

CITY OF WILLIAMSBURG
Williamsburg, Kentucky

REPORT OF AUDIT
Year Ended June 30, 2012

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INDEPENDENT AUDITOR'S REPORT

October 31, 2012

The Honorable Mayor and Members of the City Council
City of Williamsburg
Williamsburg, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, and the aggregate remaining fund information of the City of Williamsburg, as of and for the year ended June 30, 2012, which collectively comprises the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Williamsburg's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, and the aggregate remaining fund information of the City of Williamsburg, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated October 31, 2012, on our consideration of the City of Williamsburg's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Marr, Miller & Myers, PSC

The Management's Discussion and Analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Williamsburg's basic financial statements. The additional information shown on pages 35 through 38 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of the City and was derived from and relates 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 to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Marr, Miller & Myers, PSC

Certified Public Accountants

CITY OF WILLIAMSBURG
Williamsburg, Kentucky

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

As management of the City of Williamsburg (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 8 through 10) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 11. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most financially significant funds.

Reporting the City as a Whole

The Statement of Net Assets and the Statement of Activities

One of the most important questions asked about the City's finances is "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. The accruals of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them. You can think of the City's net assets, the difference between assets, what the citizens own, and liabilities, what the citizens owe, as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the City's property tax base and the condition of the City's capital assets (roads, buildings, and sidewalks) to assess the overall health of the City.

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

- **Governmental activities:** Most of the City's basic services are reported here, including the police, fire, street, sanitation, water park, recreation and general administration. Municipal insurance tax, property taxes, and state and federal grants finance most of these activities.
- **Business-type activities:** The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water and sewer activities are reported here.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 11 and provide detailed information about the most significant funds-not the City as a whole. Some funds are required to be established by State law. However, the City Council may establish many other funds to help it control and manage money for particular purposes (for example, capital projects) or to show that it is meeting legal responsibilities for grant funds (Municipal Aid Road Fund). The City's two kinds of funds, governmental and proprietary, use different accounting approaches.

CITY OF WILLIAMSBURG
Williamsburg, Kentucky

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

Governmental funds: Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in two reconciliations on pages 12 and 14.

Proprietary fund: When the City charges customers for the full cost of the services it provides, whether to outside customers or to other units of the City, these services are reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's proprietary fund is the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

Net Assets for the period ending June 30, 2012

Fiscal year 2012 government-wide net assets of the primary government compared to 2011 are as follows:

	2012	2011
Current assets	\$ 2,654,269	\$ 2,482,398
Capital assets, net	<u>32,679,882</u>	<u>31,773,612</u>
Total Assets	<u>\$ 35,334,151</u>	<u>\$ 34,256,010</u>
Current liabilities	\$ 1,196,311	\$ 882,267
Noncurrent liabilities	<u>7,971,906</u>	<u>8,292,022</u>
Total Liabilities	<u>\$ 9,168,217</u>	<u>\$ 9,174,289</u>
Net assets		
Investment in capital assets, net of related debt	\$ 24,044,407	\$ 23,111,567
Restricted	1,740,515	791,524
Unrestricted	<u>381,012</u>	<u>1,178,630</u>
Total Net Assets	<u>\$ 26,165,934</u>	<u>\$ 25,081,721</u>

The most significant change in the financial position of the City since the last audit was the increase in cash of \$109,505 and the increase in net capital assets of \$906,270. The City also received a contribution during the current year of a commercial building and land located in Williamsburg, Kentucky. The property was appraised at \$1,000,000 and will be used for economic development.

CITY OF WILLIAMSBURG
Williamsburg, Kentucky

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

Governmental Activities

The following table presents a summary of the primary government revenues and expenditures, for the General Fund only, for the fiscal years ended June 30:

	<u>2012</u>	<u>Percent</u>	<u>2011</u>	<u>Percent</u>
REVENUES				
Taxes	\$ 1,800,994	43.49 %	\$ 1,812,106	46.46%
Sanitation department	731,973	17.68	629,048	16.13
Privilege licenses	25,235	.61	24,363	.62
Police department	200,616	4.84	155,767	3.99
Recreation department	4,710	.11	1,660	.04
Fire department	27,758	.67	27,624	.71
Water park	1,302,160	31.45	1,205,722	30.91
Earnings on investments	6,647	.16	9,438	.24
General government	40,776	.99	35,301	.90
TOTAL REVENUES	<u>4,140,869</u>	<u>100.00</u>	<u>3,901,029</u>	<u>100.00</u>
EXPENDITURES				
General government	882,741	21.32	687,310	17.62
Police department	893,237	21.57	865,886	22.20
Fire department	327,264	7.90	334,791	8.58
Street department	67,593	1.63	60,092	1.54
Sanitation department	509,216	12.31	478,276	12.26
Recreation department	79,563	1.92	73,495	1.88
Water park	1,417,084	34.22	1,354,316	34.72
TOTAL EXPENDITURES	<u>4,176,698</u>	<u>100.87</u>	<u>3,854,166</u>	<u>98.80</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ (35,829)</u>	<u>(.87)%</u>	<u>\$ 46,863</u>	<u>1.20%</u>

In reviewing the net income (loss), the City showed a net loss before transfers of \$35,829 at June 30, 2012, as compared to a net income before transfers of \$46,863 at June 30, 2011. Revenues increased \$239,840, of which the majority of this increase came from the water park and sanitation. Expenditures increased \$322,532.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City Council did not revise the General Fund budget. The current year budget relied on the expectation of moderate increases in property and municipal insurance tax. The actual results showed increases in overall tax revenue of \$50,944 as compared to budget. The water park revenue was \$294,160 over budget and the water park expenditures were more than budget by \$161,499. The end result was that actual net revenues for the water park were \$132,661 more than budget. The City ended the year with a fund balance that was \$278,033 more than what was budgeted.

Actual revenues for the year, as compared to budget, were \$469,329 more than the budgeted amount.

Actual expenditures for the year, as compared to budget, were \$239,473 more than the budgeted amount.

CITY OF WILLIAMSBURG
Williamsburg, Kentucky

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2012, the City had \$18,897,830 invested in capital assets for governmental funds. This represents a net increase of \$1,211,173.

A comparison of capital assets, governmental activities, is as follows:

	<u>2012</u>	<u>2011</u>
Land	\$ 3,436,240	\$ 3,358,100
Buildings, improvements and infrastructure	5,919,805	4,993,805
Recreation facilities	6,852,646	6,752,649
Equipment	2,689,139	2,582,103
Totals	<u>\$ 18,897,830</u>	<u>\$ 17,686,657</u>

Debt Administration

At year-end, the City has \$8,635,475 in outstanding notes, bonds and capital leases compared to \$8,662,045 last year. That is a decrease of .31%.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Notes (backed by City)	\$ -	\$ 42,254	\$ 500,595	\$ 499,973	\$ 500,595	\$ 542,227
Bonds (backed by fee revenues)	-	-	2,807,000	2,940,500	2,807,000	2,940,500
Capital lease obligations (backed by City)	<u>5,321,184</u>	<u>5,165,000</u>	<u>6,696</u>	<u>14,318</u>	<u>5,327,880</u>	<u>5,179,318</u>
Totals	<u>\$5,321,184</u>	<u>\$5,207,254</u>	<u>\$ 3,314,291</u>	<u>\$3,454,791</u>	<u>\$ 8,635,475</u>	<u>\$8,662,045</u>

CITY OF WILLIAMSBURG
Williamsburg, Kentucky

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City is experiencing slow-growing revenues and rising operating costs. More economical ways of delivering services to the citizens and paying for those services is currently being researched. On a positive note, the citizens continue to enjoy a very low property tax rate compared to other communities. The City is continuing to achieve ways to fund its street, water and sanitation needs through grants and state aid.

The City is continuing to develop recreational facilities on a limited basis. The Hal Rogers Water Park is becoming a unique employment opportunity and area attraction.

All departments of the City continue to improve operations over the previous years. The Police Department has installed video cameras in all vehicles to obtain more positive outcomes in law enforcement cases with better evidence. The Street and Sanitation Departments continue to provide maintenance and improvements to the City's infrastructure, facilities and equipment.

In summary, the City enjoys a high level of services, excellent facilities, and adequate financial reserves at a very low tax rate. However, the reality is that steady development in the City that would generate new revenue to offset increased costs has not occurred. With the enactment of Whitley County's occupational and net profits tax as of July 1, 2005, and the City's agreement to share in this revenue, additional funds became available to fund the City's services.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Clerk's Office at P.O. Box 119, Williamsburg, Kentucky 40769 or phone at 606-549-6035.

CITY OF WILLIAMSBURG
Williamsburg, Kentucky

STATEMENT OF NET ASSETS
June 30, 2012

<u>ASSETS</u>	<u>Primary Government</u>			<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	<u>Williamsburg Tourism Commission</u>
CURRENT ASSETS				
Cash and cash equivalents	\$ 1,430,177	\$ 134,159	\$ 1,564,336	\$ 124,075
Investments	-	244,599	244,599	-
Accounts receivable:				
Taxes, less allowance for doubtful accounts of \$3,037	338,990	-	338,990	-
Accounts receivable, less allowance for doubtful accounts of \$3,644	-	290,336	290,336	-
Unbilled accounts receivable	-	154,854	154,854	-
Other receivables	19,316	-	19,316	-
Intergovernmental – state	42,841	-	42,841	-
Due (to) from primary government	<u>129,097</u>	<u>(130,100)</u>	<u>(1,003)</u>	<u>1,003</u>
Total current assets	<u>1,960,421</u>	<u>693,848</u>	<u>2,654,269</u>	<u>125,078</u>
NONCURRENT ASSETS				
Capital assets, net	<u>14,722,202</u>	<u>17,957,680</u>	<u>32,679,882</u>	<u>256,313</u>
Total noncurrent assets	<u>14,722,202</u>	<u>17,957,680</u>	<u>32,679,882</u>	<u>256,313</u>
TOTAL ASSETS	<u>16,682,623</u>	<u>18,651,528</u>	<u>35,334,151</u>	<u>381,391</u>
<u>LIABILITIES AND NET ASSETS</u>				
CURRENT LIABILITIES				
Accounts payable and accrued expenses	28,060	433,282	461,342	2,158
Customer deposits	-	71,400	71,400	-
Current portion of bond obligations	-	140,500	140,500	-
Current portion of capital lease obligations	441,906	6,696	448,602	-
Current portion of notes payable	-	<u>74,467</u>	<u>74,467</u>	-
Total current liabilities	<u>469,966</u>	<u>726,345</u>	<u>1,196,311</u>	<u>2,158</u>
NONCURRENT LIABILITIES				
Noncurrent portion of bond obligations	-	2,666,500	2,666,500	-
Noncurrent portion of capital lease obligations	4,879,278	-	4,879,278	-
Noncurrent portion of notes payable	-	<u>426,128</u>	<u>426,128</u>	-
Total noncurrent liabilities	<u>4,879,278</u>	<u>3,092,628</u>	<u>7,971,906</u>	-
TOTAL LIABILITIES	<u>5,349,244</u>	<u>3,818,973</u>	<u>9,168,217</u>	<u>2,158</u>

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

CITY OF WILLIAMSBURG
Williamsburg, Kentucky

STATEMENT OF NET ASSETS (CONTINUED)
June 30, 2012

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Williamsburg Tourism Commission
NET ASSETS				
Investment in capital assets, net of related debt	9,401,018	14,643,389	24,044,407	256,313
Restricted for:				
Customer deposits	-	71,400	71,400	-
Debt service	-	323,259	323,259	-
Municipal roads	244,707	-	244,707	-
Tourism and recreation	88,681	-	88,681	122,920
Economic development	7	-	7	-
Waterline and meter replacement	-	12,461	12,461	-
Contributed property	1,000,000	-	1,000,000	-
Unrestricted (deficit)	598,966	(217,954)	381,012	-
TOTAL NET ASSETS	<u>\$ 11,333,379</u>	<u>\$ 14,832,555</u>	<u>\$ 26,165,934</u>	<u>\$ 379,233</u>

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



NET (EXPENSES) REVENUES AND CHANGES IN NET ASSETS

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	<u>Component Unit</u>
\$ (933,278)		\$ (933,278)	
(749,563)		(749,563)	
(309,379)		(309,379)	
(15,067)		(15,067)	
233,322		233,322	
(103,903)		(103,903)	
(117,067)		(117,067)	
<u>(1,994,935)</u>		<u>(1,994,935)</u>	
	\$ (76,424)	(76,424)	
	<u>(76,424)</u>	<u>(76,424)</u>	
		<u>(2,071,359)</u>	
			\$ (311,647)
			<u>(311,647)</u>
559,869	-	559,869	-
179,716	-	179,716	-
317,430	-	317,430	-
722,129	-	722,129	-
21,850	-	21,850	-
-	-	-	122,163
-	-	-	509,518
25,235	-	25,235	-
8,110	3,457	11,567	1,183
40,776	-	40,776	2,020
<u>1,000,000</u>	-	<u>1,000,000</u>	-
2,875,115	3,457	2,878,572	634,884
277,000	-	277,000	(277,000)
<u>1,157,180</u>	<u>(72,967)</u>	<u>1,084,213</u>	<u>46,237</u>
10,176,199	14,905,522	25,081,721	332,996
<u>\$ 11,333,379</u>	<u>\$ 14,832,555</u>	<u>\$ 26,165,934</u>	<u>\$ 379,233</u>

CITY OF WILLIAMSBURG
Williamsburg, Kentucky

BALANCE SHEETS
GOVERNMENTAL FUNDS
June 30, 2012

	General Fund	Special Revenue Funds	Total Governmental Funds
ASSETS AND RESOURCES			
Cash and cash equivalents	\$ 1,149,861	\$ 280,316	\$ 1,430,177
Accounts receivable:			
Taxes, less allowance for doubtful accounts of \$3,037	276,684	62,306	338,990
Other receivables	19,316	-	19,316
Intergovernmental – state	24,008	18,833	42,841
Due (to) from primary government	129,097	-	129,097
TOTAL ASSETS AND RESOURCES	<u>\$ 1,598,966</u>	<u>\$ 361,455</u>	<u>\$ 1,960,421</u>
LIABILITIES			
Accounts payable and accrued expenses	\$ -	\$ 28,060	\$ 28,060
TOTAL LIABILITIES	<u>-</u>	<u>28,060</u>	<u>28,060</u>
FUND BALANCES			
Reserved for:			
Street repair	-	244,707	244,707
Economic development	-	7	7
Tourism and recreation	-	88,681	88,681
Unreserved	1,598,966	-	1,598,966
TOTAL FUND BALANCES	<u>1,598,966</u>	<u>333,395</u>	<u>1,932,361</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,598,966</u>	<u>\$ 361,455</u>	<u>\$ 1,960,421</u>

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

CITY OF WILLIAMSBURG
Williamsburg, Kentucky

RECONCILIATION OF THE BALANCE SHEETS – GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET ASSETS
June 30, 2012

Total Fund Balances per fund financial statements	\$ 1,932,361
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources, but they are reported in the statement of net assets.	14,722,202
Certain liabilities, such as capital lease obligations, bonds payable and notes payable, are not reported in this fund financial statement because they are not due and payable in the current period, but they are presented in the statement of net assets.	<u>(5,321,184)</u>
Total Net Assets for Governmental Activities	<u>\$ 11,333,379</u>

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

CITY OF WILLIAMSBURG
Williamsburg, Kentucky

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2012

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes			
Property	\$ 559,869	\$ -	\$ 559,869
Franchise	179,716	-	179,716
Municipal insurance	317,430	-	317,430
Occupational tax	722,129	-	722,129
Payment in lieu of taxes	21,850	-	21,850
Sanitation department	731,973	-	731,973
Privilege licenses	25,235	-	25,235
Police department	200,616	-	200,616
Recreation department	4,710	-	4,710
Street department	-	155,799	155,799
Fire department	27,758	-	27,758
Water park	1,302,160	-	1,302,160
Earnings on investments	6,647	1,463	8,110
General government	40,776	31,073	71,849
TOTAL REVENUES	<u>4,140,869</u>	<u>188,335</u>	<u>4,329,204</u>
EXPENDITURES			
General government	882,741	-	882,741
Police department	893,237	-	893,237
Fire department	327,264	-	327,264
Street department	67,593	90,333	157,926
Sanitation department	509,216	-	509,216
Recreation department	79,563	7,715	87,278
Water park	1,417,084	-	1,417,084
TOTAL EXPENDITURES	<u>4,176,698</u>	<u>98,048</u>	<u>4,274,746</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(35,829)</u>	<u>90,287</u>	<u>54,458</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers in	313,862	-	313,862
Operating transfers out	-	(36,862)	(36,862)
TOTAL OTHER FINANCING SOURCES (USES)	<u>313,862</u>	<u>(36,862)</u>	<u>277,000</u>
NET CHANGE IN FUND BALANCES	278,033	53,425	331,458
FUND BALANCES, JULY 1, 2011	<u>1,320,933</u>	<u>279,970</u>	<u>1,600,903</u>
FUND BALANCES, JUNE 30, 2012	<u>\$ 1,598,966</u>	<u>\$ 333,395</u>	<u>\$ 1,932,361</u>

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

CITY OF WILLIAMSBURG
Williamsburg, Kentucky

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2012

Net Change In Total Fund Balances – per fund financial statements **\$ 331,458**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period:

Capital outlay	\$ 1,480,199	
Depreciation	<u>(540,547)</u>	939,652

In the governmental funds, proceeds from debt reduce the capital outlay, whereas in the statement of activities, they are recorded as additional debt.	(291,184)
--	-----------

Payments on the notes payable are an expenditure in the governmental funds, but the repayments reduce noncurrent liabilities in the statement of net assets and does not result in an expense in the statement of activities.	42,254
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Payments on the capital leases are an expenditure in the governmental funds, but the repayments reduce noncurrent liabilities in the statement of net assets and does not result in an expense in the statement of activities.	<u>135,000</u>
--	----------------

Change In Net Assets of Governmental Activities **\$ 1,157,180**

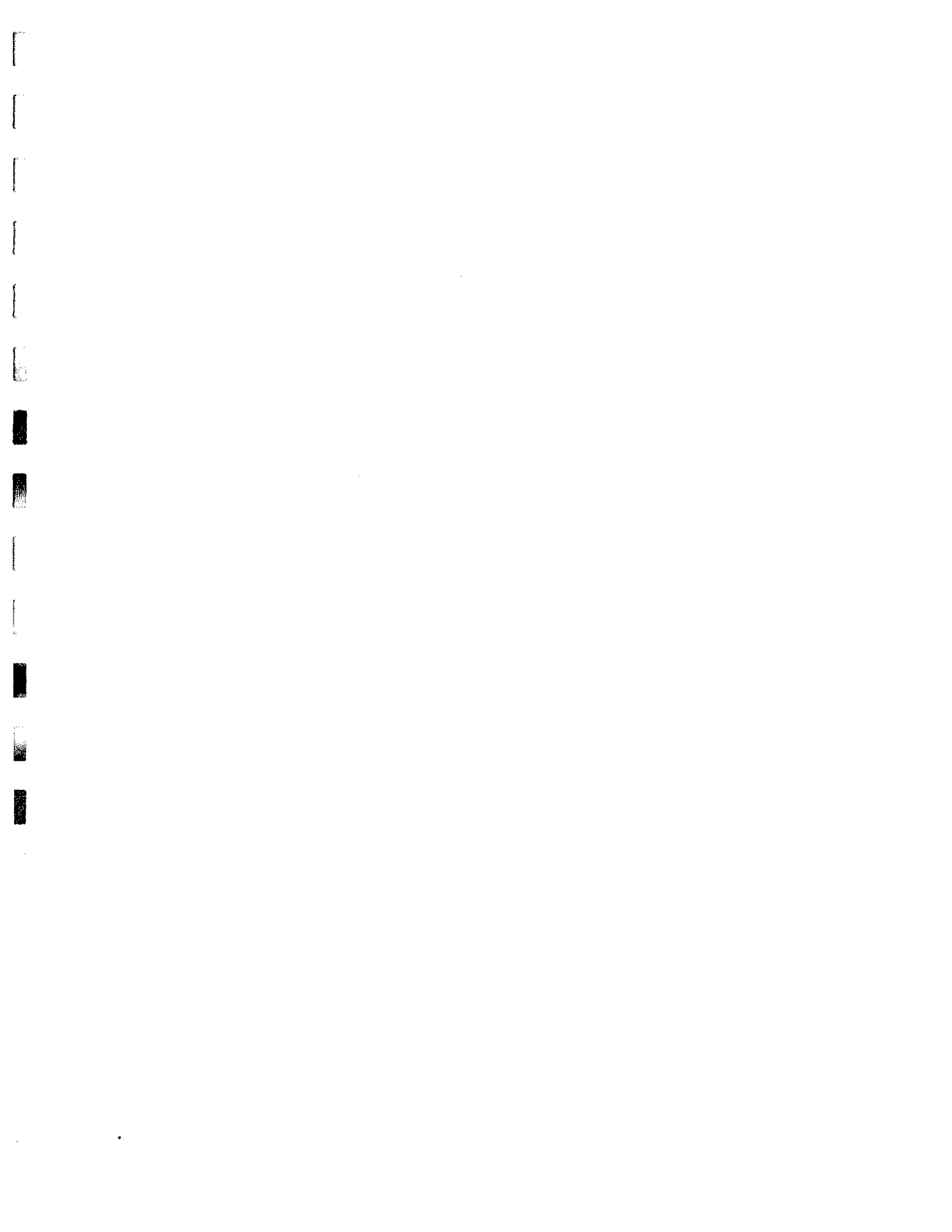
The accompanying notes are an integral part of these financial statements.

CITY OF WILLIAMSBURG
Williamsburg, Kentucky

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
GENERAL FUND
Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
Taxes				
Property	\$ 534,700	\$ 534,700	\$ 559,869	\$ 25,169
Franchise	183,500	183,500	179,716	(3,784)
Municipal insurance	320,000	320,000	317,430	(2,570)
Occupational tax	690,000	690,000	722,129	32,129
Payment in lieu of taxes	21,850	21,850	21,850	-
Sanitation department	698,000	698,000	731,973	33,973
Privilege licenses	24,000	24,000	25,235	1,235
Police department	147,300	147,300	200,616	53,316
Recreation department	1,500	1,500	4,710	3,210
Fire department	26,690	26,690	27,758	1,068
Water park	1,008,000	1,008,000	1,302,160	294,160
Earnings on investments	7,000	7,000	6,647	(353)
General government	9,000	9,000	40,776	31,776
TOTAL REVENUES	3,671,540	3,671,540	4,140,869	469,329
EXPENDITURES				
General government	812,890	812,890	882,741	(69,851)
Police department	900,720	900,720	893,237	7,483
Fire department	325,820	325,820	327,264	(1,444)
Street department	60,185	60,185	67,593	(7,408)
Sanitation department	509,525	509,525	509,216	309
Recreation department	72,500	72,500	79,563	(7,063)
Water park	1,255,585	1,255,585	1,417,084	(161,499)
TOTAL EXPENDITURES	3,937,225	3,937,225	4,176,698	(239,473)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(265,685)	(265,685)	(35,829)	229,856
OTHER FINANCING SOURCES (USES)				
Operating transfers in	390,100	390,100	313,862	(76,238)
Operating transfers out	(120,000)	(120,000)	-	120,000
Reserve for transfer	(4,415)	(4,415)	-	4,415
TOTAL OTHER FINANCING SOURCES (USES)	265,685	265,685	313,862	48,177
NET CHANGE IN FUND BALANCE	\$ -	\$ -	278,033	\$ 278,033
FUND BALANCE, JULY 1, 2011			1,320,933	
FUND BALANCE, JUNE 30, 2012			\$ 1,598,966	

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



Local Government Economic Assistance

<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
<u>Original</u>	<u>Final</u>		
\$ -	\$ -	\$ -	\$ -
35,000	35,000	31,073	(3,927)
100	100	20	(80)
<u>35,100</u>	<u>35,100</u>	<u>31,093</u>	<u>(4,007)</u>
-	-	-	-
-	-	-	-
<u>35,100</u>	<u>35,100</u>	<u>31,093</u>	<u>(4,007)</u>
<u>(35,100)</u>	<u>(35,100)</u>	<u>(36,862)</u>	<u>(1,762)</u>
<u>(35,100)</u>	<u>(35,100)</u>	<u>(36,862)</u>	<u>(1,762)</u>
<u>\$ -</u>	<u>\$ -</u>	(5,769)	<u>\$ (5,769)</u>
		<u>5,776</u>	
		<u>\$ 7</u>	

CITY OF WILLIAMSBURG
Williamsburg, Kentucky

STATEMENT OF NET ASSETS
PROPRIETARY FUND –WATER AND SEWER
June 30, 2012

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 134,159
Investments	244,599
Accounts receivable, less allowance for doubtful accounts of \$3,644	290,336
Unbilled accounts receivable	154,854
Due (to) from primary government	<u>(130,100)</u>
Total current assets	<u>693,848</u>

NONCURRENT ASSETS

Capital assets, net	<u>17,957,680</u>
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TOTAL ASSETS

18,651,528

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued expenses	433,282
Customer deposits	71,400
Current portion of bond obligations	140,500
Current portion of capital lease obligations	6,696
Current portion of notes payable	<u>74,467</u>
Total current liabilities	<u>726,345</u>

NONCURRENT LIABILITIES

Noncurrent portion of bond obligations	2,666,500
Noncurrent portion of notes payable	<u>426,128</u>
Total noncurrent liabilities	<u>3,092,628</u>

TOTAL LIABILITIES

3,818,973

NET ASSETS

Investment in capital assets, net of related debt	14,643,389
Restricted for debt service	323,259
Restricted for waterline and meter replacement	12,461
Restricted for customer deposits	71,400
Unrestricted (deficit)	<u>(217,954)</u>
TOTAL NET ASSETS	<u>\$ 14,832,555</u>

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

CITY OF WILLIAMSBURG
Williamsburg, Kentucky

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND – WATER AND SEWER
Year Ended June 30, 2012

Gallons sold (in thousands) 296,304

	<u>Water</u>	<u>Per 1,000 Gallons</u>
OPERATING REVENUES		
Sales	\$ 1,046,632	\$ 3.53
Other revenues	<u>27,363</u>	<u>.09</u>
TOTAL OPERATING REVENUES	<u>1,073,995</u>	<u>3.62</u>
OPERATING EXPENSES		
Wages	319,550	1.08
Employee taxes and benefits	127,988	.43
Supplies and expenses	3,590	.01
Pump station expense	32,298	.11
Dues and publications	527	-
Meter boxes, parts and taps	58,163	.20
Utilities	144,164	.49
Office supplies	8,611	.03
Insurance	22,534	.08
Vehicle expense	19,998	.07
Repairs and maintenance	92,151	.31
Depreciation	253,978	.85
Travel and training	3,515	.01
Professional services	4,125	.01
Rents and service contracts	19,979	.07
Pretreatment and sludge	-	-
Lead and copper testing	14,874	.05
Chemicals	80,736	.27
Miscellaneous	<u>17,271</u>	<u>.06</u>
TOTAL OPERATING EXPENSES	<u>1,224,052</u>	<u>4.13</u>
OPERATING INCOME (LOSS)	<u>\$ (150,057)</u>	<u>\$ (.51)</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest on revenue bonds and notes payable		
Earnings on investments		
Grant – water system improvements/area development project		
TOTAL NON-OPERATING REVENUES (EXPENSES)		

NET INCOME (LOSS)

NET ASSETS, JULY 1, 2011

NET ASSETS, JUNE 30, 2012

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

<u>Sewer</u>	<u>Per 1,000 Gallons</u>	<u>Total</u>
\$ 774,799	\$ 2.62	\$ 1,821,431
<u>18,417</u>	<u>.06</u>	<u>45,780</u>
<u>793,216</u>	<u>2.68</u>	<u>1,867,211</u>
299,051	1.01	618,601
123,191	.42	251,179
14,476	.05	18,066
56,369	.19	88,667
382	-	909
13,801	.05	71,964
108,419	.37	252,583
5,728	.02	14,339
23,402	.08	45,936
13,199	.05	33,197
47,205	.16	139,356
253,978	.86	507,956
1,677	-	5,192
4,125	.01	8,250
14,479	.05	34,458
13,364	.04	13,364
26,846	.09	41,720
3,294	.01	84,030
<u>1,484</u>	<u>-</u>	<u>18,755</u>
<u>1,024,470</u>	<u>3.46</u>	<u>2,248,522</u>
\$ (231,254)	\$ (.78)	(381,311)

(143,508)
3,457
448,395
308,344
(72,967)
14,905,522
\$ 14,832,555

CITY OF WILLIAMSBURG
Williamsburg, Kentucky

STATEMENT OF CASH FLOWS
PROPRIETARY FUND – WATER AND SEWER
Year Ended June 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from water and sewer revenues	\$ 1,801,038
Cash payments for wages	(618,601)
Cash payments for employee taxes and benefits	(251,179)
Cash payments for other expenses	<u>(748,472)</u>
Net cash provided (used) by operating activities	<u>182,786</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal payments	(214,268)
Interest payments	(143,742)
Cash payments for purchases of capital assets	<u>(474,574)</u>
Net cash provided (used) by capital and related financing activities	<u>(832,584)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Receipt of interest	3,457
Receipt of grants	448,395
Receipt of KIA loan proceeds	<u>73,768</u>
Net cash provided (used) by investing activities	<u>525,620</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(124,178)
CASH AND CASH EQUIVALENTS, JULY 1, 2011	<u>258,337</u>
CASH AND CASH EQUIVALENTS, JUNE 30, 2012	<u>\$ 134,159</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating income (loss)	\$ (381,311)
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Depreciation	507,956
Changes in assets and liabilities:	
Accounts receivable	(60,400)
Unbilled accounts receivable	(5,773)
Due (to) from primary government	33,207
Accounts payable and accrued expenses	86,738
Customer deposits	<u>2,369</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 182,786</u>

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

CITY OF WILLIAMSBURG
Williamsburg, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies that affect the significant elements of the City of Williamsburg are summarized as follows:

REPORTING ENTITY

The City of Williamsburg (City) is a fourth-class city and has oversight responsibilities over all activities related to the operation of the City. The City receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the City is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board (GASB) pronouncement since the council members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The City, for financial purposes, includes all of the funds and account groups relevant to the operation of the City of Williamsburg.

The financial statements of the City include those of separately administered organizations that are controlled by or dependent on the City. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statement of the following entity is included in the accompanying financial statements as a discretely presented component unit:

WILLIAMSBURG TOURISM COMMISSION

The Commission was formed by the City for the purpose of promoting recreational, convention and tourist activities.

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 governmental and business-type activities of the City.

The government-wide financial statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of 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 fund financial statements.

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 governmental activities of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of 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. All taxes and revenues not

CITY OF WILLIAMSBURG
Williamsburg, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Their focus is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column.

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. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations of these funds are included on the balance sheet. Proprietary fund's operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

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 fund balances are considered as resources available for use. This is a major fund of the City.
- (B) The Special Revenue Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. These are not major funds of the City.

II. Proprietary Fund Types (Enterprise Funds)

- (A) The Water and Sewer Fund is used to account for the utility operations of the City.

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

CITY OF WILLIAMSBURG
Williamsburg, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. The fund financial statements are prepared using either modified accrual for governmental funds or accrual basis for proprietary funds.

Revenues, Exchange and Nonexchange Transactions: 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 recognized in the fiscal year when they become both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period of the City is sixty days after year end.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants and entitlements. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been met. 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, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Expenditures/Expenses: On the accrual basis of accounting, expenses are recorded at the time they are incurred. The measurement focus of governmental fund accounting is on a flow of current financial resources. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred except for (1) principal and interest on general long-term debt, which is recorded when due, and (2) the costs of accumulated unpaid vacation and sick leave, which are reported as fund liabilities in the period in which they will be liquidated with available financial resources rather than in the period earned by employees.

CASH AND CASH EQUIVALENTS

The City has bank accounts and certificates of deposit. The City utilizes a financial institution to service bonded debt as principal and interest payments come due. The monies are either maintained in a central bank account or used to purchase legal investments.

It is the policy of the City to value investment contracts and money market investments with a maturity of one year or less at the time of purchase at cost or amortized cost. Investment contracts and money market investments that had a remaining maturity of greater than one year at the time of purchase are reported at fair value.

The Kentucky Revised Statutes authorized the City to invest in United States and State of Kentucky bonds, notes and other obligations; bank certificates of deposit; banker's acceptances; and commercial paper notes rated prime and issued by United States corporations. It is the City's policy to invest in all of the above types of investments. Under existing Kentucky statutes, all investment earnings accrue to the general fund except certain trust funds, which accrue to those funds individually.

INVESTMENTS

The City's investments are comprised solely of certificates of deposit.

CITY OF WILLIAMSBURG
Williamsburg, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PREPAID EXPENSES

Payments made that will benefit periods beyond June 30, 2012 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

ACCOUNTS RECEIVABLE

Accounts receivable are carried at net of allowance for doubtful accounts. The allowance for doubtful accounts for the business-type activities is based on historical bad debt experience and is estimated to be approximately .2% of water and sewer sales.

CAPITAL ASSETS AND DEPRECIATION

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets are reported in the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by proprietary funds are reported on both statement types.

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 follows the policy of not capitalizing assets with a cost of less than \$1,000 and a useful life of less than 1 year.

All reported capital assets, with the exception of land, 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 governmental fund capital assets and proprietary fund capital assets:

<u>Description</u>	<u>Useful Life</u>
Buildings and improvements	10-50 years
Pool, parks and recreation equipment	10-25 years
Water park complex	10-50 years
Water and sewer system	25-50 years
Equipment	10 years
Infrastructure-roads/sidewalks	30 years

INTERFUND ACTIVITY

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues. Sales of goods and services between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds.

On fund financial statements, short-term interfund loans are classified as interfund receivables/payables. These amounts are eliminated in the statement of net assets, except for amounts due between governmental and business-type activities, which are presented as internal balances.

CITY OF WILLIAMSBURG
Williamsburg, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ACCUMULATED UNPAID SICK LEAVE BENEFITS

Vacation benefits are accrued as a liability as the benefits are earned if the employee's right to receive compensation is attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability is based on the sick leave accumulated at June 30 by those employees who are currently eligible to receive termination payments and those employees for whom it is probable they will become eligible to receive termination benefits in the future. The criteria for determining the vacation and sick leave liability is derived from City policy, negotiated agreements, and state laws.

The entire compensated absences liability is reported on the government-wide financial statements. For governmental fund financial statements, the amount of accumulated vacation and sick leave of employees has been recorded as a current liability to the extent that the amounts are expected to be paid using expendable available financial resources. The balance of the liability is not recorded. For proprietary funds, the entire amount of compensated absences is recorded as an expense and liability of the fund.

ACCRUED LIABILITIES AND LONG-TERM DEBT

All accrued liabilities and long-term debt are reported in the government-wide financial statements as well as the proprietary fund financial statements.

For governmental fund financial statements, the accrued liabilities are generally reported as a governmental fund liability if due for payment as of the balance sheet date regardless of whether they will be liquidated with current financial resources. However, claims and judgments and compensated absences paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable available financial resources. Long-term debt paid from governmental funds is not recognized as a liability in the fund financial statements until due.

GOVERNMENTAL FUND BALANCE RESERVES

The City records reservations for portions of governmental fund balances which are legally segregated for specific future use or which do not represent available spendable resources and therefore not available for appropriation. Unreserved fund balance indicates the portion of fund balance that is available for appropriation in future periods. Reservations of fund balance are established for debt service, municipal roads, economic development, tourism and recreation, customer deposits and waterline and meter replacement.

RESTRICTED RESOURCES

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

NET ASSETS

Net assets represent the difference between assets and liabilities. Investment in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

CITY OF WILLIAMSBURG
Williamsburg, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

OPERATING REVENUES AND EXPENSES

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, those revenues are primarily charges for water and sewer.

CONTRIBUTIONS OF CAPITAL

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

ESTIMATES

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

BUDGETARY PROCESS

Budgetary Basis of Accounting: The City's budgetary process accounts for certain transactions on a basis other than U.S. Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved, it can be amended. Amendments are presented to the Council at their regular meetings.

NOTE 2 – CASH AND CASH EQUIVALENTS

The City's funds are required to be deposited and invested under statutory regulations. The depository bank deposits for safekeeping and trust with the City's third party agent approved pledged securities in an amount sufficient to protect City funds on a day-to-day basis. The pledge of approved securities is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation insurance.

At June 30, 2012, the carrying amount of the City's deposits (cash and investments) was \$1,808,935 and the bank balance was \$2,031,854. The entire bank balance throughout the year was not covered by federal depository insurance or by collateral held by the City's agent in the City's name.

The deposits were deemed collateralized, except as noted above, under Kentucky Law during the year and the City maintains copies of all safekeeping receipts. The following is disclosed:

- a. Name of banks utilized during fiscal year: Whitaker Bank, Community Trust Bank, First State Financial and Forcht Bank.
- b. Amount of bond and/or security pledged as of the date of the highest combined balance on deposit was \$2,066,121.

CITY OF WILLIAMSBURG
Williamsburg, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 – CASH AND CASH EQUIVALENTS (CONTINUED)

- c. Largest cash, savings and time deposit combined account balance amounted to \$2,135,147 and occurred during the month of June 2012.
- d. Total amount of FDIC coverage at the time of largest combined balance was \$1,000,000.

The cash deposits held at financial institutions can be categorized according to three levels of risk.

These three levels of risk are as follows:

- Category 1 Deposits, which are insured or collateralized with securities, held by the City or by its agent in the City's name.
- Category 2 Deposits, which are collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.
- Category 3 Deposits, which are not collateralized or insured.

Based on these three levels of risk, the City's cash deposits are classified as Category 1, Category 2 and Category 3.

NOTE 3 – PROPERTY TAXES

The City's ad valorem property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City. The assessed value of the certified roll, upon which the levy for the 2012 fiscal year was based, was \$180,035,416. The tax rates assessed for the year ended June 30, 2012 to finance general fund operations were \$.26 per \$100 valuation for real estate and \$.3586 for tangible property. Taxes are due on October 1, and become delinquent by January 1 following the October 1 levy date. Current tax collections for the year ended June 30, 2012 were ninety-seven percent of the tax levy. Delinquent taxes are allocated to the general fund. The City records taxes receivable only for the amounts collected during the next sixty days from its fiscal year end. An allowance is made for all delinquent taxes based on historical collection rates.

At June 30, 2012, the components of taxes receivable were as follows:

General property tax, net of allowance	\$ 12,147
Transient room and restaurant tax	62,306
Municipal insurance tax	79,774
Occupational tax	183,822
Omitted tangibles	941
Total	<u>\$ 338,990</u>

NOTE 4 – OTHER RECEIVABLES

Other receivables at June 30, 2012 consisted of various accounts receivable. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds.

CITY OF WILLIAMSBURG
Williamsburg, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 5 – CAPITAL ASSETS

A summary of capital assets activity during the fiscal year follows:

	Balance <u>July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2012</u>
GOVERNMENTAL ACTIVITIES				
Land	\$ 3,358,100	\$ 78,140	\$ -	\$ 3,436,240
Buildings, improvements and Infrastructure	4,993,805	926,000	-	5,919,805
Pool, parks and recreation equipment	292,044	-	-	292,044
Water park complex	6,460,605	99,997	-	6,560,602
Fire department equipment	630,779	28,502	-	659,281
Police department equipment	572,414	328,360	(206,891)	693,883
Street department equipment	208,835	2,200	-	211,035
Sanitation department equipment	513,007	-	(62,135)	450,872
General and administrative equipment	623,508	17,000	-	640,508
Bingo equipment	24,310	-	-	24,310
Municipal road aid equipment	<u>9,250</u>	<u>-</u>	<u>-</u>	<u>9,250</u>
Totals at cost	17,686,657	1,480,199	(269,026)	18,897,830
Less accumulated depreciation	<u>(3,904,107)</u>	<u>269,026</u>	<u>(540,547)</u>	<u>(4,175,628)</u>
Governmental activities capital assets, net	<u>\$ 13,782,550</u>	<u>\$ 1,749,225</u>	<u>\$ (809,573)</u>	<u>\$ 14,722,202</u>

Governmental activities depreciation was allocated as follows:

General government	\$ 157,750
Police department	94,118
Fire department	38,375
Street department	15,140
Sanitation department	31,689
Recreation department	21,335
Water park	<u>182,140</u>
Total	<u>\$ 540,547</u>

	Balance <u>July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2012</u>
BUSINESS-TYPE ACTIVITIES				
Water and sewer	\$ 24,901,999	\$ 8,586	\$ -	\$ 24,910,585
Construction in progress	45,978	465,988	-	511,966
Less accumulated depreciation	<u>(6,956,915)</u>	<u>-</u>	<u>(507,956)</u>	<u>(7,464,871)</u>
Business-type activities capital assets, net	<u>\$ 17,991,062</u>	<u>\$ 474,574</u>	<u>\$ (507,956)</u>	<u>\$ 17,957,680</u>

CITY OF WILLIAMSBURG
Williamsburg, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 6 – CAPITAL LEASE OBLIGATIONS

The following is a summary of the capital lease obligations:

	<u>Balance</u> <u>July 1, 2011</u>	<u>Borrowings</u>	<u>Repayments</u>	<u>Balance</u> <u>June 30, 2012</u>
GOVERNMENTAL ACTIVITIES				
Capital lease agreement, original balance of \$5,000,000 with a fixed interest rate of 3.8%	\$ 3,575,000	\$ -	\$ 80,000	\$ 3,495,000
Capital lease agreement, original balance of \$291,184 with a fixed interest rate of 4.13%	-	291,184	-	291,184
Capital lease obligation, original balance of \$1,690,000 with a fixed interest rate of 5% through 2013, 5.25% through 2016, 5.75% through 2019 and 6.25% thereafter	<u>1,590,000</u>	<u>-</u>	<u>55,000</u>	<u>1,535,000</u>
Totals	<u>\$ 5,165,000</u>	<u>\$ 291,184</u>	<u>\$ 135,000</u>	<u>\$ 5,321,184</u>

The following is a summary of principal maturities and interest requirements:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 441,906	\$ 220,928	\$ 662,834
2014	454,063	212,855	666,918
2015	470,882	194,236	665,118
2016	492,778	174,977	667,755
2017	519,750	154,445	674,195
2018-2022	2,121,805	450,356	2,572,161
2023-2027	550,000	179,187	729,187
2028-2029	<u>270,000</u>	<u>18,538</u>	<u>288,538</u>
Totals	<u>\$ 5,321,184</u>	<u>\$ 1,605,522</u>	<u>\$ 6,926,706</u>

Interest and fees paid on the capital lease obligations of \$161,871 are included in water park expenses and \$80,600 are included in general fund expenses.

	<u>Balance</u> <u>July 1, 2011</u>	<u>Borrowings</u>	<u>Repayments</u>	<u>Balance</u> <u>June 30, 2012</u>
BUSINESS-TYPE ACTIVITIES				
Capital lease agreement, original balance of \$15,547 with a fixed interest rate of 5.75%	<u>\$ 14,318</u>	<u>\$ -</u>	<u>\$ 7,622</u>	<u>\$ 6,696</u>

CITY OF WILLIAMSBURG
Williamsburg, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 6 – CAPITAL LEASE OBLIGATIONS (CONTINUED)

The following is a summary of principal maturities and interest requirements:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ <u>6,696</u>	\$ <u>177</u>	\$ <u>6,873</u>

Interest paid on the capital lease obligation of \$625 is included in water and sewer expenses.

NOTE 7 – NOTES PAYABLE

GOVERNMENTAL ACTIVITIES

Following is a summary of the notes payable - governmental activities:

	<u>Balance July 1, 2011</u>	<u>Borrowings</u>	<u>Repayments</u>	<u>Balance June 30, 2012</u>
4.54% note payable, secured by new garbage truck, annual payments of \$22,577 including interest	\$ <u>42,254</u>	\$ -	\$ <u>42,254</u>	\$ -

Interest of \$2,341 for the year is included in sanitation department expenses.

BUSINESS-TYPE ACTIVITIES

The note payable of \$83,322 represents a loan from the Kentucky Infrastructure Authority. This loan bears interest at a rate of 2%. Repayment is over a twenty-year period. This loan was for water and sewer line improvements.

The debt service to maturity on this note is as follows:

<u>KENTUCKY INFRASTRUCTURE AUTHORITY (A91-12)</u>			
<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 55,371	\$ 1,394	\$ 56,765
2014	<u>27,951</u>	<u>281</u>	<u>28,232</u>
Totals	<u>\$ 83,322</u>	<u>\$ 1,675</u>	<u>\$ 84,997</u>

The City also had a construction line of credit with the Kentucky Infrastructure Authority in the amount of \$400,000 which bears interest at the rate of .7%. This note was converted to permanent financing during 2010. The unpaid balance at June 30, 2012 was \$343,505.

CITY OF WILLIAMSBURG
Williamsburg, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 7 – NOTES PAYABLE (CONTINUED)

The debt service to maturity on this note is as follows:

<u>KENTUCKY INFRASTRUCTURE AUTHORITY (B07-08)</u>			
<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 19,096	\$ 3,049	\$ 22,145
2014	19,231	2,876	22,107
2015	19,365	2,703	22,068
2016	19,501	2,528	22,029
2017	19,638	2,353	21,991
2018-2022	100,273	9,083	109,356
2023-2027	103,839	4,499	108,338
2028-2029	<u>42,562</u>	<u>479</u>	<u>43,041</u>
Totals	<u>\$ 343,505</u>	<u>\$ 27,570</u>	<u>\$ 371,075</u>

During the current year, the City obtained a loan in the amount of \$1,035,517 from the Kentucky Infrastructure Authority. Terms of the loan according to the preliminary repayment schedule call for thirty percent principal forgiveness (\$310,655) and one percent interest. The City drew down funds in the amount of \$73,768 by year end. This loan was for water and sewer line improvements.

NOTE 8 – BONDS PAYABLE

Revenue bonds of \$1,833,000 with interest at the rate of 5% were issued by the City on March 14, 1979, to defray the cost (not otherwise provided) of a new water treatment plant and appurtenant facilities. The bonds outstanding of \$469,000 at June 30, 2012, are payable solely from and secured by a secondary pledge of operating income of the fund and a secondary lien on the facilities. Bonds retired during the year were \$81,000.

Revenue bonds of \$1,018,000 with interest at the rate of 5% were issued by the City on September 11, 1988, to defray the cost (not otherwise provided) of a sewer line expansion project. The bonds outstanding of \$654,000 at June 30, 2012, are payable solely on a second-lien basis, on a parity with the bonds of 1979, out of the gross revenues of the fund. Bonds retired during the year were \$26,000.

Rural Utilities Service Revenue bonds of \$1,805,000 with interest at the rate of 4.5% were issued by the City on June 5, 2002, for the purpose of providing funds (not otherwise provided) for the permanent financing of the costs of extensions, additions and improvements to the existing combined and consolidated water and sewer system. The bonds outstanding of \$1,684,000 at June 30, 2012, as well as the Kentucky Infrastructure loan, are payable out of gross revenues of the fund. Bonds retired during the year were \$26,500.

In connection with the issuance of the revenue bonds of the Water and Sewer Fund, the bond indentures and City ordinances require that specified amounts be transferred to the Sinking Fund. The City has made the required deposits into the Sinking Fund during the year.

CITY OF WILLIAMSBURG
Williamsburg, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 8 – BONDS PAYABLE (CONTINUED)

Debt service requirements to maturity are as follows:

<u>REVENUE BONDS, 1979 ISSUE</u>			
<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 85,000	\$ 23,450	\$ 108,450
2014	89,000	19,200	108,200
2015	94,000	14,750	108,750
2016	98,000	10,050	108,050
2017	103,000	5,150	108,150
Totals	<u>\$ 469,000</u>	<u>\$ 72,600</u>	<u>\$ 541,600</u>

<u>REVENUE BONDS, 1988 ISSUE</u>			
<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 28,000	\$ 32,700	\$ 60,700
2014	29,000	31,300	60,300
2015	30,000	29,850	59,850
2016	32,000	28,350	60,350
2017	34,000	26,750	60,750
2018	35,000	25,050	60,050
2019	37,000	23,300	60,300
2020	39,000	21,450	60,450
2021	41,000	19,500	60,500
2022	43,000	17,450	60,450
2023	45,000	15,300	60,300
2024	47,000	13,050	60,050
2025	50,000	10,700	60,700
2026	52,000	8,200	60,200
2027	55,000	5,600	60,600
2028	57,000	2,850	59,850
Totals	<u>\$ 654,000</u>	<u>\$ 311,400</u>	<u>\$ 965,400</u>

<u>RURAL UTILITIES SERVICE REVENUE BONDS, 2002 ISSUE</u>			
<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 27,500	\$ 75,780	\$ 103,280
2014	29,000	74,543	103,543
2015	30,000	73,238	103,238
2016	31,500	71,888	103,388
2017	33,000	70,470	103,470
2018	34,500	68,985	103,485
2019	36,000	67,433	103,433
2020	37,500	65,813	103,313
2021	39,500	64,125	103,625
2022	41,000	62,348	103,348
2023	43,000	60,503	103,503
2024	45,000	58,568	103,568
2025	47,000	56,543	103,543

CITY OF WILLIAMSBURG
Williamsburg, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 8 – BONDS PAYABLE (CONTINUED)

RURAL UTILITIES SERVICE REVENUE BONDS, 2002 ISSUE (CONTINUED)

Year	Principal	Interest	Total
2026	49,000	54,428	103,428
2027	51,000	52,223	103,223
2028	53,500	49,928	103,428
2029	56,000	47,520	103,520
2030	58,500	45,000	103,500
2031	61,000	42,368	103,368
2032	64,000	39,623	103,623
2033	66,500	36,743	103,243
2034	69,500	33,750	103,250
2035	73,000	30,623	103,623
2036	76,000	27,338	103,338
2037	79,500	23,918	103,418
2038	83,000	20,340	103,340
2039	87,000	16,605	103,605
2040	90,500	12,690	103,190
2041	95,000	8,618	103,618
2042	96,500	4,343	100,843
Totals	<u>\$ 1,684,000</u>	<u>\$ 1,416,295</u>	<u>\$ 3,100,295</u>

NOTE 9 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions and general liability coverage, the City participates in the Kentucky League of Cities and Kentucky Risk Management Associations Trust. These public entity risk pools operate as common risk management and insurance programs for all cities. The City pays an annual premium to each fund for coverage. Contributions to the workers' compensation fund are based on premium rates established by such funds in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four months after the expiration of the self-insurance term. The liability insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro-rata basis.

The City is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The City has purchased certain policies, which are retrospectively rated, which include workers' compensation insurance.

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the City at risk for a substantial loss (contingency). There were no instances of noncompliance noted.

CITY OF WILLIAMSBURG
Williamsburg, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 10 – RETIREMENT PLANS

Substantially all employees are covered under the County Employee's Retirement System ("CERS"), a cost sharing, multiple-employer, public employers retirement system. Funding for the Plan is provided through payroll withholdings of 5% for employees who began participating before September 1, 2008 and 6% for new participants who began after September 1, 2008 and a City contribution of 18.96% of the employee's total compensation subject to contribution.

The City's total payroll for the year was \$2,022,711. The payroll for employees covered under CERS was \$1,659,541.

The contribution requirement for CERS for the year ended June 30, 2012 was \$398,078 which consisted of \$314,649 from the City and \$83,429 from the employees.

Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the Plan documents.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among the plans and employers. CERS does not make separate measurements of assets and pension benefit obligation for individual employers.

Ten-year historical trend information showing CERS's progress in accumulating sufficient assets to pay benefits when due is presented in their June 30, 2011 comprehensive annual financial report available on their website.

As the City is only one of several employers participating in the Plan, it is not practicable to determine the City's portion of the unfunded past service cost or the vested benefits of the City's portion of the Plan assets.

NOTE 11 – COMMITMENTS AND 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 grantor's satisfaction that the funds provided are being spent as intended and the grantor's intent to continue their programs.

No provision was made in the accompanying financial statements for any contingent liabilities.

NOTE 12 – OFF-BALANCE-SHEET RISK AND CONCENTRATIONS OF CREDIT RISK

The Accounting Standards require disclosure of information about financial instruments for which risk could exceed amounts reflected in the financial statements and information about significant geographic, industry, or other concentrations of credit risk for all financial instruments. We noted no additional items that needed to be disclosed.

CITY OF WILLIAMSBURG
Williamsburg, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 13 – TRANSFER OF FUNDS

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	Williamsburg Tourism Commission	General	Recreation	\$ 25,000
Operating	Williamsburg Tourism Commission	General	Debt service requirement	252,000
Operating	LGEA	General	Reimbursement of expenses	36,862

NOTE 14 – DUE (TO) FROM PRIMARY GOVERNMENT

Due (to) from primary government consisted of the following at June 30, 2012:

<u>Governmental Activities</u>		
Due to component unit – Williamsburg Tourism Commission		\$ (1,003)
Due from business-type activities – Water and Sewer Fund		<u>130,100</u>
Total		<u>\$ 129,097</u>

NOTE 15 – DEFICIT OPERATING/FUND BALANCES

The following funds had operations that resulted in current year operating deficits in governmental funds, resulting in corresponding reductions in fund balance, as follows:

Local Government Economic Assistance Fund	<u>\$ (5,769)</u>
Tourism and Recreation	<u>\$ (7,715)</u>

NOTE 16 - SUBSEQUENT EVENTS

We evaluated events and transactions that occurred after the balance sheet date as potential subsequent events. We performed this evaluation through October 31, 2012, the date on which we issued our financial statements.

CITY OF WILLIAMSBURG
Williamsburg, Kentucky

COMBINING BALANCE SHEETS
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2012

	Municipal Road Aid	Local Government Economic Assistance	Tourism and Recreation	Total
ASSETS AND RESOURCES				
Cash and cash equivalents	\$ 253,934	\$ 7	\$ 26,375	\$ 280,316
Accounts receivable:				
Taxes	-	-	62,306	62,306
Intergovernmental - state	18,833	-	-	18,833
TOTAL ASSETS AND RESOURCES	<u>\$ 272,767</u>	<u>\$ 7</u>	<u>\$ 88,681</u>	<u>\$ 361,455</u>
FUND BALANCES				
Accounts payable and accrued expenses	\$ 28,060	\$ -	\$ -	\$ 28,060
Reserved for:				
Street repair	244,707	-	-	244,707
Economic development	-	7	-	7
Tourism and recreation	-	-	88,681	88,681
TOTAL FUND BALANCES	<u>244,707</u>	<u>7</u>	<u>88,681</u>	<u>333,395</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 272,767</u>	<u>\$ 7</u>	<u>\$ 88,681</u>	<u>\$ 361,455</u>

CITY OF WILLIAMSBURG
Williamsburg, Kentucky

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2012

	<u>Municipal Road Aid</u>	<u>Local Government Economic Assistance</u>	<u>Tourism and Recreation</u>	<u>Total</u>
REVENUES				
Intergovernmental revenues:				
Street department	\$ 155,799	\$ -	\$ -	\$ 155,799
Coal and mineral grants	-	31,073	-	31,073
Earnings on investments	<u>1,443</u>	<u>20</u>	-	<u>1,463</u>
TOTAL REVENUES	<u>157,242</u>	<u>31,093</u>	<u>-</u>	<u>188,335</u>
EXPENDITURES				
Street department	90,333	-	-	90,333
Recreation department	-	-	<u>7,715</u>	<u>7,715</u>
TOTAL EXPENDITURES	<u>90,333</u>	<u>-</u>	<u>7,715</u>	<u>98,048</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>66,909</u>	<u>31,093</u>	<u>(7,715)</u>	<u>90,287</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers out	-	<u>(36,862)</u>	-	<u>(36,862)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>(36,862)</u>	<u>-</u>	<u>(36,862)</u>
NET CHANGE IN FUND BALANCES	66,909	(5,769)	(7,715)	53,425
FUND BALANCES, JULY 1, 2011	<u>177,798</u>	<u>5,776</u>	<u>96,396</u>	<u>279,970</u>
FUND BALANCES, JUNE 30, 2012	<u>\$ 244,707</u>	<u>\$ 7</u>	<u>\$ 88,681</u>	<u>\$ 333,395</u>

Marr, Miller & Myers, PSC

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Corbin, Kentucky 40702

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

October 31, 2012

The Honorable Mayor and Members of the City Council
City of Williamsburg
Williamsburg, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit and the aggregate remaining fund information of the City of Williamsburg as of and for the year ended June 30, 2012, which collectively comprise the City of Williamsburg's basic financial statements and have issued our report thereon dated October 31, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Marr, Miller & Myers, PSC

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Williamsburg'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 would 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.

This report is intended solely for the information and use of management, City Council, others within the City, state and local awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Marr, Miller & Myers, PSC

Certified Public Accountants