

CITY OF COWAN
COWAN, TENNESSEE

AUDIT REPORT

June 30, 2012



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**CITY OF COWAN
INTRODUCTORY SECTION - UNAUDITED
June 30, 2012**

Roster of Board Members and Management Officials

Joe Ed Williams	Mayor
Joyce Brown	Vice Mayor
Ransom Green	Council Member
Adam Nelson	Council Member
Lee Roy Wilkinson	Council Member
Tom McGee	Council Member
Allen Edwards	Police Chief
Wayne Smith	Water & Wastewater Superintendent
Steve Wilkinson	Street & Sanitation Superintendent
Tommy Myers	Chief, Cowan Volunteer Fire Department
Becky Sherman	Recorder

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Cowan, Tennessee we offer readers of the City of Cowan, Tennessee's financial statements this narrative overview and analysis of the financial activities of the City of Cowan for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented in conjunction with additional information that we have furnished in the basic financial statements and the accompanying notes to those financial statements. All amounts, unless otherwise indicated, are expressed in actual dollars.

FINANCIAL HIGHLIGHTS

Management believes the City of Cowan's financial condition is strong. The City is well within its budget and the more stringent financial policies and guidelines set by the Board and management. The following are key financial highlights.

- The assets of the City of Cowan exceeded liabilities at the close of the most recent fiscal year by \$4,033,027. Of this amount, \$1,053,624 (unrestricted net assets) may be used to meet the government's ongoing obligation to citizens and creditors. The City's total net assets decreased by \$73,396.
- At June 30, 2012, the City's governmental funds reported combined ending fund balances of \$521,068, an increase of \$27,798 in comparison with the prior year. This entire amount is available for spending at the government's discretion (unreserved fund balance).
- At June 30, 2012, unreserved fund balance for the General Fund was \$289,731 or 51.0% of total general fund expenditures. The City's total bonded debt decreased to \$453,417 during the current fiscal year.
- The City's capital assets decreased by \$218,359 during the year ended June 30, 2012.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with, the financial statements and supplementary information. The MD&A represents management's examination and analysis of the city's financial condition and activities. Summary financial statement data, key financial and operational indicators, budget and other management tools were used for this analysis. The City's basic financial statements comprise 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 the financial position of the City on a full accrual, historical cost basis. The statement of net assets provides information on all 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 government'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 (e.g., uncollected taxes and earned but unused vacation leave.)

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, highways and streets, drug enforcement, parks and recreation, and sanitation services. The business-type activities of the City include the operations of the water and sewer facilities.

The government-wide financial statements can be found on pages 3-4 of this report.

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, like other state and local governments, 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 funds and proprietary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and sanitation funds, both of which are considered to be major funds. Data from the other three governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the non-major funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriations budget for its general and special revenue funds. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 5-8 of this report.

Proprietary funds. The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its Water and Sewer activities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the Water and Sewer activities of the City, which is considered to be a major fund.

The basic proprietary fund financial statements can be found on pages 9-11 of this report.

Notes to the financial statements. The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the government-wide and fund financial statements. The notes present information about the City's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any. The notes to the financial statements can be found on pages 16-29 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on page 31 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Cowan, assets exceeded liabilities by \$4,033,027 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (78%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to pay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Cowan, Tennessee's Net Assets

	Governmental activities FY2012	Business-type activities FY2012	Total FY2012
Current and other assets	\$ 802,353	\$ 598,926	1,401,279
Capital assets	<u>914,489</u>	<u>3,408,839</u>	<u>4,323,328</u>
Total assets	<u>\$ 1,716,842</u>	<u>\$ 4,007,765</u>	<u>\$ 5,724,606</u>
Long-term liabilities outstanding	\$ 87,965	\$ 453,417	\$ 541,382
Other liabilities	<u>281,284</u>	<u>23,123</u>	<u>304,407</u>
Total liabilities	<u>\$ 369,250</u>	<u>\$ 476,540</u>	<u>\$ 845,790</u>
Net Assets:			
Invested in capital assets, net of related debt	\$ 826,524	\$ 2,955,422	\$ 3,781,946
Restricted	43,248	-	43,248
Unrestricted	<u>477,820</u>	<u>575,803</u>	<u>1,053,623</u>
Total net assets	<u>\$ 1,347,592</u>	<u>\$ 3,531,225</u>	<u>\$ 4,878,817</u>

At year end, .89% of the City's net assets represented resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$1,053,623) may be used to meet the government's ongoing obligations to citizens and creditors.

At June 30, 2012, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

City of Cowan, Tennessee's Changes in Net Assets

	Governmental activities FY2012	Business-type activities FY2012	Total FY2012
Revenues:			
Program Revenues:			
Charges for Services	\$ 119,611	\$ 501,044	\$ 620,655
Operating grants and contributions	54,377	-	54,377
Capital grants and contributions	8,189	-	8,189
General Revenues:			
Local taxes	548,214	-	548,214
Intergovernmental	-	-	-
Interest on investments	2,357	4,987	7,344
Other	104,143	13,301	117,445
Total revenues	<u>836,893</u>	<u>519,332</u>	<u>1,356,225</u>
Expenses:			
General government	360,702	-	360,702
Public Safety	297,018	-	297,018
Drug Enforcement	-	-	-
Other	5,509	-	5,509
Sanitation	244,848	-	244,848
Water and sewer	-	521,543	521,543
Total expenses	<u>908,077</u>	<u>521,543</u>	<u>1,429,620</u>
Increase (decrease) in net assets	(71,185)	(2,211)	(73,396)
Net assets - July 1, 2011	<u>1,418,777</u>	<u>3,533,436</u>	<u>4,952,212</u>
Net assets - June 30, 2012	<u>\$ 1,347,592</u>	<u>\$ 3,531,225</u>	<u>\$ 4,878,817</u>

The government's net assets decreased by \$73,396 during the fiscal year ending June 30, 2012.

Governmental activities. Governmental activities decreased the City of Cowan's net assets by \$71,185. Key elements of this increase are as follows:

- Significant decreases in local option and state sales tax.
- Increased expenditures in the overall general government accounts.

Business-type activities. Business-type activities decreased the City's net assets by \$2,211. Key elements of the decrease are as follows:

- Increased depreciation expense due to major purchases for the wastewater treatment plant as a result of state inspection findings.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$521,068 an increase of \$27,798 in comparison with the prior year. Of this amount, \$289,731 constitutes unreserved fund balance, which is available for spending at the government's discretion.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$289,731. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 51% of total general fund expenditures, while total fund balance represents 54% of that same amount.

The fund balance of the City's general fund increased \$13,140 during the current fiscal year. Key factors in this increase are:

- Increases in public service taxes.
- Increase in property taxes.

The state street aid fund has a total fund balance of \$38,306, all of which is reserved for the payment of street projects and street related expenses. The net increase in fund balance during the current fiscal year in the state street aid fund was \$280.

Proprietary funds. The City's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water and Sewer fund at the end of the year amounted to \$575,803. The total decrease in net assets for the Water and Sewer fund was \$2,211. Other factors concerning the finances have been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

Differences between the original general fund budget and the final amended budget were minor and can be briefly summarized as follows:

- Revenues from all sources were less than budgeted estimates by \$225,755. This difference can be attributed to the fact that the city did not access the ISTEAs grant funds for sidewalk rehab as projected in the original general fund budget. There was also approximately \$10,000 less in local option sales tax revenue than originally budgeted.

Capital Asset and Debt Administration

At the end of fiscal year 2011, the City had \$4,323,328 (net of accumulated depreciation) invested in a broad range of capital assets. This investment includes land and land improvements, buildings, utility system, equipment and infrastructure. The total decrease in the City's investment in capital assets for the current period amounted to \$218,359 or a decrease of 4.81%.

Major capital asset events during the current fiscal year included the following:

- Restating of construction in progress to prior year as a result of returning the ISTEAs sidewalk grant.
- Increases in depreciation.

Additional information on the City's capital assets can be found in Note 6 on page 21 and 22 of this report.

The following table summarizes the City's capital assets and changes therein, for the year ended June 30, 2012. These changes are presented in detail in Note 6 to the financial statements.

COWAN, TENNESSEE CAPITAL ASSETS

	Governmental	Business-type	Total
	Activities	Activities	
	FY2012	FY2012	
Infrastructure	\$ -	\$ -	\$ -
Construction in Progress	-	3,000	3,000
Land	73,638	43,995	117,633
Buildings	292,817	571,595	864,411
Improvements, (not buildings)	282,718	2,719,006	3,001,724
Vehicles	240,408	3,000	243,408
Equipment	24,909	68,243	93,152
Total	\$ 914,489	\$ 3,408,839	\$ 4,323,328

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$453,417 and \$87,965 in leases payable. The \$453,417 represents bonds secured primarily by a specified revenue source with a full faith and credit pledge. The leases are payable through general fund revenue and sanitation fund revenue.

**City of Cowan, Tennessee's Outstanding Debt
General Obligation and Revenue Bonds**

	Governmental	Business-type	Total
	Activities	Activities	
	FY2012	FY2012	
Leases payable	\$ 87,965		\$ 87,965
Revenue bonds	\$ -	\$ 453,417	\$ 453,417

Additional information on the City's long-term debt can be found in Note 10 on pages 23-25.

Economic Factors and Next Year's Budget and Rates

Factors considered in preparing the City's budget for the 2013 fiscal year include the following:

- Inflationary trends in health care costs, energy fuels, and all other expenditures incurred for day to day operations have resulted in increased costs in several areas for next year's budget projections.

At June 30, 2012 the unreserved fund balance in the general fund was \$289,731 while the assigned fund balance in the sanitation fund was \$83,747. The City has approved an operating budget of \$1,360,662 for fiscal year 2013 with an estimated increase of \$1185 in unreserved general fund balance. The property tax rate for the 2012 tax year was set at \$1.53 per \$100 of assessed value of property, as a result of reappraisal by the Franklin County Tax Assessor. The Cowan City Council approved a 10% increase in water and sewer rates effective October 1, 2012.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any information provided in this report or requests for any additional information should be directed to the Office of the City Recorder, City of Cowan, Post Office Box 338, Cowan, Tennessee 37318.

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Association of Government Accountants

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and
Council Members
City of Cowan, Tennessee

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cowan, Tennessee, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Cowan, Tennessee's management. Our responsibility is to express opinions on these financial statements based on our audit.

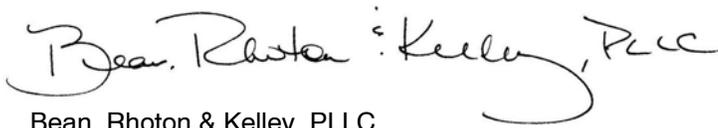
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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 the 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, each major fund, and the aggregate remaining fund information of the City of Cowan, Tennessee, as of June 30, 2012, and the respective changes in the financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General and Sanitation funds for the year then ended in conformity with the accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2012, on our consideration of the City of Cowan, Tennessee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles general accepted in the United States of America require that the management's discussion and analysis and schedule of funding progress on pages i through ix and 31 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 Cowan, Tennessee's financial statement as a whole. The introductory section and the schedules listed in the table of contents as other supplemental information are presented for purposes of additional analysis and are not a required part of the financial statements. Schedules listed in the table of contents as other supplemental information 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. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express do not express an opinion or provide any assurance on it.

A handwritten signature in cursive script that reads "Bean, Rhoton & Kelley, PLLC". The signature is written in dark ink and is positioned above the printed name of the firm.

Bean, Rhoton & Kelley, PLLC
Winchester, Tennessee
December 14, 2012

CITY OF COWAN
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 277,844.34	\$ 208,613.06	\$ 486,457.40
Certificates of deposit	202,138.07	306,077.42	508,215.49
Receivables (Note 4)	300,142.30	53,983.97	354,126.27
Inventories (Note 5)	4,379.15	22,425.20	26,804.35
Other assets	17,849.00	7,826.00	25,675.00
Capital assets (Note 6):			
Land	73,637.97	43,995.26	117,633.23
Improvements and construction in progress	0.00	3,000.00	3,000.00
Other capital assets, net of depreciation	840,850.81	3,361,843.50	4,202,694.31
Total capital assets	<u>914,488.78</u>	<u>3,408,838.76</u>	<u>4,323,327.54</u>
Total assets	<u>\$ 1,716,841.64</u>	<u>\$ 4,007,764.41</u>	<u>\$ 5,724,606.05</u>
LIABILITIES			
Accounts payable and accrued expenses	\$ 5,503.09	\$ 23,122.35	\$ 28,625.44
Deferred revenue (Note 4)	275,781.40	0.00	275,781.40
Long-term liabilities (Note 9):			
Due within one year	35,922.95	7,789.55	43,712.50
Due in more than one year	52,042.18	445,627.82	497,670.00
Total liabilities	<u>\$ 369,249.62</u>	<u>\$ 476,539.72</u>	<u>\$ 845,789.34</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 826,523.65	\$ 2,955,421.39	\$ 3,781,945.04
Unrestricted	477,820.44	575,803.30	1,053,623.74
Restricted (Note 18)	43,247.93	0.00	43,247.93
Total net assets	<u>\$ 1,347,592.02</u>	<u>\$ 3,531,224.69</u>	<u>\$ 4,878,816.71</u>

The accompanying notes are an integral part of this statement.

CITY OF COWAN
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 360,701.84	\$ 5,462.93	\$ 3,585.13	\$ 0.00	\$ (351,653.78)	\$ 0.00	\$ (351,653.78)
Public safety:							
Police	224,508.29	10,158.25	0.00	8,189.47	(206,160.57)	0.00	(206,160.57)
Fire	72,509.94	0.00	5,501.02	0.00	(67,008.92)	0.00	(67,008.92)
Other	5,508.91	0.00	0.00	0.00	(5,508.91)	0.00	(5,508.91)
Sanitation/Street	244,848.25	103,990.00	45,291.14	0.00	(95,567.11)	0.00	(95,567.11)
Total governmental activities	<u>908,077.23</u>	<u>119,611.18</u>	<u>54,377.29</u>	<u>8,189.47</u>	<u>(725,899.29)</u>	<u>0.00</u>	<u>(725,899.29)</u>
Business-type activities:							
Water utilities	288,021.42	262,695.63	0.00	0.00	0.00	(25,325.79)	(25,325.79)
Sewer	233,521.95	238,348.56	0.00	0.00	0.00	4,826.62	4,826.62
Total business-type activities	<u>521,543.36</u>	<u>501,044.19</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>(20,499.17)</u>	<u>(20,499.17)</u>
Total government	<u>\$ 1,429,620.59</u>	<u>\$ 620,655.37</u>	<u>\$ 54,377.29</u>	<u>\$ 8,189.47</u>	<u>(725,899.29)</u>	<u>(20,499.17)</u>	<u>(746,398.46)</u>
General revenues:							
Taxes:							
Property taxes					239,727.97	0.00	239,727.97
Franchise taxes/fees					13,208.02	0.00	13,208.02
Sales tax - general					196,765.88	0.00	196,765.88
Alcoholic beverage tax					11,931.99	0.00	11,931.99
State beer tax					852.66	0.00	852.66
Local beer tax					43,661.34	0.00	43,661.34
State income tax					4,160.94	0.00	4,160.94
Utility tax					13,392.69	0.00	13,392.69
Privilege tax					4,194.00	0.00	4,194.00
TVA replacement tax					20,318.26	0.00	20,318.26
Unrestricted investment income					2,357.26	4,986.95	7,344.21
Miscellaneous					104,143.47	13,301.25	117,444.72
Total general revenues					<u>654,714.48</u>	<u>18,288.20</u>	<u>673,002.68</u>
Change in net assets					(71,184.81)	(2,210.97)	(73,395.78)
Net assets- beginning of year, as previously reported					1,427,056.45	3,533,435.66	4,960,492.11
Restatement (Note 19)					(8,279.62)	0.00	(8,279.62)
Net assets - beginning of year, as restated					<u>1,418,776.83</u>	<u>3,533,435.66</u>	<u>4,952,212.49</u>
Net assets- ending					<u>\$ 1,347,592.02</u>	<u>\$ 3,531,224.69</u>	<u>\$ 4,878,816.71</u>

The accompanying notes are an integral part of this statement.

**CITY OF COWAN
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012**

	General	Sanitation Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 99,364.02	\$ 83,747.05	\$ 94,733.27	\$ 277,844.34
Certificates of deposit	170,882.51	0.00	31,255.56	202,138.07
Property taxes receivables	274,321.99	0.00	0.00	274,321.99
Other receivables	25,820.31	0.00	0.00	25,820.31
Inventories	3,940.74	0.00	438.41	4,379.15
Other assets	15,460.00	0.00	2,389.00	17,849.00
Total assets	\$ 589,789.57	\$ 83,747.05	\$ 128,816.24	\$ 802,352.86
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 4,076.55	\$ 0.00	\$ 0.00	\$ 4,076.55
Other payables	799.54	0.00	627.00	1,426.54
Deferred revenue	275,781.40	0.00	0.00	275,781.40
Total liabilities	280,657.49	0.00	627.00	281,284.49
Fund balances (Note 17):				
Nonspendable	19,400.74	0.00	0.00	19,400.74
Restricted	0.00	0.00	43,247.93	43,247.93
Assigned	0.00	83,747.05	84,941.31	168,688.36
Unassigned	289,731.34	0.00	0.00	289,731.34
Total fund balances	309,132.08	83,747.05	128,189.24	521,068.37
Total liabilities and fund balances	\$ 589,789.57	\$ 83,747.05	\$ 128,816.24	\$ 802,352.86

The accompanying notes are an integral part of this statement.

**CITY OF COWAN
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2012**

Total fund balances per fund financial statements	\$ 521,068.37
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets, net of depreciation, are not reported in this fund financial statement because they are not current financial resources, but they are reported in the Statement of Net Assets.	914,488.78
Certain liabilities (such as notes payable) are not reported in this fund financial statement because they are not due and payable, but they are presented in the Statement of Net Assets.	<u>(87,965.13)</u>
Net assets for governmental activities	<u>\$ 1,347,592.02</u>

The accompanying notes are an integral part of this statement.

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

	General Fund	Sanitation Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Property taxes	\$ 239,727.97	\$ 0.00	\$ 0.00	\$ 239,727.97
Franchise taxes	13,208.02	0.00	0.00	13,208.02
Public service taxes	301,487.89	0.00	45,291.14	346,779.03
Fees and fines	10,958.25	0.00	923.88	11,882.13
Licenses and permits	4,662.93	0.00	0.00	4,662.93
Charges for services	0.00	103,990.00	0.00	103,990.00
Investment earnings	1,869.44	56.67	431.15	2,357.26
Miscellaneous	49,951.15	0.00	44,334.03	94,285.18
Total revenues	<u>621,865.65</u>	<u>104,046.67</u>	<u>90,980.20</u>	<u>816,892.52</u>
EXPENDITURES				
Current:				
General government	250,345.10	0.00	0.00	250,345.10
Public safety	224,508.29	0.00	4,091.80	228,600.09
Streets	98,620.81	0.00	45,050.00	143,670.81
Fire	0.00	0.00	48,286.10	48,286.10
Health and sanitation	0.00	78,700.00	0.00	78,700.00
Debt Service:				
Principal	0.00	0.00	34,147.87	34,147.87
Interest	0.00	0.00	5,344.72	5,344.72
Total expenditures	<u>573,474.20</u>	<u>78,700.00</u>	<u>136,920.49</u>	<u>789,094.69</u>
Excess/(deficiency) of revenues over expenditures	<u>48,391.45</u>	<u>25,346.67</u>	<u>(45,940.29)</u>	<u>27,797.83</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	0.00	0.00	59,492.59	59,492.59
Transfers out	<u>(35,251.15)</u>	<u>(24,241.44)</u>	<u>0.00</u>	<u>(59,492.59)</u>
Total other financing sources and uses	<u>(35,251.15)</u>	<u>(24,241.44)</u>	<u>59,492.59</u>	<u>0.00</u>
Net change in fund balances	13,140.30	1,105.23	13,552.30	27,797.83
Fund balances- beginning	<u>295,991.78</u>	<u>82,641.82</u>	<u>114,636.94</u>	<u>493,270.54</u>
Fund balances- ending	<u>\$ 309,132.08</u>	<u>\$ 83,747.05</u>	<u>\$ 128,189.24</u>	<u>\$ 521,068.37</u>

The accompanying notes are an integral part of this statement.

**CITY OF COWAN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012**

Net change in total fund balances per fund financial statements \$ 27,797.83

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

Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the Statement of Activities and depreciated over their estimated economic lives. The amount by which capital outlays reported in the Governmental Funds (\$10,650.91) is less than depreciation (\$143,781.32) for the year.

(133,130.41)

The payment of debt uses current financial resources and is reported in this fund financial statement, but is presented as a decrease in liabilities in the Statement of Net Assets.

34,147.77

Change in net assets of governmental activities \$ (71,184.81)

The accompanying notes are an integral part of this statement.

**CITY OF COWAN
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2012**

	Board of Public Utilities	Totals
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 208,613.06	\$ 208,613.06
Certificates of deposit	306,077.42	306,077.42
Prepaid expenses	7,826.00	7,826.00
Receivables, net	53,983.97	53,983.97
Inventories	22,425.20	22,425.20
Total current assets	<u>598,925.65</u>	<u>598,925.65</u>
Noncurrent assets:		
Capital assets:		
Buildings and equipment	6,067,848.86	6,067,848.86
Less accumulated depreciation	<u>(2,659,010.10)</u>	<u>(2,659,010.10)</u>
Total noncurrent assets	<u>3,408,838.76</u>	<u>3,408,838.76</u>
Total assets	<u><u>\$ 4,007,764.41</u></u>	<u><u>\$ 4,007,764.41</u></u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 4,814.04	\$ 4,814.04
Accrued liabilities	17,892.85	17,892.85
Accrued interest	415.46	415.46
Bonds, notes, and loans payable	7,789.55	7,789.55
Total current liabilities	<u>30,911.90</u>	<u>30,911.90</u>
Noncurrent liabilities:		
Bonds, notes and loans payable	<u>445,627.82</u>	<u>445,627.82</u>
Total noncurrent liabilities	<u>445,627.82</u>	<u>445,627.82</u>
Total liabilities	<u><u>\$ 476,539.72</u></u>	<u><u>\$ 476,539.72</u></u>
NET ASSETS		
Invested in capital assets, net of related debt	\$ 2,955,421.39	\$ 2,955,421.39
Unrestricted	575,803.30	575,803.30
Total net assets	<u><u>\$ 3,531,224.69</u></u>	<u><u>\$ 3,531,224.69</u></u>

The accompanying notes are an integral part of this statement.

CITY OF COWAN
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY
PROPRIETARY FUND
For the Year Ended June 30, 2012

	Board of Public Utilities	Totals
OPERATING REVENUES		
Charges for services	\$ 501,044.19	\$ 501,044.19
Fire hydrant rent	11,000.00	11,000.00
Miscellaneous	2,301.25	2,301.25
Total operating revenues	<u>514,345.44</u>	<u>514,345.44</u>
OPERATING EXPENSES		
Contractual services	4,850.00	4,850.00
Utilities	52,812.56	52,812.56
Chemicals	15,446.65	15,446.65
Lab and testing	5,346.19	5,346.19
Repairs and maintenance	21,142.49	21,142.49
Salaries	170,129.67	170,129.67
Employee benefits	23,556.32	23,556.32
Payroll taxes	13,097.01	13,097.01
Insurance	14,595.32	14,595.32
Other supplies and expenses	36,779.93	36,779.93
Depreciation	138,454.55	138,454.55
Total operating expenses	<u>496,210.69</u>	<u>496,210.69</u>
Operating income	<u>18,134.75</u>	<u>18,134.75</u>
NONOPERATING REVENUES		
(EXPENSES)		
Interest and investment revenue	4,986.95	4,986.95
Interest expense	<u>(25,332.67)</u>	<u>(25,332.67)</u>
Total nonoperating loss	<u>(20,345.72)</u>	<u>(20,345.72)</u>
Change in net assets	(2,210.97)	(2,210.97)
Total net assets- beginning of year	3,533,435.66	3,533,435.66
Total net assets- ending	<u>\$ 3,531,224.69</u>	<u>\$ 3,531,224.69</u>

The accompanying notes are an integral part of this statement.

**CITY OF COWAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2012**

	Board of Public Utilities	Totals
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 512,456.32	\$ 512,456.32
Insurance payments	(14,595.32)	(14,595.32)
Payments to employees	(193,685.99)	(193,685.99)
Utilities / telephone	(52,812.56)	(52,812.56)
Payments to suppliers	(38,999.67)	(38,999.67)
Interfund receipts (payments)	11,000.00	11,000.00
Other receipts (payments)	(84,409.27)	(84,409.27)
Net cash provided by operating activities	<u>138,953.51</u>	<u>138,953.51</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(61,504.85)	(61,504.85)
Principal paid on capital debt	(156,692.74)	(156,692.74)
Interest paid on capital debt	(25,332.67)	(25,332.67)
Net cash (used) by capital and related financing activities	<u>(243,530.26)</u>	<u>(243,530.26)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	4,986.95	4,986.95
Investment in certificates of deposit	147,437.58	147,437.58
Net cash provided by investing activities	<u>152,424.53</u>	<u>152,424.53</u>
Net increase in cash and cash equivalents	47,847.78	47,847.78
Balances- beginning of the year	<u>160,765.28</u>	<u>160,765.28</u>
Balances- end of the year	<u>\$ 208,613.06</u>	<u>\$ 208,613.06</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 18,134.75	\$ 18,134.75
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	138,454.55	138,454.55
Change in assets and liabilities:		
Receivables, net	(4,189.85)	(4,189.85)
Inventories	(92.87)	(92.87)
Prepaid insurance	(582.68)	(582.68)
Accounts and other payables	(11,244.70)	(11,244.70)
Accrued expenses	(1,525.69)	(1,525.69)
Net cash provided by operating activities	<u>\$ 138,953.51</u>	<u>\$ 138,953.51</u>

The accompanying notes are an integral part of this statement.

CITY OF COWAN
BUDGETARY COMPARISON STATEMENT - GENERAL FUND
For the Year Ended June 30, 2012

	Budgetary Amounts		Actual	Variance
	Original	Final	Amounts (See Note A)	with Final Budget Positive (Negative)
Budgetary fund balance beginning of year	\$ 295,991.78	\$ 295,991.78	\$ 295,991.78	\$ 0.00
Resources (inflows):				
Property taxes	238,000.00	239,306.00	239,727.97	421.97
Franchise taxes	12,500.00	13,208.00	13,208.02	0.02
State taxes	303,333.00	302,868.00	298,959.36	(3,908.64)
In lieu of taxes	29,244.00	2,625.00	2,625.00	0.00
Licenses and permits	2,500.00	2,930.00	5,462.93	2,532.93
Grant revenue	222,360.00	9,200.00	8,189.47	(1,010.53)
Interest and investment revenue	2,750.00	1,860.00	1,869.44	9.44
Miscellaneous revenue	35,200.00	48,135.00	51,823.46	3,688.46
Amounts available for appropriation	845,887.00	620,132.00	621,865.65	1,733.65
Charges to appropriations (outflows):				
General government				
Salaries	52,850.00	53,355.00	53,286.11	68.89
Employee benefits and insurance	93,800.00	96,375.00	96,296.86	78.14
Payroll expense	30,000.00	29,350.00	29,315.05	34.95
Utilities	5,000.00	4,250.00	4,211.41	38.59
Capital outlay	5,000.00	4,560.00	4,552.13	7.87
Allocations	29,705.00	28,485.00	27,979.08	505.92
Other	288,700.00	31,365.00	34,704.46	(3,339.46)
Public Safety				
Salaries	182,000.00	189,450.00	189,638.62	(188.62)
Equipment operation and maintenance	16,000.00	21,750.00	22,682.26	(932.26)
Utilities	5,000.00	4,800.00	4,825.89	(25.89)
Other	6,000.00	7,425.00	7,361.52	63.48
Streets				
Salaries	55,000.00	62,800.00	62,578.90	221.10
Equipment operation and maintenance	8,000.00	9,700.00	9,221.80	478.20
Utilities	2,500.00	1,900.00	1,878.91	21.09
Street lighting	19,000.00	20,500.00	20,299.21	200.79
Other	2,700.00	4,850.00	4,641.99	208.01
Transfers to other funds	35,252.00	35,252.00	35,251.15	0.85
Total charges to appropriations	836,507.00	606,167.00	608,725.35	(2,558.35)
Budgetary fund balance, end of year	\$ 305,371.78	\$ 309,956.78	\$ 309,132.08	\$ (824.70)

(continued)

CITY OF COWAN
BUDGETARY COMPARISON STATEMENT - GENERAL FUND (continued)
For the Year Ended June 30, 2012

General
Fund

Note A: Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

Sources/Inflow of Resources:

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 621,865.65
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Differences - Budget to GAAP

There are no differences from Budget to GAAP	<u>0.00</u>
--	-------------

Total revenues as reported on the statement of revenues, expenditure, and changes in fund balances - governmental funds	\$ <u><u>621,865.65</u></u>
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Uses/Outflows of Resources

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 608,725.35
---	---------------

Differences - Budget to GAAP

Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.	<u>(35,251.15)</u>
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Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	\$ <u><u>573,474.20</u></u>
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The accompanying notes are an integral part of this statement.

CITY OF COWAN
BUDGETARY COMPARISON STATEMENT - SANITATION FUND
For the Year Ended June 30, 2012

	Budgetary Amounts		Actual Amounts (See Note A)	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance beginning of year	\$ 82,641.82	\$ 82,641.82	\$ 82,641.82	\$ 0.00
Resources (inflows):				
Charges for services	104,000.00	103,700.00	103,990.00	290.00
Interest and investment revenue	<u>50.00</u>	<u>55.00</u>	<u>56.67</u>	<u>1.67</u>
Amounts available for appropriation	<u>104,050.00</u>	<u>103,755.00</u>	<u>104,046.67</u>	<u>291.67</u>
Charges to appropriations (outflows):				
Salaries	70,000.00	58,000.00	58,000.00	0.00
Equipment operation and maintenance	16,000.00	16,000.00	16,000.00	0.00
Bad debt expense	950.00	550.00	500.00	50.00
Utilities	2,100.00	2,100.00	2,100.00	0.00
Transfers to other funds	24,250.00	24,250.00	24,241.44	8.56
Supplies	<u>4,200.00</u>	<u>2,100.00</u>	<u>2,100.00</u>	<u>0.00</u>
Total charges to appropriations	<u>117,500.00</u>	<u>103,000.00</u>	<u>102,941.44</u>	<u>58.56</u>
Budgetary fund balance, end of year	<u>\$ 69,191.82</u>	<u>\$ 83,396.82</u>	<u>\$ 83,747.05</u>	<u>\$ 350.23</u>

(continued)

CITY OF COWAN
BUDGETARY COMPARISON STATEMENT - SANITATION FUND (continued)
For the Year Ended June 30, 2012

Sanitation
Fund

Note A: Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

Sources/Inflow of Resources:

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 104,046.67
Differences - Budget to GAAP	
There are no differences from Budget to GAAP	<u>0.00</u>
Total revenues as reported on the statement of revenues, expenditure, and changes in fund balances - governmental funds	<u>\$ 104,046.67</u>

Uses/Outflows of Resources

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 102,941.44
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.	<u>(24,241.44)</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 78,700.00</u>

The accompanying notes are an integral part of this statement.

CITY OF COWAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements are presented in conformity with accounting principles generally accepted in the United States of America for governmental units as prescribed by the Governmental Accounting Standards Board (GASB) and other authoritative sources.

Reporting Entity

The City follows the standards promulgated by GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, to define the reporting entity. The financial statements include all operations over which the City is financially accountable. The City is not a participant in any joint venture and has not identified any entities which would be component units of the City.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the City's activities. The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported as *general revenues*. The effect of interfund activity has been removed from the government-wide financial statements.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus and Basis of Accounting

Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements are met. Expenses are recorded when liabilities are incurred.

Governmental Fund Financial Statements

Governmental fund financial statements (i.e., balance sheet and statement of revenues, expenditures, and changes in fund balances) are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Revenues susceptible to accrual are property taxes, interest on investments, and intergovernmental revenues. Property taxes are recorded as revenues in the fiscal year in which they are levied, provided they are collected in the current period or within sixty days thereafter. Interest on invested funds is recognized when earned. Intergovernmental revenues that are reimbursements for specific expenditures are recognized when all eligibility requirements are met. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

CITY OF COWAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The City has presented the following major governmental funds:

General Fund – This fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges, and capital improvement costs that are not paid through other funds are paid from the General Fund.

Sanitation Fund - This fund is used to account for funds received and expended for the City's sanitation department.

Additionally, the City reports the following non-major governmental fund:

Debt Service Fund – This fund is used to account for the resources accumulated and payments made for principal and interest on long – term general obligation debt of governmental funds.

Special Revenue Funds are established to account for specific revenues that are legally restricted to expenditure for specific purposes. The City has presented the following non - major special revenue funds:

Drug Fund – This fund is used to account for drug fines received and usage of those monies to further drug investigations.

State Street Aid Fund – This fund is used to account for street taxes received and usage of those monies to maintain state streets.

Volunteer Fire Fund – This fund is used to account for funds received and expended for the volunteer fire department.

Proprietary Fund Financial Statements

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with a proprietary fund's ongoing operations. The principal operating revenues of the Board of Public Utilities are charges for water and sewer service. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The City applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedure. In addition, the City applies all applicable FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements to its business-type activities.

The City has presented the following major proprietary fund:

Board of Public Utilities – This fund is used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operations, and maintenance of the water and sewer system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personal and contractual services, supplies, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

CITY OF COWAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Statement of Cash Flows

For purposes of the Statement of Cash Flows, the City considers all highly liquid investments (including restricted assets) with a maturity when purchased of three months or less and all local government investment pools to be cash equivalents.

Capital Assets

Capital assets are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Purchased or constructed assets are recorded at actual cost or estimated historical cost if actual cost is unavailable. Donated capital assets are recorded at estimated fair value at the date of donation. In connection with implementation of GASB Statement No. 34, the City established the following thresholds for capitalization of depreciable assets: \$500.00 for land, \$10,000.00 for buildings, \$5,000.00 improvements other than building improvements, \$1,000.00 for equipment, and \$10,000.00 for infrastructure.

Major outlays for capital assets and improvements are capitalized as projects are constructed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Under GASB Statement No. 34, the City was determined to be a Phase 3 government, and has elected not to retroactively apply requirements to their fixed assets or infrastructure.

Capital assets of the City are depreciated or amortized using the straight-line method over the following estimated lives:

Buildings and improvements	25 - 50 years
Utility plant and systems	20 - 50 years
Furniture, machinery, equipment	3 - 10 years

Budgets and Budgetary Accounting

As set forth in the City Charter, the City Council adopts an annual budget of the General Fund, Proprietary Fund, and Special Revenue Funds. The annual budget for the General Fund is prepared in accordance with the basis of accounting utilized by that fund. The budget for the Proprietary Fund is adopted under a basis consistent with GAAP, except that certain capital expenses and non-operating income and expense items are not considered. The City Recorder is authorized to transfer budgeted amounts within and among departments; however, any revisions that alter the total expenditures/expenses must be approved by the City Council.

The amended budgets for the General, Sanitation, State Street Aid, Drug, and Fire Funds are represented in the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual. All annual appropriations lapse at fiscal year-end.

CITY OF COWAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Bonds Premiums/Discounts/Issuance Costs

In governmental fund types, bond discounts and issuance costs are recognized in the current period. Bond premiums, discounts, and issuance costs for Proprietary Fund types are deferred and amortized over the term of the bonds using the straight-line method. Bond discounts are offset against the debt to which they are related. Issuance costs are recorded as deferred charges while bond premiums are recorded as an addition to the face amount of the bond.

Fund Balance Classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The City has classified certain prepaid expenses and inventories as being nonspendable as these items are not expected to be converted to cash or are not expected to be converted to cash within the next year.

Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. For the Drug Fund, the City has classified forfeitures as being restricted because their use is restricted by state statute for police investigative expenditures. The City has classified State Street Aid Fund resources as being restricted because they are to be expended for the maintenance of state streets.

Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Mayor and City Council. These amounts cannot be used for any other purpose unless the Mayor and City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) that as employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The City did not have any committed resources as of June 30, 2012.

Assigned: This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Mayor and City Council or through the Mayor and City Council delegating this responsibility to the City manager through the budgetary process. The City has classified Volunteer Fire and Sanitation resources as assigned because they are to be expended for the Volunteer Fire Department and Sanitation Fund, respectively.

Unassigned: This classification includes the residual fund balance for the General Fund.

The City would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to deter the use of these other classified funds.

NOTE 2 – CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

At June 30, 2012, the reported amount of the City's deposits was \$994,672.89 and the bank balance was \$994,373.03. Of the bank balance, the entire amount was covered by federal depository insurance or by the participation of the financial institution in the bank collateral pool administered by the Treasurer of the State of Tennessee.

CITY OF COWAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 3 – INVESTMENTS

Statutes authorize the City to invest in bonds, notes, treasury bills or similar types of indebtedness to the United States; non-convertible debt including Federal Home Loan Bank, Federal National Mortgage Association, Federal Farm Credit Bank, and Student Loan Marketing Association; other obligations not specified above which provide guaranteed principal and interest by the United States or any of its agencies; repurchase agreements which involve obligations of the United States or its agencies, provided the term of the repurchase agreement does not extend beyond the maturity date of the obligation and the market value of the security exceeds the cost of the security; and certificates of deposit and other evidences of deposit at state and federally chartered banks and savings and loan associations.

NOTE 4 – RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, AND DEFERRED REVENUES

Significant business-type receivables include amounts due from customers primarily for utility services. These receivables are due within thirty days. The City uses the direct method to write off bad debts, thus no allowance for bad debt is necessary. Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities in the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the General Fund reported \$275,781.40 in deferred revenues, which consisted of \$271,086.40 in deferred property taxes and \$4,695.00 in deferred cemetery revenue.

NOTE 5 – INVENTORIES

Inventories are principally stated at the lower of first-in, first-out, cost, or market. Inventories consist of the following:

General Fund (fuel)	\$ 3,940.74
Fire Fund (materials)	438.41
Board of Public Utilities (parts/chemicals)	<u>22,425.20</u>
Total Inventories	<u>\$ 26,804.35</u>

CITY OF COWAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 6 – CAPITAL ASSETS

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
Capital assets not being depreciated:				
Construction in progress	\$ 8,279.62	\$ 0.00	\$ (8,279.62)	\$ 0.00
Land and improvements	<u>73,637.97</u>	<u>0.00</u>	<u>0.00</u>	<u>73,637.97</u>
Total capital assets not being depreciated	<u>81,917.59</u>	<u>0.00</u>	<u>(8,279.62)</u>	<u>73,637.97</u>
Other capital assets:				
Buildings	572,378.43	0.00	0.00	572,378.43
Equipment	350,408.11	10,650.91	(15,024.15)	346,034.87
Improvements	544,098.17	0.00	0.00	544,098.17
Vehicles	<u>693,532.99</u>	<u>0.00</u>	<u>0.00</u>	<u>693,532.99</u>
Total other capital assets	<u>2,160,417.70</u>	<u>10,650.91</u>	<u>(15,024.15)</u>	<u>2,156,044.46</u>
Less accumulated depreciation for:				
Buildings	257,883.42	21,678.42	0.00	279,561.84
Equipment	326,527.22	9,623.20	(15,024.15)	321,126.27
Improvements	219,518.34	41,861.85	0.00	261,380.19
Vehicles	<u>382,507.50</u>	<u>70,617.85</u>	<u>0.00</u>	<u>453,125.35</u>
Total accumulated depreciation	<u>1,186,436.48</u>	<u>143,781.32</u>	<u>(15,024.15)</u>	<u>1,315,193.65</u>
Other capital assets, net	<u>973,981.22</u>	<u>(133,130.41)</u>	<u>0.00</u>	<u>840,850.81</u>
Governmental activities capital assets, net	<u>\$ 1,055,898.81</u>	<u>\$ (133,130.41)</u>	<u>\$ (8,279.62)</u>	<u>\$ 914,488.78</u>

Depreciation expense was charged as direct expense to programs of the primary government as follows:

Governmental activities:

General government	\$ 93,016.09
Sanitation	19,025.50
Drug	1,417.11
Fire	<u>30,322.62</u>
Total depreciation expense – governmental activities	<u>\$ 143,781.32</u>

CITY OF COWAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 6 – CAPITAL ASSETS (continued)

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-type Activities				
Capital assets not being depreciated:				
Land	\$ 43,995.26	\$ 0.00	\$ 0.00	\$ 43,995.26
Construction in progress	<u>88,687.39</u>	<u>31,752.22</u>	<u>(117,439.61)</u>	<u>3,000.00</u>
Total capital assets not being depreciated	<u>132,682.65</u>	<u>31,752.22</u>	<u>(117,439.61)</u>	<u>46,995.26</u>
Other capital assets:				
Building	1,122,405.64	0.00	0.00	1,122,405.64
Improvements (not buildings)	4,299,562.44	104,989.32	0.00	4,404,551.76
Vehicles	12,155.25	0.00	0.00	12,155.25
Equipment	<u>439,991.26</u>	<u>42,202.92</u>	<u>(453.23)</u>	<u>481,740.95</u>
Total other capital assets	<u>5,874,114.59</u>	<u>147,192.24</u>	<u>(453.23)</u>	<u>6,020,853.60</u>
Less accumulated				
Depreciation for:				
Building	527,559.03	23,252.04	0.00	550,811.07
Improvements (not building)	1,584,279.75	101,265.85	0.00	1,685,545.60
Vehicles	8,355.25	800.00	0.00	9,155.25
Equipment	<u>400,814.75</u>	<u>13,136.66</u>	<u>(453.23)</u>	<u>413,498.18</u>
Total accumulated depreciation	<u>2,521,008.78</u>	<u>138,454.55</u>	<u>(453.23)</u>	<u>2,659,010.10</u>
Other capital assets, net	<u>3,353,105.81</u>	<u>8,737.69</u>	<u>0.00</u>	<u>3,361,843.50</u>
Business-type activities				
Capital assets, net	<u>\$ 3,485,788.46</u>	<u>\$ 40,489.91</u>	<u>\$ (117,439.61)</u>	<u>\$ 3,408,838.76</u>
Depreciation expense was charged to				
Activities as follows:				
Business-type activities:				
Board of Public Utilities	<u>\$ 138,454.55</u>			
Total depreciation expense –				
Business-type activities	<u>\$ 138,454.55</u>			

CITY OF COWAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 7 – CONSTRUCTION IN PROGRESS

Board of Public Utilities (BPU) started construction on their wastewater treatment plant improvement project, which is expected to be completed in Spring 2014 with an estimated total cost of \$500,000.00. This project is expected to be funded entirely through the state revolving loan program. Total costs incurred at June 30, 2012 were \$3,000.00.

NOTE 8 – COMPLETED PROJECTS

During the year, the City discontinued construction on Phase III of their sidewalk project. Costs incurred on the project were \$8,279.62. A restatement was booked to adjust the balance and is further discussed at Note 19. The Board of Public Utilities completed several projects during the year including the Peach Street/Bookout Road/Tennessee Avenue project, which had a total cost of \$104,989.32 and the aerator, which had a total cost of \$12,450.29. All of these projects were funded by the City.

NOTE 9 – LONG-TERM LIABILITIES

Long-term liabilities at June 30, 2012 consisted of the following:

<u>Type of indebtedness (purpose)</u>	<u>Maturity</u>	<u>Interest Rates</u>	<u>Annual Payment Installments</u>	<u>Original Issue Amount</u>	<u>Outstanding at June 30, 2012</u>
<u>Governmental activities</u>					
Ford Motor Credit (2 police vehicles)	2013	6.85%	\$ 15,251.15	\$ 55,385.00	\$ 14,273.50
1 st Source Bank (Sanitation truck)	2015	4.06%	\$ 24,241.44	\$ 109,900.00	<u>73,691.63</u>
Total Governmental activities					<u>\$ 87,965.13</u>
<u>Business – type activities</u>					
2008 Issue (Water Rehabilitation Project)	2048	4.25%	\$ 26,580.00	\$ 500,000.00	\$ 337,184.80
2009 Issue (Water Rehabilitation Project)	2048	3.25%	\$ 5,520.00	\$ 120,000.00	<u>116,232.57</u>
Total Business – type activities					<u>\$ 453,417.37</u>

CITY OF COWAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 9 – LONG-TERM LIABILITIES (continued)

The following is a summary of long-term liabilities transactions for the year ended June 30, 2012:

	Balance <u>July 1, 2011</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>June 30, 2012</u>	Principal Due Within <u>One Year</u>
Governmental Activities:					
Ford Motor Credit	\$ 27,631.87	\$ 0.00	\$ 13,358.37	\$ 14,273.50	\$ 14,273.50
1 st Source Bank	<u>94,481.03</u>	<u>0.00</u>	<u>20,789.40</u>	<u>73,691.63</u>	<u>21,649.45</u>
Total	<u>\$ 122,112.90</u>	<u>\$ 0.00</u>	<u>\$ 34,147.77</u>	<u>\$ 87,965.13</u>	<u>\$ 35,922.95</u>
	Balance <u>July 1, 2011</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>June 30, 2012</u>	Principal Due Within <u>One Year</u>
Business-type Activities:					
2008 Issue	\$ 492,165.58	\$ 0.00	\$154,980.78	\$ 337,184.80	\$ 6,021.41
2009 Issue	<u>117,944.53</u>	<u>0.00</u>	<u>1,711.96</u>	<u>116,232.57</u>	<u>1,768.14</u>
Total	<u>\$ 610,110.11</u>	<u>\$ 0.00</u>	<u>\$156,692.74</u>	<u>\$ 453,417.37</u>	<u>\$ 7,789.55</u>

Principal debt service requirements for the Ford Motor Credit note payable are as follows:

Year Ending <u>June 30</u>	Principal Payable <u>January 1</u>	Interest Payable By Year On <u>January 1</u>	<u>Total</u>
2013	\$ 14,273.50	\$ 977.65	\$ 15,251.15
	<u>\$ 14,273.50</u>	<u>\$ 977.65</u>	<u>\$ 15,251.15</u>

Principal debt service requirements for the 1st Source Bank note payable are as follows:

Year Ending <u>June 30</u>	Principal Payable <u>January 1</u>	Interest Payable By Year On <u>January 1</u>	<u>Total</u>
2013	\$ 21,649.45	\$ 2,591.99	\$ 24,241.44
2014	22,544.97	1,696.47	24,241.44
2015	23,477.53	763.91	24,241.44
2016	<u>6,019.58</u>	<u>40.78</u>	<u>6,060.36</u>
	<u>\$ 73,691.53</u>	<u>\$ 5,093.15</u>	<u>\$ 78,784.68</u>

CITY OF COWAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 9 – LONG-TERM LIABILITIES (continued)

Principal debt service requirements for the 2008 Issue Bond are as follows:

Year Ending June 30	Principal Payable January 1	Interest Payable By Year On January 1	Total
2013	\$ 6,021.41	\$ 20,558.59	\$ 26,580.00
2014	6,282.39	20,297.61	26,580.00
2015	6,554.63	20,025.37	26,580.00
2016	6,784.18	19,795.82	26,580.00
2017	7,132.71	19,447.29	26,580.00
2018 – 2022	40,521.58	92,378.42	132,900.00
2023 – 2027	50,099.21	82,800.79	132,900.00
2028 – 2032	61,905.32	70,994.68	132,900.00
2033 – 2037	76,588.89	56,311.11	132,900.00
2038 – 2048	<u>75,294.48</u>	<u>32,364.66</u>	<u>107,659.14</u>
	<u>\$ 337,184.80</u>	<u>\$ 434,974.34</u>	<u>\$ 772,159.14</u>

Principal debt service requirements for the 2009 Issue Bond are as follows:

Year Ending June 30	Principal Payable January 1	Interest Payable By Year On January 1	Total
2013	\$ 1,768.14	\$ 3,751.86	\$ 5,520.00
2014	1,826.46	3,693.54	5,520.00
2015	1,886.73	3,633.27	5,520.00
2016	1,939.13	3,580.87	5,520.00
2017	2,012.94	3,507.06	5,520.00
2018 – 2022	11,095.97	16,504.03	27,600.00
2023 – 2027	13,051.57	14,548.43	27,600.00
2028 – 2032	15,345.77	12,254.23	27,600.00
2033 – 2037	18,058.91	9,541.09	27,600.00
2038 – 2048	<u>49,246.95</u>	<u>9,003.26</u>	<u>58,250.21</u>
	<u>\$ 116,232.57</u>	<u>\$ 80,017.64</u>	<u>\$ 196,250.21</u>

NOTE 10 – INTERFUND RECEIVABLES AND PAYABLES

Short-term interfund advances are recorded as a receivable/payable in the applicable funds.

NOTE 11 – BUDGETING PROCEDURES

The official City budget for June 30, 2012, was prepared for adoption for the General and Special Revenue Funds by July 12, 2011. The budget was formerly adopted by the City Council after three readings at duly advertised public meetings. The final reading was passed as amended on July 10, 2012.

CITY OF COWAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 12 – PENSION PLAN

Plan Description

Employees of the City of Cowan are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with ten years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after ten years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as the City of Cowan participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at <http://www.tn.gov/treasury/tcrs/PS/>.

Funding Policy

City of Cowan requires employees to contribute 5.0 percent of earnable compensation.

City of Cowan is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2012 was 0.00% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the City of Cowan is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ending June 30, 2012, the City of Cowan's annual pension cost of \$0 to TCRS was equal to Cowan's required and actual contributions. The required contribution was determined as part of the July 1, 2009 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected 3.0 percent annual rate of inflation, (c) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5 percent annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten-year period. City of Cowan's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2009 was 8 years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

CITY OF COWAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 12 – PENSION PLAN (continued)

Trend Information			
Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2012	\$ 0.00	100.00%	\$ 0.00
June 30, 2011	\$ 0.00	100.00%	\$ 0.00
June 30, 2010	\$ 0.00	100.00%	\$ 0.00

Funded Status and Funding Process

As of July 1, 2011, the most recent actuarial valuation date, the plan was 100.00% percent funded. The actuarial accrued liability for benefits was \$1.27 million, and the actuarial value of assets was \$1.27 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.00 million. The covered payroll (annual payroll of active employees covered by the plan) was \$0.47 million, and the ratio of the UAAL to the covered payroll was 0.00% percent.

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for the benefits.

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b) – (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 01, 2011	\$1,271	\$1,271	\$0	100.00%	\$474	0.00%
July 01, 2009	\$1,141	\$1,141	\$0	100.00%	\$528	0.00%
July 01, 2007	\$1,101	\$1,101	\$0	100.00%	\$444	0.00%

NOTE 13 – COMPENSATED ABSENCES

The City of Cowan’s employees earn one week vacation at completion of one year of service, two weeks are earned at completion of three years, three weeks are earned after ten years, and four weeks are earned after twenty years.. Vacation leave must be used by June 30 of the year of accrual or have the mayor’s approval to carry unused time into the following year. Upon termination, employees receive any vacation leave they have accrued. As of June 30, 2012, there was \$1,067.00 in accrued vacation liabilities.

NOTE 14 - BUDGET

The City of Cowan’s actual expenditures exceeded the amount appropriated in the final budget passed on July 10, 2012. This practice is contrary to state statutes, which require all expenditures of the general and special revenue funds be authorized by the governing body.

CITY OF COWAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 15 – PROPERTY TAXES

Property taxes attached as an enforceable lien on property as of January 1. Taxes are levied on October 1 and payable by the following March 1 to avoid penalties and interest. The City collects its own property taxes. As of January 1, 2012, an enforceable lien exists for property taxes that will be billed in October for Tennessee municipalities according to GASB Statement 33. Property taxes receivable and deferred property tax revenue has been adjusted accordingly.

NOTE 16 – RISK FINANCING ACTIVITIES

It is the policy of the City of Cowan to purchase commercial insurance for the risks of losses to which it is exposed. These risks include general liability, property and casualty, worker’s compensation, and environmental. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. Information concerning insurance coverages can be found in the supplemental section of the financial report.

NOTE 17 – FUND BALANCE

A summary of changes in fund balances follows:

	Beginning Fund Balance <u>July 1, 2011</u>	(Deficiency) Excess of Revenue over <u>Expenditures</u>	Transfers/ Other Fund Balance Additions/ <u>(Deletions)</u>	Ending Fund Balance <u>June 30, 2012</u>
General Fund:				
Unassigned	\$ 277,542.01	\$ 47,440.48	\$ (35,251.15)	\$ 289,731.34
Nonspendable	<u>18,449.77</u>	<u>950.97</u>	<u>0.00</u>	<u>19,400.74</u>
Total	<u>\$ 295,991.78</u>	<u>\$ 48,391.45</u>	<u>\$ (35,251.15)</u>	<u>\$ 309,132.08</u>
Special Revenue Funds:				
State Street Aid				
Restricted	\$ 38,026.30	\$ 279.63	\$ 0.00	\$ 38,305.93
Drug Fund				
Restricted	4,291.26	650.74	0.00	4,942.00
Debt Service	0.00	(39,492.59)	39,492.59	0.00
Sanitation				
Assigned	82,641.82	25,346.67	(24,241.44)	83,747.05
Volunteer Fire Dept.				
Assigned	<u>72,319.38</u>	<u>(7,378.07)</u>	<u>20,000.00</u>	<u>84,941.31</u>
Total	<u>\$ 197,278.76</u>	<u>\$ (20,593.62)</u>	<u>\$ 35,251.15</u>	<u>\$ 211,936.29</u>
Board of Public Utilities:				
Total	<u>\$ 3,533,435.66</u>	<u>\$ (2,210.97)</u>	<u>\$ 0.00</u>	<u>\$ 3,531,224.69</u>

CITY OF COWAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 17 – FUND BALANCE (continued)

As of these financial statements, the City has adopted GASB Statement No. 54, which redefined how fund balances of the governmental funds are presented in the financial statements. Fund balances are now classified as follows:

Nonspendable – Amounts that cannot be spent either because they are not in spendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts that can be spent only for specific purposes because of the City Charter, City Code, state or federal laws, or externally imposed conditions by grantors or creditors.

Committed – Amounts that can be used only for specific purposes determined by a formal action by the Mayor and City Council ordinance or resolution.

Assigned – Amounts that are designated by the Mayor for a specific purpose but are not spendable until a budget ordinance is passed by the Mayor and City Council.

Unassigned – All amounts not included in other spendable classifications.

As discussed in Note 1, Restricted funds are used first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to deter the use of these other classified funds.

NOTE 18 – NET ASSETS

The net assets for the Drug Fund and the State Street Aid Fund have been restricted as they are only available for use within these two funds. As of June 30, 2012, the balances are \$4,942.00 and \$38,305.93 respectively.

NOTE 19 – RESTATEMENT

During 2012, certain matters were noted which required restatement of the prior year. The City discontinued their sidewalk project, which involved changes that should have been applied in prior years in the amount of \$8,279.62. While this affected the Government-Wide financial statements, this did not result in any necessary changes to the Governmental financial statements.

The following summarizes the aforementioned adjustments to net assets at July 1, 2011:

	Governmental <u>Activities</u>
Net assets, beginning of year, as previously reported	\$ 1,427,056.45
Restatements, as discussed above	<u>(8,279.62)</u>
Net assets, beginning of year as restated	<u>\$ 1,418,776.83</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF COWAN
REQUIRED SUPPLEMENTARY INFORMATION – UNAUDITED
June 30, 2012

SCHEDULE OF FUNDING PROGRESS FOR THE CITY OF COWAN

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b) – (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 01, 2011	\$1,271	\$1,271	\$0	100.00%	\$474	0.00%
July 01, 2009	\$1,141	\$1,141	\$0	100.00%	\$528	0.00%
July 01, 2007	\$1,101	\$1,101	\$0	100.00%	\$444	0.00%

See Accompanying Independent Auditors' Report.

OTHER SUPPLEMENTARY INFORMATION

**CITY OF COWAN
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 June 30, 2012**

	Special Revenue				Total Other Governmental Funds
	Drug Fund	State Street Aid	Volunteer Fire	Debt Service	
ASSETS					
Cash	\$ 5,569.00	\$ 38,305.93	\$ 50,858.34	\$ 0.00	\$ 94,733.27
Certificates of deposit	0.00	0.00	31,255.56	0.00	31,255.56
Other assets	0.00	0.00	2,389.00	0.00	2,389.00
Inventories	0.00	0.00	438.41	0.00	438.41
Total assets	\$ 5,569.00	\$ 38,305.93	\$ 84,941.31	\$ 0.00	\$ 128,816.24
LIABILITIES AND FUND BALANCES					
Liabilities:					
Other payables	\$ 627.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 627.00
Total liabilities	627.00	0.00	0.00	0.00	627.00
Fund balances:					
Restricted	4,942.00	38,305.93	0.00	0.00	43,247.93
Assigned	0.00	0.00	84,941.31	0.00	84,941.31
Total fund balances	4,942.00	38,305.93	84,941.31	0.00	128,189.24
Total liabilities and fund balances	\$ 5,569.00	\$ 38,305.93	\$ 84,941.31	\$ 0.00	\$ 128,816.24

See Accompanying Independent Auditors' Report.

CITY OF COWAN
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2012

	Special Revenue				Total Other Governmental Funds
	Drug Fund	State Street Aid	Volunteer Fire	Debt Service	
REVENUES					
Public service taxes	\$ 0.00	\$ 45,291.14	\$ 0.00	\$ 0.00	\$ 45,291.14
Fees and fines	923.88	0.00	0.00	0.00	923.88
Investment earnings	7.10	38.49	385.56	0.00	431.15
Miscellaneous	<u>3,811.56</u>	<u>0.00</u>	<u>40,522.47</u>	<u>0.00</u>	<u>44,334.03</u>
Total revenues	<u><u>4,742.54</u></u>	<u><u>45,329.63</u></u>	<u><u>40,908.03</u></u>	<u><u>0.00</u></u>	<u><u>90,980.20</u></u>
EXPENDITURES					
Current:					
Public safety	4,091.80	0.00	0.00	0.00	4,091.80
Streets	0.00	45,050.00	0.00	0.00	45,050.00
Fire	0.00	0.00	48,286.10	0.00	48,286.10
Debt Service:					
Principal	0.00	0.00	0.00	34,147.87	34,147.87
Interest	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>5,344.72</u>	<u>5,344.72</u>
Total expenditures	<u><u>4,091.80</u></u>	<u><u>45,050.00</u></u>	<u><u>48,286.10</u></u>	<u><u>39,492.59</u></u>	<u><u>136,920.49</u></u>
Excess (deficiency) of revenues over expenditures	<u>650.74</u>	<u>279.63</u>	<u>(7,378.07)</u>	<u>(39,492.59)</u>	<u>(45,940.29)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	<u>0.00</u>	<u>0.00</u>	<u>20,000.00</u>	<u>39,492.59</u>	<u>59,492.59</u>
Total other financing sources and uses	<u><u>0.00</u></u>	<u><u>0.00</u></u>	<u><u>20,000.00</u></u>	<u><u>39,492.59</u></u>	<u><u>59,492.59</u></u>
Net change in fund balances	<u>650.74</u>	<u>279.63</u>	<u>12,621.93</u>	<u>0.00</u>	<u>13,552.30</u>
Fund balances- beginning	<u>4,291.26</u>	<u>38,026.30</u>	<u>72,319.38</u>	<u>0.00</u>	<u>114,636.94</u>
Fund balances- ending	<u><u>\$ 4,942.00</u></u>	<u><u>\$ 38,305.93</u></u>	<u><u>\$ 84,941.31</u></u>	<u><u>\$ 0.00</u></u>	<u><u>\$ 128,189.24</u></u>

See Accompanying Independent Auditors' Report.

CITY OF COWAN
BUDGETARY COMPARISON SCHEDULE - DRUG FUND
For the Year Ended June 30, 2012

	Budgetary Amounts		Actual Amounts (See Note A)	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance beginning of year	\$ 4,291.26	\$ 4,291.26	\$ 4,291.26	\$ 0.00
Resources (inflows):				
Drug fine receipts	900.00	900.00	923.88	23.88
Drug money seized	950.00	3,811.00	3,811.56	0.56
Miscellaneous revenue	500.00	0.00	0.00	0.00
Interest and investment revenue	3.00	7.00	7.10	0.10
Amounts available for appropriation	<u>2,353.00</u>	<u>4,718.00</u>	<u>4,742.54</u>	<u>24.54</u>
Charges to appropriations (outflows):				
Miscellaneous	<u>2,250.00</u>	<u>4,100.00</u>	<u>4,091.80</u>	<u>8.20</u>
Total charges to appropriations	<u>2,250.00</u>	<u>4,100.00</u>	<u>4,091.80</u>	<u>8.20</u>
Budgetary fund balance, end of year	<u>\$ 4,394.26</u>	<u>\$ 4,909.26</u>	<u>\$ 4,942.00</u>	<u>\$ 32.74</u>

(continued)

CITY OF COWAN
BUDGETARY COMPARISON SCHEDULE - DRUG FUND (continued)
For the Year Ended June 30, 2012

	<u>Drug Fund</u>
Note A: Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures	
Sources/Inflow of Resources:	
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 4,742.54
Differences - Budget to GAAP	
There are no differences from Budget to GAAP	<u>0.00</u>
Total revenues as reported on the statement of revenues, expenditure, and changes in fund balances - governmental funds	<u>\$ 4,742.54</u>
Uses/Outflows of Resources	
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 4,091.80
Differences - Budget to GAAP	
There are no differences from Budget to GAAP	<u>0.00</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 4,091.80</u>

See Accompanying Independent Auditors' Report.

CITY OF COWAN
BUDGETARY COMPARISON SCHEDULE - STATE STREET AID FUND
For the Year Ended June 30, 2012

	Budgetary Amounts		Actual Amounts (See Note A)	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance beginning of year	\$ 38,026.30	\$ 38,026.30	\$ 38,026.30	\$ 0.00
Resources (inflows):				
Public service taxes	46,239.00	45,100.00	45,291.14	191.14
Interest and investment revenue	<u>30.00</u>	<u>38.00</u>	<u>38.49</u>	<u>0.49</u>
Amounts available for appropriation	<u>46,269.00</u>	<u>45,138.00</u>	<u>45,329.63</u>	<u>191.63</u>
Charges to appropriations (outflows):				
Other expenses	13,050.00	13,050.00	13,050.00	0.00
Salaries	<u>32,000.00</u>	<u>32,000.00</u>	<u>32,000.00</u>	<u>0.00</u>
Total charges to appropriations	<u>45,050.00</u>	<u>45,050.00</u>	<u>45,050.00</u>	<u>0.00</u>
Budgetary fund balance, end of year	<u>\$ 39,245.30</u>	<u>\$ 38,114.30</u>	<u>\$ 38,305.93</u>	<u>\$ 191.63</u>

(continued)

CITY OF COWAN
BUDGETARY COMPARISON SCHEDULE - STATE STREET AID (continued)
For the Year Ended June 30, 2012

	<u>State Street Aid Fund</u>
Note A: Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures	
Sources/Inflow of Resources:	
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 45,329.63
Differences - Budget to GAAP	
There are no differences from Budget to GAAP	<u>0.00</u>
Total revenues as reported on the statement of revenues, expenditure, and changes in fund balances - governmental funds	<u>\$ 45,329.63</u>
Uses/Outflows of Resources	
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 45,050.00
Differences - Budget to GAAP	
There are no differences from Budget to GAAP	<u>0.00</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 45,050.00</u>

See Accompanying Independent Auditors' Report.

CITY OF COWAN
BUDGETARY COMPARISON SCHEDULE - VOLUNTEER FIRE FUND
For the Year Ended June 30, 2012

	Budgetary Amounts		Actual Amounts (See Note A)	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance beginning of year	\$ 72,319.38	\$ 72,319.38	\$ 72,319.38	\$ 0.00
Resources (inflows):				
Transfers from other funds	20,000.00	20,000.00	20,000.00	0.00
County fire allocation	30,000.00	34,000.00	34,000.00	0.00
Grant revenue	0.00	5,500.00	5,501.02	0.00
Other income	131.00	950.00	1,021.45	71.45
Interest and investment revenue	500.00	385.00	385.56	0.56
Amounts available for appropriation	<u>50,631.00</u>	<u>60,835.00</u>	<u>60,908.03</u>	<u>72.01</u>
Charges to appropriations (outflows):				
Fire salaries	10,000.00		9,240.25	9.75
Equipment operation/maintenance	6,500.00	5,900.00	5,839.09	60.91
Water/Fire hydrant	1,420.00	1,415.00	1,413.60	1.40
Supplies	750.00	1,150.00	1,256.52	(106.52)
Telephone	750.00	760.00	754.85	5.15
Utilities	5,000.00	3,500.00	3,487.27	12.73
Fire hydrant rent	11,000.00	11,000.00	11,000.00	0.00
Insurance	2,000.00	4,050.00	4,032.35	17.65
Training	500.00	250.00	210.00	40.00
Additions to fixed assets	3,000.00	6,100.00	6,098.78	1.22
Other expenses	2,500.00	5,550.00	4,953.39	596.61
Total charges to appropriations	<u>43,420.00</u>	<u>48,925.00</u>	<u>48,286.10</u>	<u>638.90</u>
Budgetary fund balance, end of year	<u>\$ 79,530.38</u>	<u>\$ 84,229.38</u>	<u>\$ 84,941.31</u>	<u>\$ 711.93</u>

(continued)

CITY OF COWAN
BUDGETARY COMPARISON SCHEDULE - VOLUNTEER FIRE FUND (continued)
For the Year Ended June 30, 2012

	<u>Fire Fund</u>
Note A: Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures	
Sources/Inflow of Resources:	
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 60,908.03
Differences - Budget to GAAP	
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.	<u>(20,000.00)</u>
Total revenues as reported on the statement of revenues, expenditure, and changes in fund balances - governmental funds	<u>\$ 40,908.03</u>
Uses/Outflows of Resources	
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 48,286.10
Differences - Budget to GAAP	
There are no differences from Budget to GAAP	<u>0.00</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 48,286.10</u>

See Accompanying Independent Auditors' Report.

**CITY OF COWAN
OTHER SUPPLEMENTARY INFORMATION
June 30, 2012**

SCHEDULE OF TRANSFERS

Transfer from General Fund to Volunteer Fire Fund	\$ 20,000.00
Transfer from General Fund to Debt Service Fund	15,251.15
Transfer from Sanitation Fund to Debt Service Fund	<u>24,241.44</u>
 Total Transfers	 <u>\$ 59,492.59</u>

**ANALYSIS OF LONG-TERM LIABILITIES
GOVERNMENTAL ACTIVITIES**

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Decreases</u>	<u>Ending Balances</u>	<u>Amounts Due Within One Year</u>
Notes payable	\$ <u>122,112.90</u>	\$ <u>0.00</u>	\$ <u>(34,147.77)</u>	\$ <u>87,965.13</u>	\$ <u>35,922.95</u>
Governmental activities long-term liabilities	<u>\$ 122,112.90</u>	<u>\$ 0.00</u>	<u>\$ (34,147.77)</u>	<u>\$ 87,965.13</u>	<u>\$ 35,922.95</u>

**ANALYSIS OF LONG-TERM LIABILITIES
BUSINESS – TYPE ACTIVITIES**

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Decreases</u>	<u>Ending Balances</u>	<u>Amounts Due Within One Year</u>
Bonds payable	\$ <u>610,110.11</u>	\$ <u>0.00</u>	\$ <u>(156,692.74)</u>	\$ <u>453,417.37</u>	\$ <u>7,789.55</u>
Business-type activities long-term liabilities	<u>\$ 610,110.11</u>	<u>\$ 0.00</u>	<u>\$ (156,692.74)</u>	<u>\$ 453,417.37</u>	<u>\$ 7,789.55</u>

See Accompanying Independent Auditors' Report.

**CITY OF COWAN
OTHER SUPPLEMENTARY INFORMATION
June 30, 2012**

SCHEDULE OF CHANGES IN TAXES RECEIVABLE

<u>Year of Assessment</u>	<u>July 1, 2011 Amount</u>	<u>Taxes Levied</u>	<u>Collections/ Adjustments</u>	<u>June 30, 2012 Amount</u>
Prior	\$ 1,367.24	\$ 0.00	\$ 75.86	\$ 1,443.10
2004	63.00	0.00	(19.00)	44.00
2005	821.09	0.00	(464.00)	357.09
2006	1,802.00	0.00	(679.00)	1,123.00
2007	2,014.00	0.00	(446.00)	1,568.00
2008	5,228.00	0.00	(910.34)	4,317.66
2009	7,748.00	0.00	(1,702.86)	6,045.14
2010	15,187.46	0.00	(7,032.46)	8,155.00
2011	234,500.00	0.00	(220,245.00)	14,255.00
2012	<u>0.00</u>	<u>237,014.00</u>	<u>0.00</u>	<u>237,014.00</u>
Total	<u>\$ 268,730.79</u>	<u>\$ 237,014.00</u>	<u>\$ (231,422.80)</u>	<u>\$ 274,321.99</u>

As of June 30, 2012, no delinquent property taxes have been turned over to the County Trustee.

**SCHEDULE OF TAX RATES AND ASSESSMENTS
FOR TEN YEARS ENDED JUNE 30, 2012**

<u>Tax Year</u>	<u>Total Tax Rate</u>	<u>Assessed Valuations</u>	<u>Total Tax Assessments</u>
2003	1.75	11,963,863	209,385.00
2004	1.75	12,123,290	212,174.00
2005	1.75	12,524,372	219,406.61
2006	1.75	12,860,341	225,063.00
2007	1.47	15,773,496	231,869.00
2008	1.47	16,074,356	237,000.00
2009	1.47	15,947,718	234,432.00
2010	1.47	15,938,228	234,293.00
2011	1.47	16,060,920	234,500.00
2012	1.53	15,490,081	237,014.00

See Accompanying Independent Auditors' Report.

CITY OF COWAN
OTHER SUPPLEMENTARY INFORMATION
June 30, 2012

SCHEDULE OF INSURANCE

<u>Risk Covered</u>	<u>Expiration Date</u>	<u>Limits</u>
<u>TML Risk Management Pool</u>		
Property coverage	6/1/2013	
Limits of coverage – per occurrence		\$ 9,033,241.00
Buildings and personal property		887,585.00
Electronic data equipment		27,439.00
Mobile equipment		129,517.00
Equipment breakdown		9,005,802.00
Automatic coverage		various
Crime coverage	6/1/2013	
Employee dishonesty – per loss		150,000.00
Forgery or alteration		150,000.00
Theft, disappearance, or destruction		150,000.00
Computer fraud		150,000.00
Worker’s compensation and employer’s liability	4/15/2013	
Bodily injury by accident – each accident		300,000.00
Bodily injury by disease – policy limit		700,000.00
Bodily injury by disease – each employee		300,000.00
General liability coverage	4/15/2013	
Bodily injury – per person		300,000.00
Bodily injury – per occurrence		700,000.00
Property damage – per occurrence		100,000.00
Each other loss – per occurrence		700,000.00
Per person or per occurrence – catastrophic medical expense excess of bodily injury		1,000,000.00
Fire damage		100,000.00
Impounded or commandeered property damage		100,000.00
Non-monetary defense costs		100,000.00
Public officials errors and omissions – per occurrence (\$1,000.00 deductible) per occurrence for non-monetary defense costs		700,000.00 100,000.00
Automobile liability coverage		
Bodily injury – per person as limited by the tort liability act		300,000.00
Bodily injury – per occurrence as limited by the tort liability act		700,000.00
Property damage – per occurrence as limited by the tort liability act		100,000.00
Each other loss – per occurrence		700,000.00
Per occurrence for catastrophic medical expense excess of bodily injury		1,000,000.00
Per person and \$10,000.00 per accident for medical payments		1,000.00
Per occurrence for bodily injury for uninsured motorists		300,000.00
Per occurrence for property damage for uninsured motorists		100,000.00
Comprehensive (deductible \$100)/ Collision (deductible \$500)		
<u>Employees Mutual Company</u>		
Notary Bond (Rebecca Sherman)	3/21/2013	10,000.00

See Accompanying Independent Auditors’ Report.

**CITY OF COWAN
OTHER SUPPLEMENTARY INFORMATION
June 30, 2012**

SCHEDULE OF WATER AND SEWER RATES

The metered consumers of the City at the end of the fiscal year, June 30, 2012, for water services are 970 and for sewer services are approximately 863.

	<u>Water Rate</u>
The minimum 2,000 gallons used	\$ 13.70
plus thereafter	\$ 3.64 per 1000 gallons
Outside City Water base charge	\$ 19.04

	<u>Sewer Rate</u>
2,000 gallons used	\$ 16.37
plus	\$ 4.85 per 1000 gallons

SCHEDULE OF UNACCOUNTED FOR WATER

City of Cowan
Schedule of Unaccounted for Water
June 30, 2012

(All amounts in gallons)

A	Water Treated and Purchased:		
B	Water Pumped (potable)	80,614,000	
C	Water Purchased	0	
D	Total Water Treated and Purchased (Sum Lines B and C)		80,614,000
E	Accounted for Water:		
F	Water Sold	39,745,000	
G	Metered for Consumption (in house usage)	0	
H	Fire Department(s) Usage	1,225,000	
I	Flushing	2,435,000	
J	Tank Cleaning/Filling	6,781,000	
K	Street Cleaning	0	
L	Bulk Sales	0	
M	Water Bill Adjustments /plus or (minus)	0	
N	Total Accounted for Water (Sum Lines F thru M)		50,186,000
O	Unaccounted for Water (Line D minus Line N)		30,428,000
P	Percentage Unaccounted for Water (Line O divided by Line D times 100)		37.75%
Q	Other (explain)		See Below

Explain Other: Leaks 3,810,000

All amounts included in this schedule are supported by documentation on file at the water system. If no support is on file for a line item or if the line item is not applicable, a "0" is shown.

**CITY OF COWAN
OTHER SUPPLEMENTARY INFORMATION
June 30, 2012**

SCHEDULE OF CASH

General Fund	Franklin County United Bank	Checking	\$ 44,830.56
	Franklin County United Bank	Checking	80.05
	Franklin County United Bank	Savings	54,303.41
	Franklin County United Bank	Certificates of Deposit	170,882.51
		Cash on Hand	<u>150.00</u>
Total General Fund			<u>270,246.53</u>
Special Revenue Funds:			
State Street Aid Fund	Franklin County United Bank	Checking	38,305.93
Drug Fund	Franklin County United Bank	Checking	5,569.00
Fire Department Fund	Franklin County United Bank	Checking	46,889.89
Fire Department Fund	Franklin County United Bank	Savings	3,968.45
Fire Department Fund	Franklin County United Bank	Certificates of Deposit	31,255.56
Sanitation Fund	Franklin County United Bank		<u>83,747.05</u>
Total Special Revenue Funds			<u>209,735.88</u>
Board of Public Utilities			
	Franklin County United Bank	Checking	80,327.76
	Franklin County United Bank	Checking	451.10
	Franklin County United Bank	Savings	127,684.34
	Franklin County United Bank	Certificates of Deposit	306,077.42
		Cash on Hand	<u>149.86</u>
Total Board of Public Utilities			<u>514,690.48</u>
Total Cash			<u><u>\$ 994,672.89</u></u>

See Accompanying Independent Auditors' Report.

**CITY OF COWAN
OTHER SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2012**

SCHEDULE OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE

<u>Federal Grantor/ Pass - Through Grantor</u>	<u>CFDA Number</u>	<u>Contract</u>	<u>Beginning (Accrued) Deferred</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Ending (Accrued) Deferred</u>
<u>State Financial Assistance</u>						
Tennessee Department of Transportation		GHSO	\$ 0.00	\$ 8,189.47	\$ 8,189.47	\$ 0.00
Tennessee Department of Transportation	-	FEMA	<u>0.00</u>	<u>5,501.02</u>	<u>5,501.02</u>	<u>0.00</u>
Total State Financial Assistance			<u>\$ 0.00</u>	<u>\$ 13,690.49</u>	<u>\$ 13,690.49</u>	<u>\$ 0.00</u>

Basis of Presentation:

Note 1: The accompanying Schedule of Federal Awards and State Financial Assistance summarized the expenditures of the City of Cowan under programs of the federal and state government for the year ended June 30, 2012. The schedule is presented using the modified accrual basis of accounting.

See Accompanying Independent Auditors' Report.

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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*

To the Honorable Mayor and Council Members
City of Cowan, Tennessee

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cowan, Tennessee, as of and for the year ended June 30, 2012, which collectively comprise the City of Cowan, Tennessee's basic financial statements and have issued our report thereon dated December 14, 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

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

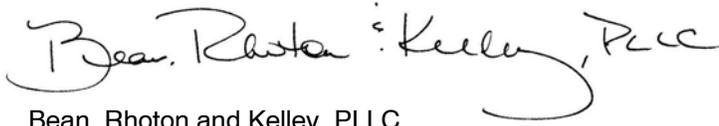
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting [08-01 and 12-01]. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Cowan, Tennessee'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item [08-02].

The City of Cowan, Tennessee's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the City of Cowan, Tennessee's responses and, accordingly, we express no opinion on them.

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

A handwritten signature in cursive script that reads "Bean, Rhoton & Kelley, PLLC". The signature is written in dark ink and is positioned above the typed name of the firm.

Bean, Rhoton and Kelley, PLLC
Winchester, Tennessee
December 14, 2012

CITY OF COWAN
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2012

I. Summary of Auditors' Results

- A. The June 30, 2012 Auditors' Report on the Financial Statements was unqualified.
- B. Significant deficiencies in internal control were disclosed by the audit and are discussed below findings 08-01, and 12-01.
- C. No findings are considered material weaknesses.
- D. Instances of noncompliance were disclosed by the audit and are discussed below in finding 08-02.

II. Findings Related to the Financial Statements, which are required to be reported in accordance with *Government Auditing Standards*.

(08-01) Segregation of duties

In our review of the overall accounting controls of the City of Cowan's accounting system, we found several areas where proper segregation of duties might be obtained.

Recommendation:

Because of the number of office employees working for the City, we do not believe a complete segregation of duties is possible that would eliminate all weaknesses in the City's accounting system. However, continual monitoring of the internal control aspect of the accounting system should be considered by the City of Cowan. Certain additional procedures and segregation of proper duties should increase the control over the assets.

City's Comment:

While we realize that a complete segregation of duties is monetarily impossible to achieve, we continually strive to monitor the situation and implement as many controls as possible.

Disposition:

As of June 30, 2012, this problem still exists.

(08-02) Actual expenditures exceeded budget appropriations

We noted that actual expenditures exceeded the amount appropriated in the budget in some funds. This practice is contrary to state statutes, which require all expenditures of the general and special revenue funds to be authorized by the governing body.

Recommendation:

All expenditures should be authorized either in the original budget or an amendment to that budget or in a supplemental appropriation.

City's Comment:

The budget will be monitored better in the near future.

Disposition:

As of June 30, 2012, this problem still exists.

CITY OF COWAN
SCHEDULE OF FINDINGS AND RESPONSES (continued)
June 30, 2012

(12-01) Estimates

As part of our audit procedures, we reviewed the financial statements for significant estimates made by management. We found that while the City has reviewed most of the estimates for reasonableness, not all of the reviews were supported with adequate documentation.

Recommendation:

We suggest that all estimates, in particular any material amounts, be reviewed at least annually and appropriate documentation be retained as support.

City's Comment:

Future estimates will be reviewed annually and appropriate documentation retained to support the estimates.