

**CITY OF WILLIAMSTOWN, KENTUCKY**

June 30, 2011

*FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS'  
REPORT*

## TABLE OF CONTENTS

	<b>PAGE</b>
<b>FINANCIAL SECTION</b>	
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 – 25
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	26
<b>OTHER SUPPLEMENTARY INFORMATION</b>	
All Proprietary Fund Types Combining Statements of Revenues, Expenses and Changes in Net Assets	27

## TABLE OF CONTENTS

<b>SINGLE AUDIT SECTION</b>	<b>PAGE</b>
Schedule of Expenditures of Federal Awards	28
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>	29 – 30
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	31 – 32
Schedule of Findings and Questioned Costs	33 – 34

## 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, 2011, 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, 2011, 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 17, 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

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

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.

*Maddox & Associates CPAs Inc*

Fort Thomas, Kentucky  
February 17, 2012

CITY OF WILLIAMSTOWN, KENTUCKY  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**  
**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, 2011. 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 2011 are as follows:

- In total, net assets increased \$359,000. Net assets of governmental activities increase \$105,000, or 3% from fiscal year 2010. Net assets of the business-type activities, increased \$253,000 or 2 percent from fiscal year 2010.
- Governmental activities general revenues accounted for \$1,816,000 in revenue or 81 percent of all governmental activity revenues. Program specific revenues, in the form of charges for services and sales, grants, and contributions, accounted for \$422,000 or 19 percent of total governmental activity revenues.
- The City had \$2,132,000 million in expenses related to governmental activities; only \$422,000 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 \$1,816,000 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, 2011**  
**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	
	2011	2010	2011	2010	2011	2010
<b>Assets</b>						
Current and Other Assets	\$ 588	\$ 561	\$ 4,780	\$ 5,002	\$ 5,369	\$ 5,563
Capital Assets, Net	<u>3,178</u>	<u>3,195</u>	<u>24,593</u>	<u>14,098</u>	<u>27,771</u>	<u>17,293</u>
Total Assets	<u>3,766</u>	<u>3,756</u>	<u>29,373</u>	<u>19,100</u>	<u>33,140</u>	<u>22,856</u>
<b>Liabilities</b>						
Current and Other Liabilities	238	304	1,987	1,830	2,225	2,134
Long-Term Liabilities	<u>-</u>	<u>-</u>	<u>15,247</u>	<u>5,384</u>	<u>15,247</u>	<u>5,384</u>
Total Liabilities	<u>238</u>	<u>304</u>	<u>17,234</u>	<u>7,214</u>	<u>17,473</u>	<u>7,518</u>
<b>Net Assets</b>						
Invested in Capital Assets						
Net of Related Debt	3,178	3,195	9,051	8,423	12,229	11,618
Restricted	-	-	247	591	247	591
Unrestricted	<u>379</u>	<u>257</u>	<u>2,841</u>	<u>2,872</u>	<u>3,191</u>	<u>3,129</u>
Total Net Assets	<u>\$ 3,557</u>	<u>\$ 3,452</u>	<u>\$ 12,139</u>	<u>\$ 10,593</u>	<u>\$ 15,667</u>	<u>\$ 15,338</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 \$15.7 million as of June 30, 2011.

CITY OF WILLIAMSTOWN, KENTUCKY  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**  
**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 \$10,284,000, current assets decreased \$194,000, and capital assets increased by \$10,478,000. These changes are combined with an increase in accounts payable and other current liabilities of \$91,000 and an increase in long term debt payable of \$9,863,000 resulting in an increase in net assets of \$329,000.

Net assets of the City's governmental activities increased \$105,000. The net assets of the City's business-type activities increased \$253,000.

Table 2 reflects the change in net assets for fiscal year 2011.

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

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
<b>Revenues</b>						
Program Revenues						
Charges for Services	\$ 152	\$ 145	\$ 8,679	\$ 8,834	\$ 8,831	\$ 8,979
Operating Capital Grants and Contributions	<u>270</u>	<u>262</u>	<u>359</u>	<u>1,102</u>	<u>629</u>	<u>1,364</u>
Total Program Revenues	<u>422</u>	<u>407</u>	<u>9,038</u>	<u>9,936</u>	<u>9,460</u>	<u>10,343</u>
General Revenues						
Property Taxes	684	697	-	-	684	697
Licenses and Permits	307	344	-	-	307	344
Interest	2	3	47	15	49	18
Transfers	756	549	(756)	(549)	-	-
Other Revenues	<u>66</u>	<u>31</u>	<u>-</u>	<u>173</u>	<u>66</u>	<u>204</u>
Total General Revenues	<u>1,815</u>	<u>1,624</u>	<u>(709)</u>	<u>(361)</u>	<u>1,106</u>	<u>1,263</u>
Total Revenues	<u>2,237</u>	<u>2,031</u>	<u>8,329</u>	<u>9,575</u>	<u>10,566</u>	<u>11,606</u>

(Continued)

CITY OF WILLIAMSTOWN, KENTUCKY  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**  
**UNAUDITED**  
**(Continued)**

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

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
<b>Program Expenses</b>						
General Government	\$ 434	\$ 391	\$ -	\$ -	\$ 434	\$ 391
Police	631	626	-	-	631	626
Fire	141	148	-	-	141	148
Streets	403	422	-	-	403	422
Cemetery	32	31	-	-	32	31
Sanitation	122	121	-	-	122	121
Recreation	15	10	-	-	15	10
Main Street	56	35	-	-	56	35
Maintenance and Repairs	111	81	-	-	111	81
Utility Operation	-	-	6,965	7,288	6,965	7,288
Sewer Operation	-	-	1,111	994	1,111	994
Depreciation	<u>187</u>	<u>190</u>	<u>-</u>	<u>-</u>	<u>187</u>	<u>190</u>
Total Expenses	<u>2,132</u>	<u>2,055</u>	<u>8,076</u>	<u>8,262</u>	<u>10,208</u>	<u>10,337</u>
(Decrease) Increase in Net Assets	<u>\$ 105</u>	<u>\$ (24)</u>	<u>\$ 253</u>	<u>\$ 1,293</u>	<u>\$ 358</u>	<u>\$ 1,269</u>

CITY OF WILLIAMSTOWN, KENTUCKY  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**  
**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 governmental 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>	
	2011	2010	2011	2010
General Government	\$ 434	\$ 391	\$ 434	\$ 391
Police	632	626	432	479
Fire	141	148	137	95
Streets	403	422	359	359
Cemetery	32	31	(1)	5
Sanitation	121	121	3	2
Recreation	15	10	15	10
Main Street	56	35	56	35
Maintenance and Repairs	112	81	112	81
Depreciation	<u>186</u>	<u>190</u>	<u>186</u>	<u>190</u>
Total Expenses	<u>\$ 2,132</u>	<u>\$ 2,055</u>	<u>\$ 1,711</u>	<u>\$ 1,647</u>

**Business-Type Activities**

The business-type activities of the City consisted of the utility and sewer enterprise funds. These activities had revenues of \$9,084,000 and expenses and transfers of \$8,833,000 for fiscal year 2011. Total revenues decreased \$1,016,000 and expenses and transfers increased \$26,000 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 \$2,180,000 and expenditures and other financing uses of \$2,112,000.

**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, budgeted revenues and other financing sources, in the amount of \$2,307,000, exceeded actual revenues and other financing sources by \$127,000. The major difference comes from the difference in other financing sources.

Expenditures and other financing uses were budgeted at \$2,419,000 while actual expenditures were \$2,112,000.

General Fund revenues and other financing sources were greater than expenditures and other financing uses by \$67,000.

CITY OF WILLIAMSTOWN, KENTUCKY  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**  
**UNAUDITED**  
**(Continued)**

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of fiscal year 2011, the City had \$27,771,000 invested in capital assets.

Table 4 reflects fiscal year 2011 balances compared to fiscal year 2010.

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

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land and Construction In Progress	\$ 533	\$ 533	\$ 12,908	\$ 2,969	\$ 13,441	\$ 3,502
Buildings and Building Improvements	1,726	1,784	-	-	1,726	1,784
Infrastructure	530	501	-	-	530	501
Furniture and Fixtures	11	15	-	-	11	15
General Equipment	378	362	-	-	378	362
Water System	-	-	6,047	5,476	6,047	5,476
Electric System	-	-	1,133	1,172	1,133	1,172
Cable T.V. System	-	-	2,582	2,353	2,582	2,353
Sewer System	-	-	1,923	2,128	1,923	2,128
	<u>\$ 3,178</u>	<u>\$ 3,195</u>	<u>\$ 24,593</u>	<u>\$ 14,098</u>	<u>\$ 27,771</u>	<u>\$ 17,293</u>

**Debt**

At June 30, 2011, the City had \$15,542,000 in outstanding bonds and notes payable.

**Current Issues**

The construction of a new Wastewater Treatment Plant is ongoing.

**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, 2011**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 262,536	\$ 1,744,872	\$ 2,007,408
Receivables			
Property taxes	90,863	-	90,863
Accounts	82,493	1,416,283	1,498,776
Intergovernmental	48,614	381,053	429,667
Accrued interest receivable	636	15,673	16,309
Bond issuance costs, net	-	57,128	57,128
Due from other funds	103,302	855,112	958,414
Restricted escrow accounts	-	-	-
Reserved assets - cash	-	310,349	310,349
	<u>588,444</u>	<u>4,780,470</u>	<u>5,368,914</u>
<b>Total Current Assets</b>			
<b>Capital Assets</b>			
Land and construction in progress	532,769	12,907,840	13,440,609
Depreciable capital assets	3,979,537	29,429,704	33,409,241
Less: accumulated depreciation	<u>(1,334,150)</u>	<u>(17,744,767)</u>	<u>(19,078,917)</u>
	<u>3,178,156</u>	<u>24,592,777</u>	<u>27,770,933</u>
<b>Total capital assets</b>			
<b>TOTAL ASSETS</b>	<u>3,766,600</u>	<u>29,373,247</u>	<u>33,139,847</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts payable	33,358	697,274	730,632
Other current liabilities	29,931	73,114	103,045
Due to other funds	145,679	812,735	958,414
Customer deposits	-	92,560	92,560
Accrued interest payable	-	9,238	9,238
Compensated absences	29,391	7,257	36,648
Current portion of bonds payable	-	210,000	210,000
Current portion of notes payable	-	84,540	84,540
	<u>238,359</u>	<u>1,986,718</u>	<u>2,225,077</u>
<b>Total Current Liabilities</b>			
<b>Long-Term Liabilities</b>			
Bonds payable	-	1,837,954	1,837,954
Notes payable	-	13,409,759	13,409,759
	<u>-</u>	<u>15,247,713</u>	<u>15,247,713</u>
<b>Total Long-Term Liabilities</b>			
<b>TOTAL LIABILITIES</b>	<u>238,359</u>	<u>17,234,431</u>	<u>17,472,790</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	3,178,156	9,050,524	12,228,680
Restricted for debt service	-	246,985	246,985
Unrestricted	<u>379,476</u>	<u>2,841,307</u>	<u>3,220,783</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 3,557,632</u>	<u>\$ 12,138,816</u>	<u>\$ 15,696,448</u>

City of Williamstown, Kentucky  
Statement of Activities  
For the Year Ended June 30, 2011

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
<b>Primary government</b>							
Governmental activities:							
General government	\$ 434,029	\$ -	\$ -	\$ -	\$ (434,029)	\$ -	\$ (434,029)
Police	631,272	-	199,665	-	(431,607)	-	(431,607)
Fire	141,033	-	4,109	-	(136,924)	-	(136,924)
Streets	402,892	-	66,086	-	(336,806)	-	(336,806)
Cemetery	31,860	33,146	-	-	1,286	-	1,286
Sanitation	121,564	118,431	-	-	(3,133)	-	(3,133)
Recreation	14,855	-	-	-	(14,855)	-	(14,855)
Main Street	56,068	-	-	-	(56,068)	-	(56,068)
Maintenance and repairs	111,620	-	-	-	(111,620)	-	(111,620)
Depreciation - unallocated	186,620	-	-	-	(186,620)	-	(186,620)
<b>Total governmental activities</b>	<b>2,131,813</b>	<b>151,577</b>	<b>269,860</b>	<b>-</b>	<b>(1,710,376)</b>	<b>-</b>	<b>(1,710,376)</b>
Business-type activities							
Utility fund	6,965,160	7,075,251	-	359,201	-	469,292	469,292
Sewer fund	1,110,796	1,604,086	-	-	-	493,290	493,290
<b>Total business-type activities</b>	<b>8,075,956</b>	<b>8,679,337</b>	<b>-</b>	<b>359,201</b>	<b>-</b>	<b>962,582</b>	<b>962,582</b>
<b>Total primary government</b>	<b>\$ 10,207,769</b>	<b>\$ 8,830,914</b>	<b>\$ 269,860</b>	<b>\$ 359,201</b>	<b>(1,710,376)</b>	<b>962,582</b>	<b>(747,794)</b>
<b>General revenues:</b>							
Property taxes, levied for general purposes					683,507	-	683,507
Licenses and permits					307,467	-	307,467
Unrestricted investment earnings					1,649	46,695	48,344
Other revenues					66,482	-	66,482
Operating transfers					756,645	(756,645)	-
<b>Total general revenues, special items, and transfers</b>					<b>1,815,750</b>	<b>(709,950)</b>	<b>1,105,800</b>
Change in net assets					105,374	252,632	358,006
<b>Net assets - July 1, 2010</b>					<b>3,452,258</b>	<b>11,886,184</b>	<b>15,338,442</b>
<b>Net assets - June 30, 2011</b>					<b>\$ 3,557,632</b>	<b>\$ 12,138,816</b>	<b>\$ 15,696,448</b>

**CITY OF WILLIAMSTOWN, KENTUCKY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2011**

	<b>General Fund</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 262,536
Accounts receivable	
Property taxes	90,863
Accounts	82,493
Intergovernmental	48,614
Accrued interest receivable	636
Due from other funds	103,302
<b>TOTAL ASSETS</b>	<b>\$ 588,444</b>
 <b>LIABILITIES AND FUND BALANCES</b>	
Liabilities	
Accounts payable	\$ 33,358
Other accrued liabilities	29,931
Due to other funds	145,679
Deferred revenue	57,863
Total liabilities	266,831
Fund balances	
Restricted	83,641
Unassigned	237,972
Total fund balances	321,613
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 588,444</b>

**CITY OF WILLIAMSTOWN, KENTUCKY  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2011**

Total fund balance, governmental funds	\$	321,613
<p>Amounts reported for governmental activities in the Statement of Net Assets are different because:</p>		
<p>Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.</p>		3,178,156
<p>Certain other long-term assets are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.</p>		57,863
<p>Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in governmental funds.</p>		(29,391)
Net Assets of Governmental Activities in the Statement of Net Assets		3,528,241

**CITY OF WILLIAMSTOWN, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	<b>General Fund</b>
<b>REVENUES</b>	
Property taxes	\$ 625,644
Licenses and permits	307,467
Grants and contributions	269,860
Charges for services	151,577
<b>TOTAL REVENUES</b>	<b>1,354,548</b>
<b>EXPENDITURES</b>	
General government	431,408
Police	631,272
Fire	147,028
Streets	482,851
Cemetery	31,860
Sanitation	121,564
Recreation	14,855
Main Street	56,068
Maintenance and capital outlay	195,476
<b>TOTAL EXPENDITURES</b>	<b>2,112,382</b>
<b>DEFICIT OF REVENUES OVER EXPENDITURES</b>	<b>(757,834)</b>
<b>OTHER FINANCING SOURCES</b>	
Interest	1,649
Other source	66,482
Transfers in	756,645
<b>TOTAL OTHER FINANCING SOURCES</b>	<b>824,776</b>
<b>EXCESS OF REVENUS AND OTHER FINANCING SOURCES OVER EXPENDITURES</b>	<b>66,942</b>
<b>FUND BALANCE - JULY 1, 2010</b>	<b>254,671</b>
<b>FUND BALANCE - JUNE 30, 2011</b>	<b>\$ 321,613</b>

**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, 2011**

Net change in fund balances - total governmental funds: \$ 66,942

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

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount by which capital outlay exceeded depreciation in the current period.

Depreciation expense	\$	(186,620)	
Capital outlay		<u>167,189</u>	(19,431)

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. 57,863

Change in net assets of governmental activities \$ 105,374

**CITY OF WILLIAMSTOWN, KENTUCKY**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2011**

	<u>Utility Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 609,405	\$ 1,135,467	\$ 1,744,872
Reserved cash	310,349	-	310,349
	<hr/>	<hr/>	<hr/>
Total cash	919,754	1,135,467	2,055,221
Receivables			
Customers	1,117,977	298,306	1,416,283
Intergovernmental	381,053	-	381,053
Accrued interest receivable	15,673	-	15,673
Bond issuance costs, net	57,128	-	57,128
Due from other funds	676,478	178,634	855,112
Restricted escrow accounts	-	-	-
	<hr/>	<hr/>	<hr/>
<b>Total Current Assets</b>	<b>3,168,063</b>	<b>1,612,407</b>	<b>4,780,470</b>
<b>Capital Assets</b>			
Land and construction in progress	-	12,907,840	12,907,840
Depreciable capital assets	21,415,780	8,013,924	29,429,704
Less: accumulated depreciation	(11,653,636)	(6,091,131)	(17,744,767)
	<hr/>	<hr/>	<hr/>
<b>Total Capital Assets</b>	<b>9,762,144</b>	<b>14,830,633</b>	<b>24,592,777</b>
	<hr/>	<hr/>	<hr/>
<b>TOTAL ASSETS</b>	<b>12,930,207</b>	<b>16,443,040</b>	<b>29,373,247</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts payable	693,330	3,944	697,274
Other current liabilities	69,992	3,122	73,114
Due to other funds	272,473	540,262	812,735
Customer deposits	92,560	-	92,560
Accrued interest payable	9,238	-	9,238
Compensated absences	3,352	3,905	7,257
Current portion of bonds payable	210,000	-	210,000
Current portion of notes payable	84,540	-	84,540
	<hr/>	<hr/>	<hr/>
<b>Total Current Liabilities</b>	<b>1,435,485</b>	<b>551,233</b>	<b>1,986,718</b>
<b>Long-Term Liabilities</b>			
Bonds payable	1,837,954	-	1,837,954
Notes payable	480,234	12,929,525	13,409,759
	<hr/>	<hr/>	<hr/>
<b>Total Long-Term Liabilities</b>	<b>2,318,188</b>	<b>12,929,525</b>	<b>15,247,713</b>
	<hr/>	<hr/>	<hr/>
<b>TOTAL LIABILITIES</b>	<b>3,753,673</b>	<b>13,480,758</b>	<b>17,234,431</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	7,149,416	1,901,108	9,050,524
Restricted for debt service	246,985	-	246,985
Unrestricted	1,780,133	1,061,174	2,841,307
	<hr/>	<hr/>	<hr/>
<b>TOTAL NET ASSETS</b>	<b>\$ 9,176,534</b>	<b>\$ 2,962,282</b>	<b>\$ 12,138,816</b>

**CITY OF WILLIAMSTOWN, KENTUCKY**  
**STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS**  
**PROPRIETARY FUNDS**  
**YEAR ENDED JUNE 30, 2011**

	<u>Utility Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
<b>OPERATING REVENUES</b>			
Charges for services			
Electric services	\$ 4,524,133	\$ -	\$ 4,524,133
Water services	1,198,268	-	1,198,268
Cable and internet services	935,806	-	935,806
Sewer services	-	1,516,403	1,516,403
Other revenues	417,044	87,683	504,727
<b>TOTAL OPERATING REVENUES</b>	<u>7,075,251</u>	<u>1,604,086</u>	<u>8,679,337</u>
<b>OPERATING EXPENSES</b>			
Personnel services	1,390,605	304,824	1,695,429
Contractual services	4,194,125	411,457	4,605,582
Materials and supplies	507,779	50,506	558,285
Depreciation and amortization	732,162	271,938	1,004,100
Miscellaneous	15,172	2,191	17,363
<b>TOTAL OPERATING EXPENSES</b>	<u>6,839,843</u>	<u>1,040,916</u>	<u>7,880,759</u>
<b>OPERATING INCOME</b>	<u>235,408</u>	<u>563,170</u>	<u>798,578</u>
<b>OTHER INCOME (EXPENSE)</b>			
Interest income	45,126	1,569	46,695
Capital grants and contributions	359,201	-	359,201
Interest expense	(125,317)	(69,880)	(195,197)
Funds transfer in (out)	(377,870)	(378,775)	(756,645)
<b>TOTAL OTHER INCOME (EXPENSE)</b>	<u>(98,860)</u>	<u>(447,086)</u>	<u>(545,946)</u>
<b>CHANGE IN NET ASSETS</b>	136,548	116,084	252,632
<b>NET ASSETS JULY 1, 2010</b>	<u>9,039,986</u>	<u>2,846,198</u>	<u>11,886,184</u>
<b>NET ASSETS JUNE 30, 2011</b>	<u>\$ 9,176,534</u>	<u>\$ 2,962,282</u>	<u>\$ 12,138,816</u>

**CITY OF WILLIAMSTOWN, KENTUCKY**  
**STATEMENT OF CASH FLOW**  
**PROPRIETARY FUNDS**  
**YEAR ENDED JUNE 30, 2011**

	<u>Utility Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers	\$ 7,176,876	\$ 1,507,278	\$ 8,684,154
Cash paid to:			
Employees	(1,422,801)	(304,824)	(1,727,625)
Contractual services	(4,194,125)	(411,457)	(4,605,582)
Supplies	<u>(302,613)</u>	<u>(87,480)</u>	<u>(390,093)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>1,257,337</u>	<u>703,517</u>	<u>1,960,854</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>			
Funds Transfer Out	<u>(377,870)</u>	<u>(378,775)</u>	<u>(756,645)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Payments on bonds payable	(210,000)	-	(210,000)
Payments on notes payable	(81,016)	-	(81,016)
Proceeds from notes payable	-	10,153,826	10,153,826
Interest paid	(125,317)	(69,880)	(195,197)
Capital grants and contributions	359,201	-	359,201
Decrease in restricted escrow account	234,519	-	234,519
Acquisition of capital assets	<u>(1,481,477)</u>	<u>(10,005,930)</u>	<u>(11,487,407)</u>
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(1,304,090)</u>	<u>78,016</u>	<u>(1,226,074)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest income	<u>45,126</u>	<u>1,569</u>	<u>46,695</u>
<b>NET CHANGE IN CASH</b>	<u>(379,497)</u>	<u>404,327</u>	<u>24,830</u>
<b>CASH AND CASH EQUIVALENTS JULY 1, 2010</b>	<u>1,299,251</u>	<u>731,140</u>	<u>2,030,391</u>
<b>CASH AND CASH EQUIVALENTS JUNE 30, 2011</b>	<u>\$ 919,754</u>	<u>\$ 1,135,467</u>	<u>\$ 2,055,221</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating income	\$ 235,408	\$ 563,170	\$ 798,578
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Depreciation and amortization	732,162	271,938	1,004,100
Changes in assets and liabilities			
Accounts receivable	101,625	(96,808)	4,817
Accounts payable	168,018	(32,148)	135,870
Other current liabilities	<u>20,124</u>	<u>(2,635)</u>	<u>17,489</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 1,257,337</u>	<u>\$ 703,517</u>	<u>\$ 1,960,854</u>

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

**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, 2011, \$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, 2011, 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, 2010. Taxes were levied in August, 2010, 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, 2011 because it expects no material losses.

**NOTE 5 – PROPERTY AND EQUIPMENT**

Capital Asset activity for the fiscal year ended June 30, 2011 was as follows:

	June 30, 2010	Additions	Disposals	June 30, 2011
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated				
Land	\$ 532,769	\$ -	\$ -	\$ 532,769
Depreciable Capital Assets				
Street Improvements	672,816	66,331	-	739,147
Building and Building Improvements	2,228,150	7,130	-	2,235,280
Furniture and Fixtures	44,287	-	-	44,287
General Equipment	864,474	96,348	-	960,822
Total Depreciable Capital Assets	<u>3,809,727</u>	<u>169,809</u>	<u>-</u>	<u>3,979,536</u>
Total Capital Assets	4,342,496	169,809	-	4,512,305
Less: Accumulated Depreciation				
Street Improvements	171,092	38,348	-	209,440
Building Improvements	445,083	63,775	-	508,858
Furniture and Fixtures	29,361	4,037	-	33,398
General Equipment	501,994	80,459	-	582,453
Total Accumulated Depreciation	<u>1,147,530</u>	<u>186,619</u>	<u>-</u>	<u>1,334,149</u>
Depreciable Capital Assets, Net	<u>2,662,197</u>	<u>(16,810)</u>	<u>-</u>	<u>2,645,387</u>
Governmental Activities Capital Assets, Net	<u>\$ 3,194,966</u>	<u>\$ (16,810)</u>	<u>\$ -</u>	<u>\$ 3,178,156</u>
<b>Business-Type Activities</b>				
Capital Assets Not Being Depreciated				
KIA Construction Loan	\$ 2,075,130	\$ 9,576,738	\$ -	\$ 11,651,868
Construction in Progress	893,557	362,415	-	1,255,972
Total Capital Assets Not	<u>2,968,687</u>	<u>9,939,153</u>	<u>-</u>	<u>12,907,840</u>
Depreciable Capital Assets				
Water System	12,854,384	1,027,573	-	13,881,957
Electric System	3,674,804	76,868	-	3,751,672
Cable TV System	3,405,115	377,038	-	3,782,153
Sewer System	7,947,147	66,777	-	8,013,924
Total Depreciable Capital Assets	<u>27,881,450</u>	<u>1,548,256</u>	<u>-</u>	<u>29,429,706</u>
Total Capital Assets	<u>30,850,137</u>	<u>11,487,409</u>	<u>-</u>	<u>42,337,546</u>
Less: Accumulated Depreciation				
Water System	7,376,984	457,936	-	7,834,920
Electric System	2,503,469	115,411	-	2,618,880
Cable TV System	1,052,468	147,368	-	1,199,836
Sewer System	5,819,193	271,938	-	6,091,131
Total Accumulated Depreciation	<u>16,752,114</u>	<u>992,653</u>	<u>-</u>	<u>17,744,767</u>
Depreciable Capital Assets, Net	<u>11,129,336</u>	<u>555,603</u>	<u>-</u>	<u>11,684,939</u>
Business-Type Activities Capital Assets, Net	<u>\$ 14,098,023</u>	<u>\$ 10,494,756</u>	<u>\$ -</u>	<u>\$ 24,592,779</u>

**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, 2011 is \$225,000, 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, 2011 is \$1,830,000, 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, 2011 for debt service, (principal and interest) are as follows:

Fiscal Years Ending June 30,	Bonds		
	Principal	Interest	Total
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	<u>185,000</u>	<u>8,890</u>	<u>193,890</u>
Totals	2,055,000	\$ <u>704,850</u>	\$ <u>2,759,850</u>
Unamortized Deferred Refunding Costs	<u>(7,048)</u>		
Net Bonds Payable Business-Type Activities	<u>\$ 2,047,952</u>		

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

The following is a summary of the City's bond transactions for the year ended June 30, 2011:

	Outstanding July 1, 2010	Additions of New Debt	Repayments	Outstanding June 30, 2011	Amounts Expected to be Paid Within One Year
Bonds Payable	\$ <u>2,265,000</u>	\$ <u>-</u>	\$ <u>210,000</u>	\$ <u>2,055,000</u>	\$ <u>210,000</u>

**Other Notes Payable**

Kentucky League of Cities loan has an outstanding balance of \$267,269 as of June 30, 2011, 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 \$12,929,525 as of June 30, 2011, 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 \$327,505 as of June 30, 2011, 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
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	564,774	\$ <u>59,121</u>	\$ <u>623,895</u>
Undetermined Payment Schedule	<u>12,929,525</u>		
Total		\$ <u>13,494,299</u>	

The following is a summary of the City's notes payable transactions for the year ended June 30, 2011:

	Outstanding July 1, 2010	Additions of New Debt	Repayments	Outstanding June 30, 2011	Amounts Expected to be Paid Within One Year
KIA LOAN (1)	\$ 300,102	\$ -	\$ 62,832	\$ 237,269	\$ 65,704
KIA LOAN (2)	345,688	-	18,183	327,505	18,836
KIA LOAN (3)	<u>2,775,699</u>	<u>10,153,826</u>	<u>-</u>	<u>12,929,525</u>	<u>-</u>
Total Notes Payable	\$ <u>3,421,488</u>	\$ <u>10,153,826</u>	\$ <u>81,106</u>	\$ <u>13,494,209</u>	\$ <u>84,540</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, 2011 consisted of the following:

Proprietary Funds	
Interest Expense on Utility Revenue Refunding Bonds, Series 2003	\$ 13,200
Interest Expense on Utility Revenue Refunding Bonds, Series 2004	91,630
Interest Expense on Kentucky League of Cities Note Payable	10,185
Interest Expense on Kentucky League of Cities Note Payable	6,074
Interest Expense on Kentucky League of Cities Note Payable	69,879
Deferred Refunding Costs	<u>4,229</u>
	<u>\$ 195,197</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 16.93% of the employees' compensation (33.25% for hazardous duty participants) during the fiscal year ended June 30, 2011.

The City of Williamstown's required contribution for pension obligations to CERS for the fiscal years ended June 30, 2011, 2010 and 2009 were \$376,156, \$307,308 and \$273,520, respectively; 100 percent has been contributed for fiscal years 2011, 2010, and 2009.

**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, 2011 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, 2011**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Favorable (Unfavorable)
<b>REVENUES</b>				
Property taxes	\$ 750,000	\$ 750,000	\$ 625,644	\$ (124,356)
Licenses and permits	261,000	261,000	307,467	46,467
Grants and contributions	226,600	226,600	269,860	43,260
Charges for services	139,000	139,000	151,577	12,577
<b>TOTAL REVENUES</b>	<u>1,376,600</u>	<u>1,376,600</u>	<u>1,354,548</u>	<u>(22,052)</u>
<b>EXPENDITURES</b>				
General government	480,980	480,980	431,408	49,572
Police	767,080	767,080	631,272	135,808
Fire	170,700	170,700	147,028	23,672
Streets	486,000	486,000	482,851	3,149
Cemetery	-	-	31,860	(31,860)
Sanitation	126,000	126,000	121,564	4,436
Recreation	13,500	13,500	14,855	(1,355)
Main Street	63,250	63,250	56,068	7,182
Maintenance and capital outlay	311,950	311,950	195,476	116,474
<b>TOTAL EXPENDITURES</b>	<u>2,419,460</u>	<u>2,419,460</u>	<u>2,112,382</u>	<u>307,078</u>
<b>DEFICIT OF REVENUES OVER EXPENDITURES</b>	<u>(1,042,860)</u>	<u>(1,042,860)</u>	<u>(757,834)</u>	<u>(329,130)</u>
<b>OTHER FINANCING SOURCES</b>				
Interest	-	-	1,649	1,649
Other source	29,900	29,900	66,482	36,582
Transfers in	900,000	900,000	756,645	(143,355)
<b>TOTAL OTHER FINANCING SOURCES</b>	<u>929,900</u>	<u>929,900</u>	<u>824,776</u>	<u>(105,124)</u>
<b>EXCESS OF REVENUS AND OTHER FINANCING SOURCES OVER EXPENDITURES</b>	(112,960)	(112,960)	66,942	179,902
<b>FUND BALANCE - JULY 1, 2010</b>	254,671	254,671	254,671	-
<b>FUND BALANCE - JUNE 30, 2011</b>	<u>\$ 141,711</u>	<u>\$ 141,711</u>	<u>\$ 321,613</u>	<u>\$ 179,902</u>

**OTHER SUPPLEMENTARY INFORMATION**

**CITY OF WILLIAMSTOWN, KENTUCKY**  
**COMBINING STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS**  
**ALL PROPRIETARY FUNDS**  
**YEAR ENDED JUNE 30, 2011**

	Utility Fund			Total	Sewer Fund	Total
	Electric System	Water System	Cable and Internet		Total	
<b>OPERATING REVENUES</b>						
Charges for services	\$ 4,524,133	\$ 1,198,268	\$ 935,806	\$ 6,658,207	\$ 1,516,403	\$ 8,174,610
Tap in fees	-	18,210	-	18,210	17,617	35,827
Lift station fees	-	-	-	-	-	-
Reconnects	1,335	-	-	1,335	-	1,335
Other revenues	397,499	-	-	397,499	70,066	467,565
<b>TOTAL OPERATING REVENUES</b>	<b>4,922,967</b>	<b>1,216,478</b>	<b>935,806</b>	<b>7,075,251</b>	<b>1,604,086</b>	<b>8,679,337</b>
<b>OPERATING EXPENSES</b>						
Personnel services						
Salaries and wages	297,017	396,644	253,267	946,928	205,816	1,152,744
Medical insurance	61,456	77,186	45,162	183,804	44,792	228,596
Employers FICA	21,138	28,826	19,117	69,081	14,695	83,776
Employee retirement	51,329	76,151	49,096	176,576	37,078	213,654
Workers compensation and unemployment	3,264	6,684	4,268	14,216	2,443	16,659
Total personnel services	434,204	585,491	370,910	1,390,605	304,824	1,695,429
Contractual services						
System repairs and maintenance	23,034	10,999	38,382	72,415	33,982	106,397
Utilities	3,443,888	74,540	33,064	3,551,492	301,333	3,852,825
Other contract services	19,968	70,689	21,185	111,842	20,732	132,574
Education and training	4,571	1,997	6,139	12,707	2,502	15,209
Lab tests	-	10,478	-	10,478	4,499	14,977
Communications and postage	11,174	9,252	10,726	31,152	8,971	40,123
Insurance	1,644	2,625	6,311	10,580	7,822	18,402
Advertising and printing	-	70	-	70	-	70
Professional fees	27,341	10,054	1,178	38,573	8,534	47,107
Royalties	-	-	306,240	306,240	-	306,240
Vehicle maintenance	13,125	23,058	12,393	48,576	23,082	71,658
Total contractual services	3,544,745	213,762	435,618	4,194,125	411,457	4,605,582
Materials and supplies						
Equipment parts	10,279	18,576	13,326	42,181	11,392	53,573
Technical supplies	12,479	-	130,627	143,106	536	143,642
Uniforms	1,435	613	656	2,704	441	3,145
Chemicals and chlorine	-	111,904	-	111,904	35,373	147,277
Lab materials	-	6,754	-	6,754	2,764	9,518
Construction materials	14,817	-	166,667	181,484	-	181,484
Office supplies	13,582	-	6,064	19,646	-	19,646
Total materials and supplies	52,592	137,847	317,340	507,779	50,506	558,285
Depreciation and amortization	115,411	465,309	151,442	732,162	271,938	1,004,100
Miscellaneous						
Dues and subscriptions	1,404	275	-	1,679	-	1,679
Safety committee	(1,688)	-	-	(1,688)	-	(1,688)
Miscellaneous	3,486	2,830	8,865	15,181	2,191	17,372
Total miscellaneous	3,202	3,105	8,865	15,172	2,191	17,363
<b>TOTAL OPERATING EXPENSES</b>	<b>4,150,154</b>	<b>1,405,514</b>	<b>1,284,175</b>	<b>6,839,843</b>	<b>1,040,916</b>	<b>7,880,759</b>
<b>NON-OPERATING REVENUE AND (EXPENSES)</b>						
Interest income	45,126	-	-	45,126	1,569	46,695
Capital grants and contributions	-	359,201	-	359,201	-	359,201
Interest expense	-	(125,317)	-	(125,317)	(69,880)	(195,197)
<b>TOTAL NON-OPERATING REVENUE AND (EXPENSES)</b>	<b>45,126</b>	<b>233,884</b>	<b>-</b>	<b>279,010</b>	<b>(68,311)</b>	<b>210,699</b>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	<b>817,939</b>	<b>44,848</b>	<b>(348,369)</b>	<b>514,418</b>	<b>494,859</b>	<b>1,009,277</b>
<b>OPERATING TRANSFERS IN (OUT)</b>	<b>(421,894)</b>	<b>296,907</b>	<b>(252,883)</b>	<b>(377,870)</b>	<b>(378,775)</b>	<b>(756,645)</b>
<b>CHANGE IN NET ASSETS</b>	<b>\$ 396,045</b>	<b>\$ 341,755</b>	<b>\$ (601,252)</b>	<b>\$ 136,548</b>	<b>\$ 116,084</b>	<b>\$ 252,632</b>

**SINGLE AUDIT SECTION**

**CITY OF WILLIAMSTOWN, KENTUCKY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2011**

<u>Federal Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
<b>Environmental Protection Agency</b>		
Passed through State of Kentucky Infrastructure Authority Capitalization Grant for Clean Water State Revolving Funds - ARRA	66.458	10,153,826
<b>Department of Homeland Security</b>		
Homeland Security Grant Program	97.067	43,940

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 requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. herefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

**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, 2011, which collectively comprise City of Williamstown, Kentucky's basic financial statements and have issued our report thereon dated February 17, 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  
February 17, 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, 2011. 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, 2011.

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  
Page Two

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, 2011, and have issued our report thereon dated February 17, 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.

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  
February 17, 2012

CITY OF WILLIAMSTOWN, KENTUCKY  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended June 30, 2011

**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?	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**

Finding 2011-1

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, 2011**

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**

None