

CITY OF DAYTON, TENNESSEE

FINANCIAL REPORT

JUNE 30, 2011

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Report of Independent Certified Public Accountants
on the Financial Statements

NEAL, SCOUTEN & McCONNELL, P.C.
Certified Public Accountants

To the City Council
City of Dayton
Dayton, Tennessee

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each of the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Dayton, Tennessee, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Dayton, 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 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 of the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Dayton, Tennessee, as of June 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund and the Department of Education - General Purpose Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated January 13, 2012, on our consideration of the City of Dayton, 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 generally accepted in the United States of America require that the management's discussion and analysis on pages A-1 – A-8 and other required supplemental information on pages 47-48 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 Dayton, Tennessee's financial statements as a whole. The combining and individual nonmajor fund financial statements and schedules, the budgetary comparison schedules, the discretely presented component unit financial statements, the schedules of operating expenses for individual funds, and the financial schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements and schedules, the budgetary comparison schedules, the discretely presented component unit financial statements, the schedules of operating expenses for individual funds, the financial schedules on pages 71-77, and the schedule of expenditures of federal and state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The financial schedules on pages 78-80 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Neal, Scouter ; McConnell, P.C.

Chattanooga, Tennessee
January 13, 2012

City of Dayton, Tennessee
Management's Discussion and Analysis
June 30, 2011

As management of the City of Dayton, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Dayton for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with information in the basic financial statement.

Financial Highlights

- The City of Dayton's assets exceeded its liabilities by \$14,279,640 for governmental activities at June 30, 2011 (net assets). Of this amount, \$4,731,229 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City of Dayton's assets exceeded its liabilities by \$46,168,896 for Business-Type activities at June 30, 2011.
- Net assets for governmental activities increased by \$923,021 or 6.91%. Net assets for Business-Type activities increased \$1,568,531 or 3.52%. The City's changes in net assets are detailed in the chart on A-5 of this report. Total revenues for governmental activities increased \$675,464 in 2011, primarily due to increases in intergovernmental and other local tax revenues. Expenses increased in areas corresponding to the increases in revenue.
- At June 30, 2011, the City of Dayton's governmental funds reported combined ending fund balances of \$5,036,070 with 37% available for spending at the City's discretion (unassigned).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$1,859,416 or 40% of total general fund expenditures. Expenditures do not include transfers of \$50,159 from the general fund to other funds.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction of the City of Dayton's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplemental information and supplemental information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Dayton is improving or deteriorating.

City of Dayton, Tennessee
Management's Discussion and Analysis
June 30, 2011

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 of Dayton 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 of Dayton include general government, public safety, highways and streets, education, culture and recreation, airport, and library. The Business-Type activities of the City include the Industrial Park, water, sewer, and electric services.

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 of Dayton, 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 primarily two categories: governmental funds and proprietary funds. Also presented is the Dayton City School Activity Funds which is a fiduciary fund.

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 on 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 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 of Dayton maintains eight 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, the capital projects fund, and the Department of Education-general purpose fund, which are considered to be major funds. Data from the other governmental funds are combined into a single aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements later in this report on pages 49-50.

City of Dayton, Tennessee
Management's Discussion and Analysis
June 30, 2011

The City Council adopts an annual appropriated budget for its governmental funds. A budgetary comparison statement has been provided in the basic financial statements for the general fund and the Department of Education-general purpose fund to demonstrate compliance with these budgets.

The basic governmental funds financial statements can be found beginning on page 5 of this report.

Proprietary funds. The City maintains a proprietary fund for its five enterprise funds. Enterprise funds are used to report the same functions presented as Business-Type activities in the government-wide financial statements. The City's major enterprise funds are the Electric, Water and Sewer, and Industrial Park funds. The City also maintains the Sanitation and Skill Center funds.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found on pages 12-15 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Fiduciary funds do not present their activities within the report. The school activity fund balance sheet may be found on page 16 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 17-46 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 and to fund the insurance plans with the state. Required supplemental information can be found on pages 47-48 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplemental information. Combining and individual fund statements and schedules, nonmajor governmental funds budgetary information, and the City's component units financial statements can be found on pages 49-70 of this report.

City of Dayton, Tennessee
Management's Discussion and Analysis
June 30, 2011

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 Dayton, assets exceeded liabilities by \$60,448,536 at the close of this fiscal year.

In excess of \$13 million of the City's net assets are unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors. The City has accumulated funds for capital project needs as approved by Council and debt service. Investments in capital assets (e.g. land, buildings, infrastructure, machinery and equipment) is less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to its 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 repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Restricted net assets are subject to external restriction on how they may be used.

City of Dayton
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 7,225,181	\$ 6,743,138	\$ 14,866,851	\$ 11,876,875	\$ 22,092,032	\$ 18,620,013
Capital assets	<u>9,581,772</u>	<u>9,346,373</u>	<u>41,422,152</u>	<u>40,785,301</u>	<u>51,003,924</u>	<u>50,131,674</u>
Total assets	<u>\$ 16,806,953</u>	<u>\$ 16,089,511</u>	<u>\$ 56,289,003</u>	<u>\$ 52,662,176</u>	<u>\$ 73,095,956</u>	<u>\$ 68,751,687</u>
Long-term liabilities	\$ 375,539	\$ 409,461	\$ 4,754,387	\$ 4,715,473	\$ 5,129,926	\$ 5,124,934
Other liabilities	<u>2,151,774</u>	<u>2,323,431</u>	<u>5,365,720</u>	<u>3,346,338</u>	<u>7,517,494</u>	<u>5,669,769</u>
Total liabilities	<u>\$ 2,527,313</u>	<u>\$ 2,732,892</u>	<u>\$ 10,120,107</u>	<u>\$ 8,061,811</u>	<u>\$ 12,647,420</u>	<u>\$ 10,794,703</u>
Invested in capital assets, net of related debt	\$ 9,296,404	\$ 8,931,207	\$ 37,211,258	\$ 36,584,468	\$ 46,507,662	\$ 45,515,675
Restricted	252,007	88,970	-	-	252,007	88,970
Unrestricted	<u>4,731,229</u>	<u>4,336,442</u>	<u>8,957,638</u>	<u>8,015,897</u>	<u>13,688,867</u>	<u>12,352,339</u>
Total net assets	<u>\$ 14,279,640</u>	<u>\$ 13,356,619</u>	<u>\$ 46,168,896</u>	<u>\$ 44,600,365</u>	<u>\$ 60,448,536</u>	<u>\$ 57,956,984</u>

Governmental activities. Governmental activities increased the City's net assets by \$831,078 in 2010 and increased net assets by \$923,021 in 2011. Revenue and expense increases relate to additional funding from federal grants for education. Public safety and education expenses represent the main expense increases.

Business-Type activities. Business-Type activities increased the City's net assets by \$1,673,512 for 2010 and \$1,568,531 for 2011, with the electric fund and industrial park fund generating the majority of this profit in 2011 and 2010.

City of Dayton, Tennessee
Management's Discussion and Analysis
June 30, 2011

City of Dayton
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for services	\$ 634,539	\$ 626,975	\$34,891,742	\$29,633,879	\$35,526,281	\$30,260,854
Operating grants and contributions	1,384,500	1,345,082	—	—	1,384,500	1,345,082
Capital grants and contributions	249,646	185,000	112,998	17,000	362,644	202,000
General revenues:						
Property taxes	1,109,415	954,261	—	—	1,109,415	954,261
Other local taxes	3,754,169	3,539,140	—	—	3,754,169	3,539,140
Intergovernmental	4,155,321	3,991,609	—	—	4,155,321	3,991,609
Investment income	32,200	55,601	100,983	118,759	133,183	174,360
Other	394,560	341,218	(357,551)	(300,512)	37,009	40,706
Total revenues	11,714,350	11,038,886	34,748,172	29,469,126	46,462,522	40,508,012
Expenses:						
General government	617,960	585,465	—	—	617,960	585,465
Public safety:						
Police	1,376,968	1,276,321	—	—	1,376,968	1,276,321
Fire	644,372	646,253	—	—	644,372	646,253
Maintenance	343,199	336,068	—	—	343,199	336,068
Highways and streets	749,986	708,229	—	—	749,986	708,229
Parks and recreation	403,112	390,472	—	—	403,112	390,472
Library	345,507	334,558	—	—	345,507	334,558
Airport	326,069	314,664	—	—	326,096	314,664
Education:						
Instructional	4,015,351	3,886,885	—	—	4,015,351	3,886,885
Support services	1,397,716	1,224,823	—	—	1,397,716	1,224,823
Noninstructional	405,559	348,918	—	—	405,559	348,918
Unallocated depreciation	148,671	132,984	—	—	148,671	132,984
Interest on long-term debt	16,859	22,168	—	—	16,859	22,168
Electric	—	—	28,203,345	23,045,094	28,203,345	23,045,09
Water	—	—	2,710,795	2,550,733	2,710,795	2,550,733
Sewer	—	—	1,629,481	1,570,658	1,629,481	1,570,658
Industrial Park-economic development	—	—	112,819	120,961	112,819	120,961
Skill Center-community development	—	—	113,093	102,452	113,093	102,452
Sanitation	—	—	410,108	405,716	410,108	405,716
Total expenses	10,791,329	10,207,808	33,179,641	27,795,614	43,970,970	38,003,422
Change in net assets	923,021	831,078	1,568,531	1,673,512	2,491,552	2,504,590
Net assets, beginning	13,356,619	12,525,541	44,600,365	42,926,853	57,956,984	55,452,394
Net assets, ending	<u>\$14,279,640</u>	<u>\$13,356,619</u>	<u>\$46,168,896</u>	<u>\$44,600,365</u>	<u>\$60,448,536</u>	<u>\$57,956,984</u>

City of Dayton, Tennessee
Management's Discussion and Analysis
June 30, 2011

Financial Analysis of the City's Funds

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

Governmental funds. The focus of the City of Dayton governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. The unassigned fund balance may serve as a useful measure of a government's net resources available at the end of the fiscal year for future unforeseen emergencies. At June 30, 2011 and 2010, the City of Dayton's governmental funds reported combined ending fund balances of \$5,036,070 and \$4,480,157, respectively. Approximately 37% of the 2011 total (\$1,859,416) constitutes unassigned fund balance.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$1,859,416. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total general fund expenditures. Unassigned fund balance represents 40% of total fund expenditures.

The fund balance of the City's general fund increased by \$247,823 during the current fiscal year. The key factor is increased revenue from tax revenue increases.

Proprietary funds. The City of Dayton's proprietary funds provide the same type of information as the government-wide financial statements, but with more detail.

Net assets at the end of the year were to \$22,448,753 for the Electric Fund, \$18,152,469 for the Water and Sewer Fund, \$2,946,515 for the Industrial Park Fund, and \$2,621,159 for the nonmajor funds.

General Fund Budgetary Highlights

There were only minor differences between the original budget and the final amended budgeted expenditures. The City's general fund budget was a break-even budget while the fund generated an increase in net assets of \$247,823. This increase results primarily from franchise fees exceeded those budgeted by \$43,969, intergovernmental revenues exceeding those budgeted by \$44,175, and charges for services exceeding those budgeted by \$41,377, while the City's general fund actual expenses were \$144,137 less than budgeted.

**City of Dayton, Tennessee
Management's Discussion and Analysis
June 30, 2011**

Capital Assets and Debt Administration

Capital assets. The City of Dayton's investment in capital assets for its governmental and Business-Type fund activities as of June 30, 2011, amounts to \$51,003,924 (net of accumulated depreciation). This investment in capital assets includes land, buildings, other improvements, equipment, and infrastructure.

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

- Hangar demolition at Mark Anton Airport
- Purchased a new fire truck
- Land improvements at parks
- Purchased police cars

**City of Dayton
Capital Assets
(Net of Depreciation)**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Buildings and improvements	\$ 6,283,107	\$ 6,536,569	\$ 2,283,011	\$ 2,308,228	\$ 8,566,118	\$ 8,844,797
Equipment	1,832,474	1,586,747	36,845,528	36,744,634	38,677,902	38,331,381
Infrastructure	46,750	46,750	-	-	46,750	46,750
Roads and land improvements	48,453	44,715	363,363	377,181	411,816	421,896
Land	808,501	808,501	651,074	646,074	1,459,575	1,454,575
Construction in progress	<u>562,487</u>	<u>323,091</u>	<u>1,279,276</u>	<u>709,184</u>	<u>1,841,763</u>	<u>1,032,275</u>
Capital assets, net of depreciation	<u>\$ 9,581,772</u>	<u>\$ 9,346,373</u>	<u>\$41,422,152</u>	<u>\$40,785,301</u>	<u>\$51,003,924</u>	<u>\$50,131,674</u>

Additional information on the City of Dayton's capital assets can be found in Note 3 on pages 29-30 of this report.

Long-term debt. The City's Governmental Activities have one Capital Outlay note with \$285,368 outstanding with \$57,143 due within one year.

Business-Type activities have outstanding bonds and notes of \$5,131,146 with principal of \$386,716 due within one year. The combined long-term debt for the primary government is \$5,416,514. Additional information concerning long-term debt can be found on pages 31-34 of this report.

City of Dayton, Tennessee
Management's Discussion and Analysis
June 30, 2011

Economic Factors and Next Year's Budgets and Rates

The City continues to operate attempting to keep expenses as low as feasibly possible. An anticipated increase in expenses is primarily due to the increase in employee benefits and insurance costs. The property tax rate for 2011 was set at \$.47 per \$100 assessed value, which remained the same as the 2010 rate.

Revenues are expected to remain similar to the previous budget year. Management has been conservative in estimation of revenues for 2011-2011 with the revenue generators having been in existence long enough to be able to project next year's revenue. Budgeted expenditures were to increase primarily due to insurance costs and employee benefits.

We are unsure of the industrial base of the City due to current economic factors. We will continue to monitor this and see how it affects our overall economic status.

Requests for Information

This financial report is designed to provide a general overview of the City of Dayton finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information may be addressed to Thomas W. Solomon, City Recorder, P.O. Box 226, Dayton, Tennessee 37321.

**BASIC
FINANCIAL STATEMENTS**

CITY OF DAYTON, TENNESSEE
STATEMENT OF NET ASSETS
June 30, 2011

	Primary Government			Component Units	
	Governmental	Business-Type	Total	Governmental	Proprietary
	Activities	Activities		Utilities Grant Program	Industrial Development Board
ASSETS					
Cash	\$ 3,079,908	\$ 7,525,377	\$ 10,605,285	\$ 10,783	\$ 15,474
Certificates of deposit	1,900,000	1,250,000	3,150,000	-	-
Receivables:					
Property taxes, net	1,128,902	-	1,128,902	-	-
Customer accounts, net	23,868	2,792,130	2,815,998	-	-
Other governments	997,086	112,998	1,110,084	-	-
Component unit/primary government	-	196,400	196,400	8,299	25,599
Interest	5,140	6,085	11,225	-	-
Internal balances	(5,600)	5,600	-	-	-
TVA loans receivable	-	86,430	86,430	-	-
Inventories	44,201	1,927,485	1,971,686	-	-
Prepaid expenses	51,676	62,469	114,145	-	-
Capital assets:					
Nondepreciable	1,370,988	1,930,350	3,301,338	-	241,400
Depreciable, net	8,210,784	39,491,802	47,702,586	-	2,428,054
Net investment in capital lease	-	875,237	875,237	-	-
Deferred charges, net of amortization	-	21,926	21,926	-	-
Restricted receivables	-	4,714	4,714	-	-
Total assets	<u>\$ 16,806,953</u>	<u>\$ 56,289,003</u>	<u>\$ 73,095,956</u>	<u>\$ 19,082</u>	<u>\$ 2,710,527</u>
LIABILITIES AND NET ASSETS					
LIABILITIES					
Accounts payable	\$ 85,926	\$ 507,679	\$ 593,605	\$ -	\$ -
Accounts payable-TVA	-	3,903,677	3,903,677	-	-
Accrued salaries and benefits	763,243	157,820	921,063	-	-
Accrued interest	2,486	14,248	16,734	-	-
Accrued expenses	6,682	-	6,682	-	-
Due to primary government	-	-	-	-	196,400
Due to component unit	-	33,898	33,898	-	-
Deferred revenue	1,236,294	-	1,236,294	-	-
Unearned income	-	22,964	22,964	-	-
Customers' deposits	-	252,288	252,288	-	-
TVA home program advances	-	86,430	86,430	-	-
Long-term debt:					
Due within one year	57,143	386,716	443,859	-	24,002
Due in more than one year	228,225	4,714,909	4,943,134	-	237,881
Long-term OPEB liability	147,314	39,478	186,792	-	-
Total liabilities	<u>2,527,313</u>	<u>10,120,107</u>	<u>12,647,420</u>	<u>-</u>	<u>458,283</u>
NET ASSETS					
Invested in capital assets, net of related debt	9,296,404	37,211,258	46,507,662	-	2,407,571
Restricted	252,007	-	252,007	-	-
Unrestricted	4,731,229	8,957,638	13,688,867	19,082	(155,327)
Total net assets	<u>14,279,640</u>	<u>46,168,896</u>	<u>60,448,536</u>	<u>19,082</u>	<u>2,252,244</u>
Total liabilities and net assets	<u>\$ 16,806,953</u>	<u>\$ 56,289,003</u>	<u>\$ 73,095,956</u>	<u>\$ 19,082</u>	<u>\$ 2,710,527</u>

The Notes to Financial Statements are an integral part of this statement.

**CITY OF DAYTON, TENNESSEE
STATEMENT OF ACTIVITIES
Year Ended June 30, 2011**

Functions/Programs	Program Revenues					Primary Government			Component Units	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Governmental	Proprietary	
								Utilities Grant Program	Industrial Development Board	
Primary Government:										
General government	\$ 617,960	\$ 16,580	\$ -	\$ -	\$ (601,380)	\$ -	\$ (601,380)	\$ -	\$ -	
Public safety-police	1,376,968	152,458	62,949	-	(1,161,561)	-	(1,161,561)	-	-	
Public safety-fire	644,372	84,102	3,561	-	(556,709)	-	(556,709)	-	-	
Maintenance	343,199	-	-	-	(343,199)	-	(343,199)	-	-	
Highways and streets	749,986	15,960	187,645	-	(546,381)	-	(546,381)	-	-	
Parks and recreation	403,112	-	-	245,000	(158,112)	-	(158,112)	-	-	
Library	345,507	22,201	14,000	4,646	(304,660)	-	(304,660)	-	-	
Airport	326,069	170,665	12,770	-	(142,634)	-	(142,634)	-	-	
Education:										
Instructional	4,015,351	56,760	600,451	-	(3,358,140)	-	(3,358,140)	-	-	
Support services	1,397,716	-	229,312	-	(1,168,404)	-	(1,168,404)	-	-	
Noninstructional	405,559	115,813	273,812	-	(15,934)	-	(15,934)	-	-	
Unallocated depreciation expense	148,671	-	-	-	(148,671)	-	(148,671)	-	-	
Interest on long-term debt	16,859	-	-	-	(16,859)	-	(16,859)	-	-	
Total governmental activities	10,791,329	634,539	1,384,500	249,646	(8,522,644)	-	(8,522,644)	-	-	
Business-type activities:										
Electric	28,203,345	29,364,084	-	34,998	-	1,195,737	1,195,737	-	-	
Water	2,710,795	3,073,945	-	78,000	-	441,150	441,150	-	-	
Sewer	1,629,481	1,638,336	-	-	-	8,855	8,855	-	-	
Industrial Park-economic development	112,819	218,274	-	-	-	105,455	105,455	-	-	
Skill Center-community development	113,093	171,393	-	-	-	58,300	58,300	-	-	
Sanitation	410,108	425,710	-	-	-	15,602	15,602	-	-	
Total business-type activities	33,179,641	34,891,742	-	112,998	-	1,825,099	1,825,099	-	-	
Total primary government	\$ 43,970,970	\$ 35,526,281	\$ 1,384,500	\$ 362,644	(8,522,644)	1,825,099	(6,697,545)	\$ -	\$ -	
Component units:										
Utilities Grant Program	\$ 50,300	\$ -	\$ 50,173	\$ -	\$ -	\$ -	\$ -	\$ (127)	\$ (76,071)	
Industrial Development Board	118,447	42,376	-	-	-	-	-	-	(76,071)	
Total component units	\$ 168,747	\$ 42,376	\$ 50,173	\$ -	\$ -	\$ -	(127)	\$ -	(76,071)	
General revenues:										
Property taxes										
Local sales tax										
Local beer tax										
Other local taxes										
Basic education program										
State sales tax										
Intergovernmental revenue not restricted to specific programs										
Investment income										
Miscellaneous										
Insurance proceeds										
Transfers-interfund payments in lieu of taxes										
Total general revenues and transfers										
Change in net assets										
Net assets, beginning of year										
Net assets, end of year										

The Notes to Financial Statements are an integral part of this statement.

CITY OF DAYTON, TENNESSEE
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011

	General	Department of Education General Purpose	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash	\$ 1,280,473	\$ 968,566	\$ 458,147	\$ 372,722	\$ 3,079,908
Certificates of deposit	300,000	1,600,000	-	-	1,900,000
Receivables:					
Property taxes, net	827,047	301,855	-	-	1,128,902
Accounts	23,868	-	-	-	23,868
Other governments	551,045	253,710	120,176	72,155	997,086
Interest	818	4,322	-	-	5,140
Interfund	22,668	78,171	38,447	4,430	143,716
Prepaid expenses	51,676	-	-	-	51,676
Inventories	25,168	-	-	19,033	44,201
Total assets	<u>\$3,082,763</u>	<u>\$3,206,624</u>	<u>\$ 616,770</u>	<u>\$ 468,340</u>	<u>\$7,374,497</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 60,342	\$ 15,498	-	\$ 10,086	\$ 85,926
Accrued salaries and benefits	105,965	543,987	-	113,291	763,243
Other accrued liabilities	-	6,682	-	-	6,682
Interfund payables	46,465	14,245	-	88,606	149,316
Deferred revenues	862,779	347,355	123,069	57	1,333,260
Total liabilities	<u>1,075,551</u>	<u>927,767</u>	<u>123,069</u>	<u>212,040</u>	<u>2,338,427</u>
FUND BALANCES					
Nonspendable	76,844	-	-	19,033	95,877
Restricted	-	33,580	-	218,427	252,007
Committed	70,952	-	-	-	70,952
Assigned	-	2,245,277	493,701	18,840	2,757,818
Unassigned	1,859,416	-	-	-	1,859,416
Total fund balances	<u>2,007,212</u>	<u>2,278,857</u>	<u>493,701</u>	<u>256,300</u>	<u>5,036,070</u>
Total liabilities and fund balances	<u>\$3,082,763</u>	<u>\$3,206,624</u>	<u>\$ 616,770</u>	<u>\$ 468,340</u>	<u>\$7,374,497</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF DAYTON, TENNESSEE
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
June 30, 2011

Total fund balances \$ 5,036,070

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

Capital assets and related accumulated depreciation are not financial resources or uses and not reported in the funds.

Capital assets-cost	\$ 19,233,421	
Accumulated depreciation	<u>(9,651,649)</u>	9,581,772

Property taxes for previous levies that have yet to be collected are not available to pay for current period expenditures and, therefore, are deferred in the funds.		79,308
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Certain intergovernmental revenues are not available to pay for current period expenditures and, therefore, are deferred in the funds.		17,658
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Certain liabilities are not considered a use of current financial resources in the funds.

OPEB liability	(147,314)	
Notes payable	(285,368)	
Accrued interest	<u>(2,486)</u>	<u>(435,168)</u>

Net assets of governmental activities		<u>\$ 14,279,640</u>
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The Notes to Financial Statements are an integral part of this statement.

CITY OF DAYTON, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2011

	General	Department of Education General Purpose	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Property taxes	\$ 766,018	\$ 326,862	\$ -	\$ -	\$ 1,092,880
Other local taxes	3,077,833	496,280	180,056	-	3,754,169
Intergovernmental	580,545	3,678,129	245,000	1,275,940	5,779,614
Charges for services	293,548	56,760	-	131,773	482,081
Fines and forfeits	141,436	-	-	11,022	152,458
Interest	13,472	17,786	929	13	32,200
Miscellaneous	14,522	9,414	-	-	23,936
Total revenues	<u>4,887,374</u>	<u>4,585,231</u>	<u>425,985</u>	<u>1,418,748</u>	<u>11,317,338</u>
EXPENDITURES					
Current:					
General government	580,332	-	-	-	580,332
Public safety-police	1,432,289	-	-	28,786	1,461,075
Public safety-fire	607,434	-	-	-	607,434
Maintenance	340,335	-	-	-	340,335
Highways and streets	716,094	-	-	159,434	875,528
Parks and recreation	378,243	-	-	-	378,243
Library	327,242	-	-	-	327,242
Airport	216,892	-	-	-	216,892
Education:					
Instruction:					
Regular instruction	-	2,855,568	-	389,363	3,244,931
Alternative instruction	-	65,713	-	-	65,713
Special education	-	412,796	-	209,395	622,191
Early childhood education	-	111,627	-	-	111,627
Support services:					
Student support	-	215,887	-	229,312	445,199
Instructional staff support	-	220,057	-	-	220,057
Administration	-	379,591	-	-	379,591
Plant operation and maintenance	-	358,032	-	-	358,032
Noninstructional food services	-	8,113	-	386,757	394,870
Debt service:					
Principal	-	-	-	129,800	129,800
Interest	-	-	-	17,531	17,531
Capital outlay	-	112,118	245,000	-	357,118
Total expenditures	<u>4,598,861</u>	<u>4,739,502</u>	<u>245,000</u>	<u>1,550,378</u>	<u>11,133,741</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>288,513</u>	<u>(154,271)</u>	<u>180,985</u>	<u>(131,630)</u>	<u>183,597</u>
OTHER FINANCING SOURCES (USES)					
Transfers	(50,159)	265,675	-	147,331	362,847
Insurance proceeds	9,469	-	-	-	9,469
Total other financing sources (uses)	<u>(40,690)</u>	<u>265,675</u>	<u>-</u>	<u>147,331</u>	<u>372,316</u>
NET CHANGE IN FUND BALANCES	247,823	111,404	180,985	15,701	555,913
FUND BALANCES, beginning of year	<u>1,759,389</u>	<u>2,167,453</u>	<u>312,716</u>	<u>240,599</u>	<u>4,480,157</u>
FUND BALANCES, end of year	<u>\$ 2,007,212</u>	<u>\$ 2,278,857</u>	<u>\$ 493,701</u>	<u>\$ 256,300</u>	<u>\$ 5,036,070</u>

The Notes to Financial Statements are an integral part of this statement.

**CITY OF DAYTON, TENNESSEE
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2011**

Net change in fund balances \$ 555,913

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

Property taxes are recognized as revenue in the period for which they are levied in the statement of activities while funds recognize revenue when collected and available.

Current year levy	\$ 1,109,415	
Collected fund revenue	<u>(1,092,880)</u>	16,535

Intergovernmental revenues that do not provide current financial resources are not reported as revenue in the funds.

State beer tax-full accrual	3,302	
State income tax-full accrual	41,945	
Collected fund revenue	<u>(37,089)</u>	8,158

Funds report capital outlays as expenditures while asset cost is capitalized and allocated over the estimated useful lives as depreciation expense in the statement of activities.

Capital asset expenditures in the current period	804,481	
Current year depreciation	<u>(569,081)</u>	235,400

Funds report proceeds from the issuance of long-term debt as financing sources and the related liabilities as expenditures when paid, but the proceeds and payments are recorded through a liabilities account in the statement of net assets.

OPEB expense	(23,459)	
Long-term debt payments	129,800	
Accrued interest payments	<u>674</u>	<u>107,015</u>

Change in net assets of governmental activities \$ 923,021

The Notes to Financial Statements are an integral part of this statement.

CITY OF DAYTON, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
Year Ended June 30, 2011

	Budget		Actual	Variance
	Original	Final		With Final Budget
REVENUES				
PROPERTY TAXES	\$ 799,163	\$ 799,163	\$ 766,018	\$ (33,145)
OTHER LOCAL TAXES				
Business tax and licenses	180,000	180,000	171,834	(8,166)
Local beer tax	275,000	310,000	318,916	8,916
Local sales tax	2,165,675	2,270,675	2,271,467	792
In lieu of taxes	207,000	207,000	224,920	17,920
Cable TV franchise fees	47,000	47,000	90,696	43,696
Total other local taxes	<u>2,874,675</u>	<u>3,014,675</u>	<u>3,077,833</u>	<u>63,158</u>
INTERGOVERNMENTAL REVENUES				
State excise tax	19,000	19,000	10,570	(8,430)
State beer tax	3,000	3,000	3,302	302
State sales tax	415,000	415,000	421,374	6,374
State income tax	30,000	30,000	33,787	3,787
Rhea County library income	14,000	14,000	14,000	-
Police grants	100	100	32,660	32,560
Fire grants	100	100	3,561	3,461
Library grants	-	-	4,646	4,646
TML safety grant	-	-	1,719	1,719
Airport grants - Tennessee Bureau of Aeronautics	13,000	13,000	12,770	(230)
Streets and transportation	13,600	13,600	13,586	(14)
Police contract	28,570	28,570	28,570	-
Total intergovernmental revenues	<u>536,370</u>	<u>536,370</u>	<u>580,545</u>	<u>44,175</u>
CHARGES FOR SERVICES				
Fire protection	83,000	83,000	84,102	1,102
Beer user fee	4,000	4,000	4,416	416
Rent	5,401	5,401	4,001	(1,400)
Airport	149,370	149,370	170,665	21,295
Animal shelter	200	200	160	(40)
Library	-	-	22,201	22,201
Building permits	10,000	10,000	7,823	(2,177)
Farmers market permit	200	200	180	(20)
Total charges for services	<u>252,171</u>	<u>252,171</u>	<u>293,548</u>	<u>41,377</u>
FINES AND FORFEITS				
Court fines and costs	150,000	150,000	141,411	(8,589)
Parking violations	1,000	1,000	25	(975)
Total fines and forfeits	<u>151,000</u>	<u>151,000</u>	<u>141,436</u>	<u>(9,564)</u>

(continued)

CITY OF DAYTON, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
Year Ended June 30, 2011
(continued)

	Budget		Actual	Variance
	Original	Final		With Final Budget
INTEREST	\$ 16,500	\$ 16,500	\$ 13,472	\$ (3,028)
MISCELLANEOUS	10,700	10,700	14,522	3,822
Total revenues	<u>4,640,579</u>	<u>4,780,579</u>	<u>4,887,374</u>	<u>106,795</u>
EXPENDITURES				
Administration	617,512	647,512	580,332	67,180
Police Department	1,297,976	1,347,976	1,432,289	(84,313)
Fire Department	675,298	690,298	607,434	82,864
Maintenance Department	345,355	365,355	340,335	25,020
Street Department	595,935	620,935	716,094	(95,159)
Parks and Recreation Department	394,969	424,969	378,243	46,726
Library	313,588	323,588	327,242	(3,654)
Airport	292,365	322,365	216,892	105,473
Total expenditures	<u>4,532,998</u>	<u>4,742,998</u>	<u>4,598,861</u>	<u>144,137</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>107,581</u>	<u>37,581</u>	<u>288,513</u>	<u>250,932</u>
OTHER FINANCING SOURCES (USES)				
Insurance proceeds	-	-	9,469	9,469
Transfers:				
In lieu of taxes - Proprietary Funds	290,571	360,571	362,847	2,276
Debt Service Fund	(147,477)	(147,477)	(147,331)	146
Department of Education- General Purpose Fund	(265,675)	(265,675)	(265,675)	-
Unappropriated Surplus	15,000	15,000	-	(15,000)
Total other financing uses	<u>(107,581)</u>	<u>(37,581)</u>	<u>(40,690)</u>	<u>(3,109)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	247,823	<u>\$ 247,823</u>
FUND BALANCE, beginning of year			1,759,389	
FUND BALANCE, end of year			<u>\$ 2,007,212</u>	

The Notes to Financial Statements are an integral part of this statement.

CITY OF DAYTON, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE BUDGET AND ACTUAL -
DEPARTMENT OF EDUCATION - GENERAL PURPOSE FUND
Year Ended June 30, 2011

	Budget		Actual	Variance
	Original	Final		With Final Budget
REVENUES				
Intergovernmental:				
Basic Education Program	\$ 3,415,099	\$ 3,415,099	\$ 3,417,000	\$ 1,901
Career Ladder Program	24,000	24,000	34,418	10,418
Coordinated School Health	80,000	85,306	80,000	(5,306)
Early Childhood Development	95,715	95,715	97,856	2,141
Other	4,565	17,317	48,855	31,538
Property taxes	311,000	311,000	326,862	15,862
Local sales tax	390,000	390,000	496,280	106,280
Tuition	48,000	48,000	53,760	5,760
Interest	36,000	36,000	17,786	(18,214)
Miscellaneous	8,000	8,000	9,414	1,414
Rent	3,000	3,000	3,000	-
Total revenues	<u>4,415,379</u>	<u>4,433,437</u>	<u>4,585,231</u>	<u>151,794</u>
EXPENDITURES				
Instructional:				
Regular instruction program	2,900,182	2,844,316	2,855,568	(11,252)
Alternative instruction	65,675	65,715	65,713	2
Special education program	403,435	412,796	412,796	-
Early childhood development	111,446	111,446	111,627	(181)
Support Services:				
Health services	139,400	124,400	118,011	6,389
Other student support	99,831	99,831	97,876	1,955
Regular instruction	223,370	223,370	218,853	4,517
Special education	3,500	1,204	1,204	-
Board of Education	49,050	57,500	55,745	1,755
Office of the superintendent	107,670	107,670	104,798	2,872
Office of the principal	206,101	196,101	188,981	7,120
Fiscal services	29,732	30,072	30,067	5
Operation of plant	290,075	290,075	281,413	8,662
Maintenance of plant	93,425	78,425	76,619	1,806
Food services maintenance	5,500	7,500	8,113	(613)
Capital outlay	23,000	112,200	112,118	82
Total expenditures	<u>4,751,392</u>	<u>4,762,621</u>	<u>4,739,502</u>	<u>23,119</u>
REVENUES UNDER EXPENDITURES	(336,013)	(329,184)	(154,271)	174,913
OTHER FINANCING SOURCES				
Transfers	<u>266,675</u>	<u>266,675</u>	<u>265,675</u>	<u>(1,000)</u>
Net change in fund balance	<u>\$ (69,338)</u>	<u>\$ (62,509)</u>	111,404	<u>\$ 173,913</u>
FUND BALANCE, beginning of year			<u>2,167,453</u>	
FUND BALANCE, end of year			<u>\$ 2,278,857</u>	

The Notes to Financial Statements are an integral part of this statement.

CITY OF DAYTON, TENNESSEE
BALANCE SHEET
PROPRIETARY FUNDS
June 30, 2011

ASSETS	Business-Type Activities - Enterprise Funds				Total
	Electric	Water and Sewer	Industrial Park	Nonmajor Proprietary Funds	
Current assets					
Cash	\$ 4,047,961	\$ 1,435,680	\$ 316,449	\$ 725,287	\$ 6,525,377
Certificates of deposit	1,000,000	1,000,000	50,000	200,000	2,250,000
Receivables:					
Customer accounts, net	2,349,131	404,289	13,750	24,960	2,792,130
Component unit	-	-	196,400	-	196,400
Interfund	126,927	52,810	-	5,793	185,530
Interest	2,702	2,702	136	545	6,085
Other governments	34,998	78,000	-	-	112,998
Current portion of TVA loans receivable	10,054	-	-	-	10,054
Inventory	228,103	174,409	1,524,973	-	1,927,485
Prepaid expenses	31,505	26,560	-	4,404	62,469
Total current assets	7,831,381	3,174,450	2,101,708	960,989	14,068,528
Noncurrent assets					
Capital assets:					
Land, land improvements and roads	207,372	36,975	670,439	202,934	1,117,720
Buildings	701,602	56,979	1,552,672	2,340,155	4,651,408
Plant and equipment	31,924,876	32,577,672	-	763,967	65,266,515
Construction in progress	960,600	262,747	-	55,929	1,279,276
Less accumulated depreciation	(11,867,108)	(16,294,380)	(1,325,126)	(1,406,153)	(30,892,767)
Restricted receivables	4,714	-	-	-	4,714
Net investment in capital lease	-	-	875,237	-	875,237
TVA home program loans receivable, less current portion	76,376	-	-	-	76,376
Deferred charges, net of amortization	-	14,838	-	7,088	21,926
Total noncurrent assets	22,008,432	16,654,831	1,773,222	1,963,920	42,400,405
Total assets	\$ 29,839,813	\$ 19,829,281	\$ 3,874,930	\$ 2,924,909	\$ 56,468,933
LIABILITIES AND NET ASSETS					
Current liabilities					
Accounts payable	\$ 352,704	\$ 148,771	\$ -	\$ 6,204	\$ 507,679
Accounts payable-TVA	3,903,677	-	-	-	3,903,677
Accrued salaries and benefits	94,824	56,244	-	6,752	157,820
Accrued interest	708	-	10,527	3,013	14,248
Interfund payable	70,191	104,836	519	4,384	179,930
Due to component unit	8,299	-	25,599	-	33,898
Unearned income	-	-	22,964	-	22,964
TVA home program advances	10,054	-	-	-	10,054
Notes and bonds payable	110,000	170,000	71,716	35,000	386,716
Total current liabilities	4,550,457	479,851	131,325	55,353	5,216,986
Noncurrent liabilities					
Customers' deposits	198,771	53,517	-	-	252,288
Notes and bonds payable, less current portion	2,547,340	1,125,479	797,090	245,000	4,714,909
TVA home program advances, less current portion	76,376	-	-	-	76,376
OPEB liability	18,116	17,965	-	3,397	39,478
Total noncurrent liabilities	2,840,603	1,196,961	797,090	248,397	5,083,051
Total liabilities	7,391,060	1,676,812	928,415	303,750	10,300,037
NET ASSETS					
Invested in capital assets, net of related debt	19,270,002	15,359,352	897,984	1,683,920	37,211,258
Unrestricted	3,178,751	2,793,117	2,048,531	937,239	8,957,638
Total net assets	22,448,753	18,152,469	2,946,515	2,621,159	46,168,896
Total liabilities and net assets	\$ 29,839,813	\$ 19,829,281	\$ 3,874,930	\$ 2,924,909	\$ 56,468,933

The Notes to Financial Statements are an integral part of this statement.

CITY OF DAYTON, TENNESSEE
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2011

	Business-Type Activities - Enterprise Funds				Total
	Electric	Water and Sewer	Industrial Park	Nonmajor Proprietary Funds	
OPERATING REVENUES					
Charges for services	\$ 28,916,622	\$ 4,678,614	\$ -	\$ 423,054	\$ 34,018,290
Consumer penalties	181,539	28,261	-	2,656	212,456
Rental income	198,623	-	218,274	171,393	588,290
Other	67,300	5,406	-	-	72,706
Total revenues	<u>29,364,084</u>	<u>4,712,281</u>	<u>218,274</u>	<u>597,103</u>	<u>34,891,742</u>
OPERATING EXPENSES					
Operations	24,758,238	2,968,261	1,083	319,506	28,047,088
Maintenance	1,565,015	260,322	345	61,435	1,887,117
Administration	1,086,378	120,755	13,054	8,057	1,228,244
Depreciation	783,933	914,932	29,156	119,954	1,847,975
Total operating expenses	<u>28,193,564</u>	<u>4,264,270</u>	<u>43,638</u>	<u>508,952</u>	<u>33,010,424</u>
NET OPERATING INCOME	<u>1,170,520</u>	<u>448,011</u>	<u>174,636</u>	<u>88,151</u>	<u>1,881,318</u>
NONOPERATING REVENUES (EXPENSES)					
Interest income	17,824	12,160	67,450	3,549	100,983
Interest expense	(9,781)	(67,879)	(69,181)	(13,100)	(159,941)
Insurance proceeds	4,062	-	-	-	4,062
Bond and note amortization	-	(8,127)	-	(1,149)	(9,276)
Other	-	-	-	1,234	1,234
Net nonoperating revenues (expenses)	<u>12,105</u>	<u>(63,846)</u>	<u>(1,731)</u>	<u>(9,466)</u>	<u>(62,938)</u>
Income before transfers and capital contributions	1,182,625	384,165	172,905	78,685	1,818,380
Transfers	(332,033)	(30,814)	-	-	(362,847)
Capital contributions	34,998	78,000	-	-	112,998
	<u>(297,035)</u>	<u>47,186</u>	<u>-</u>	<u>-</u>	<u>(249,849)</u>
CHANGE IN NET ASSETS	885,590	431,351	172,905	78,685	1,568,531
Net assets, beginning of year	<u>21,563,163</u>	<u>17,721,118</u>	<u>2,773,610</u>	<u>2,542,474</u>	<u>44,600,365</u>
Net assets, end of year	<u>\$ 22,448,753</u>	<u>\$ 18,152,469</u>	<u>\$ 2,946,515</u>	<u>\$ 2,621,159</u>	<u>\$ 46,168,896</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF DAYTON, TENNESSEE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2011

	Business-Type Activities - Enterprise Funds				Total
	Electric	Water and Sewer	Industrial Park	Nonmajor Proprietary Funds	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 27,710,570	\$ 4,253,890	\$ 204,408	\$ 591,942	\$ 32,760,810
Interfund receipts for services	1,019,837	401,430	-	4,947	1,426,214
Payments to employees	(1,216,425)	(1,017,662)	-	(176,934)	(2,411,021)
Payments to suppliers and vendors	(23,981,709)	(1,270,450)	(11,862)	(184,456)	(25,448,477)
Interfund payments for services	(34,656)	(986,967)	(2,101)	(20,448)	(1,044,172)
Customer deposits received	111,150	31,700	-	-	142,850
Customer deposits refunded	(105,091)	(32,280)	-	-	(137,371)
Net cash provided by operating activities	<u>3,503,676</u>	<u>1,379,661</u>	<u>190,445</u>	<u>215,051</u>	<u>5,288,833</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers to other funds	(332,033)	(30,814)	-	-	(362,847)
Net receipts from TVA advances	28,893	-	-	-	28,893
Net change in notes receivable	(28,893)	-	-	-	(28,893)
Net cash used in noncapital financing activities	<u>(332,033)</u>	<u>(30,814)</u>	<u>-</u>	<u>-</u>	<u>(362,847)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition and construction of capital assets	(2,074,900)	(385,991)	-	(96,816)	(2,557,707)
Principal paid on long-term debt	(105,000)	(165,000)	(166,850)	(35,000)	(471,850)
Interest paid on long-term debt	(10,096)	(67,879)	(73,084)	(13,449)	(164,508)
Proceeds from long-term debt	405,784	-	-	-	405,784
Other	-	-	-	1,234	1,234
Net cash used in capital and related financing activities	<u>(1,784,212)</u>	<u>(618,870)</u>	<u>(239,934)</u>	<u>(144,031)</u>	<u>(2,787,047)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Payments received under capital lease	-	-	135,000	-	135,000
Interest received on interest bearing deposits	20,424	13,435	1,408	4,056	39,323
Net cash provided by investing activities	<u>20,424</u>	<u>13,435</u>	<u>136,408</u>	<u>4,056</u>	<u>174,323</u>
Net increase (decrease) in cash and cash equivalents	1,407,855	743,412	86,919	75,076	2,313,262
Cash and cash equivalents, beginning of year	<u>3,640,106</u>	<u>1,692,268</u>	<u>279,530</u>	<u>850,211</u>	<u>6,462,115</u>
Cash and cash equivalents, end of year	<u>\$ 5,047,961</u>	<u>\$ 2,435,680</u>	<u>\$ 366,449</u>	<u>\$ 925,287</u>	<u>\$ 8,775,377</u>
Cash	<u>\$ 4,047,961</u>	<u>\$ 1,435,680</u>	<u>\$ 316,449</u>	<u>\$ 725,287</u>	<u>\$ 6,525,377</u>
Certificates of deposit	<u>1,000,000</u>	<u>1,000,000</u>	<u>50,000</u>	<u>200,000</u>	<u>2,250,000</u>
	<u>\$ 5,047,961</u>	<u>\$ 2,435,680</u>	<u>\$ 366,449</u>	<u>\$ 925,287</u>	<u>\$ 8,775,377</u>

(continued)

CITY OF DAYTON, TENNESSEE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2011
(continued)

	Business-Type Activities - Enterprise Funds				Total
	Electric	Water and Sewer	Industrial Park	Nonmajor Proprietary Funds	
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Net operating income	\$ 1,170,520	\$ 448,011	\$ 174,636	\$ 88,151	\$ 1,881,318
Adjustments to reconcile net operating income to net cash provided by operating activities:					
Depreciation	964,689	914,932	29,156	119,954	2,028,731
Change in assets and liabilities:					
Customer receivables	(546,534)	(50,025)	(13,502)	(237)	(610,298)
Inventory	(17,447)	20,365	-	-	2,918
Prepaid expenses	2,942	3,790	-	(1,654)	5,078
Interfund receivables	(87,142)	(6,936)	2,252	23	(91,803)
Accounts payable	1,976,513	(30,129)	-	3,922	1,950,306
Interfund payables	11,796	66,370	519	2,521	81,206
Due to component unit	(327)	-	-	-	(327)
Accrued expenses	22,607	13,863	-	2,371	38,841
Deferred revenue	-	-	(2,616)	-	(2,616)
Customer deposits	6,059	(580)	-	-	5,479
Net cash provided by operating activities	<u>\$ 3,503,676</u>	<u>\$ 1,379,661</u>	<u>\$ 190,445</u>	<u>\$ 215,051</u>	<u>\$ 5,288,833</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES					
Outstanding capital contributions	\$ 34,998	\$ 78,000	\$ -	\$ -	\$ 112,998

The Notes to Financial Statements are an integral part of this statement.

CITY OF DAYTON, TENNESSEE
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUND - SCHOOL ACTIVITY FUND
FIDUCIARY FUND
June 30, 2011

ASSETS	
Cash	\$ 45,270
Restricted cash	17,442
	<hr/>
Total assets	\$ 62,712
	<hr/> <hr/>
LIABILITIES	
Due to student groups	\$ 62,712
	<hr/> <hr/>

The Notes to Financial Statements are an integral part of this statement.

CITY OF DAYTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 1. Summary of Significant Accounting Policies

The City of Dayton, Tennessee (the City) was incorporated in 1895 under Tennessee law and is governed by an elected 5-member council.

In accordance with GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments", the basic financial statements include both government-wide and fund financial statements.

The government-wide financial statements consist of the Statement of Net Assets and the Statement of Activities, which are to be presented on a full accrual basis of accounting. The City's funds are reported as governmental activities or business-type activities. Fund financial statements are presented on the modified accrual basis of accounting for governmental activities and present information by individual major funds. Nonmajor funds are presented in total in one column.

The financial statements of the City have been prepared in accordance with U.S. generally accepted accounting principles as applied to governmental units. The City applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The more significant accounting policies used by the City are described below.

A. Financial Reporting Entity

As required by generally accepted accounting principles, these financial statements present the City of Dayton, Tennessee (the primary government) and its component units. The component units are presented in separate columns in the government-wide financial statements to emphasize their separate legal status from the primary government. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City. Their inclusion in the City's reporting entity is based upon criteria provided by Section 2100 of Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, including whether:

- the organization is legally separate (can sue and be sued in their own name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City

CITY OF DAYTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 1. Summary of Significant Accounting Policies (continued)

A. Financial Reporting Entity (continued)

Component Units:

Industrial Development Board:

The Industrial Development Board (IDB) operates as a public corporation to finance, acquire, dispose, or lease property to increase employment opportunities in the City of Dayton, Tennessee. The Industrial Development Board is governed by a Board of Directors appointed by the City Council and reports using the economic resources measurement focus and the accrual basis of accounting.

Dayton Utilities Grant Program:

The Dayton Utilities Grant Program (Utilities Grant Program) was established by the Dayton City Council to provide for and administer donations by utility customers of the City of Dayton. The Utilities Grant Program began collecting donations from utility customers and awarding funds to qualified recipients during 2005. Awards are made to nonprofit or governmental organizations for community improvement and social welfare based upon the approval of the Utilities Grant Program's Board of Directors. The Board is composed of the five Dayton City Council members or their appointees and four additional non-paid directors appointed at large by the Council from the Dayton Utilities service area.

B. Basic Financial Statements, Presentation, Basis of Accounting and Measurement Focus

Government-wide 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 nonfiduciary activities of the City. As a general rule, the effect of interfund activity has been eliminated from these statements. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities rely to a significant extent on fees and charges for services.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. This means that revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the 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 imposed by the provider have been met.

In applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions", (the City may act as either provider or recipient), the provider should

CITY OF DAYTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 1. Summary of Significant Accounting Policies (continued)

B. Basic Financial Statements, Presentation, Basis of Accounting and Measurement Focus (continued)

Government-wide Financial Statements: (continued)

recognize liabilities and expenses and the recipient should recognize receivables and revenues when the applicable eligibility requirements, including time requirements, are met.

Resources transmitted before the eligibility requirements are met should be reported as advances by the provider and deferred revenue by the recipient. Certain nonexchange transactions where revenues are collected by other governments are not recognized in the statement of activities because they are not measurable at year end. The statement of activities reflects these transactions (bank excise tax and gross receipts tax) on the same basis as the fund financial statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or activity is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. The City does not allocate indirect expenses to functions or activities in the statement of activities. Program revenues include 1) charges to individuals 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 or activity. Taxes and other items not considered program revenues are reported as general revenues. When both restricted and unrestricted resources are available for use, the City's policy is to use restricted resources first.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which are considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, liabilities, equity, revenues, and expenditures/expenses.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements 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. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within sixty (60) days of the end of the current fiscal period.

CITY OF DAYTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 1. Summary of Significant Accounting Policies (continued)

B. Basic Financial Statements, Presentation, Basis of Accounting and Measurement Focus (continued)

Fund Financial Statements: (continued)

Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on long-term debt, claims, judgments, compensated absences, and pension expenditures, which are recorded as a fund liability when expected to be paid with expendable available financial resources.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

State and federal funding is recognized as revenue in the period the City is entitled to the resources and the amounts are available. Reimbursements from expenditure-driven programs are recognized as revenue when the qualifying expenditures have been incurred and the amounts are available. For governmental fund financial statements, deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received before the City has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the deferred revenue liability is removed and revenue is recognized.

Proprietary funds financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above. Proprietary funds activity and transactions are classified as operating if the transaction constitutes activity that is the funds' principal ongoing operations. Activity not pertaining to the funds' ongoing operations is reported as nonoperating.

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support City programs. The City's fiduciary fund is presented in the fund financial statements as an agency fund. Since by definition agency fund assets are held in a purely custodial capacity for the benefit of a third party and cannot be used to finance activities or obligations of the government, these funds are not incorporated into the government-wide statements. The agency fund incorporates accounting principles similar to proprietary funds. The reporting focus is on net assets held to benefit third parties with no operations reported.

CITY OF DAYTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 1. Summary of Significant Accounting Policies (continued)

B. Basic Financial Statements, Presentation, Basis of Accounting and Measurement Focus (continued)

Fund Financial Statements: (continued)

Governmental Funds:

The measurement focus of governmental funds is based upon determination of financial position and changes in financial position (sources, uses and balances of financial resources) rather than upon net income determination. These funds are maintained on the modified accrual basis of accounting. The following are the City's governmental fund types:

General Fund: The General Fund is the principal fund of the City and is used to account for the financial resources of the City, which are not accounted for in other funds. The principal sources of revenues are taxes and state-shared revenue. Primary expenditures are for public safety, public works and general administration.

Special Revenue Funds: Special Revenue Funds are used to account for revenues from sources which, by law, are designated to finance particular functions or activities of the City and which, therefore, cannot be diverted to other uses.

Department of Education – General Purpose Fund: This fund accounts for funds received for the purpose of providing education and operating Dayton City School. The primary sources of revenues are taxes and state-shared revenues.

Department of Education – Federal Projects Fund: This fund accounts for education federal awards.

Department of Education – School Cafeteria Fund: This fund accounts for operations of the Dayton City School Cafeteria. A substantial portion of the School Cafeteria Fund's resources are derived from federal and state funding for child nutrition.

Drug Fund: This fund was established expressly to account for financial activities related to drug revenues and expenditures. Primary sources of revenue result from drug fines and forfeitures restricted under law for drug enforcement and drug awareness and education.

State Street Aid Fund: This fund accounts for state-shared gasoline tax revenue received to provide for street lighting and road maintenance. State funds received specifically for street lighting and road maintenance are the primary revenue sources.

Capital Projects Fund: Resources designated for the construction or acquisition of major capital assets are accounted for in this fund. Revenues are derived primarily from debt proceeds or capital grants.

Debt Service Fund: This fund accounts for the payment of principal and interest on the City's general obligation long-term debt.

CITY OF DAYTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 1. Summary of Significant Accounting Policies (continued)

B. Basic Financial Statements, Presentation, Basis of Accounting and Measurement Focus (continued)

Fund Financial Statements: (continued)

Proprietary Funds:

Proprietary Funds of the City are all Enterprise Funds. The measurement focus is upon determination of net income, financial position, and changes in financial position. The generally accepted accounting principles used are those applicable to similar businesses in the private sector and, accordingly, these funds are maintained on the accrual basis of accounting. The City's proprietary fund type, which are all enterprise in nature, are as follows:

Enterprise Funds: These funds account for the acquisition, operations, and maintenance of City facilities and services which are entirely or predominantly self-supporting through user charges.

Electric Fund: To provide electricity to customers by operating and maintaining electric facilities.

Water and Sewer Fund: To provide water and sewer services to customers by operating and maintaining the water and sewer plants.

Industrial Park Fund: To promote industrial growth in the City by maintaining an inventory of industrial building sites held for sale, and owning, leasing, or selling industrial buildings.

Skill Center Fund: To promote regional employment education and training by providing a facility for organizations conducting training related programs.

Sanitation Fund: This fund accounts for usage fees collected by the City to provide for sanitation services.

Fiduciary Funds:

Fiduciary funds include trust and agency funds. The following is the City's fiduciary fund type:

Agency Fund: This fund is custodial in nature and is used to account for assets held by the City as an agent.

Department of Education – School Activity Fund: This fund accounts for various school activities at Dayton City School.

Funds are classified as major funds or nonmajor funds within the statements. An emphasis is placed on major funds with all nonmajor funds presented in total in one column on the governmental and proprietary funds financial statements.

CITY OF DAYTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 1. Summary of Significant Accounting Policies (continued)

B. Basic Financial Statements, Presentation, Basis of Accounting and Measurement Focus (continued)

Fund Financial Statements: (continued)

Fiduciary Funds: (continued)

The City's major governmental funds are the General Fund, the Department of Education – General Purpose Fund, and the Capital Projects Fund. The City's major proprietary funds are the Electric Fund, Water and Sewer Fund, and Industrial Park Fund.

C. Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to April 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted at the Municipal Building to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted through passage of an ordinance.
4. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revision that alters the total expenditures of any fund must be approved by the City Council. Expenditures may not exceed appropriations at the fund level.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds. Budgetary control is achieved for the Debt Service Fund through general obligation bond indenture provisions.
6. Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP). All appropriations which are not expensed or encumbered lapse at year end.

D. Use of Estimates in the Preparation of Financial Statements

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

E. Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits and certificates of deposit with original maturities of 90 days or less. In accordance with governmental accounting standards, restricted assets which meet the standard's criteria are considered cash equivalents for purposes of the statements of cash flows.

CITY OF DAYTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 1. Summary of Significant Accounting Policies (continued)

F. Inventories

Inventories are recorded at the lower of cost (first-in, first-out method) or market except in the Department of Education-School Cafeteria Fund. Inventory recorded in the School Cafeteria Fund consists of commodities granted by the United States Department of Agriculture (USDA), nonperishable food and nonfood supplies. All purchased inventory items are recorded at the lower of cost (first-in, first-out method) or market. Commodities are assigned values based on information provided by the USDA. Inventory recorded in the Industrial Park Fund consists of land tracts purchased by the City to be developed and resold.

Reported inventories in governmental funds are equally offset by a fund balance reserve, which indicates they are unavailable for appropriation even though they are a component of reported assets.

G. Capital Assets

Capital assets are reported in the applicable governmental or business-type activities column in the government-wide statements and in the fund financial statements for proprietary funds. Repairs and maintenance are recorded as expenses. Capital assets are defined as assets with an estimated useful life in excess of one year and an initial individual cost in excess of the respective funds threshold for capitalization. Activities which extend the useful life of a capital asset are capitalized. Interest costs incurred during the construction phase of capital assets are capitalized as part of the constructed asset cost in business-type activities. During the year, no interest was capitalized by the primary government or by either of the component units. Donated assets are recorded at their fair market value on the date of donation. Individual fund's threshold for capitalization is as follows:

	<u>Electric, Water and Sewer Funds</u>	<u>Department of Education Funds</u>	<u>All Other City Funds</u>
Building and improvements	\$ 500	\$ 50,000	\$ 25,000
Land	500	All	All
Construction in progress	500	All	All
Land improvements	500	50,000	25,000
Machinery and equipment	500	2,000	1,000
Vehicles	500	2,000	1,000
Furniture and office equipment	500	1,000	1,000
Infrastructure	500	100,000	100,000

GASB No. 34 requires the City to report and depreciate infrastructure assets. Infrastructure assets include roads, bridges and sidewalks. Neither their original cost nor related depreciation has historically been reported in the governmental fund financial statements. The retroactive reporting of infrastructure is limited to major general infrastructure assets acquired after

CITY OF DAYTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 1. Summary of Significant Accounting Policies (continued)

G. Capital Assets (continued)

June 30, 1980. The pronouncement sets forth the method to group and evaluate networks or systems of infrastructure assets to determine those meeting the criteria for retroactive capitalization. Based on the application of GASB No. 34 criteria, the City had no retroactively capitalized infrastructure assets.

Capital asset depreciation is provided using the straight-line method over the estimated useful lives as follows:

- Buildings and improvements	15-40 years
- Machinery and equipment	3-20 years
- Vehicles	3-5 years
- Furniture and office equipment	3-10 years
- System lines and distribution	40-50 years
- Infrastructure	20-50 years

In the fund financial statements, the acquisition of capital assets is accounted for as capital outlay expenditures and depreciation is not reported.

H. Interfund Transactions

During the course of the City's operations, transactions occur between individual funds that are classified as transfers or as receivables/payables in the fund financial statements. These fund transactions are eliminated in the government-wide financial statements within the governmental activities column and the business-type activities column.

I. Loan Costs and Bond Discounts

Loan costs and bond discounts are amortized using the straight-line method over the life of the related debt in the business-type activities and government-wide financial statements. Loan costs are accounted for as expenditures when incurred in the governmental fund financial statements.

J. Deferred Amount on Refunding

The deferred amount on refunding is amortized over the shorter of the life of the refunded debt or the new debt.

K. Vacation Pay and Sick Leave

City employees are paid for vacation and absence due to sickness by prescribed formulas based on length of service. Vacation and sick leave for employees of governmental funds are considered payable from current financial resources. Sick leave does not vest for City employees so no liability exists at year end. Vacation leave is based on employment date, with limited unused vacation leave available for carryover. The proprietary and governmental funds have recognized a current liability for the vacation leave remaining where anniversary dates cross the fiscal year end and where the limited carryover leave is available.

CITY OF DAYTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 1. Summary of Significant Accounting Policies (continued)

L. Long-term Debt

Long-term debt consists of bonds and notes incurred by the City with a repayment period longer than one year and without provisions allowing the debt holder to demand payment at an earlier time. For debt issued by governmental funds, the accounting treatment of long-term debt differs between the government-wide and fund financial statements. All long-term debt is reported as a liability in the government-wide statements. The fund financial statements for governmental funds report long-term debt principal and interest payments as expenditures and do not reflect a liability for these or any other long-term liability.

M. Property Taxes

In the government-wide financial statements, property tax revenues are recognized as revenue in the fiscal year for which the taxes are levied. Property taxes are based on the assessed value of property as of January 1. Property taxes attach as an enforceable lien on the assessment date and are therefore recognized on this date. In October, property taxes are due and are considered delinquent if not paid by the first day of March. Amounts owed to the City as of year end, which are not available, are recorded as receivables and deferred revenue in the fund financial statements.

The City's property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and personal property located in the City. City property tax revenues are recognized when levied to the extent that they result in current receivables. Taxes not collected as of March 1 of the following year are considered delinquent and are subject to lien on March 1 of the succeeding year.

Assessed values are established by the State of Tennessee at the following rates of assumed market value:

Public Utility Property	55%	(Railroads 40%)
Industrial and Commercial Property		
Real	40	
Personal	30	
Residential Property	25	

The appraised value as of January 1, 2010, was \$512,058,145. The assessed value was \$166,475,064 making the total assessed value approximately 32.51 percent of the total actual value.

Taxes are levied at a rate of \$.47 per \$100 of assessed value. Current tax collections of \$741,343 for the fiscal year ended June 30, 2011, were approximately 95 percent of the 2010 tax levy. In addition, \$326,862 of county property taxes were collected by the Department of Education – General Purpose Fund.

The 2011 taxes were levied at a rate of \$.47 per \$100 of assessed value and have been recorded as a receivable at June 30, 2011. This levy is recorded as deferred revenue in the government-wide and fund financial statements. An allowance for doubtful collection has been estimated and established for this levy and there are no current tax collections related to the 2011 levy.

CITY OF DAYTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 1. Summary of Significant Accounting Policies (continued)

N. Allowance for Doubtful Accounts Receivable

The City reports accounts receivables for certain funds net of an allowance for uncollectible accounts and revenues net of uncollectibles. The allowances are estimated by management based on past experience.

Allowances for accounts where collection is doubtful have been provided for property taxes in the governmental funds as follows:

General Fund	\$ 35,124
Department of Education – General Purpose Fund	3,800

Allowances for accounts where collection is doubtful have been provided in the proprietary funds as follows:

Electric Fund	\$ 85,053
Water and Sewer Fund	35,383
Sanitation Fund	10,376

O. Restricted Assets

The City's restricted assets at June 30, 2011, are as follows:

Restricted receivables:

Electric Fund:

TVA Heat Pump loan interest	\$ 1,069
Utilities Grant Program customer contributions	<u>3,645</u>
	<u>\$ 4,714</u>

Fiduciary Fund:

Cash restricted for student activities	<u>\$ 17,442</u>
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P. Net Assets and Fund Balances

Net assets in the government-wide financial statements are classified in three components:

1. Invested in capital assets, net of related debt – Consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any related debt that is attributable to the acquisition, construction, or improvement of those assets. If there are unspent debt proceeds, these proceeds are not included in the calculation of invested in capital assets, net of related debt.
2. Restricted net assets – Consists of net assets with constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets – All other net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

CITY OF DAYTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 1. Summary of Significant Accounting Policies (continued)

P. Net Assets and Fund Balances (continued)

The City implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" in the current year. GASB No. 54 establishes standards for fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported.

Fund balance in the fund financial statements is reported in five classifications of fund balances based on the constraints imposed on the use of these resources.

Nonspendable fund balance – This classification includes amounts that cannot be spent because they are either (a) not in spendable form such as prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned and unassigned.

Restricted fund balance – This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance – These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolution of the City. Those committed amounts cannot be used for any other purpose unless the City removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned fund balance – This classification reflects the amounts constrained by the City's "intent" to be used for specific purposes, but are neither restricted nor committed. The City has the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

Unassigned fund balance – This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other funds.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first.

When committed, assigned, and unassigned funds are available for expenditure, committed funds should be spent first, then assigned funds, and unassigned funds last.

CITY OF DAYTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 2. Stewardship, Compliance, and Accountability

Expenditures exceeded final budgeted expenditures in the Department of Education – School Cafeteria Fund by \$56,031. The State requires that all governmental fund expenditures be appropriated. Although the City did not comply with State budgetary requirements, revenues within the School Cafeteria Fund exceeded expenditures for the year.

Note 3. Capital Assets

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

Primary Government:

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2011</u>
<u>Governmental Activities</u>				
Capital assets being depreciated:				
Buildings	\$ 11,836,955	\$ 54,086	\$ -	\$ 11,891,041
Infrastructure	46,750	-	-	46,750
Equipment	5,383,326	504,181	24,181	5,863,326
Land improvements	<u>54,499</u>	<u>6,817</u>	<u>-</u>	<u>61,316</u>
Total depreciable capital assets	<u>17,321,530</u>	<u>565,084</u>	<u>24,181</u>	<u>17,862,433</u>
Accumulated depreciation:				
Buildings	5,300,386	307,548	-	5,607,934
Equipment	3,796,579	258,454	24,181	4,030,852
Land improvements	<u>9,784</u>	<u>3,079</u>	<u>-</u>	<u>12,863</u>
Total accumulated depreciation	<u>9,106,749</u>	<u>569,081</u>	<u>24,181</u>	<u>9,651,649</u>
Net depreciable capital assets	<u>8,214,781</u>	<u>(3,997)</u>	<u>-</u>	<u>8,210,784</u>
Capital assets not being depreciated:				
Land	808,501	-	-	808,501
Construction in progress	<u>323,091</u>	<u>368,617</u>	<u>129,221</u>	<u>562,487</u>
Total capital assets not being depreciated	<u>1,131,592</u>	<u>368,617</u>	<u>129,221</u>	<u>1,370,988</u>
Net governmental capital assets	<u>\$ 9,346,373</u>	<u>\$ 364,620</u>	<u>\$ 129,221</u>	<u>\$ 9,581,772</u>

CITY OF DAYTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 3. Capital Assets (continued)

Primary Government: (continued)

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2011</u>
<u>Business-Type Activities</u>				
Capital assets being depreciated:				
Buildings	\$ 4,596,078	\$ 59,380	\$ 4,050	\$ 4,651,408
Equipment	63,345,670	2,024,813	103,968	65,266,515
Roads and land improvements	466,646	-	-	466,646
Total depreciable capital assets	<u>68,408,394</u>	<u>2,084,193</u>	<u>108,018</u>	<u>70,384,569</u>
Accumulated depreciation:				
Buildings	2,287,850	84,597	4,050	2,368,397
Equipment	26,601,036	1,930,316	110,265	28,421,087
Roads and land improvements	89,465	13,818	-	103,283
Total accumulated depreciation	<u>28,978,351</u>	<u>2,028,731</u>	<u>114,315</u>	<u>30,892,767</u>
Net depreciable capital assets	<u>39,430,043</u>	<u>55,462</u>	<u>(6,297)</u>	<u>39,491,802</u>
Capital assets not being depreciated:				
Land	646,074	5,000	-	651,074
Construction in progress	709,184	2,201,484	1,631,392	1,279,276
Nondepreciable capital assets	<u>1,355,258</u>	<u>2,206,484</u>	<u>1,631,392</u>	<u>1,930,350</u>
Net business-type capital assets	<u>\$ 40,785,301</u>	<u>\$ 2,261,946</u>	<u>\$ 1,625,095</u>	<u>\$ 41,422,152</u>

Depreciation expense was charged to functions as follows:

<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
General government	\$ 18,953	Electric	\$ 783,933
Public safety - police	54,210	Water	606,060
Public safety - fire	45,314	Sewer	308,872
Maintenance	9,415	Industrial Park	29,156
Highways and streets	40,283	Skill Center	58,450
Parks and recreation	44,649	Sanitation	61,504
Library	23,632	Total business-type	1,847,975
Airport	120,667	activities depreciation	
Education:		expense	
Instructional	46,239	Depreciation charged to	
Support services	3,360	other expense accounts	180,756
Noninstructional	13,688	Total depreciation	<u>\$ 2,028,731</u>
Unallocated	<u>148,671</u>		
Total governmental activities			
depreciation expense	<u>\$ 569,081</u>		

CITY OF DAYTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 3. Capital Assets (continued)

Primary Government: (continued)

The Electric Fund had depreciation of \$180,756 charged to other accounts in 2011. Unallocated depreciation consists of depreciation related to the City's Department of Education buildings, which serve multiple educational functions.

Component Units:

Capital asset activity for the Industrial Development Board for the year ended June 30, 2011, was as follows:

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2011</u>
Buildings and improvements- depreciable	\$ 3,812,000	\$ -	\$ -	\$ 3,812,000
Buildings-accumulated depreciation	<u>1,286,047</u>	<u>97,899</u>	<u>-</u>	<u>1,383,946</u>
Net depreciable capital assets	2,525,953	(97,899)	-	2,428,054
Land-nondepreciable	<u>241,400</u>	<u>-</u>	<u>-</u>	<u>241,400</u>
Net component unit capital assets	<u>\$ 2,767,353</u>	<u>\$ (97,899)</u>	<u>-</u>	<u>\$ 2,669,454</u>

Depreciation expense for the Industrial Development Board in 2011 was \$97,899.

The Utilities Grant Program had no capital assets at year end.

Note 4. Long-Term Debt and Other Long-Term Liabilities

Long-term debt of the City at June 30, 2011, consisted of the following:

	<u>Balance</u> <u>6/30/11</u>	<u>Due within</u> <u>one year</u>
Governmental Activities		
Capital Outlay Note, Series 2008; dated October 31, 2008; 4.97%; due annually on November 1	<u>\$ 285,368</u>	<u>\$ 57,143</u>
Business-Type Activities		
Water and Sewer Revenue and Tax Refunding Bonds, Series 2002; dated April 1, 2002; 3.0% to 5.0%; due annually on January 1	1,325,000	170,000
Taxable Public Improvement Revenue Bonds, Series 2000; dated June 20, 2000; 7.25%; due annually on May 1	868,806	71,716
General Obligation Bonds, Series 2004; dated August 31, 2004; 4.0% to 4.5%; due annually on April 1	280,000	35,000

CITY OF DAYTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 4. Long-Term Debt and Other Long-Term Liabilities (continued)

	<u>Balance 6/30/11</u>	<u>Due within one year</u>
Business-Type Activities (continued)		
City of Clarksville, Tennessee Bonds, Series 2008; dated September 16, 2008; variable interest; principal due annually on May 25; interest due monthly	2,657,340	110,000
Total long-term debt – business-type activities	5,131,146	386,716
Unamortized deferred amount on refunding	(11,403)	–
Unamortized bond discount	(18,119)	–
Net long-term debt – business-type activities	<u>5,101,624</u>	<u>386,716</u>
Total long-term debt - Primary Government	<u>\$ 5,386,992</u>	<u>\$ 443,859</u>

Primary government long-term debt and other long-term liabilities activity for the year is as follows:

	<u>Balance 6/30/10</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 6/30/11</u>	<u>Due within one year</u>
Governmental Activities:					
Capital outlay notes	<u>\$ 415,168</u>	<u>\$ –</u>	<u>\$ 129,800</u>	<u>\$ 285,368</u>	<u>\$ 57,143</u>
Business-Type Activities:					
Water and sewer-bonds and relocation loan	\$1,490,000	–	165,000	1,325,000	170,000
Industrial Park- revenue bonds	935,657	–	66,851	868,806	71,716
Industrial Park- Welch note	100,000	–	100,000	–	–
Skill Center-general obligation bonds	315,000	–	35,000	280,000	35,000
Electric-bonds	<u>2,356,556</u>	<u>405,784</u>	<u>105,000</u>	<u>2,657,340</u>	<u>110,000</u>
	<u>5,197,213</u>	<u>405,784</u>	<u>471,851</u>	<u>5,131,146</u>	<u>386,716</u>
Other long-term liabilities:					
TVA advances	57,537	28,893	–	86,430	10,054
Customers' deposits	<u>246,809</u>	<u>142,850</u>	<u>137,371</u>	<u>252,228</u>	<u>–</u>
Total other long-term liabilities	<u>304,346</u>	<u>171,743</u>	<u>137,371</u>	<u>338,718</u>	<u>10,054</u>
	<u>\$5,501,559</u>	<u>\$ 577,527</u>	<u>\$ 609,222</u>	<u>\$5,469,864</u>	<u>\$ 396,770</u>

CITY OF DAYTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 4. Long-Term Debt and Other Long-Term Liabilities (continued)

The water and sewer debt and the electric bonds are payable from and secured by a first pledge of the revenues to be derived from the operation of the respective system and by unlimited ad valorem taxes to be levied on all taxable property within the corporate limits of the City if system revenues are insufficient. The water and sewer bonds are also collateralized by a statutory mortgage lien on the system.

The electric bonds, Series 2008, require monthly interest at a variable rate which was set at 4.5 percent at June 30, 2011. Amounts available under these bonds had not been fully drawn at June 30, 2011. The accompanying financial statements disclose debt service in accordance with the debt amortization schedule to the extent the debt had been drawn at June 30, 2011.

The proceeds from the City's capital lease, discussed in Note 8 and accounted for in the Industrial Park Fund, are pledged for repayment of the Series 2000 Public Improvement Revenue Bonds.

The Capital Outlay note in governmental activities is backed by the City's full faith and credit and its taxing authority.

The principal and interest payments on all long-term debt were current as of June 30, 2011.

A summary of the maturities of principal and interest due on long-term debt is as follows:

Governmental Activities

	Capital Outlay Note		
	Principal	Interest	Total
2012	\$ 57,143	\$ 12,823	\$ 69,966
2013	57,143	9,952	67,095
2014	57,143	7,112	64,255
2015	57,143	4,271	61,414
2016	56,796	1,431	58,227
	\$ 285,368	\$ 35,589	\$ 320,957

Business-Type Activities

	Revenue Bonds and Loan		General Obligation Bond	
	Principal	Interest	Principal	Interest
2012	\$ 351,716	\$ 246,807	\$ 35,000	\$ 12,050
2013	366,934	228,921	35,000	10,650
2014	382,532	210,119	40,000	9,250
2015	399,533	190,006	40,000	7,650
2016	425,972	168,944	40,000	5,850
2017-2021	1,618,119	514,658	90,000	6,075
2022-2026	936,000	213,378	-	-
2027-2028	370,340	23,747	-	-
	\$ 4,851,146	\$ 1,796,580	\$ 280,000	\$ 51,525

CITY OF DAYTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 4. Long-Term Debt and Other Long-Term Liabilities (continued)

Business-Type Activities (continued)

	<u>Total Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2012	\$ 386,716	\$ 258,857
2013	401,934	239,571
2014	422,532	219,369
2015	439,533	197,656
2016	465,972	174,794
2017-2021	1,708,119	520,733
2022-2026	936,000	213,378
2027-2028	370,340	23,747
	<u>\$ 5,131,146</u>	<u>\$ 1,848,105</u>

Component Unit

The Industrial Development Board note outstanding is as follows:

	<u>Balance</u> <u>6/30/10</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>6/30/11</u>	<u>Due within</u> <u>one year</u>
Note payable; 7.40%; due in monthly installments of \$3,531 with remaining balance due August 2014	<u>\$ 283,711</u>	<u>\$ -</u>	<u>\$ 21,828</u>	<u>\$ 261,883</u>	<u>\$ 24,002</u>

A summary of principal and interest due on the note payable is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 24,002	\$ 18,375	\$ 42,377
2013	25,840	16,537	42,377
2014	27,819	14,558	42,377
2015	184,222	2,222	186,444
	<u>\$ 261,883</u>	<u>\$ 51,692</u>	<u>\$ 313,575</u>

Note 5. Cash and Certificates of Deposit

The City Council established a cash deposit and investment policy that is to be followed in conjunction with state statutes. This policy states that cash in excess of immediate needs may be placed in other deposit instruments or in any investment instruments which are in accordance with applicable laws including, but not limited to, the following: certificates of deposit and savings accounts in banks and savings and loan associations; Tennessee Valley Authority Bonds; bonds, notes, or treasury bills of the

CITY OF DAYTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 5. Cash and Certificates of Deposit (continued)

United States; Federal Land Bank Bonds; Federal Home Loan Bank Notes and Bonds; Federal National Mortgage Association Notes and Debentures; banks for cooperative debentures, obligations of the U.S. government, or any of its other agencies, or obligations guaranteed as to principal and interest by the United States; the pooled investment fund of the State of Tennessee; or repurchase agreements.

State statutes require that all deposits with financial institutions must be collateralized by an amount equal to 105 percent of the face amount or the value of uninsured deposits. Under these statutes, the deposits must be either covered by state or federal depository insurance, by collateral held by the City's agent in the City's name or by the Federal Reserve Banks acting as a third-party agent. The statutes also authorize the types of investments in which the City can invest.

At June 30, 2011, all amounts held by the primary government and its component units were in cash deposit accounts or in certificates of deposit at financial institutions. The City is subject to custodial credit risk, which is the risk that in the event of a bank failure, the City's deposits may not be returned. The City's policy and state statutes address this by requiring 105 percent collateralization of all uninsured deposits. All deposit amounts of the primary government and each of its component units were insured or collateralized in accordance with state statutes at June 30, 2011.

Note 6. Interfund Transactions

Amounts reported in the fund financial statements as interfund receivables, payables, and transfers are eliminated in the governmental and business-type activities columns of the statement of net assets, except for the net amounts due between governmental and business-type activities, which are presented as internal balances.

Interfund Receivables and Payables:

Interfund receivables and payables on the fund financial statements are as follows:

	Payables							Total
	General Fund	General Purpose Fund	Electric Fund	Water & Sewer Fund	Industrial Park Fund	Nonmajor Governmental Funds	Nonmajor Enterprise Funds	
Receivables:								
General Fund	\$ -	\$ 136	\$ 11,588	\$ 5,560	\$ -	\$ 1,000	\$ 4,384	\$ 22,668
General Purpose Fund	-	-	-	-	-	78,171	-	78,171
Electric Fund	7,637	10,060	-	99,276	519	9,435	-	126,927
Water and Sewer Fund	-	-	52,810	-	-	-	-	52,810
Capital Projects Fund	38,447	-	-	-	-	-	-	38,447
Nonmajor Governmental Funds	381	4,049	-	-	-	-	-	4,430
Nonmajor Enterprise Funds	-	-	5,794	-	-	-	-	5,793
	<u>\$ 46,465</u>	<u>\$ 14,245</u>	<u>\$ 70,193</u>	<u>\$104,836</u>	<u>\$ 519</u>	<u>\$ 88,606</u>	<u>\$ 4,384</u>	<u>\$329,248</u>

CITY OF DAYTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 6. Interfund Transactions (continued)

Interfund Receivables and Payables: (continued)

Receivables and payables between the primary government and its discretely presented component units are as follows:

	Payables			
<u>Receivables:</u>	<u>Electric Fund</u>	<u>Industrial Development Board</u>	<u>Industrial Park Fund</u>	<u>Total</u>
Industrial Park Fund	\$ —	\$ 196,400	\$ —	\$ 196,400
Utilities Grant Program	8,299	—	—	8,299
Industrial Development Board	—	—	25,599	25,599
	\$ 8,299	\$ 196,400	\$ 25,599	\$ 230,298

Transfers:

<u>Transfer from</u>	<u>Transfer to</u>	<u>Amount</u>
<u>Governmental Activities:</u>		
General Fund	Department of Education- General Purpose Fund	\$ 265,675
General Fund	Debt Service Fund	147,331
<u>Business-Type Activities:</u>		
Electric Fund	General Fund	332,033
Water and Sewer Fund	General Fund	30,814

Interfund transactions are used to (1) move revenues from the fund that State statute or City ordinances requires to collect them to the fund that state statutes or city ordinances requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the Debt Service Fund as debt service payments become due, (3) to finance various programs accounted for in other funds using unrestricted revenues collected in the General Fund in accordance with budgetary authorizations, (4) to reimburse costs incurred that should be contributed from funds for capital assets, and (5) to reflect transfers resulting from interfund payments of in-lieu of taxes.

CITY OF DAYTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 7. Detail of Net Assets and Fund Balances

Net assets reported on the government-wide statement of net assets include the following:

	Governmental Activities	Business- Type Activities	Total
Capital assets	\$ 19,233,421	\$ 72,314,919	\$ 91,548,340
Accumulated depreciation	(9,651,649)	(30,892,767)	(40,544,416)
Debt related to acquisition and construction of capital assets, net	<u>(285,368)</u>	<u>(4,210,894)</u>	<u>(4,496,262)</u>
Invested in capital assets, net of related debt	<u>9,296,404</u>	<u>37,211,258</u>	<u>46,507,662</u>
Restricted	<u>252,007</u>	<u>—</u>	<u>252,007</u>
Unrestricted	<u>4,731,229</u>	<u>8,957,638</u>	<u>13,688,867</u>
Total net assets	<u>\$ 14,279,640</u>	<u>\$ 46,168,896</u>	<u>\$ 60,448,536</u>

Fund Balances:

Fund balances reported on the fund financial statements include the following:

Nonspendable:

 General Fund:

Prepaid expenses	\$ 51,676
Inventory	25,168
School Cafeteria Fund – Inventory	<u>19,033</u>
Total nonspendable fund balances	<u>95,877</u>

Restricted:

 General Purpose School Fund:

Special education	15,637
Technology	16,740
Career ladder	<u>1,203</u>
	33,580

 Drug Fund

 State Street Aid Fund – Maintenance and lighting

 School Cafeteria Fund – Child nutrition

 Total restricted fund balances

128,961

79,112

252,007

Committed:

 General Fund – Fire equipment

70,952

CITY OF DAYTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 7. Detail of Net Assets and Fund Balances (continued)

Fund Balances:

Assigned:	
General Purpose School Fund – Education	\$ 2,245,277
Capital Projects Fund – School construction	491,203
Capital Projects Fund – Projects	2,498
State Street Aid Fund – Maintenance and lighting	15,960
School Cafeteria Fund – Child nutrition	<u>2,880</u>
Total assigned fund balances	<u>2,757,818</u>
Unassigned:	
General Fund	<u>1,859,416</u>
Total fund balances	<u>\$ 5,036,070</u>

Note 8. Lease Agreements

Capital Lease:

The City entered a 20-year lease with the U.S. Postal Service which expires in 2020. Under the lease, the City receives annual capital lease payments of \$135,000 with the property to be conveyed to the U.S. Postal Service on April 11, 2020. The City accounts for the lease through its Industrial Park Fund.

The Industrial Park Fund accomplished the initial building renovations by issuing \$1,400,000 of Taxable Public Improvement Revenue Bonds, dated June 20, 2000. See Note 4 for more information regarding the bonds.

The components of the City's investment in the lease at June 30, 2011, are summarized as follows:

Initial investment in lease	\$ 1,423,733
Accumulated amortization	<u>(548,496)</u>
Net investment in lease at June 30, 2011	<u>\$ 875,237</u>

Under this lease, the City received \$135,000 in lease payments including interest of \$66,167 during 2011. The interest and the amortization of unearned income of \$2,615 are included in the Industrial Park Fund's operations in the financial statements.

Minimum future rental payments of principal to be received under the lease for each of the next 5 years and in aggregate are as follows:

2012	\$ 73,991
2013	79,537
2014	85,499
2015	91,908
2016	98,797
Thereafter	<u>445,505</u>
	<u>\$ 875,237</u>

**CITY OF DAYTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

Note 8. Lease Agreements (continued)

Operating Leases:

Primary Government

The City has entered into various operating lease agreements with the State of Tennessee, training and educational organizations, and local manufacturers for the use of space in the City's buildings. The agreements have various expiration dates and renewal options and provided \$667,873 of rental income during 2011. Rental income of \$79,583 was derived through governmental activities while \$588,290 resulted from funds accounted for as business-type activities. Annual rental income under the noncancelable operating leases in effect at June 30, 2011, is as follows:

2012	\$ 274,281
2013	244,335
2014	90,731

Component unit

In 1994, the Industrial Development Board (IDB) and a local manufacturer entered into a 10-year lease agreement that expired during 2004. Though the lease had contractually expired, the lessee continued to pay rent on a month-to-month basis in accordance with the terms of the original agreement, which required the lessee to make lease payments until certain IDB liabilities were liquidated.

During 2005, the parties agreed to a 3-year extension and ratification of the lease agreement effective January 1, 2005. Although the agreement was made by and between the manufacturer and the IDB, the IDB formerly assigned the lessor's interest in the lease to the City of Dayton's Industrial Park Fund. Currently, the lease continues under a month-to-month arrangement.

The Industrial Development Board has a 10-year lease agreement with another local manufacturer which expires in 2014. The agreement contains renewal options for 2 additional 5-year terms. Rental income received under this lease during 2011 was \$42,376. Future rental income is estimated to be approximately \$42,377, annually through 2014.

Note 9. Employee Retirement Plans

Plan Description:

Employees of the City 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 5-year average salary and years of service. Members become eligible to retire at the age of 60 with 5 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

CITY OF DAYTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 9. Employee Retirement Plans (continued)

Funding Policy: (continued)

55. Disability benefits are available to active members with 5 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 5 years of service and members joining prior to July 1, 1979, were vested after 4 years of service. Benefit provisions are established in state statutes 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 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 City Council.

The City's participation is contributory whereby employees contribute 5 percent of earnable compensation.

The City is required to contribute at an actuarially determined rate; the rate for the fiscal year ended June 30, 2011, was 8.23 percent of annual covered payroll. The contribution requirements of plan members are set by state statute. The contribution requirement for the City is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost:

For the year ended June 30, 2011, the City's annual pension cost of \$429,255 was equal to the City'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 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), (c) projected 3.5 percent annual increase in the Social Security wage base, (d) projected post retirement increases of 2.5 percent annually, and (e) projected 3 percent annual rate of inflation. 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 10-year period. The City'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 7 years. An actuarial valuation was performed as of July 1, 2009, which established contribution rates effective July 1, 2010.

Trend Information

<u>Fiscal</u> <u>Year</u> <u>Ended</u>	<u>Annual</u> <u>Pension</u> <u>Cost (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contributed</u>	<u>Net</u> <u>Pension</u> <u>Obligation</u>
6/30/11	\$ 429,255	100%	\$ -
6/30/10	391,177	100	-
6/30/09	371,452	100	-

**CITY OF DAYTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

Note 9. Employee Retirement Plans (continued)

Funded Status and Funding Progress:

As of July 1, 2009, the most recent actuarial valuation date, the plan was 88.53 percent funded. The actuarial accrued liability for benefits was \$14,545,000, and the actuarial value of assets was \$12,877,000, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,668,000. The covered payroll (annual payroll of active employees covered by the plan) was \$4,580,000, and the ratio of the UAAL to the covered payroll was 36.42 percent.

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

The annual required contribution (ARC) was calculated using the aggregate actuarial cost method. Since the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose, and this information is intended to serve as a surrogate for the funded status and funding progress of the plan.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/01/09	\$ 12,877	\$ 14,545	\$ 1,668	88.53%	\$ 4,580	36.42%
7/01/07	11,883	13,130	1,247	90.50	4,304	28.97

(Dollar amounts in thousands)

Local School System:

The Dayton City School contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing 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 to plan members and their beneficiaries. Benefits are determined by a formula using the member's high 5-year average salary and years of service. Members become eligible to retire at the age of 60 with 5 years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with 5 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 plan on or after July 1, 1979, are vested after 5 years of service. Members joining prior to July 1, 1979, were vested after 4 years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Cost of living adjustments (COLA) are provided to retirees each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year. No COLA is granted if the CPI increases less than one-half percent. The maximum annual COLA is capped at 3 percent.

CITY OF DAYTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 9. Employee Retirement Plans (continued)

Funding Policy - Local School System:

Most teachers are required by state statute to contribute 5 percent of salary to the plan. The Dayton City School is required to contribute at an actuarially determined rate. The rate for the fiscal year ended June 30, 2011, was 9.05 percent of annual covered payroll. The contribution requirements of Dayton City School are established and may be amended by the TCRS Board of Trustees. Dayton City School's contributions to TCRS for the years ended June 30, 2011, 2010, and 2009 were \$236,317, \$168,029, and \$162,994, respectively, which was equal to the required contributions for each year.

Report Availability:

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP and the SETHEEPP. Reports including this information 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/> for the PSPP and at www.tn.gov/treasury/tcrs/Schools/ for the SETHEEPP.

Note 10. Postemployment Healthcare Plan

Plan Description:

The City of Dayton participates in the state-administered Teacher Group Insurance Plan (Teacher Group Plan) and the Local Government Group Insurance Plan (Local Government Plan) for healthcare benefits. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Tennessee Code Annotated (TCA) 8-27-302 (teachers) and TCA 8-27-207 (local governments). Prior to reaching the age of 65, all members have the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in the state-administered Medicare Supplement Plan that does not include pharmacy. The plans are reported in the State of Tennessee Comprehensive Annual Financial Report (CAFR). The CAFR is available on the state's website at <http://tennessee.gov/finance/act/cafr.html>.

Funding Policy:

The premium requirements of plan members are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. The employers in each plan develop their own contribution policy in terms of subsidizing active employees' or retired employees' premiums since the committee is not prescriptive on that issue. The state does not provide a subsidy for local government

CITY OF DAYTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 10. Postemployment Healthcare Plan (continued)

Funding Policy: (continued)

participants, however, the state does provide a partial subsidy to Local Education Agency pre-65 teachers and a full subsidy based on years of service for post-65 teachers in the Medicare Supplement Plan. See Note 11 for additional details regarding on-behalf payments. The City's required contribution for the Teacher Group Plan and Local Government Plan was \$68,000 and \$56,000, respectively. The City contributed \$60,609 to the Teacher Group Plan and \$24,980 to the Local Government Plan in 2011.

Annual OPEB Cost and Net OPEB Obligation

	Teacher Group Plan	Local Government Plan
Annual Required Contribution (ARC)	\$ 68,000	\$ 56,000
Interest on the Net Pension Obligation (NPO)	4,447	2,215
Adjustment to the ARC	(4,212)	(2,098)
Annual OPEB cost	68,235	56,117
Amount of contribution	60,609	24,980
Increase in NPO	7,626	31,137
Net OPEB obligation, beginning of year	98,810	49,219
Net OPEB obligation, end of year	\$ 106,436	\$ 80,356

Year End	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year End
6/30/09	Teacher Group	\$ 95,418	34.1%	\$ 67,454
6/30/09	Local Government Group	32,056	98.2	13,353
6/30/10	Teacher Group	91,081	65.6	98,810
6/30/10	Local Government Group	61,032	41.2	49,219
6/30/11	Teacher Group	68,235	88.8	106,436
6/30/11	Local Government Group	56,117	44.5	80,356

CITY OF DAYTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 10. Postemployment Healthcare Plan (continued)

Funded Status and Funding Progress:

The funded status of the plans as of July 1, 2010, was as follows:

	Teacher Group Plan	Local Government Plan
Actuarial valuation date	7/01/10	7/01/10
Actuarial accrued liability (AAL)	\$ 798,000	\$ 481,000
Actuarial value of plan assets	-	-
Unfunded actuarial accrued liability (UAAL)	<u>\$ 798,000</u>	<u>\$ 481,000</u>
Actuarial value of assets as a % of the AAL	-	-
Covered payroll (active plan members)	\$ 3,099,222	\$ 4,649,342
UAAL as a percentage of covered payroll	25.8%	10.4%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions:

Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the July 1, 2010 actuarial valuation for the Teacher Group Plan, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 10 percent for fiscal year 2011. The trend will decrease to 9.5 percent in fiscal year 2012 and then will be reduced by decrements to an ultimate rate of 5 percent by fiscal year 2021.

In the July 1, 2010 actuarial valuation for the Local Government Plan, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 10 percent for fiscal year 2011. The trend will decrease to 9.5 percent in fiscal year 2012 and then will be reduced by decrements to an ultimate rate of 5 percent by fiscal year 2021.

CITY OF DAYTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 10. Postemployment Healthcare Plan (continued)

Actuarial Methods and Assumptions: (continued)

The rates for both plans include a 3 percent inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with June 30, 2008.

Note 11. On-Behalf Payments

The State of Tennessee makes on-behalf payments to the State's Medicare Supplement Plan and the Teacher Group Plan for teachers of Dayton City School. GASB Statement #24 requires that on-behalf payments be recognized in the City's financial statements. During the year ended June 30, 2011, the State of Tennessee made contributions to healthcare plans on behalf of the City as follows:

Plan	Amount
Teacher Group Plan	\$ 29,483
Medicare Supplement Plan	5,945

These amounts were recognized as revenue and expenditure/expense in the City's Department of Education General Purpose Fund and in Governmental Activities on the government-wide financial statements. For more information regarding the above mentioned plans, see Note 10.

Note 12. Operating Restrictions

The Electric Department has a power contract with the Tennessee Valley Authority (TVA) whereby the electric system purchases all of its electric power from TVA and is subject to certain restrictions and conditions as provided for in the contract. Such restrictions include, but are not limited to, prohibitions against furnishing, advancing, lending, pledging, or otherwise diverting electric system funds, revenue, or property to other operations of the municipality and the purchase or payment of, or providing security for indebtedness on other obligations applicable to such other operations. In addition, the utility will not make payments of more than its fair share of amounts equivalent to property taxes or make payments greater than standardized or market prices for property or services from other departments of the municipality.

Note 13. Risk Management and Contingencies

The City has received several federal and state grants for specific purposes which are subject to review by the grantor agencies. Such reviews could lead to a request for reimbursement to the grantor agencies for any expenditures disallowed under the terms of the grants. Management believes that such disallowed costs, if any, would be immaterial.

CITY OF DAYTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 13. Risk Management and Contingencies (continued)

The City is exposed to various risks of loss to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance. For insured programs, there have been no significant reductions in insurance coverage and settlement amounts have not exceeded insurance coverage in the current year.

**REQUIRED
SUPPLEMENTAL INFORMATION**

**CITY OF DAYTON, TENNESSEE
 SCHEDULE OF FUNDING PROGRESS
 EMPLOYEE RETIREMENT PLAN**

June 30, 2011

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/01/09	\$ 12,877	\$ 14,545	\$ 1,668	88.53 %	\$ 4,580	36.42 %
7/01/07	11,883	13,130	1,247	90.50	4,304	28.97

(Dollar amounts in thousands)

Note: The Government Accounting Standards Board (GASB) requires the plan to prepare the Schedule of Funding Progress using the entry age actuarial cost method. The requirement to present the Schedule of Funding Progress using the entry age actuarial cost method went into effect during the year of the 2007 actuarial valuation; therefore, only the two most recent valuations are presented.

CITY OF DAYTON, TENNESSEE
SCHEDULE OF FUNDING PROGRESS
TEACHER GROUP INSURANCE PLAN AND LOCAL GOVERNMENT INSURANCE PLAN
June 30, 2011

Actuarial Valuation Date	Plan	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/01/07	Teacher Group	\$ -	\$ 749	\$ 749	- %	\$ 2,981	25.13 %
7/01/07	Local Government	-	245	245	-	4,452	5.50
7/01/09	Teacher Group	-	1,120	1,120	-	3,099	36.14
7/01/09	Local Government	-	593	593	-	4,649	12.76
7/01/10	Teacher Group	-	798	798	-	3,099	25.75
7/01/10	Local Government	-	481	481	-	4,649	10.35

(Dollar amounts in thousands)

The amount reported here for covered payroll relates to the fiscal year in which the valuations were performed.

SUPPLEMENTAL INFORMATION

**CITY OF DAYTON, TENNESSEE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2011**

	Debt Service Fund	Special Revenue Funds			Total Nonmajor Governmental Funds	
		Drug	State Street Aid	Department of Education Federal Projects		School Cafeteria
ASSETS						
Cash	\$ -	\$10,973	\$ 75,860	\$147,593	\$ 138,296	\$ 372,722
Due from other governments	-	-	31,715	40,440	-	72,155
Interfund receivables	-	381	-	4,049	-	4,430
Inventories	-	-	-	-	19,033	19,033
Total assets	\$ -	\$11,354	\$107,575	\$192,082	\$ 157,329	\$ 468,340
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts payable	\$ -	\$ -	\$ 3,068	\$ 7,018	\$ -	\$ 10,086
Accrued salaries and benefits	-	-	-	113,291	-	113,291
Interfund payables	-	1,000	9,435	71,716	6,455	88,606
Deferred revenue	-	-	-	57	-	57
Total liabilities	-	1,000	12,503	192,082	6,455	212,040
FUND BALANCES						
Nonspendable	-	-	-	-	19,033	19,033
Restricted	-	10,354	79,112	-	128,961	218,427
Assigned	-	-	15,960	-	2,880	18,840
Total fund balances	-	10,354	95,072	-	150,874	256,300
Total liabilities and fund balances	\$ -	\$11,354	\$107,575	\$192,082	\$ 157,329	\$ 468,340

CITY OF DAYTON, TENNESSEE
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2011

	Debt Service Fund	Special Revenue Funds			Total Nonmajor Governmental Funds	
		Drug	State Street Aid	Department of Education Federal Projects		School Cafeteria
REVENUES						
State funds	\$ -	\$ -	\$174,059	\$ -	\$ 4,073	\$ 178,132
Federal funds received through state	-	-	-	828,070	269,738	1,097,808
Charges for services	-	-	15,960	-	115,813	131,773
Fines and forfeits	-	11,022	-	-	-	11,022
Interest	-	-	-	-	13	13
Total revenues	<u>-</u>	<u>11,022</u>	<u>190,019</u>	<u>828,070</u>	<u>389,637</u>	<u>1,418,748</u>
EXPENDITURES						
Current:						
Public safety-police	-	28,786	-	-	-	28,786
Highways and streets	-	-	159,434	-	-	159,434
Education:						
Instructional:						
Regular	-	-	-	389,363	-	389,363
Special	-	-	-	209,395	-	209,395
Support services	-	-	-	229,312	-	229,312
Noninstructional food services	-	-	-	-	386,757	386,757
Debt service:						
Principal	129,800	-	-	-	-	129,800
Interest	17,531	-	-	-	-	17,531
Total expenditures	<u>147,331</u>	<u>28,786</u>	<u>159,434</u>	<u>828,070</u>	<u>386,757</u>	<u>1,550,378</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(147,331)</u>	<u>(17,764)</u>	<u>30,585</u>	<u>-</u>	<u>2,880</u>	<u>(131,630)</u>
OTHER FINANCING SOURCES						
Transfers	147,331	-	-	-	-	147,331
Total other financing sources	<u>147,331</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>147,331</u>
Net change in fund balances	-	(17,764)	30,585	-	2,880	15,701
FUND BALANCES, beginning of year	<u>-</u>	<u>28,118</u>	<u>64,487</u>	<u>-</u>	<u>147,994</u>	<u>240,599</u>
FUND BALANCES, end of year	<u>\$ -</u>	<u>\$10,354</u>	<u>\$ 95,072</u>	<u>\$ -</u>	<u>\$ 150,874</u>	<u>\$ 256,300</u>

CITY OF DAYTON, TENNESSEE
BUDGETARY COMPARISON SCHEDULE
DRUG FUND
Year Ended June 30, 2011

	Budget		Actual	Variance With Final Budget
	Original	Final		
REVENUES				
Confiscated funds	\$ 7,000	\$ 8,000	\$ 11,022	\$ 3,022
Miscellaneous	-	-	-	-
Total revenues	<u>7,000</u>	<u>8,000</u>	<u>11,022</u>	<u>3,022</u>
EXPENDITURES				
Equipment	10,000	10,000	4,502	5,498
Training	1,000	1,000	-	1,000
Drug enforcement	12,418	12,418	20,824	(8,406)
Miscellaneous	1,500	2,500	3,460	(960)
Capital outlay	<u>9,675</u>	<u>9,675</u>	<u>-</u>	<u>9,675</u>
Total expenditures	<u>34,593</u>	<u>35,593</u>	<u>28,786</u>	<u>6,807</u>
REVENUES OVER (UNDER)				
EXPENDITURES	(27,593)	(27,593)	(17,764)	9,829
OTHER FINANCING SOURCES				
Unappropriated surplus	<u>27,593</u>	<u>27,593</u>	<u>-</u>	<u>(27,593)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	(17,764)	<u>\$ (17,764)</u>
FUND BALANCE, beginning of year			<u>28,118</u>	
FUND BALANCE, end of year			<u>\$ 10,354</u>	

**CITY OF DAYTON, TENNESSEE
BUDGETARY COMPARISON SCHEDULE
STATE STREET AID FUND
Year Ended June 30, 2011**

	Budget		Actual	Variance With Final Budget
	Original	Final		
REVENUES				
Gasoline tax allocations	\$ 168,753	\$ 168,753	\$ 174,059	\$ 5,306
Charges for services	15,960	15,960	15,960	-
Miscellaneous	-	-	-	-
	<u>184,713</u>	<u>184,713</u>	<u>190,019</u>	<u>5,306</u>
Total revenues				
EXPENDITURES				
Street lighting	101,806	101,806	114,543	(12,737)
Street paving and maintenance	82,907	82,907	44,891	38,016
	<u>184,713</u>	<u>184,713</u>	<u>159,434</u>	<u>25,279</u>
Total expenditures				
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	30,585	<u>\$ 30,585</u>
FUND BALANCE, beginning of year			<u>64,487</u>	
FUND BALANCE, end of year			<u>\$ 95,072</u>	

**CITY OF DAYTON, TENNESSEE
 BUDGETARY COMPARISON SCHEDULE
 DEPARTMENT OF EDUCATION -
 FEDERAL PROJECTS FUND
 Year Ended June 30, 2011**

	Budget		Actual	Variance
	Original	Final		With Final Budget
REVENUES				
Federal funds received through state:				
Title I	\$ 352,106	\$ 358,098	\$ 327,922	\$ (30,176)
Education of the handicapped	215,205	198,523	197,801	(722)
Title VI	22,777	18,406	18,405	(1)
Preschool	12,768	18,564	15,178	(3,386)
Title II	75,492	75,492	71,493	(3,999)
Safe and Drug Free	2,667	1,774	1,070	(704)
First to the Top	-	176,920	102,855	(74,065)
Education Jobs Program	-	186,600	93,346	(93,254)
Total revenues	<u>681,015</u>	<u>1,034,377</u>	<u>828,070</u>	<u>(206,307)</u>
EXPENDITURES				
Regular instruction program	307,146	525,984	389,363	136,621
Special education program	223,973	221,825	209,395	12,430
Support services - instructional staff	149,896	286,568	229,312	57,256
Total expenditures	<u>681,015</u>	<u>1,034,377</u>	<u>828,070</u>	<u>206,307</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
FUND BALANCE, beginning of year			-	
FUND BALANCE, end of year			<u>\$ -</u>	

**CITY OF DAYTON, TENNESSEE
 BUDGETARY COMPARISON SCHEDULE
 DEPARTMENT OF EDUCATION -
 SCHOOL CAFETERIA FUND
 Year Ended June 30, 2011**

	Budget		Actual	Variance With Final Budget
	Original	Final		
REVENUES				
Intergovernmental revenue	\$ 249,500	\$ 249,500	\$ 273,811	\$ 24,311
Charges for services	93,832	93,832	115,813	21,981
Interest	-	-	13	13
	<u>343,332</u>	<u>343,332</u>	<u>389,637</u>	<u>46,305</u>
EXPENDITURES				
Food	100,500	100,500	139,928	(39,428)
Salaries	125,006	125,006	125,664	(658)
Fringe benefits	48,920	48,920	51,123	(2,203)
Supplies	15,800	15,800	15,248	552
Utilities	35,000	35,000	40,226	(5,226)
Repairs	3,000	3,000	9,965	(6,965)
Capital outlay	-	-	4,603	(4,603)
Other	2,500	2,500	-	2,500
	<u>330,726</u>	<u>330,726</u>	<u>386,757</u>	<u>(56,031)</u>
NET CHANGE IN FUND BALANCE	<u>\$ 12,606</u>	<u>\$ 12,606</u>	2,880	<u>\$ (9,726)</u>
FUND BALANCE, beginning of year			<u>147,994</u>	
FUND BALANCE, end of year			<u>\$ 150,874</u>	

**CITY OF DAYTON, TENNESSEE
BUDGETARY COMPARISON SCHEDULE
EXPENDITURES
GENERAL FUND
Year Ended June 30, 2011**

	Budget		Actual	Variance With Final Budget
	Original	Final		
EXPENDITURES				
Administration				
Personnel	\$ 359,888	\$ 359,888	\$ 352,904	\$ 6,984
Administrative services	115,895	134,895	124,511	10,384
Community development	51,250	51,750	78,747	(26,997)
City Judge	15,171	15,171	12,767	2,404
Capital outlay	24,437	33,437	4,784	28,653
Other	50,871	52,371	6,619	45,752
Total administration	<u>617,512</u>	<u>647,512</u>	<u>580,332</u>	<u>67,180</u>
Police Department				
Personnel	1,030,336	1,036,336	1,055,106	(18,770)
Operations	220,440	260,440	236,316	24,124
Capital outlay	46,700	48,200	138,317	(90,117)
Other	500	3,000	2,550	450
Total police department	<u>1,297,976</u>	<u>1,347,976</u>	<u>1,432,289</u>	<u>(84,313)</u>
Fire Department				
Personnel	499,782	499,782	474,142	25,640
Operations	124,965	137,965	121,785	16,180
Capital outlay	49,551	49,551	8,376	41,175
Other	1,000	3,000	3,131	(131)
Total fire department	<u>675,298</u>	<u>690,298</u>	<u>607,434</u>	<u>82,864</u>
Maintenance Department				
Personnel	289,081	297,081	287,800	9,281
Operations	42,825	53,825	45,172	8,653
Capital outlay	12,949	12,949	6,551	6,398
Other	500	1,500	812	688
Total maintenance department	<u>345,355</u>	<u>365,355</u>	<u>340,335</u>	<u>25,020</u>

(continued)

**CITY OF DAYTON, TENNESSEE
BUDGETARY COMPARISON SCHEDULE
EXPENDITURES
GENERAL FUND**

Year Ended June 30, 2011

(continued)

	Budget		Actual	Variance With Final Budget
	Original	Final		
EXPENDITURES				
Street Department				
Personnel	\$ 443,705	\$ 443,705	\$ 435,993	\$ 7,712
Operations	40,390	45,390	44,729	661
Paving and maintenance	72,000	90,500	68,702	21,798
Capital outlay	39,340	40,340	165,824	(125,484)
Other	500	1,000	846	154
Total street department	<u>595,935</u>	<u>620,935</u>	<u>716,094</u>	<u>(95,159)</u>
Parks and Recreation Department				
Personnel	256,933	271,933	275,080	(3,147)
Operations	89,711	99,711	82,606	17,105
Capital outlay	47,825	52,825	19,780	33,045
Other	500	500	777	(277)
Total parks and recreation department	<u>394,969</u>	<u>424,969</u>	<u>378,243</u>	<u>46,726</u>
Library				
Personnel	220,182	220,182	208,564	11,618
Operations	39,452	49,452	78,948	(29,496)
Books	29,000	29,000	29,282	(282)
Capital outlay	24,654	24,654	5,367	19,287
Other	300	300	5,081	(4,781)
Total library	<u>313,588</u>	<u>323,588</u>	<u>327,242</u>	<u>(3,654)</u>
Airport				
Personnel	62,711	62,711	62,190	521
Operations	59,555	59,555	60,356	(801)
Fuel and oil	50,000	80,000	82,368	(2,368)
Capital outlay	119,599	119,599	11,490	108,109
Other	500	500	488	12
Total airport	<u>292,365</u>	<u>322,365</u>	<u>216,892</u>	<u>105,473</u>
Total Expenditures	<u>\$ 4,532,998</u>	<u>\$ 4,742,998</u>	<u>\$ 4,598,861</u>	<u>\$ 144,137</u>

**CITY OF DAYTON, TENNESSEE
COMBINING BALANCE SHEET
NONMAJOR PROPRIETARY FUNDS
June 30, 2011**

	Business-Type Activities - Enterprise Funds		
	Skill Center	Sanitation	Total Nonmajor
ASSETS			
Current assets			
Cash	\$ 368,370	\$ 356,917	\$ 725,287
Certificates of deposit	-	200,000	200,000
Accounts receivable, less allowance for doubtful accounts of \$ -0- and \$10,376, respectively	10,316	14,644	24,960
Interest receivable	-	545	545
Interfund receivable	-	5,793	5,793
Prepaid expenses	-	4,404	4,404
Total current assets	<u>378,686</u>	<u>582,303</u>	<u>960,989</u>
Capital assets			
Land, land improvements, and roads	202,934	-	202,934
Buildings	2,332,448	7,707	2,340,155
Equipment	-	763,967	763,967
Construction in progress	55,929	-	55,929
Less accumulated depreciation	<u>(800,124)</u>	<u>(606,029)</u>	<u>(1,406,153)</u>
Net capital assets	<u>1,791,187</u>	<u>165,645</u>	<u>1,956,832</u>
Deferred charges, net of amortization	<u>7,088</u>	<u>-</u>	<u>7,088</u>
Total assets	<u>\$ 2,176,961</u>	<u>\$ 747,948</u>	<u>\$ 2,924,909</u>
LIABILITIES AND NET ASSETS			
LIABILITIES			
Current liabilities			
Accounts payable	\$ 4,636	\$ 1,568	\$ 6,204
Accrued salaries and benefits	-	6,752	6,752
Accrued interest	3,013	-	3,013
Interfund payable	28	4,356	4,384
Current maturities of notes payable	<u>35,000</u>	<u>-</u>	<u>35,000</u>
Total current liabilities	<u>42,677</u>	<u>12,676</u>	<u>55,353</u>
Noncurrent liabilities			
Notes and bonds payable, less current maturities shown above and net deferred charges	245,000	-	245,000
OPEB liability	<u>-</u>	<u>3,397</u>	<u>3,397</u>
Total noncurrent liabilities	<u>245,000</u>	<u>3,397</u>	<u>248,397</u>
Total liabilities	<u>287,677</u>	<u>16,073</u>	<u>303,750</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,518,275	165,645	1,683,920
Unrestricted	<u>371,009</u>	<u>566,230</u>	<u>937,239</u>
Total net assets	<u>1,889,284</u>	<u>731,875</u>	<u>2,621,159</u>
Total liabilities and net assets	<u>\$ 2,176,961</u>	<u>\$ 747,948</u>	<u>\$ 2,924,909</u>

CITY OF DAYTON, TENNESSEE
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
NONMAJOR PROPRIETARY FUNDS
Year Ended June 30, 2011

	Business-Type Activities - Enterprise Funds		
	Skill Center	Sanitation	Total Nonmajor
OPERATING REVENUES			
Charges for services	\$ -	\$ 423,054	\$ 423,054
Consumer penalties	-	2,656	2,656
Rental income	171,393	-	171,393
Total operating revenues	<u>171,393</u>	<u>425,710</u>	<u>597,103</u>
OPERATING EXPENSES			
Operations	26,340	293,166	319,506
Maintenance	13,169	48,266	61,435
Administration	885	7,172	8,057
Depreciation	58,450	61,504	119,954
Total operating expenses	<u>98,844</u>	<u>410,108</u>	<u>508,952</u>
NET OPERATING INCOME (LOSS)	<u>72,549</u>	<u>15,602</u>	<u>88,151</u>
NONOPERATING REVENUES (EXPENSES)			
Interest income	792	2,757	3,549
Interest expense	(13,100)	-	(13,100)
Amortization	(1,149)	-	(1,149)
Other	-	1,234	1,234
Total nonoperating revenues (expenses), net	<u>(13,457)</u>	<u>3,991</u>	<u>(9,466)</u>
Change in net assets	59,092	19,593	78,685
NET ASSETS, beginning of year	<u>1,830,192</u>	<u>712,282</u>	<u>2,542,474</u>
NET ASSETS, end of year	<u>\$ 1,889,284</u>	<u>\$ 731,875</u>	<u>\$ 2,621,159</u>

CITY OF DAYTON, TENNESSEE
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR PROPRIETARY FUNDS
Year Ended June 30, 2011

	Business-Type Activities - Enterprise Funds		
	Skill Center	Sanitation	Total Nonmajor
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 171,393	\$ 420,549	\$ 591,942
Payments to employees	-	(176,934)	(176,934)
Payments to suppliers and vendors	(15,892)	(168,564)	(184,456)
Payments to other funds	(20,100)	(348)	(20,448)
Receipts from other funds	-	4,947	4,947
Net cash provided by operating activities	<u>135,401</u>	<u>79,650</u>	<u>215,051</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	-	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(96,816)	-	(96,816)
Principal paid on debt	(35,000)	-	(35,000)
Interest paid on debt	(13,449)	-	(13,449)
Other	-	1,234	1,234
Net cash (used in) capital and related financing activities	<u>(145,265)</u>	<u>1,234</u>	<u>(144,031)</u>
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES			
Interest received on interest bearing deposits	792	3,264	4,056
Net increase (decrease) in cash and cash equivalents	(9,072)	84,148	75,076
Cash and cash equivalents at beginning of year	377,442	472,769	850,211
Cash and cash equivalents at end of year	<u>\$ 368,370</u>	<u>\$ 556,917</u>	<u>\$ 925,287</u>
Reconciliation of net operating income to net cash provided by operating activities			
Net operating income	\$ 72,549	\$ 15,602	\$ 88,151
Adjustments to reconcile net operating income to net cash provided by operating activities:			
Depreciation	58,450	61,504	119,954
Change in assets and liabilities:			
Receivables	-	(237)	(237)
Prepaid expenses	-	(1,654)	(1,654)
Interfund receivables	-	23	23
Accounts payable	4,402	(480)	3,922
Interfund payables	-	2,521	2,521
Accrued expenses	-	2,371	2,371
Net cash provided by operating activities	<u>\$ 135,401</u>	<u>\$ 79,650</u>	<u>\$ 215,051</u>

CITY OF DAYTON, TENNESSEE
COMBINING SCHEDULE OF OPERATING EXPENSES
NONMAJOR PROPRIETARY FUNDS
Year Ended June 30, 2011

OPERATING EXPENSES	Business-Type Activities - Enterprise Funds		
	Skill Center	Sanitation	Total Nonmajor
Operations:			
Salaries	\$ -	\$ 179,305	\$ 179,305
Employee benefits, insurance	-	53,456	53,456
Payroll taxes	-	12,687	12,687
Retirement	-	12,307	12,307
Clothing allowance	-	1,681	1,681
Supplies	-	4,951	4,951
Insurance	5,906	7,672	13,578
Garbage disposal	-	21,107	21,107
Utilities	20,434	-	20,434
Total operations	26,340	293,166	319,506
Maintenance:			
Gas, oil and repairs	-	32,551	32,551
Maintenance	13,169	15,715	28,884
Total maintenance	13,169	48,266	61,435
Administration:			
Bad debts	-	4,326	4,326
Miscellaneous	885	2,846	3,731
Total administration	885	7,172	8,057
Depreciation	58,450	61,504	119,954
	\$ 98,844	\$ 410,108	\$ 508,952

CITY OF DAYTON, TENNESSEE
SCHEDULE OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS BY DIVISION
WATER AND SEWER FUND
Year Ended June 30, 2011

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
OPERATING REVENUES			
Charges for services	\$ 3,049,134	\$ 1,629,480	\$ 4,678,614
Consumer penalties	20,555	7,706	28,261
Other	4,256	1,150	5,406
Total revenues	<u>3,073,945</u>	<u>1,638,336</u>	<u>4,712,281</u>
OPERATING EXPENSES			
Operations	1,709,261	1,259,000	2,968,261
Maintenance	230,678	29,644	260,322
Administration	91,807	28,948	120,755
Depreciation	606,060	308,872	914,932
Total expenses	<u>2,637,806</u>	<u>1,626,464</u>	<u>4,264,270</u>
Net operating income	<u>436,139</u>	<u>11,872</u>	<u>448,011</u>
NONOPERATING REVENUES (EXPENSES)			
Interest income	8,239	3,921	12,160
Interest expense	(65,943)	(1,936)	(67,879)
Bond and note amortization	(7,046)	(1,081)	(8,127)
Net nonoperating revenues (expenses)	<u>(64,750)</u>	<u>904</u>	<u>(63,846)</u>
Income before transfers and capital contributions	<u>371,389</u>	<u>12,776</u>	<u>384,165</u>
Transfers	(18,733)	(12,081)	(30,814)
Capital contributions	78,000	-	78,000
	<u>59,267</u>	<u>(12,081)</u>	<u>47,186</u>
Change in net assets	<u>\$ 430,656</u>	<u>\$ 695</u>	<u>\$ 431,351</u>

CITY OF DAYTON, TENNESSEE
SCHEDULE OF OPERATING EXPENSES
WATER AND SEWER FUND
Year Ended June 30, 2011

OPERATING EXPENSES	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operations:			
Salaries	\$ 716,272	\$ 215,961	\$ 932,233
Payroll taxes	52,567	15,877	68,444
Retirement	57,764	17,006	74,770
Employee benefits, insurance	231,770	54,328	286,098
Materials and supplies	130,946	132,340	263,286
Purchase and maintenance of small equipment	49,900	79,234	129,134
Insurance	50,909	22,712	73,621
Utilities	380,677	244,575	625,252
Testing and pretreatment	8,215	255,303	263,518
Sewer rehabilitation	-	220,708	220,708
Emergency services	25,082	-	25,082
Clothing allowance	5,159	956	6,115
Total operations	<u>1,709,261</u>	<u>1,259,000</u>	<u>2,968,261</u>
Maintenance:			
Repair and maintenance of facilities	30,148	27,393	57,541
Vehicle maintenance	9,492	222	9,714
Gas and oil	23,501	2,029	25,530
Line maintenance	131,250	-	131,250
Tank maintenance	36,287	-	36,287
Total maintenance	<u>230,678</u>	<u>29,644</u>	<u>260,322</u>
Administration:			
Billing service	25,182	4,938	30,120
Legal and accounting	4,551	3,067	7,618
Telephone	14,152	4,883	19,035
Travel and training	2,652	3,334	5,986
Miscellaneous	41,228	12,062	53,290
Dues, subscriptions and advertising	4,042	664	4,706
Total administration	<u>91,807</u>	<u>28,948</u>	<u>120,755</u>
Depreciation	<u>606,060</u>	<u>308,872</u>	<u>914,932</u>
	<u>\$ 2,637,806</u>	<u>\$ 1,626,464</u>	<u>\$ 4,264,270</u>

**CITY OF DAYTON, TENNESSEE
SCHEDULE OF OPERATING EXPENSES
ELECTRIC FUND
Year Ended June 30, 2011**

OPERATING EXPENSES

Operations:

Power purchases	\$ 23,639,109
Facilities rental	272,272
Distribution	292,740
Customer accounting	554,117
	<u>24,758,238</u>

Maintenance:

Distribution	<u>1,565,015</u>
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Administration:

General	897,440
Taxes and tax equivalents outside the City	188,938
	<u>1,086,378</u>

Depreciation

783,933
<u><u>\$ 28,193,564</u></u>

**CITY OF DAYTON, TENNESSEE
SCHEDULE OF OPERATING EXPENSES
INDUSTRIAL PARK FUND
Year Ended June 30, 2011**

OPERATING EXPENSES

Maintenance	\$ 345
Insurance	1,083
Professional fees	665
Utilities	2,101
Economic development	10,000
Miscellaneous	288
Depreciation	<u>29,156</u>
	<u>\$ 43,638</u>

CITY OF DAYTON, TENNESSEE
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND - SCHOOL ACTIVITY FUNDS
FIDUCIARY FUND
June 30, 2011

ASSETS	Balance	Other Financing Sources (Uses)		Balance
	July 1, 2010	Transfers In	Transfers Out	June 30, 2011
Cash	\$ 46,345	\$ -	\$ (3,533)	\$ 45,270
Restricted cash	16,234	88,866	91,191	17,442
Total assets	\$ 62,579	\$ 152,221	\$ 152,088	\$ 62,712

LIABILITIES AND FUND BALANCE

LIABILITIES

Due to student groups	\$ 62,579	\$ 152,221	\$ 152,088	\$ 3,533	\$ (3,533)	\$ 62,712
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**CITY OF DAYTON, TENNESSEE
BALANCE SHEET
DAYTON UTILITIES GRANT PROGRAM
DISCRETELY PRESENTED COMPONENT UNIT
June 30, 2011**

ASSETS

Cash	\$ 10,783
Due from primary government	<u>8,299</u>
Total assets	<u><u>\$ 19,082</u></u>

LIABILITIES AND FUND BALANCE

LIABILITIES	<u>\$ -</u>
FUND BALANCE - RESTRICTED	<u>19,082</u>
Total liabilities and fund balance	<u><u>\$ 19,082</u></u>

**CITY OF DAYTON, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
DAYTON UTILITIES GRANT PROGRAM
DISCRETELY PRESENTED COMPONENT UNIT
Year Ended June 30, 2011**

REVENUES

Contributions revenue \$ 50,173

EXPENDITURES

Awards 50,300

Revenues under expenditures (127)

Change in fund balance (127)

FUND BALANCE, beginning of year 19,209

FUND BALANCE, end of year \$ 19,082

**CITY OF DAYTON, TENNESSEE
BALANCE SHEET
INDUSTRIAL DEVELOPMENT BOARD
DISCRETELY PRESENTED COMPONENT UNIT
June 30, 2011**

ASSETS

Current assets

Cash	\$ 15,474
Due from primary government	25,599
Total current assets	41,073

Noncurrent assets

Capital assets:

Land	241,400
Buildings and improvements	3,812,000
Less accumulated depreciation	(1,383,946)
Net capital assets	2,669,454
Total assets	\$ 2,710,527

LIABILITIES AND NET ASSETS

LIABILITIES

Current liabilities

Due to primary government	\$ 196,400
Current maturities of notes payable	24,002
Total current liabilities	220,402

Noncurrent liabilities

Notes payable, less current portion	237,881
Total liabilities	458,283

NET ASSETS

Invested in capital assets, net of related debt	2,407,571
Unrestricted	(155,327)
Total net assets	2,252,244
Total liabilities and net assets	\$ 2,710,527

**CITY OF DAYTON, TENNESSEE
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
INDUSTRIAL DEVELOPMENT BOARD
DISCRETELY PRESENTED COMPONENT UNIT
Year Ended June 30, 2011**

RENTAL INCOME	\$ 42,376
OPERATING EXPENSES	
Depreciation	<u>97,899</u>
NET OPERATING LOSS	<u>(55,523)</u>
OTHER INCOME (EXPENSES)	
Interest income	39
Interest expense	<u>(20,548)</u>
Other expenses, net	<u>(20,509)</u>
Change in net assets	(76,032)
NET ASSETS, beginning of year	<u>2,328,276</u>
NET ASSETS, end of year	<u><u>\$ 2,252,244</u></u>

**CITY OF DAYTON, TENNESSEE
STATEMENT OF CASH FLOWS
INDUSTRIAL DEVELOPMENT BOARD
DISCRETELY PRESENTED COMPONENT UNIT
Year Ended June 30, 2011**

CASH FLOWS PROVIDED BY OPERATING ACTIVITIES

Receipts from customers	<u>\$ 42,376</u>
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**CASH FLOWS FROM NONCAPITAL FINANCING
ACTIVITIES**

-

**CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES**

Principal paid on notes payable	(21,828)
Interest paid on notes payable	<u>(20,548)</u>
Net cash used in capital and related financing activities	<u>(42,376)</u>

CASH FLOWS PROVIDED BY INVESTING ACTIVITIES

Interest received on interest bearing deposits	<u>39</u>
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Net increase in cash and cash equivalents	39
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Cash and cash equivalents at beginning of year	<u>15,435</u>
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Cash and cash equivalents at end of year	<u><u>\$ 15,474</u></u>
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**RECONCILIATION OF NET OPERATING
INCOME TO NET CASH PROVIDED BY
OPERATING ACTIVITIES**

Net operating loss	\$ (55,523)
Adjustments to reconcile net operating income to net cash provided by operating activities:	
Depreciation	<u>97,899</u>
Net cash provided by operating activities	<u><u>\$ 42,376</u></u>

FINANCIAL SCHEDULES

CITY OF DAYTON, TENNESSEE
SCHEDULE OF DEBT SERVICE REQUIREMENTS
June 30, 2011

Fiscal Year Ending 6/30	Capital Outlay Note Series 2008		
	Principal	Interest	Total
2012	\$ 57,143	\$ 12,823	\$ 69,966
2013	57,143	9,952	67,095
2014	57,143	7,112	64,255
2015	57,143	4,271	61,414
2016	56,796	1,431	58,227
2017	-	-	-
2018	-	-	-
2019	-	-	-
2020	-	-	-
2021	-	-	-
2022	-	-	-
2023	-	-	-
2024	-	-	-
2025	-	-	-
2026	-	-	-
TOTAL	\$ 285,368	\$ 35,589	\$ 320,957

CITY OF DAYTON, TENNESSEE
SCHEDULE OF DEBT SERVICE REQUIREMENTS
June 30, 2011
 (continued)

Fiscal Year	Ending 6/30	Water and Sewer Revenue and Tax Refunding Bonds Series 2002			Industrial Park Fund Taxable Public Improvement Revenue Bonds Series 2000		
		Principal	Interest	Total	Principal	Interest	Total
2012		\$ 170,000	\$ 64,238	\$ 234,238	\$ 71,716	\$ 62,989	\$ 134,705
2013		175,000	56,502	231,502	76,934	57,789	134,723
2014		180,000	48,453	228,453	82,532	52,211	134,743
2015		185,000	39,723	224,723	88,533	46,228	134,761
2016		200,000	30,750	230,750	94,972	39,809	134,781
2017		200,000	20,750	220,750	101,875	32,924	134,799
2018		215,000	10,750	225,750	109,281	25,538	134,819
2019		-	-	-	117,223	17,615	134,838
2020		-	-	-	125,740	9,116	134,856
2021		-	-	-	-	-	-
2022		-	-	-	-	-	-
2023		-	-	-	-	-	-
2024		-	-	-	-	-	-
2025		-	-	-	-	-	-
2026		-	-	-	-	-	-
2027		-	-	-	-	-	-
2028		-	-	-	-	-	-
TOTAL		\$ 1,325,000	\$ 271,166	\$ 1,596,166	\$ 868,806	\$ 344,219	\$ 1,213,025

CITY OF DAYTON, TENNESSEE
SCHEDULE OF DEBT SERVICE REQUIREMENTS
June 30, 2011
 (continued)

Fiscal Year Ending 6/30	Skill Center General Obligation Bonds Series 2004			Electric City of Clarksville, TN Series 2008		
	Principal	Interest	Total	Principal	Interest	Total
2012	\$ 35,000	\$ 12,050	\$ 47,050	\$ 110,000	\$ 119,580	\$ 229,580
2013	35,000	10,650	45,650	115,000	114,630	229,630
2014	40,000	9,250	49,250	120,000	109,455	229,455
2015	40,000	7,650	47,650	126,000	104,055	230,055
2016	40,000	5,850	45,850	131,000	98,385	229,385
2017	45,000	4,050	49,050	137,000	92,490	229,490
2018	45,000	2,025	47,025	143,000	86,325	229,325
2019	-	-	-	150,000	79,890	229,890
2020	-	-	-	156,000	73,140	229,140
2021	-	-	-	163,000	66,120	229,120
2022	-	-	-	171,000	58,785	229,785
2023	-	-	-	179,000	51,090	230,090
2024	-	-	-	187,000	43,036	230,036
2025	-	-	-	195,000	34,621	229,621
2026	-	-	-	204,000	25,846	229,846
2027	-	-	-	213,000	16,666	229,666
2028	-	-	-	157,340	7,081	164,421
TOTAL	\$ 280,000	\$ 51,525	\$ 331,525	\$ 2,657,340	\$ 1,181,195	\$ 3,838,535

(continued)
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CITY OF DAYTON, TENNESSEE
SCHEDULE OF DEBT SERVICE REQUIREMENTS
June 30, 2011
 (continued)

Fiscal Year Ending 6/30	Total All Issues		
	Principal	Interest	Total
2012	\$ 443,859	\$ 271,680	\$ 715,539
2013	459,077	249,523	708,600
2014	479,675	226,481	706,156
2015	496,676	201,927	698,603
2016	522,768	176,225	698,993
2017	483,875	150,214	634,089
2018	512,281	124,638	636,919
2019	267,223	97,505	364,728
2020	281,740	82,256	363,996
2021	163,000	66,120	229,120
2022	171,000	58,785	229,785
2023	179,000	51,090	230,090
2024	187,000	43,036	230,036
2025	195,000	34,621	229,621
2026	204,000	25,846	229,846
2027	213,000	16,666	229,666
2028	157,340	7,081	164,421
TOTAL	\$ 5,416,514	\$ 1,883,694	\$ 7,300,208

**CITY OF DAYTON, TENNESSEE
SCHEDULE OF CHANGES IN
PROPERTY TAXES RECEIVABLE
June 30, 2011**

	<u>Total</u>	<u>2011 Assessment</u>	<u>2010 Assessment</u>	<u>Prior Years</u>
PROPERTY TAXES RECEIVABLE				
July 1, 2010	<u>\$ 845,621</u>	<u>\$ -</u>	<u>\$ 782,848</u>	<u>\$ 62,773</u>
Add:				
Taxes assessed	782,848	782,848	-	-
Adjustments, net	<u>2,172</u>	<u>-</u>	<u>2,102</u>	<u>70</u>
	<u>785,020</u>	<u>782,848</u>	<u>2,102</u>	<u>70</u>
Deduct:				
Collections	<u>768,470</u>	<u>-</u>	<u>741,343</u>	<u>27,127</u>
PROPERTY TAXES RECEIVABLE				
June 30, 2011	<u>\$ 862,171</u>	<u>\$ 782,848</u>	<u>\$ 43,607</u>	<u>\$ 35,716</u>

Note: Excludes Department of Education property taxes collected by the county.

**CITY OF DAYTON, TENNESSEE
SCHEDULE OF UTILITY RATES
June 30, 2011**

The following water rates were in effect as of June 30, 2011, for all customers except for those in the area formerly being served by the Summer City Utility District and Evensville Utility District:

<u>Monthly Usage</u>	<u>Inside City Customer Rates (per 1,000 gallons)</u>	<u>Outside City Customer Rates (per 1,000 gallons)</u>
First 1,000 gallons	\$8.13 minimum	\$11.98 minimum
Next 4,000 gallons	2.86	3.75
Next 20,000 gallons	2.54	3.82
Next 25,000 gallons	2.31	3.47
Next 50,000 gallons	2.20	3.29
Next 100,000 gallons	1.97	2.95
All other	1.65	2.49

The minimum water charges of \$8.13 inside City limits and \$11.98 outside City limits for the first one thousand gallons or less applies to metered customers only.

The following rates were in effect as of June 30, 2011, for residents which had formerly been served by the Summer City Utility District and the Evensville Utility District (rates per 1,000 gallons):

<u>Summer City</u>		<u>Evensville</u>	
<u>Monthly Usage</u>		<u>Monthly Usage</u>	
First 2,000 gallons –	\$19.95 minimum	First 1,500 gallons –	\$13.14 minimum
Next 3,000 gallons –	6.83	Next 2,500 gallons –	4.28
Next 5,000 gallons –	5.78	Next 3,000 gallons –	3.78
Next 10,000 gallons –	4.20	Next 8,000 gallons –	3.34
Next 25,000 gallons –	3.15	Next 15,000 gallons –	2.65
Next 50,000 gallons –	2.99	Next 10,000 gallons –	2.52
Next 100,000 gallons –	2.68	All other	2.39
All other	2.26		

Note: All minimum water rates above apply to metered customers. All customers receiving water without a meter shall pay a minimum bill that is thirteen cents (\$0.13) higher than each minimum listed above.

Charges for sewer service are based on the amount of water purchased from the City (on the nearest multiple of 1,000 gallons) and is charged with a minimum bill of \$9.15 plus \$4.05 for each additional 1,000 gallons of water metered for sewer customers inside the City limits and \$13.73 plus \$6.08 for each additional 1,000 gallons of water metered for sewer customers outside the City limits.

At June 30, 2011, there were approximately 8,144 water customers and 2,354 sewer customers.

**CITY OF DAYTON, TENNESSEE
SCHEDULE OF UTILITY RATES
June 30, 2011**

The following electric rates were in effect as of June 30, 2011:

Residential rates - RS:

Customer availability charge per month	\$ 12.75
Energy charge per kwh	0.09324

General power - GSA:

Part 1 (0 - 50 kw demand and 0 - 15,000 kwh):

Customer availability charge per month	\$ 28.50
Demand charge (first 50 kw)	No charge
Energy charge per kwh (first 15,000 kwh)	0.10524

Part 2 (51 - 1,000 kw or over 15,000 kwh):

Customer availability charge per month	\$ 144.00
Demand charge per kw:	No charge
	First 50 kw
	Next 950 kw
	13.51
Energy charge per kwh:	First 15,000 kwh
	0.10186
	Additional kwh
	0.07355

Part 3 (1,001 - 2,500 kw):

Customer availability charge per month	\$ 318.00
Demand charge per kw:	First 1,000 kw
	12.65
	Additional kw
	14.91
Energy charge per kwh (all kwh)	0.06423

General power - SMSB:

Customer availability charge per month	\$1,500.00
Administrative charge	350.00
Demand charge per kw	18.22
Energy charge per kwh	0.04170

Outdoor lighting - LS:

Street lighting systems, traffic signal systems and athletic field lighting installation:

Customer availability charge per month	\$ 2.50
Energy charge: all kwh	0.06585

At June 30, 2011, there were approximately 10,245 electric customers.

CITY OF DAYTON, TENNESSEE
SCHEDULE OF WATER UNACCOUNTED FOR
June 30, 2011
(Unaudited)

(All amounts in gallons)

A	Water Treated and Purchased:		
B	Water Pumped (potable)	<u>955,452,000</u>	
C	Water Purchased	<u>0</u>	
D	Total Water Treated and Purchased		<u>955,452,000</u>
	(Sum Lines B and C)		
E	Accounted for Water:		
F	Water Sold	<u>702,555,000</u>	
G	Metered for Consumption (in house usage)	<u>0</u>	
H	Fire Department Usage	<u>824,500</u>	
I	Flushing	<u>267,155</u>	
J	Tank Cleaning/Filling	<u>542,500</u>	
K	Street Cleaning	<u>6,500</u>	
L	Bulk Sales	<u>321,500</u>	
M	Water Bill Adjustments	<u>119,000</u>	
N	Total Accounted for Water		
	(Sum Lines F thru M)		<u>704,636,155</u>
O	Unaccounted for Water		
	(Line D minus N)		<u>250,815,845</u>
P	Percent Unaccounted for Water		
	(Line O divided by Line D times 100)		<u>26.25%</u>
Q	Other (explain)		<u>0</u>

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

CITY OF DAYTON, TENNESSEE
PROPERTY TAX RATES, ASSESSMENTS, AND COLLECTIONS - LAST TEN YEARS
June 30, 2011
(Unaudited)

Tax Year	Tax Rate	Tax Assessment	Cumulative Property Tax Adjustments	Adjusted Tax Assessment	Tax Collections During Current Year	Cumulative Write-off of Delinquent Taxes Due to Property Sales	Cumulative Tax Collections	Outstanding Delinquent Taxes
2010	\$.47	\$ 782,848	\$ 2,102	\$ 784,950	\$ 741,343	\$ -	\$ 741,343	\$ 43,607
2009	.37	639,609	(11,570)	628,039	23,576	-	611,540	16,499
2008	.45	600,595	7,719	608,314	2,265	-	597,990	10,324
2007	.45	578,397	2,783	581,180	344	-	578,652	2,528
2006	.45	563,139	(105)	563,034	721	-	561,458	1,576
2005	.45	564,854	193	565,047	220	-	563,139	1,908
2004	.45	549,152	343	549,495	1	-	549,231	264
2003	.48	480,373	(131)	480,242	-	-	480,672	(430)
2002	.48	472,865	10,502	483,367	-	-	483,402	(35)
2001	.48	464,999	2,894	467,893	-	-	467,887	6

Note: All delinquent taxes have been submitted to the City Attorney to pursue collection through the County.

CITY OF DAYTON, TENNESSEE
ASSESSED AND ESTIMATED ACTUAL VALUE
OF TAXABLE PROPERTY - LAST TEN YEARS
June 30, 2011
(Unaudited)

	Estimated Actual Value				Assessed Value
	Real Property		Personal	Total	
	Land Value	Improvement Value	Property Value		
2010	\$ 97,111,200	\$ 307,340,100	\$ 107,606,845	\$ 512,058,145	\$ 166,475,064
2009	96,621,700	304,784,700	118,372,643	519,779,043	169,722,991
2008	75,005,100	250,038,659	112,142,499	437,186,258	135,081,968
2007	73,115,300	237,602,700	96,608,464	407,326,464	128,669,608
2006	72,452,800	229,419,300	94,551,285	396,423,385	125,144,521
2005	70,951,600	219,912,800	93,941,161	384,805,561	124,999,620
2004	69,836,200	214,632,950	92,085,882	376,555,032	118,084,266
2003	51,455,274	176,353,600	93,979,822	321,788,696	96,767,901
2002	50,888,600	173,086,700	86,640,167	310,615,467	94,677,595
2001	49,650,800	170,679,700	83,876,092	304,206,592	92,201,753

SINGLE AUDIT

CITY OF DAYTON, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2011

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Accrued (Deferred) Grant Revenues July 1, 2010	Grant Revenues Received	Expenditures	Accrued (Deferred) Grant Revenues June 30, 2011
U.S. DEPARTMENT OF AGRICULTURE						
FEDERAL AWARDS						
Passed through TN Department of Agriculture:						
Food Distribution	10.550	N/A	\$ -	\$ 24,771	\$ 24,771	\$ -
Passed through TN Department of Education:						
Child Nutrition Cluster:						
National School Lunch Program	10.555	N/A	-	195,142	195,142	-
School Breakfast Program	10.553	N/A	-	49,825	49,825	-
Passed through TN State Library and Archives:						
Rural Computer Library Grant	10.766	N/A	-	-	2,883	2,883
Total U.S. Department of Agriculture						
				269,738	272,621	2,883
U.S. DEPARTMENT OF EDUCATION						
Passed through TN Department of Education:						
Title I Cluster:						
Title I Grants to Local Educational Agencies	84.010	N/A	6	265,560	266,402	848
Title I Grants to Local Education Agencies - Recovery Act	84.389	N/A	(1)	61,522	61,520	(3)
Rural Education Achievement Program	84.358	N/A	(1)	18,406	18,405	(2)
Safe and Drug-Free Schools and Communities - State Grants	84.186	N/A	(1)	-	1,070	1,069
Special Education Cluster:						
Special Education - Grants to States	84.027	N/A	3,742	147,156	144,659	1,245
Special Education - Grants to States - Recovery Act	84.391	N/A	4,480	48,533	53,142	9,089
Special Education - Preschool Grants	84.173	N/A	3,617	6,485	12,218	9,350
Special Education - Preschool Grants - Recovery Act	84.392	N/A	-	2,881	2,961	80
Improving Teacher Quality - State Grants	84.367	N/A	(1)	51	-	(52)
Educational Technology Cluster:						
Educational Technology State Grants	84.318	N/A	(1)	4,050	4,722	671
Educational Technology State Grants - Recovery Act	84.386	N/A	(1)	66,372	66,771	398
Education for Homeless Children and Youth Grants - Recovery Act	84.387	N/A	18	18	-	-
Education Jobs Fund	84.410	N/A	-	93,346	93,346	-
Race to the Top Early Learning Challenge	84.412	N/A	-	85,164	102,855	17,691

(continued)

CITY OF DAYTON, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2011
(continued)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Accrued (Deferred) Grant Revenues July 1, 2010	Grant Revenues Received	Expenditures	Accrued (Deferred) Grant Revenues June 30, 2011
U.S. DEPARTMENT OF EDUCATION (continued)						
FEDERAL AWARDS (continued)						
Passed through TN Department of Education:						
State Fiscal Stabilization Fund Education State Grants - Recovery Act Cluster:						
Career Ladder Extended Contract Grants - Recovery Act	84.394	N/A	\$ 6,359	\$ 6,359	-	-
Basic Education Program State Stabilization Grants - Recovery Act	84.394	N/A	-	321,065	321,065	-
Coordinated School Health Program Grants - Recovery Act	84.394	N/A	44,643	85,990	80,000	38,653
Internet Connectivity Grant - Recovery Act	84.394	N/A	-	2,265	2,265	-
Statewide Student Management Systems Grant - Recovery Act	84.394	N/A	-	1,926	1,926	-
Total U.S. Department of Education			62,859	1,217,149	1,233,327	79,037
U.S. DEPARTMENT OF ENERGY						
Passed through TN Department of Economic and Community Development						
EECBG Energy Efficiency Grant - Recovery Act	81.128	GG-11-33187	-	-	34,998	34,998
U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES						
Passed through TN Department of Education:						
Temporary Assistance for Needy Families - Recovery Act	93.558	N/A	-	8,452	8,452	-
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT						
Passed through TN Department of Economic and Community Development						
Community Development Block Grant - Water System Improvements	14.228	GG-10-31470	-	-	78,000	78,000
U.S. DEPARTMENT OF JUSTICE						
Passed through TN Department of Justice:						
Edward Byrne Memorial Justice Assistance Grant - Recovery Act	16.804	2009-SB-B9-2851	-	7,696	7,696	-
U.S. DEPARTMENT OF TRANSPORTATION						
Passed through TN Department of Transportation:						
Governor's Highway Safety Office: Safe Roads for Dayton	20.607	Z-11-GHS002-00	-	20,232	24,736	4,504
TOTAL FEDERAL AWARDS			62,859	1,523,267	1,659,830	199,422

(continued)

CITY OF DAYTON, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2011
(continued)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Accrued (Deferred) Grant Revenues July 1, 2010	Grant Revenues Received	Expenditures	Accrued (Deferred) Grant Revenues June 30, 2011
STATE AWARDS						
Tennessee Department of Agriculture:						
Volunteer Fire Assistance Grant	N/A	N/A	\$ -	\$ 2,289	\$ 2,289	\$ -
Tennessee Department of Transportation:						
Airport Maintenance	N/A	Z-10-021574-00	328	328	-	-
Airport Maintenance	N/A	AERO-M11-115	-	6,682	12,770	6,088
Tennessee Department of Education:						
Early Childhood Education-Lottery	N/A	N/A	14,002	91,543	97,856	20,315
Rural Library Computer Grant	N/A	N/A	-	18,983	1,763	(17,220)
Community Enhancement Grant - Fire	N/A	N/A	(145)	-	-	(145)
Community Enhancement Grant - Fire	N/A	N/A	(36)	-	-	(36)
Community Enhancement Grant - Parks	N/A	N/A	(673)	-	-	(673)
TOTAL STATE AWARDS			<u>13,476</u>	<u>119,825</u>	<u>114,678</u>	<u>8,329</u>
TOTAL AWARDS			<u>\$ 76,335</u>	<u>\$1,643,092</u>	<u>\$ 1,774,508</u>	<u>\$ 207,751</u>

Note 1: The Schedule of Expenditures of Federal and State Awards includes the federal and state grant activity of The City of Dayton, Tennessee and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

Note 2: Expenditures under the U.S. Department of Agriculture Food Distribution grant represent receipts and expenditures of noncash commodities as valued based on equivalent purchased product.

Report of Independent Certified Public Accountants on Internal
Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of the Financial Statements
Performed in Accordance with Government Auditing Standards

NEAL, SCOUTEN & McCONNELL, P.C.
Certified Public Accountants

To the City Council
City of Dayton
Dayton, Tennessee

We have audited the financial statements of the governmental activities, the business-type activities, each of its discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Dayton, Tennessee, as of and for the year ended June 30, 2011, which collectively comprise the City of Dayton, Tennessee's basic financial statements and have issued our report thereon dated January 13, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Dayton, 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 Dayton, Tennessee's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Dayton, Tennessee's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

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 City of Dayton, Tennessee's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 11-3 to be a material weakness.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 11-1, 11-2 and 11-4 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Dayton, 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 an instance of noncompliance or other matter that is required to be reported under Government Auditing Standards and is described in the accompanying schedule of findings and questioned costs as item 11-5.

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

This report is intended solely for the information and use of the City Council, management, others within the Organization, the State of Tennessee, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Neal, Scouter & McConnell, P.C.

Chattanooga, Tennessee
January 13, 2012

Report of Independent Certified Public Accountants on
Compliance with Requirements That Could have a Direct and Material
Effect on Each Major Program and on Internal Control Over
Compliance in Accordance with OMB Circular A-133

NEAL, SCOUTEN & McCONNELL, P.C.
Certified Public Accountants

To the City Council
City of Dayton
Dayton, Tennessee

Compliance

We have audited City of Dayton, Tennessee's compliance with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of The City of Dayton, Tennessee's major federal programs for the year ended June 30, 2011. The City of Dayton, Tennessee's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Dayton, Tennessee's management. Our responsibility is to express an opinion on the City of Dayton, Tennessee's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Dayton, Tennessee's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Dayton, Tennessee's compliance with those requirements.

In our opinion, the City of Dayton, Tennessee complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the City of Dayton, Tennessee is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Dayton, Tennessee's internal control over compliance with the requirements that could have a direct and material effect on

a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Dayton, Tennessee's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 11-3 to be a material weakness.

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

This report is intended solely for the information and use of the City Council, management, others within the Organization, the State of Tennessee, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Neal, Scooter & McConnell, P.C.

Chattanooga, Tennessee
January 13, 2012

CITY OF DAYTON, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2011

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:
 Material weakness(es) identified? X yes no See 11-3
 Significant deficiencies identified
 not considered to be material weaknesses? X yes no See 11-1, 11-2 and 11-4

Noncompliance material to financial statements
 noted? yes X no

Noncompliance and other matters required to
 be reported? X yes no See 11-5

Federal Awards

Internal Control over major programs:
 Material weakness(es) identified? X yes no See 11-3
 Significant deficiencies identified
 not considered to be material weaknesses? yes X no None reported

Type of auditor's report issued on compliance
 for major programs: Unqualified

Any audit findings disclosed that are required
 to be reported in accordance with
 Circular A-133, Section .510(a)? X yes no See 11-3

Identification of major programs:	<u>CFDA Number</u>	<u>Name of Program or Cluster</u>
	84.010/84.389	Title I Cluster
	84.394	State Fiscal Stabilization Fund - Education State Grants - Recovery Act Cluster
	81.128	EECBG Energy Efficiency Grant - Recovery Act
	14.228	Community Development Block Grant

Dollar threshold used to distinguish
 between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? yes X no

CITY OF DAYTON, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2011

SECTION II – FINANCIAL STATEMENT FINDINGS

QUESTIONED
COSTS

11-1: Incompatible Duties

The bookkeeper for the General Fund is the spouse of the superintendent of the maintenance department, which is accounted for in the General Fund. This condition creates an internal control conflict. We recommend that the bookkeeper's duties be reassigned to another bookkeeper or that management be alert to the internal control conflicts and continue management oversight accordingly.

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Management Response:

During 2012, the bookkeeper for the General Fund has transferred duties and is no longer the General Fund bookkeeper.

11-2: Unbillable/Unaccounted for Water

Of the water pumped by the City during 2011, 26.25 percent is unaccounted for (based on calculations made in accordance with State guidance). The City should continue to analyze the reasons for the system's water loss and take appropriate corrective action to reduce unbillable/unaccounted for water.

- 0 -

Management Response:

Management is aware of its water loss and will continue to monitor its unbillable water, working diligently to correct all leaks. The Water Superintendent, City Manager and Fire Chief have been working on ways to identify and repair leaks and reduce water loss. Appropriate resources will be devoted to repair any leaks that are determined.

11-3: Inadequate Controls Over Preparation of Financial Statements

An audit of the financial statements of an organization requires the evaluation of the internal control system design of controls in generating and oversight of the financial statements to be audited. The organization must have the ability to prepare and evaluate the financial statements' format, content, and disclosures in accordance with generally accepted accounting principles and recognize any material items missing in the statement through the organization's control system. This is true whether the organization prepares the financial statements or not. We do not believe the City has such systems and procedures in place. These controls can be established or achieved by use of a third party organization or internally, but external auditors are never considered a control element.

CITY OF DAYTON, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2011

SECTION II – FINANCIAL STATEMENT FINDINGS (continued)

QUESTIONED
COSTS

11-3: Inadequate Controls Over Preparation of Financial Statements (continued)

The City currently does not prepare financial statements under generally accepted accounting principles. The external auditors prepare the statements and disclosures and management approves and takes responsibility for the statements after they are prepared.

We recommend the City consider the need, costs, and benefits of developing a control structure to oversee the preparation of financial statements in accordance with generally accepted accounting principles.

\$- 0 -

Management Response:

The City believes the reporting by its accounting department meets all of the City's internal needs. While management knows their responsibility for understanding and presenting the annual financial statements, they do not believe it is currently cost beneficial to design and/or strengthen controls over its financial reporting process.

11-4: Cash Collections for School Activity Funds

Dayton City School Activity Funds have not followed procedures and policies established by the Tennessee Internal School Uniform Accounting Policy Manual in regards to cash collections.

Dayton City School Activity Funds are not properly issuing receipts to teachers and administrators when they turn in classroom collection logs. Each day classroom collections should be turned into the bookkeeper by the teacher. The bookkeeper should count the money and issue a prenumbered receipt to the teacher at the time the classroom collection logs and collections are remitted with the collection information retained by each party. Collection logs and the bookkeeper deposit should be reconciled on an activity completion or periodic basis.

Dayton City School does not properly issue tickets to patrons when paying admission to sporting events. During sporting events, two people should be in charge of admission. One person should be responsible for selling prenumbered tickets and collecting money. A second person should require that a ticket be submitted in order to gain entrance into the event. After event admission is complete, tickets sold/collected should be reconciled to the cash collected.

CITY OF DAYTON, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2011

SECTION II – FINANCIAL STATEMENT FINDINGS (continued)

QUESTIONED
COSTS

11-4: Cash Collections for School Activity Funds (continued)

We recommend that cash collections be strengthened by instituting proper cash collection procedures and policies. These procedures and policies are described in more detail in the Tennessee Internal School Uniform Accounting Policy Manual.

\$- 0 -

Management Response:

Receipts are now being issued to all teachers and administrators when they turn in classroom collection logs. Since the beginning of the new school year, two people have been placed in charge of admission to sporting events and tickets have been issued and reconciled to the cash collected.

11-5: Compliance with State Budgetary Requirements

The State of Tennessee requires that all expenditures of governmental funds be appropriated. The Department of Education – School Cafeteria Fund’s expenditures exceeded budgeted expenditures by \$56,031 for the year ended June 30, 2011. Although expenditures exceeded appropriations, the School Cafeteria Fund had revenues in excess of expenditures at June 30, 2011.

We recommend that the City budget all expenditures in their governmental funds in the future.

- 0 -

Management Response:

This was an oversight that had to do with end of the year budget adjustments. In the future, monthly reports will be sent to the bookkeeper and City Recorder by the head of the Cafeteria to resolve this issue.

SECTION III – FEDERAL AWARDS

The finding referred to above as 11-3 is considered a material weakness in the City of Dayton's internal control over federal awards, but there were no related questioned costs.

- 0 -

CITY OF DAYTON, TENNESSEE
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2011

QUESTIONED
COSTS

The following findings were noted in the June 30, 2010 financial report.

10-1: Incompatible Duties

The bookkeeper for the General Fund is the spouse of the superintendent of the maintenance department, which is accounted for in the General Fund. This condition creates an internal control conflict. We recommend that the bookkeeper's duties be reassigned to another bookkeeper or that management be alert to the internal control conflicts and continue management oversight accordingly.

\$- 0 -

Management response and corrective action plan:

Management is aware of the internal control conflicts and monitors the existing situations accordingly. All checks require two signatures, one being either the Mayor or Vice Mayor and the other being the Recorder or City Manager.

Status:

See 11-1 on the schedule of findings and questioned costs for June 30, 2011.

10-2: Unbillable Water

Of the water pumped by the City during 2010, approximately 32.32 percent is unaccounted for (based on calculations made in accordance with State guidance). The City should continue to analyze the reasons for the system's water loss and take appropriate corrective action to reduce unbillable/unaccounted for water.

- 0 -

Management response and corrective action plan:

Management is aware of its water loss and will continue to monitor its unbillable water, working diligently to correct all leaks. The Water Superintendent, City Manager, and Fire Chief have been working on ways to identify and repair leaks and reduce water loss. Appropriate resources will be devoted to repair any leaks that are determined.

Status:

See 11-2 on the schedule of findings and questioned costs for June 30, 2011.

10-3: Inadequate Controls Over Preparation of Financial Statements

An audit of the financial statements of an organization requires the evaluation of the internal control system design of controls in generating and oversight of the financial statements to be audited. The organization must have the ability to prepare and evaluate the financial statements' format, content, and disclosures in accordance with generally accepted accounting principles and recognize any material items missing in the statement through the organization's control system. This is true whether the organization prepares the financial statements or not. We do not believe the City has such systems and procedures in place. These controls can be established or achieved by use of a third party organization or internally, but external auditors are never considered a control element.

CITY OF DAYTON, TENNESSEE
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2011

The City currently does not prepare financial statements under generally accepted accounting principles. The external auditors prepare the statements and disclosures and management approves and takes responsibility for the statements after they are prepared.

We recommend the City consider the need, costs, and benefits of developing a control structure to oversee the preparation of financial statements in accordance with generally accepted accounting principles.

\$- 0 -

Management response:

The City believes the reporting by its accounting department meets all of the City's internal needs. While management understands their responsibility for understanding and presenting the annual financial statements, they do not believe it is currently cost beneficial to design and/or strengthen controls over its financial reporting process.

Status:

See 11-3 on the schedule of findings and questioned costs for June 30, 2011.