

TOWN OF DECATURVILLE, TENNESSEE

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

FOR THE FISCAL YEAR
ENDED JUNE 30, 2011

TOWN OF DECATURVILLE, TENNESSEE
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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INTRODUCTORY SECTION

TOWN OF DECATURVILLE, TENNESSEE

DIRECTORY

JUNE 30, 2011

ELECTED OFFICIALS

Gerald Buchanan, Mayor
Chad Keeton, Vice-Mayor
Betty S. Maness, Alderperson
Richard Allen Hays, Alderperson
Charles James, Alderperson
Mike Ferguson, Alderperson
Melvin Taylor, Alderperson

APPOINTED OFFICIALS

Tara Anglin, Recorder

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Brasher Accounting
Decaturville, Tennessee

FINANCIAL SECTION



Lori R. Brasher, CPA

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Independent Auditor's Report

The Mayor and Board of Alderpersons
Town of Decaturville
Decaturville, Tennessee

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Decaturville, Tennessee (the Town), as of and for the year ended June 30, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information and the budgetary comparison for the General Fund of the Town of Decaturville, Tennessee, as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 26, 2011, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over

financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of pension funding progress 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 Town's basic financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements and schedules, and information listed as other supplemental information in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section and other supplemental information schedules 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.

A handwritten signature in black ink, appearing to read 'Lambert'.

December 26, 2011

TOWN OF DECATURVILLE, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011

The Town of Decaturville, Tennessee's (the Town) discussion and analysis offers readers of the Town's financial statements a narrative overview and analysis of the Town's financial activities for the fiscal year ended June 30, 2011. Readers are encouraged to consider the information presented here in conjunction with additional information that we have furnished in the letter of transmittal and in the financial statements and notes to the financial statements.

Financial Highlights

- The Town's total assets exceeded its total liabilities at the close of the fiscal year of 2011 by over \$1.9 million (net assets). Of this amount, over \$759,000 (unrestricted net assets) may be used to meet the Town of Decaturville's ongoing obligations to citizens, creditors and enterprise fund customers.
- The Town's invested in capital assets, net of related debt net asset balance is used to account for the total capital assets of the Town reduced by the total accumulated depreciation on those assets, reduced by the total outstanding debt incurred to purchase those assets. The total invested in capital assets, net of related debt net asset balance of the Town was over \$1.10 million (57.68% of total net assets) as of the end of the current fiscal year. This compares to the prior fiscal year balance of \$1.05 million (54.07% of total net assets). This represents an increase of approximately 3.61% which is the result of current year depreciation in the amount of \$121,201 and debt reductions of approximately \$166,048.
- The Town's governmental activities had a decrease in net assets of approximately \$54,600 from the prior year and the business-type activities had an increase in net assets of approximately \$17,533 from the prior year for a total net asset decrease for the Town of approximately \$37,067.
- As of the close of the current fiscal year, the Town's general fund reported an ending fund balance of \$567,647 thousand, a decrease of \$55 thousand in comparison with the prior year.
- The Town's total debt obligations decreased by \$166 thousand during the year mainly due to the payment of principal balances.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private-sector business. The statement of net assets presents information on all of the Town'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 Town is improving or deteriorating.

The statement of activities presents information showing how the Town'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 result in cash flows in future fiscal periods (for example, uncollected taxes).

Both of the government-wide financial statements distinguish functions of the Town of Decaturville 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 Town's governmental activities include general government, public safety, physical environment, transportation, economic environment, human services, and culture/recreation. The Town's business-type activities include a water/wastewater utility system.

The government-wide financial statements can be found on pages 15-16.

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 Town of Decaturville, 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 Town can be divided into two categories: governmental funds and proprietary funds.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

- *Governmental funds.* Governmental funds are used to account for essentially the same function 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 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 funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. The Town of Decaturville maintains 4 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, which is considered to be a major fund for the 2011 fiscal year. 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 elsewhere in the report. The Town of Decaturville adopts an annual appropriated budget for its governmental funds. Budgetary comparison statements have been provided for governmental funds to demonstrate compliance with the budget.
- *Proprietary funds.* The Town of Decaturville maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses enterprise funds to account for its water/wastewater utility system. Financial statements of proprietary funds provide the same type of information as the government-wide financial statements, but in greater detail. The Water Fund is considered to be a major fund of the Town.

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.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Town of Decaturville's assets exceeded liabilities by over \$1.9 million at the close of the most recent fiscal year, representing a decrease in net assets for the year amounting to \$37,067.

The largest portion of the Town's net assets (57.68 percent) reflects its investment in capital assets (for example, land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town'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 because the capital assets themselves cannot be used to liquidate these liabilities.

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 706,926	\$ 802,707	\$ 193,351	\$ 230,288	\$ 900,278	\$ 1,032,995
Capital assets	411,831	466,206	1,186,207	1,248,844	1,598,038	1,715,050
Total Assets	<u>1,118,757</u>	<u>1,268,913</u>	<u>1,379,558</u>	<u>1,479,132</u>	<u>2,498,315</u>	<u>2,748,045</u>
Long-term liabilities	140,136	116,055	222,927	318,556	363,063	434,611
Other liabilities	128,795	248,433	93,225	114,702	222,020	363,135
Total liabilities	<u>268,931</u>	<u>364,488</u>	<u>316,151</u>	<u>433,258</u>	<u>585,083</u>	<u>797,745</u>
Net Assets:						
Invested in capital assets, net of related debt	232,205	214,379	871,315	840,105	1,103,520	1,054,484
Restricted for:						
Debt service	33,373	51,469	-	-	33,373	51,469
Sanitation fund	13,419	12,267	-	-	13,419	12,267
Police drug fund	3,182	3,181	-	-	3,182	3,181
Unrestricted	567,647	623,130	192,092	205,769	759,739	828,899
Total Net Assets	<u>\$ 849,826</u>	<u>\$ 904,426</u>	<u>\$ 1,063,407</u>	<u>\$ 1,045,874</u>	<u>\$ 1,913,232</u>	<u>\$ 1,950,300</u>

An additional portion of the Town's net assets (2.61 percent) represents resources that are subject to restriction on how they may be used, most of which are restrictions imposed from external sources. The remaining 36.11 percent of total net assets (\$1.9 million) represents unrestricted amounts that may be used to meet the government's ongoing obligations to citizens, creditors, and customers within the respective governmental and business-type activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

At the end of the current fiscal year, as in the prior year, the Town is able to report positive balances in all three categories of net assets as a whole and individually within the governmental and business-type activities. Unrestricted net assets decreased by \$69,161 (3.55 percent) compared with the prior year, largely due to decreases in the governmental activities (\$115,475) and increase in the business-type activities (\$17,533) as well as a prior period adjustment of \$60,876 in the governmental activities. The prior period adjustment is due to adjusting journal entries booked in the wrong fiscal period.

The changes in net assets displayed subsequently shows the governmental and business-type activities during the previous two fiscal years. The increase in net assets for each year of the business-type activities represents the extent to which revenues exceeded expenses during the year. The decrease in net assets for each year of the governmental activities represents the extent to which expenses exceeded revenues during the year.

	Governmental Activities		Business-type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program Revenues:						
Fees, fines and charges for services	\$ 27,092	\$ 29,362	\$ 461,156	\$ 508,224	\$ 488,248	\$ 537,586
Operating grants and contributions	25,895	24,578	-	-	25,895	24,578
Capital grants and contributions	-	-	-	-	-	-
General Revenues:						
Property taxes	87,575	87,406	-	-	87,575	87,406
Sales taxes	119,693	125,792	-	-	119,693	125,792
Investment earnings	7,584	8,532	2,037	2,295	9,620	10,828
Miscellaneous	74,737	100,723	-	-	74,737	100,723
Total Revenues	<u>342,576</u>	<u>376,393</u>	<u>463,193</u>	<u>510,519</u>	<u>805,768</u>	<u>886,913</u>
Expenses						
General government	264,156	252,227	-	-	264,156	252,227
Public safety	62,080	70,051	-	-	62,080	70,051
Public works	130,540	66,908	-	-	130,540	66,908
Health, welfare and recreation	1,275	275	-	-	1,275	275
Debt service	-	2,309	-	-	-	2,309
Water	-	-	445,660	495,550	445,660	495,550
Total Expenses	<u>458,051</u>	<u>391,769</u>	<u>445,660</u>	<u>495,550</u>	<u>903,711</u>	<u>887,320</u>
Increase (decrease) in net assets	<u>(115,475)</u>	<u>(15,376)</u>	<u>17,533</u>	<u>14,969</u>	<u>(97,943)</u>	<u>(407)</u>
Net assets-beginning, as originally stated	904,426	906,690	1,045,874	1,030,905	1,950,300	1,937,595
Prior period adjustments	60,876	13,112	-	-	60,876	13,112
Net assets-beginning, as restated	<u>965,301</u>	<u>919,802</u>	<u>1,045,874</u>	<u>1,030,905</u>	<u>2,011,175</u>	<u>1,950,707</u>
Net assets at end of year	<u>\$ 849,826</u>	<u>\$ 904,426</u>	<u>\$ 1,063,407</u>	<u>\$ 1,045,874</u>	<u>\$ 1,913,233</u>	<u>\$ 1,950,300</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Overall revenues decreased by \$81,144 or 9.15 percent, compared to last fiscal year. The charges for services in the Water Fund decreased by \$47,068 while the sales tax revenues also decreased by \$6,098.

Total expenses increased by \$16,391 in comparison to last fiscal year. The main reason for this increase was an increase in public works.

Financial Analysis of the Town of Decaturville's Funds

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

Governmental funds. The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, fund balance not classified as nonspendable, restricted or committed may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of June 30, 2011, the Town of Decaturville's governmental funds reported combined fund balances of \$617,621, a decrease of \$72,425 compared with the prior year balances. Approximately 46.48 percent of this total amount (\$287,082) constitutes fund balance classified as unassigned, which is available for spending at the Town's discretion. The fund balance listed as nonspendable, restricted or committed indicates that it is not available for new spending.

The General Fund is the chief operating fund of the Town. At June 30, 2011, total fund balance in the General Fund was \$567,647, of which \$287,082 was unassigned. The fund balance of the General Fund decreased by \$55,483 during the current fiscal year, largely due to early payment of principal on long-term liabilities.

The Sanitation special revenue fund has a total fund balance of \$13,419 (all assigned). This fund balance increased \$1,152 during the year, largely due to charges for services in excess of expenditures.

The Police Drug special revenue fund has a total fund balance of \$3,182 (all assigned). This fund balance increase \$1 during the year, due to fines.

The Debt Service sinking fund has a total fund balance of \$33,373 (primarily assigned). The \$18,095 decrease in fund balance for the year was associated with a transfer out of \$18,446 to the General Fund in order to pay principal on long-term liabilities.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Proprietary funds. The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in greater detail. At June 30, 2011, total net assets amounted to \$1,063,407 for enterprise funds, as compared to \$1,045,875 at June 30, 2010.

General Fund Budgetary Highlights

A budget to actual statement is provided for the General Fund. Columns for both the original budget adopted for fiscal year 2011 as well as the final budget are presented. Principal payments from the Public Works department and the Debt Service department were increased in order to pay on the long-term liabilities.

Budgeted taxes revenue represents the full levy of property taxes for the year. Sales related taxes fell short of budgetary amounts due to the decrease in the United States economy. Equipment repair in the general government exceeded the budgetary amount due to unexpected repairs needed. The Police department's budgeted amounts exceeded the actual expenditures mainly due to reduced gas and utilities. The Highways and Streets department expenditures exceeded the budgetary amounts mainly due to supplies purchased.

Capital Asset and Debt Administration

Capital assets. The Town of Decaturville's investment in capital assets for its governmental and business-type activities as of June 30, 2011 amounts to \$1.598 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, improvements other than buildings, machinery and equipment. The overall net decrease in the Town's capital assets for the current fiscal year was 6.82 percent (decreases of 11.66 percent for governmental activities and 5.02 percent for business-type activities for the year).

Additional information on the Town's capital assets can be found in note 3.D. in the notes section of this report.

Long-term debt. At the end of the current fiscal year, the Town of Decaturville had total debt outstanding of \$660,566. The total debt decreased by \$107,078 during the 2011 fiscal year - \$23,162 for governmental activities and \$83,916 for the business-type activities. The reductions were associated with principle payments on maturing debt obligations and the extension of one note in the amount of \$63,422.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Additional information on the Town's long-term liabilities can be found in notes 3.F. in the notes section of this report.

Economic Factors and Next Year's Budgets and Rates

The unemployment rate for the Town of Decaturville was 12.3 percent in January 2011. This is higher than the state's average unemployment rate of 9.8 percent and higher than the national average of 9.2 percent at June 30, 2011.

All of these factors were considered in preparing the Town's budget for the 2012 fiscal year.

Property tax rates remain unchanged for the 2011 fiscal year. As for the Town's business-type activities, the Water Utilities System increased the water rate schedule by a minimum of \$7.00 per meter per month in 2010.

Requests for Information

This financial report is designed to provide a general overview of the Town of Decaturville's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Town at PO Box 159, Decaturville, Tennessee 38329-0159.

Tara Anglin
Recorder

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Town of Decaturville, Tennessee
Government-Wide Statement of Net Assets
June 30, 2011

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 603,068	\$ 127,499	\$ 730,568
Receivables:			
Property taxes	97,132	-	97,132
Accounts receivable	-	48,493	48,493
Other receivables	1,088	-	1,088
Inventory	5,638	10,800	16,438
Accrued interest receivable	-	1,865	1,865
Other assets	-	4,694	4,694
Capital assets			
Land	43,129	40,000	83,129
Other capital assets, net of depreciation	368,702	1,146,207	1,514,909
Total Assets	1,118,757	1,379,558	2,498,315
Liabilities			
Accounts payable and accrued expenses	2,472	1,259	3,732
Deferred revenues	86,833	-	86,833
Long-term liabilities			
Due within one year	39,490	91,965	131,455
Due in more than one year	140,136	222,927	363,063
Total Liabilities	268,931	316,151	585,083
Net Assets			
Investment in capital assets, net of related debt	232,205	871,315	1,103,520
Restricted for:			
Debt service	33,373	-	33,373
Sanitation fund	13,419	-	13,419
Police drug fund	3,182	-	3,182
Unrestricted	567,647	192,092	759,739
Total Net Assets	\$ 849,826	\$ 1,063,407	\$ 1,913,233

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

Town of Decaturville, Tennessee
Government-Wide Statement of Activities
For the Year Ended June 30, 2011

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>		
		<u>Fees, Fines, and Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government</u>		<u>Total</u>
					<u>Governmental Activities</u>	<u>Business-type Activities</u>	
Program Activities							
Governmental activities							
General Government	\$ 264,156	\$ 439	\$ -	\$ -	\$ (263,716)	\$ -	\$ (263,716)
Public Safety	62,080	1,137	-	-	(60,943)	-	(60,943)
Public Works	130,540	25,515	25,325	-	(79,700)	-	(79,700)
Health, welfare and recreation	1,275	-	570	-	(705)	-	(705)
Business-type activities							
Water Fund	445,660	461,156	-	-	-	15,496	15,496
Total government	<u>\$ 903,711</u>	<u>\$ 488,248</u>	<u>\$ 25,895</u>	<u>\$ -</u>	<u>\$ (405,064)</u>	<u>\$ 15,496</u>	<u>\$ (389,568)</u>
Taxes:							
Property taxes					\$ 87,575	\$ -	\$ 87,575
Sales taxes					119,693	-	119,693
In lieu of taxes					13,478	-	13,478
Income taxes					16,979	-	16,979
Beer taxes					22,277	-	22,277
Other sources					22,003	-	22,003
Unrestricted interest income					7,584	2,037	9,620
Total general revenues					<u>289,589</u>	<u>2,037</u>	<u>291,626</u>
Change in net assets					(115,475)	17,533	(97,943)
Net assets-beginning, as originally stated					904,426	1,045,874	1,950,300
Prior period adjustment					60,876	-	60,876
Net assets-beginning, as restated					<u>965,301</u>	<u>1,045,874</u>	<u>2,011,175</u>
Net assets-ending					<u>\$ 849,826</u>	<u>\$ 1,063,407</u>	<u>\$ 1,913,233</u>

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

Town of Decaturville, Tennessee

Balance Sheet

Governmental Funds

June 30, 2011

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 555,745	\$ 47,324	\$ 603,068
Taxes receivable	97,132	-	97,132
Other receivables	-	1,088	1,088
Inventory	4,075	1,563	5,638
	\$ 656,952	\$ 49,974	\$ 706,926
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 747	\$ -	\$ 747
Taxes payable	1,720	-	1,720
Due to other governments	5	-	5
Deferred revenue	86,833	-	86,833
	89,305	-	89,305
Fund Balance			
Nonspendable	4,075	1,563	5,638
Restricted	-	-	-
Committed	7,862	-	7,862
Assigned	268,627	48,411	317,038
Unassigned	287,082	-	287,082
	567,647	49,974	617,621
	\$ 656,952	\$ 49,974	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	411,831
Long-term liabilities are not due and payable in the current period and, therefore, they are not reported in the governmental funds balance sheet.	(179,626)
	\$ 849,826

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

Town of Decaturville, Tennessee
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
June 30, 2011

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 189,082	\$ -	\$ 189,082
Intergovernmental revenues	96,685	-	96,685
Fines, fees and forfeitures	1,131	1	1,132
Charges for services	-	25,515	25,515
Other revenues	29,810	351	30,162
Total Revenue	<u>316,708</u>	<u>25,867</u>	<u>342,576</u>
Expenditures			
General government	220,268	-	220,268
Public safety	60,848	-	60,848
Public works	94,009	24,363	118,372
Health, welfare, and recreation	1,000	-	1,000
Capital outlay	14,514	-	14,514
Total Expenditures	<u>390,638</u>	<u>24,363</u>	<u>415,001</u>
Other financing sources (uses)			
Transfers in (out)	<u>\$ 18,446</u>	<u>\$ (18,446)</u>	<u>\$ -</u>
Total financing sources (uses)	<u>18,446</u>	<u>(18,446)</u>	<u>-</u>
Net change in fund balances	(55,483)	(16,942)	(72,425)
Fund balance, beginning of year	<u>623,130</u>	<u>66,917</u>	<u>690,046</u>
Fund balance, end of year	<u>\$ 567,647</u>	<u>\$ 49,974</u>	<u>\$ 617,621</u>

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

Town of Decaturville, 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 - total governmental funds	\$ (72,425)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures, However, in the government-wide statement of activities and changes in net assets, the cost of these assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded for the current period.	14,514
Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in government funds	(57,563)
Change in net assets of government activities	\$ (115,475)

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

Town of Decaturville, Tennessee

General Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Year Ended June 30, 2011

	Budgeted Amounts			Variance Favorable (Unfavorable)
	Original	Budget	Actual	
Revenues				
Taxes				
Real estate taxes - current	\$ 84,800	\$ 84,800	\$ 86,833	\$ 2,033
Advalorem taxes	1,127	1,127	742	(385)
Real estate taxes - delinquent	1,280	1,280	-	(1,280)
Penalties and interest	381	381	439	58
In lieu of tax	4,900	4,900	3,735	(1,165)
Local sales tax	70,868	70,868	62,781	(8,087)
Wholesale beer tax	26,000	26,000	21,829	(4,171)
Business tax	8,248	8,248	5,723	(2,525)
Franchise tax	9,214	9,214	6,998	(2,216)
Total taxes	206,818	206,818	189,082	(17,736)
Intergovernmental revenue				
State of Tennessee				
TVA - in lieu of tax	9,500	9,500	9,743	243
Telecommunications tax	69	69	69	0
Sales Tax	54,000	54,000	56,843	2,843
Beer tax	426	426	448	22
Gas taxes				
Petroleum Special	1,691	1,691	1,844	153
Gas 1989	2,600	2,600	2,600	0
Gas 3 Cent	4,800	4,800	4,826	26
Gasoline & Motor Fuel Tax	15,600	15,600	16,055	455
Income tax	5,526	5,526	4,257	(1,269)
Excise tax	7,983	7,983	-	(7,983)
Total intergovernmental revenues	102,195	102,195	96,685	(5,510)
Fines, fees and forfeitures	926	926	1,131	205
Other revenues				
Accident report charges	4	4	5	1
Interest income	7,896	7,896	7,232	(664)
Miscellaneous	727	727	9,055	8,328
Appreciation Day Contributions	1,897	1,897	570	(1,327)
Insurance proceeds	1,000	1,000	12,948	11,948
Total other revenues	11,524	11,524	29,810	18,286
Total revenues	321,463	321,463	316,708	(4,755)

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

Town of Decaturville, Tennessee

General Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (continued)

For the Year Ended June 30, 2011

	<u>Budgeted Amounts</u>			Variance Favorable (Unfavorable)
	<u>Original</u>	<u>Budget</u>	<u>Actual</u>	
Expenditures				
General government				
City Manager	\$ 32,353	\$ 32,353	\$ 32,500	\$ (147)
Recorder's salary	31,000	31,000	31,144	(144)
Other salaries	7,800	7,800	10,499	(2,699)
Overtime	-	-	42	(42)
OASI	5,300	5,300	7,395	(2,095)
Health insurance	17,035	17,035	12,210	4,825
Retirement	4,945	4,945	6,829	(1,884)
Unemployment	1,600	1,600	1,006	594
Appreciation Day	2,500	2,500	2,708	(208)
Publication of legal notices	1,000	1,000	378	622
Membership and dues	1,200	1,200	817	383
Other publicity	100	100	50	50
Computer Processing	10,800	10,800	9,659	1,141
Utilities	7,500	7,500	8,925	(1,425)
Telephone	5,500	5,500	5,732	(232)
Audit	5,000	5,000	5,000	-
JECD Board	6,520	6,520	-	6,520
Equipment repair	2,000	2,000	10,785	(8,785)
Travel	1,200	1,200	2,301	(1,101)
Office supplies	4,000	4,000	3,318	682
Operating supplies	3,500	3,500	3,595	(95)
Other operating supplies	2,000	2,000	5,279	(3,279)
Gas, oil, diesel fuel, grease	5,000	5,000	6,314	(1,314)
Insurance	29,500	29,500	21,303	8,197
Grants and contributions	-	-	3,294	(3,294)
Capital outlay	14,514	14,514	14,514	0
Machinery & Equipment rental	10,600	10,600	10,534	66
Mayor salary	7,200	7,200	7,200	-
Alderspersons salaries	7,200	7,200	7,200	-
City Judge salaries	1,800	1,800	1,800	-
Janitorial services	1,340	1,340	1,350	(10)
OASI	1,120	1,120	1,102	18
Total general government	<u>231,127</u>	<u>231,127</u>	<u>234,781</u>	<u>(3,654)</u>

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

Town of Decaturville, Tennessee

General Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (continued)

For the Year Ended June 30, 2011

	<u>Budgeted Amounts</u>			Variance Favorable (Unfavorable)
	<u>Original</u>	<u>Budget</u>	<u>Actual</u>	
Expenditures (continued)				
Public safety				
Police department				
Salaries and wages	\$ 25,224	\$ 25,224	\$ 27,788	\$ (2,564)
OASI	1,920	1,920	2,126	(206)
Health insurance	6,340	6,340	3,200	3,140
Retirement	3,250	3,250	3,620	(370)
Unemployment	100	100	72	28
Utilities	2,000	2,000	695	1,305
Telephone	2,000	2,000	1,224	776
Office supplies	500	500	157	343
Repair and maintenance	2,500	2,500	1,355	1,145
Operating supplies	1,000	1,000	466	534
Clothing and uniforms	600	600	547	53
Gas, oil and diesel	2,500	2,500	27	2,473
Total police department	<u>47,934</u>	<u>47,934</u>	<u>41,277</u>	<u>6,657</u>
Fire department				
Volunteer firemen	1,000	1,000	-	1,000
Repairs and maintenance	300	300	472	(172)
Principal payments	10,530	10,530	12,874	(2,344)
Operating supplies	1,000	1,000	982	18
Interest	6,078	6,078	5,244	834
Total fire department	<u>18,908</u>	<u>18,908</u>	<u>19,571</u>	<u>(663)</u>
Total public safety	<u>66,842</u>	<u>66,842</u>	<u>60,848</u>	<u>5,994</u>
Public works				
Street lighting				
Highways and streets				-
Street lights	16,000	16,000	17,177	(1,177)
Flashing light maintenance	750	750	681	69
Supplies	750	750	10,524	(9,774)
Other contracting services	1,500	1,500	-	1,500
Gas, oil, and diesel fuel	500	500	-	500
Principal payments	9,065	59,065	59,327	(262)
Interest	3,387	3,387	6,301	(2,914)
Total public works	<u>31,952</u>	<u>81,952</u>	<u>94,009</u>	<u>(12,057)</u>
Health, welfare and recreation				
Parks	500	500	1,000	(500)
Repair and maintenance	500	500	-	500
Total health, welfare and recreation	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>-</u>
Debt service				
Principal payments	13,565	36,202	-	36,202
Interest payments	6,144	6,144	-	6,144
Total debt service	<u>19,709</u>	<u>42,346</u>	<u>-</u>	<u>42,346</u>
Total expenditures	<u>350,630</u>	<u>423,267</u>	<u>390,638</u>	<u>32,629</u>
Other financing sources (uses)				
Transfers in (out)	-	-	18,446	18,446
Total other financing sources	<u>-</u>	<u>-</u>	<u>18,446</u>	<u>18,446</u>
Excess of revenues over (under) expenditures	(29,167)	(101,804)	(55,483)	46,321
Fund balance, beginning of year	<u>623,130</u>	<u>623,130</u>	<u>623,130</u>	<u>-</u>
Fund balance, end of year	<u>\$ 593,963</u>	<u>\$ 521,326</u>	<u>\$ 567,647</u>	<u>\$ 46,321</u>

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

Town of Decaturville, Tennessee
Statement of Net Assets
Proprietary Funds
June 30, 2011

	Water Fund
Assets	
Current Assets	
Cash and cash equivalents	\$ 127,499
Accounts receivable	48,493
Accrued interest receivable	1,865
Inventory	10,800
Total Current Assets	188,658
 Property, Plant and Equipment	
Land	40,000
Equipment	134,825
Distribution plant	4,751,615
Total Property, Plant and Equipment	4,926,440
Less: Accumulated Depreciation	(3,740,233)
Net Property, Plant and Equipment	1,186,207
 Other Assets	
Bond issuance cost	4,694
Total Other Assets	4,694
 Total Assets	 \$ 1,379,558
 Liabilities and Net Assets	
Current Liabilities	
Accounts payable	\$ 424
Taxes payable	835
Current portion of long-term debt	91,965
Total Current Liabilities	93,225
 Long-term Liabilities	
Bonds and notes payable after one year	222,927
Total Long-term Liabilities	222,927
 Total Liabilities	 316,151
 Net Assets	
Invested in capital assets, net of related debt	871,315
Restricted	-
Unrestricted	192,092
Total Net Assets	1,063,407
 Total Liabilities and Net Assets	 \$ 1,379,558

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

Town of Decaturville, Tennessee
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
June 30, 2011

	Water Fund
Operating Revenues	
Water sales	
Inside city	\$ 150,367
Outside city	185,439
Sewer service charges	97,893
Forfeited discounts	12,303
Tap fees	3,825
Servicing customer installation	275
Installation charges	11,055
Total Operating Revenues	461,156
Operating Expenses	
Salaries and Wages	80,332
Overtime pay	11,671
OASI	7,873
Hospital and health insurance	19,284
Retirement	12,162
Unemployment taxes	313
Publication of formal and legal notices	767
Memberships and registration fees	1,552
Utilities	30,457
Repairs and maintenance	12,829
Operating supplies	8,310
Chemicals	1,110
Water purchased for resale	157,968
Other operating supplies	6,662
Gas, oil, and diesel	3,630
Insurance	13,736
Professional services	3,450
Office supplies & materials	3,895
Depreciation	63,638
Total Operating Expenses	439,639
Operating Income (Loss)	21,518
Nonoperating Revenues (Expenses)	
Interest income	2,037
Interest expense	(6,022)
Total Nonoperating Revenues (Expenses)	(3,985)
Net Increase (Decrease) in Net Assets	17,533
Net Assets - beginning of year	1,045,874
Net Assets - end of year	\$ 1,063,407

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

Town of Decaturville, Tennessee

Statement of Cash Flows

Proprietary Funds

June 30, 2011

	Water Fund
Cash Flows from Operating Activities	
Cash received from customers	\$ 504,943
Cash payments to suppliers	(297,855)
Cash payments to employees	(92,003)
Other operating cash payments	(8,785)
Net Cash Provided (Used) by Operating Activities	106,300
 Cash Flows from Capital and Related Financing Activities	
Principal payments on long-term debt	(93,849)
Interest paid on long-term debt	(6,022)
Net Cash Provided (Used) by Capital and Related Financing Activities	(99,871)
 Cash Flows from Investing Activities	
Interest earned	2,037
Net Cash Provided (Used) by Investing Activities	2,037
 Net Increase (Decrease) in Cash and Cash Equivalents	8,466
 Cash and Cash Equivalents at beginning of year	119,033
 Cash and Cash Equivalents at end of year	\$ 127,499
 <hr/>	
Reconciliation of Operating Income (Loss) to	
Net Cash Provided (Used) by Operating Activities	
Net operating income (loss)	\$ 21,518
Adjustments to reconcile operating income	
to net cash provided by operating activities:	
Depreciation and amortization	63,638
 Changes in Assets and Liabilities:	
(Increase) Decrease in accounts receivable	44,785
(Increase) Decrease in prepaid assets	617
Increase (Decrease) in accounts payable	(12,083)
Increase (Decrease) in taxes payable	(3,391)
Increase (Decrease) in customer deposits	(7,510)
Increase (Decrease) in accrued liabilities	(1,275)
Total Adjustments	84,781
Net Cash Provided (Used) by Operating Activities	\$ 106,300

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

TOWN OF DECATURVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements of the Town of Decaturville, Tennessee (the Town) were prepared in accordance with accounting principles generally accepted in the United States of America for governmental entities (U.S. GAAP). The following summary of the more significant accounting policies of the Town is presented to assist the reader in interpreting these financial statements, and should be viewed as an integral part of this report.

A. Reporting Entity

Entity status for financial reporting purposes is government by GASB Statement No. 14, The Financial Reporting Entity. GASB is the standard-setting body for the establishment of GAAP in governmental entities.

The Town of Decaturville, Tennessee (the Town) operates under a Mayor – Alderperson form of government. Major services provided by the Town include police and fire protection, street maintenance, garbage collection, sewer and water services. As required by GAAP, these financial statements present all funds, which comprise the Town. There are no other component units, entities for which the Town is considered financially accountable, which should be included.

B. Financial Statement Presentation

Government-wide financial statements. The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities are primarily financed through taxes and intergovernmental revenues, whereas business-type activities are primarily financed through charges for services to external parties..

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Town’s governmental activities, and for each of the business-type activities. Direct expenses are those that are clearly identified with a specific program or segment. Indirect expense allocations are displayed separately from the direct expenses. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program or segment and 2) grants and contributions that are restricted to meeting the operating or capital requirements of a specific program. All taxes and other revenues not meeting the criteria for classification as program revenues are reported as general revenues. The statement of activities for the year ended December 31, 2011 includes a prior period adjustment in the amount of \$60,876 which was a correction for journal entries booked in an incorrect period.

NOTES TO FINANCIAL STATEMENTS (continued)

Fund financial statements. The fund financial statements report information about the Town's funds. Separate columns are presented for each major governmental fund and for each major enterprise fund.

The Town reports the following major governmental funds:

- *General Fund.* The General Fund is the primary operating fund of the Town and is always classified as a major fund. It accounts for all financial transactions not required to be accounted for in another fund.

The Town reports the following major enterprise funds:

- *Water fund.* This fund accounts for costs associated with residential and commercial water and sewer services provided to various sections of the Town, primarily financed through user charges.

Additionally, the Town reports the following fund types:

- *Special revenue funds.* These funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes. The special revenue funds are broken into: 1) solid waste collection which accounts for the solid waste collection revenue and expenditures related to disposal services and 2) police drug fund which accounts for drug related police fines and expenditures.
- *Debt service.* The Debt Service Fund accounts for the accumulation of financial resources for the payment of interest and principle on the general long-term debt of the Town other than debt service payments made by enterprise funds.

Fund Equity. In the government-wide statements, equity is classified as net assets and displayed in three components: 1) invested in capital assets, net of related debt which consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets; 2) restricted net assets which consists of net assets with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or law through constitutional provisions or enabling legislation; and 3) unrestricted net assets which are all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

NOTES TO FINANCIAL STATEMENTS (continued)

Beginning with fiscal year 2011, the Town implemented GASB Statement No. 54, “*Fund Balance Reporting and Governmental Fund Type Definitions*.” This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- *Nonspendable fund balance* – amounts that are in nonspendable form (such as inventory) or are required to be maintained intact.
- *Restricted fund balance* – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- *Committed fund balance* – amounts constrained to specific purposes by the Town itself, using its highest level of decision-making authority (i.e. Board of Alderpersons). To be reported as committed, amounts cannot be used for any other purpose unless the Town takes the same highest level action to remove or change the constraint.
- *Assigned fund balance* – amounts the Town intends to use for a specific purpose. Intent can be expressed by the Town Board of Alderpersons or by an official or body to which the Town Board delegates the authority.
- *Unassigned fund balance* – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

Ending fund balances for the Town’s governmental funds have been restated to reflect the above classifications.

The Town’s Board of Alderpersons establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolutions. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation of commitment of the fund (such as for special incentives). Assigned fund balance is established by the Board of Alderpersons through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

In the general fund, the Town strives to maintain an unassigned fund balance to be used for unanticipated emergencies of the actual GAAP basis expenditures and other financing sources and uses.

NOTES TO FINANCIAL STATEMENTS (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statements Presentation

The government-wide and proprietary funds use a flow of economic resources measurement focus to determine net income and financial position. The accounting principles used are similar to those applicable to businesses in the private sector and, thus, these funds are maintained on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Governmental fund financial statements use a current financial resources measurement focus, and are maintained on the modified accrual basis of accounting. Revenues are recognized when they become susceptible to accrual; that is, when they become both “measurable” and “available to finance expenditures of the current period.” The Town considers amounts collected on grants within 120 days after year-end, and amounts collected within 60 days after year-end on all other governmental funds, to be available and thus recognized them as revenues of the current year. Expenditures are recognized in the accounting period in which the related fund liability is incurred, if measurable. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service funds for payments to be made early the following year.

Revenues of the Town which are susceptible to accrual under the modified accrual basis include property taxes, gas taxes, public service taxes, grant revenues, interest revenue, and charges for services. In applying the “susceptible to accrual” concept to intergovernmental revenues (grants, entitlements and shared revenues), the legal and contractual requirements of the numerous individual programs are used as guidance. There are essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts will be earned by the Town; therefore, revenues are recognized based upon when the expenditures are made if they meet the criterion of availability. In the other, monies are essentially unrestricted as to purpose of expenditure and revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if they meet the criterion of availability. Agency funds do not measure results of operations, but assets and liabilities are measured on the accrual basis of accounting.

Pursuant to the election option made available by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989, are not applied in the preparation of the business-type activities and the enterprise fund financial statements.

NOTES TO FINANCIAL STATEMENTS (continued)

D. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. The Town adopts its budget in accordance with the State's legal requirement which is the level of classification detail at which expenditures may not legally exceed appropriations.

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

- Prior to May 1, the Mayor submits to the Town 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.
- The proposed budget is published in the local newspaper with invitations for the public to attend the budget hearings.
- Prior to July 1, the budget is legally adopted by the Mayor and Town Council through adoption of the appropriation ordinance upon two readings.
- The Mayor is responsible for controlling expenditures of the various agencies of the Town government within the appropriated amounts. No expenditures shall be made in excess of the appropriations.

Budgeted amounts of the revenues and expenditures presented for the General, Special Revenue, and Debt Service Funds are shown as originally adopted and after final amendments by the Town Council. Budget appropriations lapse at year end. A comparison of the budget with statements of actual revenues and expenditures, including budget variances, of the General Fund is presented as required supplementary information.

Deposits and Investments. The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are stated at fair value. Any change in the value of investments recorded at fair value is included in investment income. Fair value is based on quoted market prices at fiscal year end. All investments consisted of certificates of deposit.

Receivables and Payables. During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

NOTES TO FINANCIAL STATEMENTS (continued)

Inventories. The Town states inventories at cost using the first-in, first-out costing method.

Capital Assets. Capital assets, including property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. All land, construction in progress, and works of art will be included. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Estimated historical cost was used to value some of the assets acquired prior to June 30, 2003. The Town has adopted a policy to capitalize asset acquisitions of \$5,000 or more.

Prior to July 1, 2004, governmental funds' infrastructure assets were not capitalized. Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), traffic signals, etc.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the asset's estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

	<u>Years</u>
Buildings	10-50
Equipment	5-17
Vehicles	5-7
Plant	15-50

Deferred Revenue. Deferred revenue represents amounts that were receivable and measurable at June 30, 2011, but were not available to finance expenditures for the year ended June 30, 2011. Deferred revenues primarily include either unearned or unavailable revenues.

Compensated Absences. The Town's policies do not allow any vested accumulation of annual leave in excess of the normal amount for one year. Employees are paid annually for any unused leave time. Sick leave is not accumulated.

Long-term Obligations. The accounting treatment of long-term debt depends on whether the assets acquired by the debt are used in governmental fund operations or proprietary fund operations and whether they are reported in the governmental-wide or fund financial statements.

NOTES TO FINANCIAL STATEMENTS (continued)

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements and consists primarily of notes payable and bonds payable.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principle and interest reported as expenditures. The accounting for proprietary fund is the same in the fund statements as it is in the government-wide statements.

Use of Estimates. The financial statements and related disclosures are prepared in conformity with accounting principles generally accepted in the United States. Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenue and expenses during the period reported. These estimates include assessing the collectability of accounts receivable, the use and recoverability of inventory, and the useful lives and impairment of tangible and intangible assets, among others. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results could differ from the estimates.

E. Revenues, Expenditures and Expenses

Sales Tax. The Town presently levies a two and one-half percent sales tax on taxable sales within the Town. The sales tax is collected by the Tennessee Department of Revenue and remitted to the Town in the month following receipt by the Department of Revenue. The Department of Revenue receives the sales tax approximately one month after collection by vendors. The sales tax is recorded in the General Fund. Sales tax remitted to the Town in July has been accrued and is included under the caption "Due from other governments".

Property Tax. Property taxes are levied annually on the first of January. The taxes are due and payable from the following October through February in the year succeeding the tax levy. An unperfected lien attaches by statute to property on March 1 for unpaid taxes from the prior year's levy. Taxes uncollected for one year past the due date are submitted to the Chancery Court for collection. Tax liens become perfected at the time the court enters judgment. In the fund financial statements, property taxes are recorded as revenue in the period levied to the extent they are collected within sixty days of year-end.

NOTES TO FINANCIAL STATEMENTS (continued)

Operating Revenues and Expenses. Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities. All revenues that are not generated from the daily operations are defined as non-operating.

Expenditures / Expenses. In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the governmental fund financial statements, expenditures are classified by character as either current (further classified by function) or debt service. In the proprietary fund expenditures are classified as operating and non-operating.

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources. The Town does not allocate indirect costs.

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

Interfund Transfers. Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purposes of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

By its nature as a local government unit, the Town and its component units are subject to various federal, state, and local laws and contractual regulations. An analysis of the Town's compliance with significant laws and regulations and demonstration of its stewardship over Town resources follows.

A. Deposits and Investments

In accordance with state law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at the lower of market or par. Acceptable collateral includes certain U.S. Government or Government Agency securities, certain State of Tennessee or political subdivision debt obligations, or surety bonds. As required by 12 U.S.C.A. Section 1823(e), all financial institutions pledging collateral to the Town must have a written collateral agreement approved by the board of directors or loan committee.

NOTES TO FINANCIAL STATEMENTS (continued)

The Town's investment policies are governed by State statutes. Permissible investments include direct obligations of the U.S. Government and agency securities, certificates of deposit and savings accounts. Collateral is required for demand deposits, certificates of deposits and repurchase agreements at 105% of all amounts not covered by federal deposit insurance.

B. Revenue Restrictions

The Town has various restrictions placed over certain revenue sources from state or local requirements. The primary restricted revenue sources include: 1) gasoline excise tax restricted to street purposes and 2) grants restricted to grant program expenditures.

C. Debt

The reporting entity's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities.

D. Fund Equity Restrictions

Tennessee statutes prohibit the creation of a deficit fund balance in any individual fund. The Town had no deficit fund balances at June 30, 2011.

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 3: DETAIL NOTES ON TRANSACTION CLASSES / ACCOUNTS

A. Cash and Investments

The Town maintains checking accounts with local banks. Also, some funds are held as certificates of deposit at local banks. Deposits are carried at cost plus accrued interest. The carrying amount of deposits is separately displayed on the balance sheet as “Cash and cash equivalents”. The Town has no policy that further limits allowable deposits.

B. Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that, in the event of a bank failure, the Town’s deposits may not be returned to it. As of June 30, 2011, the Town’s bank balances were not exposed to custodial credit risk due to being entirely covered by depository insurance and pledged collateral.

C. Accounts Receivable

Accounts receivable of the business-type activities consists of utilities receivable. The Town has no allowance for doubtful accounts.

NOTES TO FINANCIAL STATEMENTS (continued)

D. Capital Assets

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

	<u>Balance 7/1/10</u>	<u>Additions / Completions</u>	<u>Retirements / Adjustments</u>	<u>Balance 06/30/11</u>
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 43,129	\$ -	\$ -	\$ 43,129
Total Capital assets not being depreciated	<u>43,129</u>	<u>-</u>	<u>-</u>	<u>43,129</u>
Capital assets being depreciated				
Buildings	181,834		-	181,834
Equipment	330,945	7,198		338,143
Vehicles	54,207			54,207
Improvements	287,570	7,315		294,885
Total Capital assets being depreciated	<u>854,555</u>	<u>14,514</u>	<u>-</u>	<u>869,069</u>
Less accumulated depreciation for:				
Buildings	62,787	4,546		67,333
Equipment	269,293	32,558		301,851
Vehicles	52,287	720		53,007
Improvements	58,436	19,739		78,176
Total accumulated depreciation	<u>442,803</u>	<u>57,563</u>	<u>-</u>	<u>500,367</u>
Total capital assets, being depreciated, net	<u>411,752</u>	<u>(43,050)</u>	<u>-</u>	<u>368,702</u>
Governmental activities capital assets, net	<u>\$ 454,881</u>	<u>\$ (43,050)</u>	<u>\$ -</u>	<u>\$ 411,831</u>
Business-type activities:				
Capital assets not being depreciated				
Land	\$ 40,000	\$ -	\$ -	\$ 40,000
Total Capital assets not being depreciated	<u>40,000</u>	<u>-</u>	<u>-</u>	<u>40,000</u>
Capital assets being depreciated				
Equipment	66,537			66,537
Vehicles	68,288	-		68,288
Plant	4,751,615	-		4,751,615
Total Capital assets being depreciated	<u>4,886,440</u>	<u>-</u>	<u>-</u>	<u>4,886,440</u>
Less accumulated depreciation for:				
Equipment	65,346	714		66,061
Vehicles	59,288	1,125		60,413
Plant	3,551,961	61,798		3,613,759
Total accumulated depreciation	<u>3,676,595</u>	<u>63,638</u>	<u>-</u>	<u>3,740,233</u>
Total capital assets, being depreciated, net	<u>1,209,844</u>	<u>(63,638)</u>	<u>-</u>	<u>1,146,207</u>
Business-type activities capital assets, net	<u>\$ 1,249,844</u>	<u>\$ (63,638)</u>	<u>\$ -</u>	<u>\$ 1,186,207</u>

NOTES TO FINANCIAL STATEMENTS (continued)

Depreciation expense was charged to governmental activities as follows:

Governmental function:	
General & administrative	\$ 43,888
Public Safety	1,233
Public Works	12,168
Health, welfare and recreation	275
	\$ 57,563
	\$ 57,563

E. Accounts Payable

Payables in the governmental funds are composed of payables to vendors (100%).

F. Long-term Debt

The reporting entity's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities.

Governmental Activities

As of June 30, 2011, the governmental long-term debt of the financial reporting entity consisted of the following:

Governmental Activities

Notes Payable

Decatur County Bank loan dated October 25, 2008, due November 25, 2008 through October 25, 2018, bearing an interest rate of 3.75%	\$ 116,204
Decatur County Bank loan dated February 8, 2008, due March 8, 2008 through February 8, 2014, bearing an interest rate of 4.25%	63,422
	179,626
Total Governmental-type Activities	\$ 179,626

Business-type Activities

Revenue Bonds

Revenue and Tax Refunding Bonds dated March 1, 2003, due April 1, 2003 through March 1, 2013, bearing an interest rate of 2.685%	\$ 145,000
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Notes Payable

Decatur County Bank loan dated March 23, 2009, due April 23, 2009 through March 23, 2021, bearing an interest rate of 3.00%	36,883
TLDA Public Health Loan	133,009
	170,892
Total Business-type Activities	\$ 170,892

NOTES TO FINANCIAL STATEMENTS (continued)

Changes in Long-term Debt. The following is a summary of changes in long-term debt for the year ended June 30, 2011:

	<u>Balance 7/1/2010</u>	<u>Issues or Additions</u>	<u>Retirements</u>	<u>Balance 6/30/2011</u>	<u>Due within one year</u>
<i>Governmental Type Activities</i>					
Notes Payable	\$ 251,826	\$ 63,422	\$ 135,622	\$ 179,626	\$ 39,490
Total governmental activities	<u>251,826</u>	<u>63,422</u>	<u>135,622</u>	<u>179,626</u>	<u>39,490</u>
<i>Business Type Activities</i>					
Refunding Bonds	215,000	-	70,000	145,000	70,000
Notes Payable	193,740	-	23,848	169,892	21,965
Total business-type activities	<u>408,740</u>	<u>-</u>	<u>93,848</u>	<u>314,892</u>	<u>91,965</u>
Total government	<u>\$ 660,566</u>	<u>\$ 63,422</u>	<u>\$ 229,470</u>	<u>\$ 494,518</u>	<u>\$ 131,455</u>

Annual Requirements to Retire Debt Outstanding. The annual aggregate maturities for each note payable for the years subsequent to June 30, 2011 are as follows:

Year Ending June 30,	<u>General Obligation Bonds</u>		<u>Revenue Bonds</u>		Total
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		
	Principal	Interest	Principal	Interest	
2012	-	-	70,000	3,886	73,886
2013	-	-	75,000	2,010	77,010
2014	-	-	-	-	-
2015	-	-	-	-	-
2016	-	-	-	-	-
2017-2021	-	-	-	-	-
2022-2026	-	-	-	-	-
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 145,000</u>	<u>\$ 5,896</u>	<u>\$ 150,896</u>

Notes Payable

Year Ending June 30,	<u>Governmental Activities</u>		<u>Business-type Activities</u>		Total
	Principal	Interest	Principal	Interest	
2012	39,490	6,277	21,965	3,397	71,129
2013	42,182	4,638	22,419	2,943	72,182
2014	25,364	3,132	22,882	2,480	53,858
2015	15,661	2,455	23,356	2,006	43,478
2016	16,259	1,857	23,839	1,523	43,478
2017-2021	40,670	1,881	55,431	2,057	100,040
2022-2026	-	-	-	-	-
Total	<u>\$ 179,626</u>	<u>\$ 20,240</u>	<u>\$ 169,892</u>	<u>\$ 14,407</u>	<u>\$ 384,165</u>

NOTES TO FINANCIAL STATEMENTS (continued)

G. Interfund Transactions and Balances

There were no interfund receivables and payables as of June 30, 2011.

NOTE 4: OTHER NOTES

A. Employee Pension and Other Benefit Plans

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

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

Funding Policy. The Town of Decaturville has adopted a noncontributory retirement plan for its employees by assuming employee contributions up to 5.0 percent of annual covered payroll. The Town is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2011 was 13.05% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the Town is established and may be amended by the TCRS Board of Trustees.

NOTES TO FINANCIAL STATEMENTS (continued)

Annual Pension Cost. For the year ending June 30, 2011, the Town’s annual pension cost of \$26,079 to TCRS was equal to the Town’s required and actual contributions. The required contribution was determined as part of the July 1, 2009 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include: (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected 3.0 percent annual rate of inflation, (c) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), and (d) projected 3.5 percent annual increase in the Social Security wage base. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten year period. The Town’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 20 years. An actuarial valuation was performed as of July 1, 2009 which established contribution rates effective July 1, 2010.

Trend Information.

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2011	\$ 26,079	100.00%	\$ 0.00
June 30, 2010	\$ 26,124	100.00%	\$ 0.00
June 30, 2009	\$ 27,399	100.00%	\$ 0.00

Funded Status and Funding Progress. As of July 1, 2009, the most recent actuarial valuation date, the plan was 81.78% funded. The actuarial accrued liability for benefits was \$0.5 million, and the actuarial value of assets was \$0.4 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.1 million. The covered payroll (annual payroll of active employees covered by the plan) was \$0.2 million, and the ratio of the UAAL to the covered payroll was 49.01%.

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

NOTES TO FINANCIAL STATEMENTS (continued)

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 funding 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 funding status and funding progress of the plan.

(Dollar amounts in thousands)

<u>Actuarial Valuation</u> <u>Date</u>	<u>Actuarial Value</u> <u>of Plan Assets</u> <u>(a)</u>	<u>Actuarial Accrued</u> <u>Liability (AAL)-</u> <u>Entry Age (b)</u>	<u>Unfunded AAL</u> <u>(UAAL) (b) - (a)</u>	<u>Funded Ratio</u> <u>(a/b)</u>	<u>Covered Payroll</u> <u>(c)</u>	<u>UAAL as a</u> <u>Percentage of</u> <u>Covered Payroll</u> <u>((b-a)/c)</u>
June 01, 2009	\$ 418	\$ 511	\$ 93	81.78%	\$ 190	49.01%
June 01, 2007	\$ 382	\$ 449	\$ 67	85.08%	\$ 187	35.83%

B. Risk Management

The Town is exposed to various risks of loss related to torts; damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Commercial insurance is carried for employees bonds and certain property destruction and employee health and accident claims. The Town also participates in the Tennessee Municipal League Risk Management Pool, a public entity risk pool, for errors and omissions, automobile liability and physical damage, workers compensation, and employees' liability. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the three past fiscal years. The Tennessee Municipal League Risk Management Pool has been self-sustaining through member premiums. Members consist of local jurisdiction municipalities and utility districts in the state. Members are responsible for a pro-rate portion of claims which exceed the Pool's reserves. No additional assessments have ever been made by the Pool to its members as a result of losses experienced.

End of Notes to Financial Statements

SUPPLEMENTAL INFORMATION SECTION

Town of Decaturville, Tennessee
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2011

	Special Revenue		Debt Service	Total Other Governmental Funds
	Sanitation Fund	Police Drug Fund	Sinking Fund	
Assets				
Cash and cash equivalents	\$ 13,419	\$ 3,182	\$ 30,723	\$ 47,324
Other receivables	-	-	1,088	1,088
Inventories	-	-	1,563	1,563
Total Assets	\$ 13,419	\$ 3,182	\$ 33,373	\$ 49,974
Liabilities and Fund Balances				
Liabilities				
Due to other funds	\$ -	\$ -	\$ -	\$ -
Total Liabilities	-	-	-	-
Fund Balances				
Nonspendable	-	-	1,563	1,563
Restricted	-	-	-	-
Committed	-	-	-	-
Assigned	13,419	3,182	31,810	48,411
Unassigned	-	-	-	-
Total Liabilities and Fund Balances	\$ 13,419	\$ 3,182	\$ 33,373	\$ 49,974

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

Town of Decaturville, Tennessee
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Non-Major Governmental Funds
Year Ended June 30, 2011

	<u>Special Revenue Funds</u>		<u>Debt Service</u>	<u>Total Other</u>
	<u>Sanitation Fund</u>	<u>Police Drug Fund</u>	<u>Sinking Fund</u>	<u>Governmental Funds</u>
Revenues				
Charges for services	\$ 25,515	\$ -	\$ -	\$ 25,515
Fines, forfeitures, and penalties	-	1	-	1
Other revenue	-	-	351	351
Total Revenues	<u>25,515</u>	<u>1</u>	<u>351</u>	<u>25,867</u>
Expenditures:				
Current:				
Public works	24,363	-	-	24,363
Public safety	-	-	-	-
Debt service	-	-	-	-
Total Expenditures	<u>24,363</u>	<u>-</u>	<u>-</u>	<u>24,363</u>
Other financing sources (uses)				
Transfers in (out)	\$ -	\$ -	\$ (18,446)	\$ (18,446)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(18,446)</u>	<u>(18,446)</u>
Net change in fund balance	1,152	1	(18,095)	(16,942)
Fund Balance at Beginning of Year	<u>12,267</u>	<u>3,181</u>	<u>51,469</u>	<u>66,917</u>
Fund Balance at End of Year	<u>\$ 13,419</u>	<u>\$ 3,182</u>	<u>\$ 33,373</u>	<u>\$ 49,974</u>

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

Town of Decaturville, Tennessee

Sanitation Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget to Actual

For the Year Ended June 30, 2011

	<u>Budgeted Amounts</u>			Variance Favorable (Unfavorable)
	<u>Original</u>	<u>Budget</u>	<u>Actual</u>	
Revenues				
Public works: sanitation charges	\$ 24,095	\$ 24,095	\$ 25,515	\$ 1,420
Total revenues	<u>24,095</u>	<u>24,095</u>	<u>25,515</u>	<u>1,420</u>
Expenditures				
Wages	17,785	17,785	18,220	(435)
FICA taxes	1,200	1,200	1,394	(194)
Unemployment insurance	110	110	76	34
Retirement	-	-	2,376	(2,376)
Gas, oil and diesel	2,500	2,500	1,727	773
Repair and maintenance	2,500	2,500	572	1,928
Total expenditures	<u>24,095</u>	<u>24,095</u>	<u>24,363</u>	<u>(268)</u>
Excess revenues over (under) expenditures	-	-	1,152	1,152
Fund balance, beginning of year	<u>12,267</u>	<u>12,267</u>	<u>12,267</u>	<u>-</u>
Fund balance, end of year	<u>\$ 12,267</u>	<u>\$ 12,267</u>	<u>\$ 13,419</u>	<u>\$ 1,152</u>

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

Town of Decaturville, Tennessee

Police Drug Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget to Actual

For the Year Ended June 30, 2011

	<u>Budgeted Amounts</u>			Variance Favorable (Unfavorable)
	<u>Original</u>	<u>Budget</u>	<u>Actual</u>	
Revenues				
Public safety: drug related fines	\$ 2,202	\$ 2,202	\$ 1	\$ (2,201)
Total revenues	<u>2,202</u>	<u>2,202</u>	<u>1</u>	<u>(2,201)</u>
Expenditures				
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess revenues over (under) expenditures	2,202	2,202	1	(2,201)
Fund balance, beginning of year	<u>3,181</u>	<u>3,181</u>	<u>3,181</u>	<u>-</u>
Fund balance, end of year	<u>\$ 5,383</u>	<u>\$ 5,383</u>	<u>\$ 3,182</u>	<u>\$ (2,201)</u>

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

Town of Decaturville, Tennessee

Debt Service Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget to Actual

For the Year Ended June 30, 2011

	<u>Budgeted Amounts</u>			Variance Favorable (Unfavorable)
	<u>Original</u>	<u>Budget</u>	<u>Actual</u>	
Revenues				
Interest earnings	\$ 728	\$ 728	\$ 351	\$ (377)
Miscellaneous	6,000	6,000	-	(6,000)
Total revenues	<u>6,728</u>	<u>6,728</u>	<u>351</u>	<u>(6,377)</u>
Expenditures				
Miscellaneous	3,282	3,282	-	3,282
Total expenditures	<u>3,282</u>	<u>3,282</u>	<u>-</u>	<u>3,282</u>
Other financing sources (uses)				
Transfers out	\$ (3,446)	\$ (3,446)	\$ (18,446)	\$ (15,000)
Total other financing sources (uses)	<u>(3,446)</u>	<u>(3,446)</u>	<u>(18,446)</u>	<u>(15,000)</u>
Excess revenues over (under) expenditures	-	-	(18,095)	(18,095)
Fund balance, beginning of year	<u>51,469</u>	<u>51,469</u>	<u>51,469</u>	<u>-</u>
Fund balance, end of year	<u>\$ 51,469</u>	<u>\$ 51,469</u>	<u>\$ 33,373</u>	<u>\$ (18,095)</u>

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

Town of Decaturville, Tennessee

Governmental Debt

Schedule of Long-term Debt Principal and Interest Requirements by Fiscal Year

June 30, 2011

Year Ending June 30,	Capital Outlay		Capital Outlay		Totals	
	Notes Payable		Notes Payable			
	Principal	Interest	Principal	Interest	Principal	Interest
2012	25,493	2,158	13,997	4,119	39,490	6,277
2013	27,651	1,053	14,531	3,585	42,182	4,638
2014	10,278	101	15,086	3,030	25,364	3,132
2015	-	-	15,661	2,455	15,661	2,455
2016	-	-	16,259	1,857	16,259	1,857
2017	-	-	16,879	1,237	16,879	1,237
2018	-	-	17,523	593	17,523	593
2019	-	-	6,268	51	6,268	51
	<u>\$ 63,422</u>	<u>\$ 3,313</u>	<u>\$ 116,204</u>	<u>\$ 16,927</u>	<u>\$ 179,626</u>	<u>\$ 20,240</u>

Town of Decaturville, Tennessee

Water System

Schedule of Long-term Debt Principal and Interest Requirements by Fiscal Year

June 30, 2011

Year Ending June 30,	Bonded Debt		Capital Outlay		Capital Outlay		Totals	
	Series 2003		State Public Health Loan		Decatur County Bank			
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2012	70,000	3,886	18,659	2,336	3,306	1,061	91,965	7,283
2013	75,000	2,010	19,012	1,983	3,407	961	97,419	4,953
2014	-	-	19,372	1,623	3,510	857	22,882	2,480
2015	-	-	19,738	1,256	3,617	750	23,356	2,006
2016	-	-	20,112	883	3,727	640	23,839	1,523
2017	-	-	20,493	502	3,841	527	24,333	1,029
2018	-	-	15,624	122	3,957	410	19,581	533
2019	-	-	-	-	4,078	290	4,078	290
2020	-	-	-	-	4,202	166	4,202	166
2021	-	-	-	-	3,237	41	3,237	41
	<u>\$ 145,000</u>	<u>\$ 5,896</u>	<u>\$ 133,009</u>	<u>\$ 8,704</u>	<u>\$ 36,883</u>	<u>\$ 5,703</u>	<u>\$ 314,892</u>	<u>\$ 20,303</u>

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

Town of Decaturville, Tennessee
Schedule of Changes in Property Taxes Receivable
For the Year Ended June 30, 2011

Levy for Year	Tax Rate	Assessed Value	Original Tax Levy	Outstanding Taxes Beginning	Taxes Levied	Releases and Adjustments	Collections	Outstanding Taxes Ending
2010	1.01	8,597,943	86,833	86,833	-		83,828	3,005
2009	1.17	7,439,335	87,040	2,715	-	-		2,715
2008	1.17	7,439,335	87,040	-	-	-	-	-
2007	1.17	7,034,444	82,203	-	-	-	-	-
2006	1.17	7,219,131	84,466	443	-	(443)	-	-
2005	1.17	7,590,634	85,589	-	-	-	-	-
2004	1.17	7,147,920	83,627	-	-	-	-	-
2003	1.17	7,649,663	89,495	-	-	-	-	-
2002	1.17	8,009,220	93,706	-	-	-	-	-
2001	1.30	7,125,528	92,650	-	-	-	-	-
				<u>\$ 89,991</u>	<u>\$ -</u>	<u>\$ (443)</u>	<u>\$ 83,828</u>	<u>\$ 5,720</u>

Above balances represented as follows:

Considered uncollectible	\$ 4,579
Allowance for uncollectible accounts	-
	<u>4,579</u>
Estimated 2011 tax levy not collectible until 10-1-2011	<u>86,833</u>
	<u>\$ 97,132</u>

All delinquent taxes are filed with chancery court.

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

Town of Decaturville, Tennessee
Schedule of Utility Rates in Force
June 30, 2011

Water - Inside Town

3/4" Meter		
1 - 1,500 gallons	\$ 17.40	minimum bill
Over 1,500 gallons	4.33	per thousand
1" Meter		
1 - 1,500 gallons	\$ 42.00	minimum bill
Over 1,500 gallons	4.33	per thousand
2" Meter		
1 - 1,500 gallons	\$ 97.00	minimum bill
Over 1,500 gallons	4.33	per thousand
3" Meter		
1 - 1,500 gallons	\$ 97.00	minimum bill
Over 1,500 gallons	4.33	per thousand

Water - Out of Town

3/4" Meter		
1 - 1,500 gallons	\$ 21.21	minimum bill
Over 1,500 gallons	6.03	per thousand
1" Meter		
1 - 1,500 gallons	\$ 42.00	minimum bill
Over 1,500 gallons	6.03	per thousand
2" Meter		
1 - 1,500 gallons	\$ 97.00	minimum bill
Over 1,500 gallons	6.03	per thousand
Number of water customers at year end:	<u>917</u>	

Sewer Rates

0 - 1,500 gallons	\$ 7.67	minimum bill
Over 1,500 gallons	4.43	per thousand
Number of sewer customers at year end:	<u>363</u>	

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

Town of Decaturville, Tennessee
Schedule of Unaccounted For Water

June 30, 2011
(all amounts in gallons)

Water Treated and Purchased:

Water Pumped (potable)	0	
Water Purchased	88,460,700	
Total Water Treated and Purchased	88,460,700	88,460,700

Accounted for Water:

Water Sold	45,734,631	
Metered for Consumption (in house usage)	2,373,920	
Fire Department Usage	43,850	
Flushing	1,635,777	
Tank Cleaning / Filling	250,000	
Street Cleaning	0	
Bulk Sales	0	
Water Bill Adjustments / plus or (minus)	0	
Total Accounted for Water	50,038,178	50,038,178

Unaccounted for Water		38,422,522
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Percent Unaccounted for Water		43.43%
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Other (explain)	None
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All amounts included in this schedule are supported by documentation on file at the water system. If no support is on file for a line item or if the line item is not applicable, a "0" is shown.

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

Town of Decaturville, Tennessee
Schedule of Pension Funding Progress
June 30, 2011

(Dollar amounts in thousands)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Plan Assets (a)</u>	<u>Actuarial Accrued Liability (AAL)- Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b) - (a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
June 01, 2009	✓ \$ 418	✓ \$ 511	✓ \$ 93	81.78%	\$ 190	49.01%
June 01, 2007	✓ \$ 382	✓ \$ 449	✓ \$ 67	85.08%	\$ 187	35.83%

The Governmental 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 2009 actuarial valuation, therefore only the two most recent valuations are presented.

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

INTERNAL CONTROL AND COMPLIANCE SECTION



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**Report on Internal Control Over Financial Reporting and On Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance With *Government
Auditing Standards***

The Mayor and Board of Alderpersons
Town of Decaturville
Decaturville, Tennessee

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Decaturville, Tennessee (the Town) as of and for the year ended June 30, 2011, which collectively comprise the Town of Decaturville's basic financial statements and have issued our report thereon dated December 26, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Town of Decaturville is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town'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 Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town'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, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings to be material weaknesses (2008-01 and 2010-02).

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 to be significant deficiencies (1999-01, 2011-01 and 2011-02).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Decaturville'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 did not disclose instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Town's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. We did not audit the Town's response and, accordingly, we express no opinion on it.

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



December 26, 2011

TOWN OF DECATURVILLE, TENNESSEE
SCHEDULE OF FINDINGS
JUNE 30, 2011

1999-01: Inadequate Segregation of Duties (Significant Deficiency)

Condition: Due to the lack of personnel there is not sufficient segregation of duties to accomplish an adequate internal control structure. The Town has tried to segregate duties as much as possible between the city recorder and a billing clerk with the billing clerk responsible for billing and recording the receipts related to the water / sewer fund. However, the city recorder, as well as the billing clerk, collects receipts. The city recorder is responsible for reconciling the general ledger. This was also a finding in prior years' audit reports.

Recommendation: An acceptable format of segregation of duties in a small office has been presented to the Town for their review and possible implementation. We recommend usage of this approved process.

Management's Response: We are currently in process of implementing the acceptable format of segregation of duties in a small office.

2008-01: Municipal Finance Officer Certification and Education Act of 2007 (Material Weakness)

Condition: The Town has currently not met the requirements of the above referenced Act as per Tennessee Code 6-56-4-401 – 408 which requires each municipality to have in its employ at least one (1) certified municipal finance officer (CMFO) or an exempt individual as recorder, city clerk, director of finance, or other official or employee who has oversight responsibilities regarding the municipality's financial operations.

Recommendation: The Town should schedule training as outlined by the Tennessee Code in order to employ at least one certified municipal finance officer.

Management's Response: We agree and the city recorder is currently attending the scheduled training as offered by the municipal technical advisory service (MTAS) of the University of Tennessee's institute for public service and expect to be in compliance with the January 1, 2013 deadline.

SCHEDULE OF FINDINGS (continued)

2010-02: Cash Receipts (Material Weakness)

Condition: While testing cash receipts it was determined that there instances during the year where receipts were not deposited within 3 business days. Tennessee Code Annotated 6-56-111 requires all cash receipts to be deposited in the bank within 3 days of collection. Dating the deposit slip later is not acceptable. When the cash receipt process has the noted problems, it leaves the Town susceptible to misappropriation of funds.

Recommendation: The Town should immediately ensure that all cash receipts are deposited within 3 business days.

Management's Response: The proper procedures for cash receipts will be addressed for correction.

2011-01: Unaccounted For Water (Significant Deficiency)

Condition: In accordance with TCA 7-82-702 and 68-221-1009(a), the Utility Management Review Board and the Water and Wastewater Financing Board of the State of Tennessee have set an excessive water loss percentage at 35%. This determination was made at the joint meeting of the Boards held on October 7, 2010. The Town of Decaturville's Schedule of Unaccounted For Water indicates a water loss percentage in excess of 43% well over the maximum determination by the Boards of 35%.

Recommendation: The Town should immediately follow the guidance by the American Water Works Association (AWWA) in determining and reducing the unaccounted for water.

Management's Response: The steps are currently being implemented to reduce the unaccounted for water.

2011-02: Moveable Property (Significant Deficiency)

Condition: The Town does not have a log of the moveable, high-risk property such as hand tools, televisions, kitchen equipment, etc. and the property is not properly tagged or marked as belonging to the municipality.

Recommendation: The Town should complete a listing of all moveable, high-risk property and properly tag or mark such property as belonging to the Town of Decaturville.

Management's Response: We will immediately prepare the listing and tag the property.

DISPOSITION OF PRIOR YEAR FINDINGS

2010-01: Accounts Receivable Reconciliation

2010-03: Compensation Increases

End of Schedule of Findings

