	-	-	-	1,860
Professional Fees	60,677	-	-	-	-	-	-	-	-	60,677
Insurance	662	(734)	19,850	-	-	-	-	-	-	19,778
Economic Development	18,553	-	-	-	-	-	-	-	-	18,553
Planning and Zoning	21,769	-	-	-	-	-	-	-	-	21,769
Other Contractual Services	5,273	480	9,260	4,250	-	-	605	-	-	19,868
Education and Training	3,145	5,709	2,992	490	-	-	-	229	-	12,565
Repairs and Maintenance	576	29	6,626	39,020	14,185	-	1,420	-	-	61,856
Travel and Lodging	9,028	-	-	-	-	-	-	-	-	9,028
Utilities	25,517	-	10,696	-	-	-	5,809	-	-	42,022
Communications and Postage	5,061	6,559	1,863	1,820	-	-	861	-	-	16,164
Dues and Subscriptions	7,585	-	-	-	-	-	-	228	-	7,813
Office Supplies	8,522	2,100	-	-	-	-	-	2,178	-	12,800
City Festivals	7,692	-	-	-	-	-	-	-	-	7,692
Contributions	1,500	-	-	-	-	-	-	-	-	1,500
Miscellaneous	4,085	11,269	3,571	8,064	-	-	344	606	-	27,939
Vehicle Maintenance	907	29,295	14,259	16,161	-	-	-	-	-	60,622
Technical Supplies	-	1,532	-	-	-	-	-	-	-	1,532
Uniforms	-	3,536	5,661	1,247	-	-	-	-	-	10,444
Equipment Parts	-	-	11,365	2,453	-	-	533	-	-	14,351
Other Material and Supplies	-	-	1,306	17,413	-	-	767	-	-	19,486
Municipal Aid/LGEA	-	-	-	36,632	-	-	-	-	-	36,632
Graves	-	-	-	-	12,050	-	-	-	-	12,050
Cemetery Sexton	-	-	-	-	6,600	-	-	-	-	6,600
Trustee Fees	-	-	-	-	2,370	-	-	-	-	2,370
Waste Collection	-	-	-	-	-	120,788	-	-	-	120,788
Maintenance and Capital Outlay	-	-	-	-	-	-	-	-	127,129	127,129
<b>Total General Fund</b>										
<b>Current Expenditures</b>	<u>\$ 391,580</u>	<u>\$ 624,794</u>	<u>\$ 150,519</u>	<u>\$ 421,387</u>	<u>\$ 35,205</u>	<u>\$ 120,788</u>	<u>\$ 10,339</u>	<u>\$ 35,206</u>	<u>\$ 127,129</u>	<u>\$ 1,916,947</u>

**CITY OF WILLIAMSTOWN, KENTUCKY**  
**COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**ALL PROPRIETARY FUND TYPES**  
**Year Ended June 30, 2010**

	All Proprietary Fund Types					Total	
	Utility Fund			Total	Sewer		Total
	Electric System	Water System	Cable T.V. System		Fund Total		
<b>Operating Revenues</b>							
Charges for Services	\$ 5,070,258	\$ 1,369,713	\$ 909,601	\$ 7,349,572	\$ 1,054,142	\$ 8,403,714	
Tap In Fees	-	9,183	-	9,183	5,392	14,575	
Lift Station	-	-	-	-	40,686	40,686	
Reconnects	1,605	-	-	1,605	-	1,605	
Miscellaneous	419,160	-	-	419,160	127,064	546,224	
Total Operating Revenues	<u>5,491,023</u>	<u>1,378,896</u>	<u>909,601</u>	<u>7,779,520</u>	<u>1,227,284</u>	<u>9,006,804</u>	
<b>Operating Expenses</b>							
Personnel Services							
Salaries	249,393	383,058	241,389	873,840	181,878	1,055,718	
Medical Insurance	53,848	71,337	44,643	169,828	43,831	213,659	
FICA	22,933	28,023	18,437	69,393	14,710	84,103	
Employee Retirement	36,077	60,923	39,524	136,524	26,434	162,958	
Workers' Compensation	(3,168)	1,511	6,550	4,893	1,249	6,142	
Total Personnel Services	<u>359,083</u>	<u>544,852</u>	<u>350,543</u>	<u>1,254,478</u>	<u>268,102</u>	<u>1,522,580</u>	
Contractual Services							
System Repairs/Maintenance	9,953	23,557	4,593	38,103	41,996	80,099	
Utilities	4,097,193	116,543	31,918	4,245,654	198,066	4,443,720	
Other Contract Service	30,089	1,263	215,032	246,384	38,852	285,236	
Education and Training	2,116	2,063	4,253	8,432	1,250	9,682	
Lab Tests	-	22,645	-	22,645	(6,371)	16,274	
Communications and Postage	13,217	6,028	12,290	31,535	6,796	38,331	
Insurance	1,200	525	3,161	4,886	4,375	9,261	
Advertising and Printing	-	866	-	866	-	866	
Professional Fees	36,767	15,103	(1,537)	50,333	27,784	78,117	
Royalties	-	-	299,233	299,233	-	299,233	
Vehicle Maintenance	10,097	20,248	9,365	39,710	22,668	62,378	
Total Contractual Services	<u>4,200,632</u>	<u>208,841</u>	<u>578,308</u>	<u>4,987,781</u>	<u>335,416</u>	<u>5,323,197</u>	
Materials and Supplies							
Equipment Parts	8,992	3,911	8,136	21,039	13,382	34,421	
Technical Supplies	8,978	69,343	14,700	93,021	2,987	96,008	
Uniforms	2,155	416	370	2,941	1,234	4,175	
Chemicals and Chlorine	-	106,672	-	106,672	17,579	124,251	
Lab Materials	-	12,775	-	12,775	11,162	23,937	
Construction Materials	25,558	-	3,278	28,836	-	28,836	
Office Supplies	8,660	-	3,311	11,971	-	11,971	
Total Materials and Supplies	<u>54,343</u>	<u>193,117</u>	<u>29,795</u>	<u>277,255</u>	<u>46,344</u>	<u>323,599</u>	
Depreciation and Amortization	97,671	440,038	142,472	680,181	234,247	914,428	
Miscellaneous							
Dues and Subscriptions	1,321	655	2,221	4,197	50	4,247	
Safety Committee	3,263	-	-	3,263	-	3,263	
Miscellaneous	8,998	4,588	11,789	25,375	3,505	28,880	
Total Miscellaneous	<u>13,582</u>	<u>5,243</u>	<u>14,010</u>	<u>32,835</u>	<u>3,555</u>	<u>36,390</u>	
Total Operating Expenses	<u>4,725,311</u>	<u>1,392,091</u>	<u>1,115,128</u>	<u>7,232,530</u>	<u>887,664</u>	<u>8,120,194</u>	
Operating Income (Loss)	<u>765,712</u>	<u>(13,195)</u>	<u>(205,527)</u>	<u>546,990</u>	<u>339,620</u>	<u>886,610</u>	
<b>Non-Operating Revenues and (Expenses)</b>							
Interest Income	14,647	-	-	14,647	471	15,118	
Capital Grants and Contributions	-	1,102,067	-	1,102,067	-	1,102,067	
Interest Expense	-	(55,457)	-	(55,457)	(105,866)	(161,323)	
Total Non-Operating Revenues	<u>14,647</u>	<u>1,046,610</u>	<u>-</u>	<u>1,061,257</u>	<u>(105,395)</u>	<u>955,862</u>	
Income (Loss) Before Transfers	780,359	1,033,415	(205,527)	1,608,247	234,225	1,842,472	
Operating Transfers (Out) In	(307,851)	(164,784)	(162,101)	(634,736)	85,624	(549,112)	
<b>Change in Net Assets</b>	<u>\$ 472,508</u>	<u>\$ 868,631</u>	<u>\$ (367,628)</u>	<u>\$ 973,511</u>	<u>\$ 319,849</u>	<u>\$ 1,293,360</u>	

**SINGLE AUDIT SECTION**

**CITY OF WILLIAMSTOWN, KENTUCKY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Year Ended June 30, 2010**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Fund Balance at Disbursements</u>
<b>Environmental Protection Agency</b>			
Passed Through State of Kentucky Infrastructure Authority Capitalization Grant for Clean Water State Revolving Funds - ARRA	*	66.458	\$ 2,775,699 (1)
<b>Department of Transportation</b>			
Highway Planning and Construction (Federal-Aid Highway Program)		20.205	209,523 (2)
<b>Department of Homeland Security</b>			
Homeland Security Grant Program		97.067	45,253 (2)
Disaster Grants - Public Assistance		97.036	108,000 (2)
Pre-Disaster Mitigation Program		97.047	<u>125,803 (2)</u>
			<u>\$ 3,264,278</u>

**Note - Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Williamstown, Kentucky and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements 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 financial statements

\* Denotes a major program

(1) Type A Programs (\$300,000 and greater)

(2) Type B Programs (all others)

**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, 2010, which collectively comprise the City of Williamstown, Kentucky's basic financial statements and have issued our report thereon dated February 22, 2011. 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' 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 2010-2 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*.

The City of Williamstown, Kentucky's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of Williamstown, Kentucky's response and, accordingly, we express no opinion on it.

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.

*VonLehman & Company Inc.*

Fort Mitchell, Kentucky  
February 22, 2011

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
WITH REQUIREMENTS APPLICABLE TO 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, 2010. 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, 2010.

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.

Honorable Mayor  
Members of the City Council  
City of Williamstown, Kentucky  
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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. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as Finding 2010 – 1. 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.

The City of Williamstown's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of Williamstown's response and, accordingly, we express no opinion on it.

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

*VonLehman & Company Inc*

Fort Mitchell, Kentucky  
February 22, 2011

**CITY OF WILLIAMSTOWN, KENTUCKY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended June 30, 2010**

**SECTION I – SUMMARY OF AUDITORS' RESULTS**

<b>FINANCIAL STATEMENTS</b>	
Type of Financial Statement Opinion	Unqualified
Were there any significant deficiencies in internal control reported at the financial statements level (GAGAS)?	Yes
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
<b>FEDERAL AWARDS</b>	
Were there any significant deficiencies in internal control reported for major federal programs?	Yes
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**

Finding 2010-2

Management has requested that we prepare the City's financial statements including footnotes. Although we have prepared the financial statements, the financial statements still remain the responsibility of management. A proper system of internal controls over financial reporting is essential in order to prevent, detect, and correct, misstatements. We noted that the City does not have the necessary expertise in order to prepare the financial statements, including footnotes in accordance with the complex requirements of the U.S. generally accepted accounting principles. Our firm has implemented the appropriate controls over the financial statement preparation; however, our controls cannot be considered as the City's internal controls. Accordingly, a significant deficiency in the City's internal controls exists in regards to the financial statement reporting function.

**CITY OF WILLIAMSTOWN, KENTUCKY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**  
**Year Ended June 30, 2010**

Management's Response

We agree with the above finding and have designated a competent employee to oversee those services. In addition, we have taken responsibility for the financial statements.

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

Finding 2010-1

Procedures in accordance with the A-133 audit identified instances where the City did not have specific grant documents for each of its federal programs that would allow them to properly monitor compliance with each grant. Although we did not identify any instances of non-compliance during our audit, we recommend that the City, upon receipt of a federal grant, obtain the proper documentation needed to monitor their compliance with each grant.

Management's Response

We agree with the above finding and have designated a competent employee to obtain and maintain the proper documentation.