

**City of Henry, Tennessee**  
**Financial Statements and  
Supplementary Information**  
**June 30, 2011**

Vance CPA LLC  
*Certified Public Accountants*  
178 Honey Hollow Lane • Belvidere, Tennessee 37306  
*Tel. (888) 531-6408 Fax (866) 406-7422*

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**CITY OF HENRY  
HENRY, TENNESSEE**

**For the Year Ended June 30, 2011**

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**CITY OF HENRY  
HENRY, TENNESSEE**

**For the Year Ended June 30, 2011**

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**ROSTER OF PUBLICLY ELECTED OFFICIALS**

**CITY OF HENRY, TENNESSEE  
FOR THE YEAR ENDED JUNE 30, 2011**

**Mayor**

Joe R. Qualls

**Aldermen**

Rex Buford

Faye Lowery

George E. Owens

Cindy L. Rainey

## **FINANCIAL SECTION**

**Vance CPA LLC**  
***Certified Public Accountants***  
178 Honey Hollow Lane  
Belvidere, Tennessee 37306  
*Tel. (888) 531-6408 • Fax (866) 406-7422*

**INDEPENDENT AUDITORS' REPORT**

To the Mayor and Board of Aldermen  
City of Henry, Tennessee

We have audited the accompanying financial statements of the governmental activities, business-type activities and each major fund of the City of Henry, Tennessee, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City'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, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Henry, Tennessee, as of June 30, 2011, and the respective changes in financial positions and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund and state street aid fund for the year 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 September 15, 2012, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Henry, Tennessee's basic financial statements. The accompanying supplemental information listed in the table of contents is presented for purposes of additional analysis and are not a required part of the basic financial statements of the City. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The statistical section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

September 15, 2012  
Belvidere, Tennessee

*Vance CPA LLC*

**Vance CPA LLC**

## Management's Discussion and Analysis

The section of the City of Henry, Tennessee's annual financial report presents a narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2011.

### Financial Highlights

- The assets of the City's governmental activities exceeded its liabilities at the close of the fiscal year by \$881,071 (*net assets*). Of this amount \$16,304 is restricted for Special Revenue Programs, and \$333,658 invested in capital assets.
- The net assets of the City's business-type activities decreased \$36,444.
- The City received property taxes of \$40,277, local revenue of \$24,824, intergovernmental revenue of \$41,979, and other assistance of \$25,192.
- As of the close of the fiscal year, the City's governmental funds reported combined ending fund balances of \$533,906.
- The City's business-type activity has a deficit unrestricted fund balance of \$594,562 as a result of a negative outcome in a breach of contract suit from a prior period and resulting attorney fees.

### Overview of the Financial Statements

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

#### Government-Wide Financial Statements

The first two statements are government-wide financial statements. They are designed to provide readers with both long-term and short-term information about the City's overall financial status in a manner similar to a private-sector business.

- The Statement of Net Assets – presents information about the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.
- The Statement of Activities – presents information showing how the City's net assets changed during the most recent fiscal year. All current year revenues and expenditures are taken into account regardless of the time of related cash flows.

#### Fund Financial Statements

The fund financial statements provide more detailed information about the more significant funds – not the City as a whole. Other special revenue funds are established by the City to help it control and manage money for designated or restricted purposes or to show that it is meeting legal responsibilities for how certain revenues, grants and other monies are used.

All the funds of the City can be divided into two types of funds: (1) governmental funds and (2) proprietary funds.

#### Governmental Funds

The City's basic services are included in the governmental funds. The focus of these funds is on (1) how cash and other financial assets that can readily be converted to cash were received and used and (2) what remains at the end of the fiscal year for future spending. This detailed short-term view helps in determining whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not include the additional long-term focus of the government-wide statements, we provide additional information after the governmental fund statement that explains the differences between the long-term view and the short-term view.

The City maintains a general fund and various special revenue funds as governmental funds. Information is presented separately in the governmental fund financial statements for the General Fund and the State Street Aid Fund since these are considered major funds. Data for the other funds is combined into a single column with individual fund data for each of these nonmajor governmental funds provided in the supplementary information section of this report.

The City of Henry, Tennessee adopts a budget for all governmental funds. Budgetary comparisons for the General Fund and State Street Aid Fund are found in the fund financial statements of the report. Budgetary comparisons for funds with an annual budget are provided to demonstrate compliance with the budget.

#### Proprietary funds

Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information, such as cash flows.

#### Notes to the Financial Statements

The financial statements also include notes that provide additional information. These notes are essential to a full understanding of the information provided in the government-wide and fund financial statements.

#### Supplementary Information

This includes a more detailed budget to actual comparison for the General Fund, and budget to actual comparisons for special revenue funds.

### **Financial Analysis of the City as a Whole**

**Net Assets** – Net assets may serve over time as a useful indicator of a government’s financial position. Assets exceeded liabilities by \$3,184,438 at the close of the most recent fiscal year. Approximately 101 percent of the City’s net assets reflect its investment in capital assets (land buildings and equipment). Because capital assets are used to provide services to citizens, the assets are not available for future spending. It should be noted that although the City reports capital assets net of related debt, the resources needed to repay the debt must be provided from other sources.

Another 0.65 percent of the City’s net assets represent resources that are restricted in how they may be used. The remaining portion of the City’s net assets, approximately (2.0) percent, is unrestricted and can be used to provide services to its citizens in the future. At the end of this fiscal year, the City of Henry, Tennessee reports a negative net asset balance for the government as a whole, as well as for its business-type activities. The governmental activities has a positive net-asset balance

In order to provide a complete picture of the net assets of the City, information is provided for the net assets and changes in net assets of governmental activities. See the table on the following page.

**General Fund Budgetary Highlights** – Public Revenues exceeded the prior year, but were under budgeted amounts by \$5,807.

Total expenditures were under budgeted amounts by over \$6,414 due to a reduction in general government expenditures.

**Water Fund Budgetary Highlights** – Water sales were up slightly from prior year

Operating expenses exceeded the budget by a material amount due to litigation expenses related to the sewer project.

### **Contacting the City’s Financial Management**

This financial report is designed to provide our citizens, customers, taxpayers and creditors of the City with a general overview of the City’s finances and to show the City’s accountability for the money it receives. If you have any questions about this report or need additional financial information, contact:

City of Henry  
1232 Pioneer Road  
Henry, Tennessee 38231  
(731) 243-4091

**City of Henry, Tennessee's Net Assets  
June 30, 2011 and 2010**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>
Current and other assets	\$ 590,632	\$ 589,783	\$ 73,705	\$ 116,848	\$ 664,337	\$ 706,631
Capital assets, net	<u>326,799</u>	<u>333,658</u>	<u>4,331,748</u>	<u>4,233,284</u>	<u>4,658,547</u>	<u>4,566,942</u>
Total assets	<u>917,431</u>	<u>923,441</u>	<u>4,405,453</u>	<u>4,350,132</u>	<u>5,322,884</u>	<u>5,273,573</u>
Long term debt	—	—	1,339,835	1,320,806	1,339,835	1,320,806
Other liabilities	<u>43,684</u>	<u>42,370</u>	<u>725,807</u>	<u>725,959</u>	<u>769,491</u>	<u>768,329</u>
Total liabilities	<u>43,684</u>	<u>42,370</u>	<u>2,065,642</u>	<u>2,046,765</u>	<u>2,109,326</u>	<u>2,089,135</u>
Net assets:						
Invested in capital assets, net of debt	326,799	333,658	2,895,489	2,893,449	3,222,288	3,227,107
Restricted	8,903	16,304	4,730	4,480	13,633	20,784
Unrestricted	<u>538,045</u>	<u>531,109</u>	<u>(560,408)</u>	<u>(594,562)</u>	<u>(22,363)</u>	<u>(63,453)</u>
Total net assets	<u>\$ 873,747</u>	<u>\$ 881,071</u>	<u>\$ 2,339,811</u>	<u>\$ 2,303,367</u>	<u>\$ 3,213,558</u>	<u>\$ 3,184,438</u>

**City of Henry, Tennessee's Changes in Net Assets  
June 30, 2011 and 2010**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>
Revenues						
Program revenues:						
Charges for services	\$ 47,880	\$ 64,989	\$ 238,346	\$ 252,368	\$ 286,226	\$ 317,357
Grants and contributions	81,323	89,754	—	—	81,323	89,754
General revenues:						
Property & Sales Tax	49,388	59,088	—	—	49,388	59,088
Other taxes	41,848	47,992	—	—	41,848	47,992
Investment income	4,902	3,926	19	16	4,921	3,942
Miscellaneous	<u>23,559</u>	<u>21,266</u>	<u>—</u>	<u>—</u>	<u>23,559</u>	<u>21,266</u>
Total revenues	<u>248,900</u>	<u>287,015</u>	<u>238,365</u>	<u>252,384</u>	<u>487,265</u>	<u>539,399</u>
Expenses						
Governmental activities:						
General government	120,694	111,847	—	—	120,694	111,847
Public safety	86,622	103,113	—	—	86,622	103,113
Public works and streets	105,632	54,810	—	—	105,632	54,810
Civic center	10,418	9,921	—	—	10,418	9,921
Business-type activities:						
Water	—	—	435,968	253,391	435,968	253,391
Garbage	<u>—</u>	<u>—</u>	<u>31,256</u>	<u>35,437</u>	<u>31,256</u>	<u>35,437</u>
Total expenses	<u>323,366</u>	<u>279,691</u>	<u>467,224</u>	<u>288,828</u>	<u>790,590</u>	<u>568,519</u>
Increase (decrease) in Net assets	<u>\$ (74,466)</u>	<u>\$ 7,324</u>	<u>\$ (228,859)</u>	<u>\$ (36,444)</u>	<u>\$ (303,325)</u>	<u>\$ (29,120)</u>

## **BASIC FINANCIAL STATEMENTS**

# STATEMENT OF NET ASSETS

## CITY OF HENRY, TENNESSEE

For the Year Ended June 30, 2011

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash	\$ 34,109	\$ 39,884	\$ 73,993
Investments	291,958	—	291,958
Property Taxes Receivable	48,610	—	48,610
Accounts Receivable, net	—	21,192	21,192
Due from Grantor	—	—	—
Due from Industrial Board	115,500	—	115,500
Due from State of Tennessee	8,696	—	8,696
Due from County Trustee	2,495	—	2,495
Internal Balances	42,707	(42,707)	—
Prepaid Expenses	2,272	20,148	22,420
Inventory	—	10,898	10,898
Advances to Other Funds	43,436	(43,436)	—
Restricted Assets:			
Cash and Investments	—	4,480	4,480
Land	197,390	—	197,390
Depreciable Assets, Net of Accumulated Depreciation	<u>136,268</u>	<u>4,233,284</u>	<u>4,369,552</u>
<b>Total Assets</b>	<b><u>923,441</u></b>	<b><u>4,243,743</u></b>	<b><u>5,167,184</u></b>
<b>LIABILITIES:</b>			
Accounts payable	3,106	96,061	99,167
Sales Tax Payable	—	—	—
Judgement payable	—	500,000	500,000
Accrued Liabilities	2,675	—	2,675
Deferred Revenue	36,589	—	36,589
Customer Deposits	—	4,480	4,480
Long-term Liabilities:			
Due within One Year	—	19,029	19,029
Due in more than One Year	<u>—</u>	<u>1,320,806</u>	<u>1,320,806</u>
<b>Total liabilities</b>	<b><u>42,370</u></b>	<b><u>1,940,376</u></b>	<b><u>1,982,746</u></b>
<b>NET ASSETS:</b>			
Invested in Capital Assets, net of related debt	333,658	2,893,449	3,227,107
Restricted – State Street Aid	13,753	—	13,753
Restricted – Drug Fund	2,551	—	2,551
Restricted – Debt Service	—	4,480	4,480
Unrestricted	<u>531,109</u>	<u>(594,562)</u>	<u>(63,453)</u>
<b>Total Net Assets</b>	<b><u>\$ 881,071</u></b>	<b><u>\$ 2,303,367</u></b>	<b><u>\$ 3,184,438</u></b>

**STATEMENT OF ACTIVITIES**

**CITY OF HENRY, TENNESSEE**

**For the Year Ended June 30, 2011**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>					
		<u>Program Revenues</u>			<u>Primary Government</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
<b>Primary government</b>							
Governmental activities							
General government	\$ 111,847	\$ 20,330	\$ 1,500	\$ —	\$ (90,017)	\$ —	\$ (90,017)
Public Safety	103,113	37,634	5,000	56,435	(4,044)	—	(4,044)
Public Works & Streets	54,810	—	26,819	—	(27,991)	—	(27,991)
Civic Center	9,921	7,025	—	—	(2,896)	—	(2,896)
Total Governmental Activities	<u>279,691</u>	<u>64,989</u>	<u>33,319</u>	<u>56,435</u>	<u>(124,948)</u>	<u>—</u>	<u>(124,948)</u>
<b>Business-Type Activities</b>							
Water	253,391	215,663	—	—	—	(37,728)	(37,728)
Garbage	35,437	36,721	—	—	—	1,284	1,284
Total Business-type Activities	<u>288,828</u>	<u>252,384</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(36,444)</u>	<u>(36,444)</u>
<b>Total Primary Government</b>	<b><u>\$ 568,519</u></b>	<b><u>\$ 317,373</u></b>	<b><u>\$ 33,319</u></b>	<b><u>\$ 56,435</u></b>	<b><u>(124,948)</u></b>	<b><u>(36,444)</u></b>	<b><u>(161,392)</u></b>
<b>General Revenues:</b>							
Taxes:							
Property					40,277	—	40,277
Sales					18,811	—	18,811
Other					6,013	—	6,013
State sales tax					33,662	—	33,662
TVA in lieu of tax					5,852	—	5,852
State income tax					1,036	—	1,036
Other state revenue					1,429	—	1,429
Investment earnings					3,926	—	3,926
Miscellaneous					21,266	—	21,266
Total General Revenues					<u>132,272</u>	<u>—</u>	<u>132,272</u>
Changes in Net Assets					7,324	(36,444)	(29,120)
Net Assets – Beginning of Year					<u>873,747</u>	<u>2,339,811</u>	<u>3,213,558</u>
Net Assets – End of Year					<b><u>\$ 881,071</u></b>	<b><u>\$ 2,303,367</u></b>	<b><u>\$ 3,184,438</u></b>

**BALANCE SHEET – GOVERNMENTAL FUNDS**

**CITY OF HENRY, TENNESSEE**

**For the Year Ended June 30, 2011**

	<u>General Fund</u>	<u>State Street Aid Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash	\$ 21,499	\$ 12,610	\$ 34,109
Investments, at Cost	291,958	—	291,958
Receivables, net:			
Taxes	48,610	—	48,610
Due from Industrial Board	115,500	—	115,500
Due from State of Tennessee	6,375	2,321	8,696
Due from County Trustee	2,495	—	2,495
Due from Other funds	42,775	—	42,775
Advances To Other Funds	43,436	—	43,436
Prepaid Insurance	<u>2,272</u>	<u>—</u>	<u>2,272</u>
<b>Total Assets</b>	<b><u>574,920</u></b>	<b><u>14,931</u></b>	<b><u>589,851</u></b>
 <b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES:</b>			
Accounts payable	1,928	1,178	3,106
Accrued Liabilities	2,675	—	2,675
Deferred Property Tax Revenue	50,096	—	50,096
Due To Other Funds	<u>68</u>	<u>—</u>	<u>68</u>
<b>Total liabilities</b>	<b><u>54,767</u></b>	<b><u>1,178</u></b>	<b><u>55,945</u></b>
 <b>FUND BALANCES</b>			
Nonspendable	2,272	—	2,272
Restricted for:			
State Street Aid Fund	—	13,753	13,753
Public Safety	2,551	—	2,551
Committed for:			
Debt Service	291,958	—	291,958
Unassigned	<u>223,372</u>	<u>—</u>	<u>223,372</u>
<b>Total Fund Balances</b>	<b><u>520,153</u></b>	<b><u>13,753</u></b>	<b><u>533,906</u></b>
 <b>TOTAL LIABILITIES AND FUND BALANCES</b>	 <b><u>\$ 574,920</u></b>	 <b><u>\$ 14,931</u></b>	 <b><u>\$ 589,851</u></b>

**RECONCILIATION OF THE BALANCE SHEET OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF  
NET ASSETS**

**CITY OF HENRY, TENNESSEE**

**For the Year Ended June 30, 2011**

Differences in amounts reported for governmental activities in the statement of net assets on  
Page 7:

Fund balance – total governmental funds \$ 533,906

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 funds. 333,658

Certain revenues will be collected after year-end but are not available  
soon enough to pay for the current period's expenditures and therefore  
are deferred in the funds. 13,507

Net Assets of Governmental Activities **\$ 881,071**

**STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS**

**CITY OF HENRY, TENNESSEE**

**For the Year Ended June 30, 2011**

	<u>General Fund</u>	<u>State Street Aid Fund</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Property Taxes	\$ 33,799	\$ —	\$ 33,799
Intergovernmental Revenues	53,754	15,044	68,798
Local Revenue	24,824	—	24,824
Public Safety Revenues	42,634	—	42,634
Interest Income	3,926	5	3,931
DMP Building rent	4,125	—	4,125
Civic Center Rent	7,025	—	7,025
Miscellaneous	<u>19,966</u>	<u>—</u>	<u>19,966</u>
<b>Total revenues</b>	<b><u>190,053</u></b>	<b><u>15,049</u></b>	<b><u>205,102</u></b>
<b>EXPENDITURES</b>			
Current Operating Expenses:			
General government	110,155	—	110,155
Public Safety	101,182	—	101,182
Public Works	32,301	—	32,301
Civic Center	6,754	—	6,754
Highways and Streets	<u>—</u>	<u>17,158</u>	<u>17,158</u>
<b>Total expenditures</b>	<b><u>250,392</u></b>	<b><u>17,158</u></b>	<b><u>267,550</u></b>
<b>Excess Revenues Over (Under) Expenditures</b>	(60,339)	(2,109)	(62,448)
<b>Other Financing Sources (Uses)</b>			
Gain on Sale of Capital Assets	<u>46,593</u>	<u>9,842</u>	<u>56,435</u>
<b>Total Other Financing Sources (Uses)</b>	<b><u>46,593</u></b>	<b><u>9,842</u></b>	<b><u>56,435</u></b>
<b>Net change in Fund Balance</b>	(13,746)	7,733	(6,013)
Fund Balances Beginning of the Year	<u>533,899</u>	<u>6,020</u>	<u>539,919</u>
<b>Fund Balances End of the Year</b>	<b><u>\$ 520,153</u></b>	<b><u>\$ 13,753</u></b>	<b><u>\$ 533,906</u></b>

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

**CITY OF HENRY, TENNESSEE**

**For the Year Ended June 30, 2011**

Differences in amounts reported for governmental activities in the statement of activities on page 8:

Net change in fund balance – total governmental funds	\$ (6,013)
Amounts reported for governmental activities in that statement of activities are different because:	
Contributions of capital assets are recognized in the Statement of Activities.	19,000
Revenues collected after year-end are deferred in the funds.	6,478
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense in the current period. This is the amount by which depreciation expense exceeded capital outlay in the current year.	<u>(12,141)</u>
<b>Change in Net Assets of Governmental Activities</b>	<b><u><u>\$ 7,324</u></u></b>

**GENERAL FUND  
STATEMENT OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL**

**CITY OF HENRY, TENNESSEE**

**For the Year Ended June 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
<b>REVENUE</b>				
Local Taxes:				
Property tax	\$ 32,600	\$ 32,600	\$ 33,799	\$ 1,199
Local option sales tax	17,550	17,550	18,811	1,261
Cable franchise fee	3,200	3,200	3,491	291
Parking permits	—	—	125	125
Zoning permits	250	250	375	125
Other local taxes	<u>2,000</u>	<u>2,000</u>	<u>2,022</u>	<u>22</u>
Total Taxes	<u>55,600</u>	<u>55,600</u>	<u>58,623</u>	<u>3,023</u>
Intergovernmental Revenues:				
State sales tax	33,000	33,000	33,662	662
State income tax	1,200	1,200	1,036	(164)
State beer tax	250	250	271	21
State streets and transportation	1,100	1,100	1,023	(77)
TVA – in lieu of tax	5,000	5,000	5,852	852
State telecommunication tax	50	50	135	85
Other state revenue	<u>10</u>	<u>10</u>	<u>11,775</u>	<u>11,765</u>
Total Intergovernmental Revenue	<u>40,610</u>	<u>40,610</u>	<u>53,754</u>	<u>13,144</u>
Public Safety:				
Citations	35,000	35,000	21,337	(13,663)
Driving school	24,000	24,000	14,420	(9,580)
General Sessions court	2,000	2,000	1,186	(814)
Drug fund and seizures	1,500	1,500	539	(961)
Animal control	300	300	152	(148)
Grant receipts	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>	<u>—</u>
Total Public Safety	<u>67,800</u>	<u>67,800</u>	<u>42,634</u>	<u>(25,166)</u>
Miscellaneous Revenues:				
Interest on investments	6,000	6,000	3,926	(2,074)
Civic Center rent	6,500	6,500	7,025	525
DMP Building rent	4,500	4,500	4,125	(375)
TML receipts	750	750	950	200
Employee health insurance co-pay	14,000	14,000	16,205	2,205
Miscellaneous	<u>100</u>	<u>100</u>	<u>2,811</u>	<u>2,711</u>
Total Miscellaneous Revenue	<u>31,850</u>	<u>31,850</u>	<u>35,042</u>	<u>3,192</u>
<b>TOTAL REVENUES</b>	<b><u>\$ 195,860</u></b>	<b><u>\$ 195,860</u></b>	<b><u>\$ 190,053</u></b>	<b><u>\$ (5,807)</u></b>

**GENERAL FUND  
STATEMENT OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – (continued)**

**CITY OF HENRY, TENNESSEE**

**For the Year Ended June 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
<b>EXPENDITURES</b>				
General Government:				
Salary – board members	\$ 5,400	\$ 5,400	\$ 4,600	\$ (800)
Salary – recorder	29,730	29,730	29,616	(114)
Advertising	300	300	194	(106)
Audit	2,700	2,700	—	(2,700)
Accounting Services	750	750	88	(662)
Banking fees	25	25	—	(25)
Legal and professional	100	100	—	(100)
Insurance	16,000	16,000	10,943	(5,057)
Health and life insurance	39,278	39,278	41,536	2,258
Utilities	6,500	6,500	6,187	(313)
Telephone	1,600	1,600	1,663	63
Supplies and postage	1,500	1,500	1,369	(131)
Repairs and Maintenance	3,000	3,000	912	(2,088)
Payroll Expenses	2,334	2,334	3,367	1,033
Dues and subscriptions	670	670	2,567	1,897
Travel and training	1,000	1,000	551	(449)
Clothing allowance	300	300	300	—
Part time help	960	960	913	(47)
Miscellaneous expenditures	<u>5,600</u>	<u>5,600</u>	<u>5,349</u>	<u>(251)</u>
Total General Government	<u>117,747</u>	<u>117,747</u>	<u>110,155</u>	<u>(7,592)</u>
Public Safety:				
Salary – Chief & Patrolman	51,624	51,624	53,522	1,898
Payroll expenses	4,053	4,053	4,053	—
City Judge	1,200	1,200	1,200	—
Litigation tax	4,050	4,050	2,520	(1,530)
Office supplies and postage	400	400	632	232
Fuel and oil	6,500	6,500	7,625	1,125
Repairs	2,000	2,000	4,192	2,192
Equipment and grant purchases	18,900	18,900	8,960	(9,940)
Cell phone	860	860	721	(139)
Internet service	720	720	769	49
Uniform allowance	600	600	607	7
Animal control	600	600	184	(416)
Travel and training	7,000	7,000	8,579	1,579
Drug fund expense	1,500	1,500	1,640	140
Dues and subscriptions	500	500	5,453	4,953
Miscellaneous	<u>300</u>	<u>300</u>	<u>525</u>	<u>225</u>
Total Public Safety	<u>100,807</u>	<u>100,807</u>	<u>101,182</u>	<u>375</u>

**GENERAL FUND  
STATEMENT OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – (continued)**

**CITY OF HENRY, TENNESSEE**

**For the Year Ended June 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
<b>EXPENDITURES</b>				
Public Works Department:				
Salary – director	\$ 11,810	\$ 11,810	\$ 11,810	\$ —
Salary – laborer	9,147	9,147	10,931	1,784
Contract labor	6,000	6,000	4,548	(1,452)
Payroll expenses	4,925	4,925	4,925	—
Uniform allowance	150	150	—	(150)
Miscellaneous	<u>150</u>	<u>150</u>	<u>87</u>	<u>(63)</u>
Total Public Works	<u>32,182</u>	<u>32,182</u>	<u>32,301</u>	<u>119</u>
Civic Center:				
Utilities	5,000	5,000	5,462	462
Telephone	270	270	214	(56)
Supplies	300	300	577	277
Repairs and maintenance	<u>500</u>	<u>500</u>	<u>501</u>	<u>1</u>
Total Civic Center	<u>6,070</u>	<u>6,070</u>	<u>6,754</u>	<u>684</u>
<b>Total Expenditures</b>	<u>256,806</u>	<u>256,806</u>	<u>250,392</u>	<u>(6,414)</u>
<b>Excess Revenues Over (Under) Expenditures</b>	(60,946)	(60,946)	(60,339)	607
<b>Other Financing Sources (Uses)</b>				
Gain on sale of capital assets	<u>35,300</u>	<u>35,300</u>	<u>46,593</u>	<u>11,293</u>
<b>Total Other Financing Sources (Uses)</b>	<u>35,300</u>	<u>35,300</u>	<u>46,593</u>	<u>11,293</u>
<b>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</b>				
	<u>\$(25,646)</u>	<u>\$(25,646)</u>	(13,746)	<u>\$ 11,900</u>
<b>FUND BALANCE AT THE BEGINNING OF YEAR</b>			<u>533,899</u>	
<b>FUND BALANCE AT THE END OF YEAR</b>			<u>\$ 520,153</u>	

**STATE STREET AID FUND  
STATEMENT OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL**

**CITY OF HENRY, TENNESSEE**

**For the Year Ended June 30, 2011**

	<u>Budgeted Amounts</u>			<b>Variance</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Over</u> <u>(Under)</u>
<b>REVENUE</b>				
State gas motor fuel tax	\$ 14,022	\$ 14,022	\$ 15,044	\$ 1,022
Interest	<u>10</u>	<u>10</u>	<u>5</u>	<u>(5)</u>
Total Revenue	<u>14,032</u>	<u>14,032</u>	<u>15,049</u>	<u>1,017</u>
<b>EXPENDITURES</b>				
Salaries	4,273	4,273	4,273	—
Payroll expenses	335	335	335	—
Street paving	750	750	638	(112)
Maintenance and Mowing	4,000	4,000	1,247	(2,753)
Supplies	3,000	3,000	2,997	(3)
Utilities	7,000	7,000	7,305	305
Miscellaneous	<u>400</u>	<u>400</u>	<u>363</u>	<u>(37)</u>
<b>Total Expenditures</b>	<u>19,758</u>	<u>19,758</u>	<u>17,158</u>	<u>(2,600)</u>
<b>Excess Revenues Over (Under)</b>				
<b>Expenditures</b>	(5,726)	(5,726)	(2,109)	3,617
<b>Other Financing Sources (Uses)</b>				
Sale of Capital Asset	<u>1,000</u>	<u>1,000</u>	<u>9,842</u>	<u>8,842</u>
<b>Total Other Financing Sources (Uses)</b>	<u>1,000</u>	<u>1,000</u>	<u>9,842</u>	<u>8,842</u>
<b>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</b>	<u>\$ (4,726)</u>	<u>\$ (4,726)</u>	7,733	<u>\$ 12,459</u>
<b>FUND BALANCE AT THE BEGINNING OF YEAR</b>			<u>6,020</u>	
<b>FUND BALANCE AT THE END OF YEAR</b>			<u>\$ 13,753</u>	

**PROPRIETARY FUNDS  
STATEMENT OF NET ASSETS**

**CITY OF HENRY, TENNESSEE**

**For the Year Ended June 30, 2011**

	<u>Water Fund</u>	<u>Garbage Fund</u>	<u>Total</u>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash	\$ 30,763	\$ 9,121	\$ 39,884
Accounts receivable, net	21,192	—	21,192
Prepaid expenses	20,148	—	20,148
Inventory	10,898	—	10,898
Due From other funds	68	20,178	20,246
<b>Total Current Assets</b>	<b><u>83,069</u></b>	<b><u>29,299</u></b>	<b><u>112,368</u></b>
<b>Capital Assets:</b>			
Plant and physical properties	4,911,830	—	4,911,830
Less: Accumulated depreciation	(678,546)	—	(678,546)
<b>Net Capital Assets</b>	<b><u>4,233,284</u></b>	<b><u>—</u></b>	<b><u>4,233,284</u></b>
<b>Restricted Assets:</b>			
Cash and investments	4,480	—	4,480
<b>Total Restricted Assets</b>	<b><u>4,480</u></b>	<b><u>—</u></b>	<b><u>4,480</u></b>
<b>Total Assets</b>	<b><u>4,320,833</u></b>	<b><u>29,299</u></b>	<b><u>4,350,132</u></b>
<b>Current Liabilities</b>			
Accounts payable	93,195	2,866	96,061
Judgement payable	500,000	—	500,000
Due to other funds	62,953	—	62,953
Capital outlay loan from general fund	43,436	—	43,436
Current maturities of long-term debt	19,029	—	19,029
<b>Total Current Liabilities</b>	<b><u>718,613</u></b>	<b><u>2,866</u></b>	<b><u>721,479</u></b>
<b>Payable From Restricted Assets:</b>			
Customer Deposits	4,480	—	4,480
<b>Total Other Liabilities</b>	<b><u>4,480</u></b>	<b><u>—</u></b>	<b><u>4,480</u></b>
<b>Long Term Liabilities:</b>			
Bonds payable	1,318,812	—	1,318,812
Notes payable	21,023	—	21,023
Less: Current maturities	(19,029)	—	(19,029)
<b>Total Long Term Liabilities</b>	<b><u>1,320,806</u></b>	<b><u>—</u></b>	<b><u>1,320,806</u></b>
<b>Total Liabilities</b>	<b><u>2,043,899</u></b>	<b><u>2,866</u></b>	<b><u>2,046,765</u></b>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	2,893,449	—	2,893,449
Restricted for debt service	4,480	—	4,480
Unrestricted	(620,995)	26,433	(594,562)
<b>Total Net Assets</b>	<b><u>\$ 2,276,934</u></b>	<b><u>\$ 26,433</u></b>	<b><u>\$ 2,303,367</u></b>

**PROPRIETARY FUNDS  
STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN NET ASSETS**

**CITY OF HENRY, TENNESSEE**

**For the Year Ended June 30, 2011**

	<u>Water Fund</u>	<u>Garbage Fund</u>	<u>Total</u>
<b>Operating Revenues</b>			
Charges for Services	\$ 213,861	\$ 36,721	\$ 250,582
Other Operating Revenue	<u>1,786</u>	<u>—</u>	<u>1,786</u>
<b>Total Operating Revenues</b>	<u><b>215,647</b></u>	<u><b>36,721</b></u>	<u><b>252,368</b></u>
<b>Operating Expense</b>			
Operating expense	<u>197,377</u>	<u>35,437</u>	<u>232,814</u>
<b>Total Operating Expenses</b>	<u><b>197,377</b></u>	<u><b>35,437</b></u>	<u><b>232,814</b></u>
<b>Operating Income (Loss)</b>	<b>18,270</b>	<b>1,284</b>	<b>19,554</b>
<b>Non-Operating Revenues (Expenses)</b>			
Interest income	16	—	16
Interest Expense	<u>(56,014)</u>	<u>—</u>	<u>(56,014)</u>
<b>Total Non-Operating Revenues (Expenses)</b>	<u><b>(55,998)</b></u>	<u><b>—</b></u>	<u><b>(55,998)</b></u>
<b>Change in Net Assets</b>	<b>(37,728)</b>	<b>1,284</b>	<b>(36,444)</b>
<b>Net Assets - Beginning of Year – as restated</b>	<u>2,314,662</u>	<u>25,149</u>	<u>2,339,811</u>
<b>Net Assets – End of Year</b>	<u><b>\$ 2,276,934</b></u>	<u><b>\$ 26,433</b></u>	<u><b>\$ 2,303,367</b></u>

**PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS**

**CITY OF HENRY, TENNESSEE**

**For the Year Ended June 30, 2011**

	<u>Water Fund</u>	<u>Garbage Fund</u>	<u>Total</u>
<b>Cash Flows From Operating Activities</b>			
Receipts from customers and users	\$ 217,033	\$ 36,721	\$ 253,754
Payments to suppliers	(100,301)	(31,279)	(131,580)
Payments to employees & benefits	(33,254)	(3,918)	(37,172)
<b>Net Cash Provided by Operating Activities</b>	<u><b>83,478</b></u>	<u><b>1,524</b></u>	<u><b>85,002</b></u>
<b>Cash Flows From Capital and Related Financing Activities</b>			
Principal paid on capital debt	(20,434)	—	(20,434)
Interest paid on capital debt	(56,014)	—	(56,014)
<b>Net cash Flows used in Capital and Related Financing Activities</b>	<u><b>(76,448)</b></u>	<u>—</u>	<u><b>(76,448)</b></u>
<b>Cash Flows From Investing Activities</b>			
Interest on investments	16	—	16
(Increase) decrease in restricted assets	250	—	250
<b>Net Cash Flows Provided By Investing Activities</b>	<u><b>266</b></u>	<u>—</u>	<u><b>266</b></u>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>7,296</b>	<b>1,524</b>	<b>8,820</b>
<b>Cash and Cash Equivalents - Beginning</b>	<u>23,467</u>	<u>7,597</u>	<u>31,064</u>
<b>Cash and Cash Equivalents - Ending</b>	<u><b>30,763</b></u>	<u><b>9,121</b></u>	<u><b>39,884</b></u>
<b>Reconciliation Of Operating (Loss) To Net Cash (Used In) Operating Activities</b>			
Operating income (loss)	18,270	1,284	19,554
Adjustments not affecting cash:			
Depreciation	98,464	—	98,464
Changes in assets and liabilities			
(Increase) decrease in accounts receivable	1,386	—	1,386
(Increase) decrease in prepaid	(7,045)	—	(7,045)
(Increase) decrease in inventory	(3,938)	—	(3,938)
Increase (decrease) in accounts payable	(11,289)	240	(11,049)
Increase (decrease) in interfund payables	(12,120)	—	(12,120)
Increase (decrease) in customer deposits	(250)	—	(250)
<b>Net Cash Provided by (Used In) Operating Activities</b>	<u><b>\$ 83,478</b></u>	<u><b>\$ 1,524</b></u>	<u><b>\$ 85,002</b></u>

## **NOTES TO BASIC FINANCIAL STATEMENTS**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **CITY OF HENRY, TENNESSEE**

**For the Year Ended June 30, 2011**

#### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **A. Introduction**

The City of Henry, Tennessee (the City) was incorporated under the Private Acts of 1979. The City is governed by an elected Mayor and five-member Board of Aldermen. Control by or dependence on the City has been determined on the basis of budget adoption, taxing authority, guarantee of debt, general obligations of the City, ownership of assets, or the City's obligation to fund any deficits that may occur. Based on these criteria, the City of Henry has no component units.

The accounting and reporting policies of the City relating to the activities included in the accompanying financial statements conform to generally accepted accounting principles applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and by the financial Accounting Standards Board (when applicable). As allowed in Section P80 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, the City has elected not to apply to its enterprise activities Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989. The GASB periodically updates its codification of the existing Governmental Accounting and Standards, which, along with the subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

##### **B. Reporting Entity**

In evaluating the City as a reporting entity, management has addressed all potential component units (traditionally separate reporting entities) for which the City may be financially accountable and, as such, should be included within the City's financial statements. The City (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or, there is a potential for the organization to provide specific financial benefit, or to impose specific financial burden on the City. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Based on the above criteria, no potential component units were identified which should be included by discrete presentation or by blending.

## **NOTES TO THE FINANCIAL STATEMENTS**

### **CITY OF HENRY, TENNESSEE**

**For the Year Ended June 30, 2011**

#### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

##### **C. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of the interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of the given function, or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported, instead, as general revenues.

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

##### **D. Measurement Focus, Basis of Accounting and Basis of Presentation**

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

## NOTES TO THE FINANCIAL STATEMENTS

### CITY OF HENRY, TENNESSEE

For the Year Ended June 30, 2011

#### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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

The City reports the following major funds and other fund types:

##### Governmental Funds

General Fund – The General Fund accounts for all financial resources applicable to the general operations of the City government that are not properly accounted for in another fund. Revenues are derived primarily from taxes and intergovernmental revenues.

State Street Aid Fund – The State Street Aid Fund accounts for revenues and expenditures of the City's share of state gasoline taxes. State law requires that gasoline taxes be used to maintain streets.

##### Proprietary Funds

Water and Garbage Funds – The Water and Garbage funds account for the revenues (primarily derived from user fees) and the costs (expenses, including depreciation) of providing water and garbage services to the general public.

Proprietary Funds distinguish operating revenues and expenses from non-operating items. Operating revenues include charges for services. Operating expenses include costs of services as well as materials, contracts, personnel and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of tax and other charges between the government's utility divisions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues included 1) charges to customers or applicants for goods, services, or privileges provided, and 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

## **NOTES TO THE FINANCIAL STATEMENTS**

### **CITY OF HENRY, TENNESSEE**

**For the Year Ended June 30, 2011**

#### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

##### **E.1. Accrual**

Revenues are recognized when earned and expenses are recognized when incurred.

##### **E.2. Modified Accrual Basis of Accounting**

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. “Measurable” means the amount of the transaction can be determined. “Available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

The City defined the length of time used for “available” for purposes of revenue recognition in the governmental fund financial statements to be sixty days.

Under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

In applying the “susceptible to accrual” concept to intergovernmental revenues pursuant to GASB Statement No. 33, the provider should recognize liabilities and expenses and the recipient should recognize receivable and revenue when the applicable eligibility requirements, including time requirements, are met. The recipient should under most circumstances, report resources transmitted before the eligibility requirements are met as advances by the provider and as deferred revenue.

##### **F. Budgets and Budgetary Control**

The City operates under a budget, which it adopts prior to the beginning of each fiscal year. The budget is usually amended during the year to adjust for expenditures that were not anticipated during the budget process.

Budgets for the General, Special Revenue, and Proprietary Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted, or as amended by the City Board of Aldermen and the Mayor. All funds for which budgets were adopted have been reflected on their statements as applicable.

## **NOTES TO THE FINANCIAL STATEMENTS**

### **CITY OF HENRY, TENNESSEE**

**For the Year Ended June 30, 2011**

#### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

##### **G. Assets, Liabilities and Fund Equity**

###### **1. Cash and Cash Equivalents**

For the purposes of reporting cash flows, cash and cash equivalents include cash on hand and cash with depositories. The City considers all highly liquid investment instruments with an original maturity of three months or less to be cash equivalents. Investments are made up of Certificates of Deposit with original maturities of more than three months.

###### **2. Property Taxes Receivable and Property Tax Calendar**

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and payable on February 28. The City collects its own property taxes. City property tax revenues are recognized when levied to the extent that they result in current receivables. Delinquent tax payments, received throughout the year, are recognized as revenue in the year received, except for those received within sixty days of year-end, which are recognized as revenue as of June 30. If delinquent taxes are not paid within sixty days of year-end, they are recorded as deferred revenue.

###### **3. Inventories**

Inventories in governmental funds consist of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost, which is recorded as expenditure at the time individual inventory items are purchased. Proprietary fund inventories are recorded at the lower of cost or market on a first-in, first-out basis.

###### **4. Capital Assets**

Capital assets (including infrastructure) are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Contributed capital assets are recorded at their estimated fair market value on the date contributed. Capital assets include public domain infrastructure assets consisting of roads, bridges, streets and sidewalks, sewers, lighting systems, and drainage systems. Capital assets are defined by the City as assets with initial, individual costs of more than \$2,500.

Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expenses as incurred. Depreciation is recorded on the straight-line basis, with one-half year's depreciation in the year

## **NOTES TO THE FINANCIAL STATEMENTS**

### **CITY OF HENRY, TENNESSEE**

**For the Year Ended June 30, 2011**

#### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

of acquisition, by charges to expense based on estimated useful life of the property. The life of the in-service plant is 40-50 years, and 5-10 years for machinery and equipment.

#### **5. Compensated Absences**

Compensation for accumulated vacation days and accumulated sick leave was not considered material and has not been recorded as a liability.

#### **6. Allowance for Doubtful Accounts**

An allowance for doubtful accounts has not been reflected as of the balance sheet date. The direct write-offs of bad debts is made at the end of each fiscal year. The direct write-off method is not in accordance with generally accepted accounting principles, but the effect on the financial statements is immaterial.

#### **7. Interfund Advances**

The City as an Equity Transfer Repayment Note to the Water Fund due in annual principle payments of \$11,111 through July 8, 2013. The balance of this loan at June 30, 2011 was \$43,436.

#### **8. Fund Balance**

Governmental funds report reservations of fund balance in the fund financial statements for amounts that are not available for appropriation or are legally restricted by outside parties for use of a specific purpose. Designations of fund balance represent management plans that are subject to change.

#### **9. Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## NOTES TO THE FINANCIAL STATEMENTS

### CITY OF HENRY, TENNESSEE

For the Year Ended June 30, 2011

#### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

##### H. Net Assets

The government-wide and business-type fund financial statements utilize a net asset presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted and unrestricted.

**Invested in Capital Assets (net of related debt)** – is intended to reflect the portion of net assets which are associated with non-liquid capital assets less outstanding capital asset related debt.

**Restricted Net Assets** – represent net assets that have third party (statutory, bond covenant or granting agency limitations on their use. The City's policy is generally to use restricted net assets first, as appropriate opportunities arise.

**Unrestricted Net Assets** – represent unrestricted net assets. While management may have categorized and segmented portions for various purposes, the City has the unrestricted authority to revisit or alter these managerial decisions.

##### I. Fund Equity

In the fund financial statements, governmental funds report fund balance in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in these funds can be spent.

These classifications may consist of the following:

**Nonspendable Fund Balance** – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

**Restricted Fund Balance** – includes amounts that have constraints placed on the use of the resources that are either (a) externally imposed by creditors, grantors, contributors or laws and regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

**Committed Fund Balance** – includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal resolutions of the City Council, the City's highest level of decision-making authority.

## **NOTES TO THE FINANCIAL STATEMENTS**

### **CITY OF HENRY, TENNESSEE**

**For the Year Ended June 30, 2011**

#### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

Assigned Fund Balance – includes amounts that are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed. The City’s Budget Committee is authorized to make assignments.

Unassigned Fund Balance – is represented by the residual classification of the General Fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund.

#### **NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

##### **Compliance with Finance Related Legal and Contractual Provisions**

The City failed to establish and fund a debt reserve fund as outline and required as a condition in their loan agreement with Community Resource Group.

#### **NOTE 3 – DEPOSITS WITH FINANCIAL INSTITUTIONS**

The City has implemented GASB Statement No. 4, *Deposit and Investment Risk Disclosures* for financial reporting of deposit risk.

Custodial Credit Risk – The City’s policies limit deposits and investments to those instruments allowed by applicable state laws. State statutes require that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the value of the uninsured deposits. The deposits must be covered by federal depository insurance or the

Tennessee Bank Collateral Pool, by collateral held by the City’s agent in the City’s name, or by the Federal Reserve Banks acting as third party agents. State statutes also authorize the City to invest in bonds, notes or treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations and federally chartered banks and savings and loan associations, repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities, the state pooled investment fund, and mutual funds. Statutes also require that securities underlying repurchase agreements must have a market value at least equal to the amount of funds invested in the repurchase transaction.

**NOTES TO THE FINANCIAL STATEMENTS**

**CITY OF HENRY, TENNESSEE**

**For the Year Ended June 30, 2011**

**NOTE 4 – RECEIVABLES**

Taxes receivable include the uncollected property taxes from tax levies made during the current and previous years, as well as the anticipated levy for the current calendar year.

	<u>Governmental Activities Funds</u>			
	<u>General</u>	<u>Other Governmental</u>	<u>Business-Type Activities</u>	<u>Total</u>
Primary Government Receivables:				
Taxes .....	\$ 48,610	\$ —	\$ —	\$ 48,610
Accounts .....	—	—	21,192	21,192
Industrial Board .....	115,500	—	—	115,500
Intergovernmental .....	8,870	2,321	—	11,191
<b>Total Receivables .....</b>	<b><u>\$ 172,980</u></b>	<b><u>\$ 2,321</u></b>	<b><u>\$ 21,192</u></b>	<b><u>\$ 196,493</u></b>

**NOTES TO THE FINANCIAL STATEMENTS**

**CITY OF HENRY, TENNESSEE**

**For the Year Ended June 30, 2011**

**NOTE 5 – CAPITAL ASSETS**

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
<b>GOVERNMENTAL ACTIVITIES</b>				
Non-Depreciable Assets				
Land	\$ 197,390	\$ —	\$ —	\$ 197,390
Depreciable Assets:				
Buildings & Improvements	224,848	—	—	224,848
Machinery & Equipment	160,716	19,000	(12,500)	167,216
Total Depreciable Assets	<u>385,564</u>	<u>19,000</u>	<u>(12,500)</u>	<u>392,064</u>
Less accumulated depreciation for:				
Buildings & Improvements	(160,510)	(5,900)	—	(166,410)
Machinery & Equipment	(95,645)	(6,241)	12,500	(89,386)
Total Accumulated Depreciation	<u>(256,155)</u>	<u>(12,141)</u>	<u>12,500</u>	<u>(225,796)</u>
Depreciable Assets Net	<u>129,409</u>	<u>6,859</u>	<u>—</u>	<u>136,268</u>
<b>Governmental Activity Capital Assets, Net</b>	<b><u>326,799</u></b>	<b><u>6,859</u></b>	<b><u>—</u></b>	<b><u>333,658</u></b>
<b>BUSINESS-TYPE ACTIVITIES</b>				
Depreciable Assets:				
Water Plant	4,911,830	—	—	4,911,830
Total Depreciable Assets	<u>4,911,830</u>	<u>—</u>	<u>—</u>	<u>4,911,830</u>
Less Accumulated Depreciation for:				
Water Plant	(580,082)	(98,464)	—	(678,546)
Total Accumulated Depreciation	<u>(580,082)</u>	<u>(98,464)</u>	<u>—</u>	<u>(678,546)</u>
Depreciable Assets Net	<u>4,331,748</u>	<u>(98,464)</u>	<u>—</u>	<u>4,233,284</u>
<b>Business-Type Activity Capital Assets, Net</b>	<b><u>\$ 4,331,748</u></b>	<b><u>\$ (98,464)</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 4,233,284</u></b>

**NOTES TO THE FINANCIAL STATEMENTS**

**CITY OF HENRY, TENNESSEE**

**For the Year Ended June 30, 2011**

**NOTE 5 – CAPITAL ASSETS (continued)**

Depreciation Expense is charged to functions as follows:

Primary Government – General Activities:	
General	\$ 1,692
Public Safety	1,931
Public Works	5,351
Civic Center	<u>3,167</u>
Total	<u>\$ 12,141</u>

Primary Government – Business-Type Activities:	
Water & Sewer	<u>\$ 98,464</u>
Total	<u>\$ 98,464</u>

**NOTE 6 – LONG-TERM LIABILITIES**

Changes in long-term liabilities for the fiscal year ended June 30, 2011, were as follow:

	<b>Balance</b>			<b>Balance</b>
	<b>July 1, 2010</b>	<b>Additions</b>	<b>Retirements</b>	<b>June 30, 2011</b>
<b>BUSINESS-TYPE ACTIVITIES</b>				
Note Payable – CRG	\$ 22,828	\$ —	\$ (1,805)	\$ 21,023
Bonds Payable – USDA Rural Dev	623,865	—	(9,444)	614,421
Bonds Payable USDA Rural Dev	409,793	—	(5,669)	404,124
Bonds Payable USDA Rural Dev	<u>303,783</u>	<u>—</u>	<u>(3,516)</u>	<u>300,267</u>
	<b><u>\$ 1,360,269</u></b>	<b><u>\$ —</u></b>	<b><u>\$ (20,434)</u></b>	<b><u>\$ 1,339,835</u></b>

The City established a loan with the Community Resource Group on March 4, 2010, in the amount of \$23,400. The purpose of this note was to pay off the existing loan and fund repairs. The interest rate is 5.9%, with monthly payments due in the amount of \$258.63. The note has a maturity date of March 4, 2020. The balance of the note was \$21,023 on June 30, 2011.

## NOTES TO THE FINANCIAL STATEMENTS

### CITY OF HENRY, TENNESSEE

For the Year Ended June 30, 2011

#### NOTE 6 – LONG-TERM LIABILITIES (continued)

The City has a sewer revenue and tax bond with the USDA Rural Development Program in the amount of \$650,000. The bond has an interest rate of 4.25% and a maturity date of December 14, 2044. Monthly principal and interest payments of \$2,880 are required. The balance of the bond at June 30, 2011 is \$614,421.

The City has an additional sewer revenue and tax bond with the USDA Rural Development Program in the amount of \$415,800. The bond has an interest rate of 4.375% and a maturity rate of January 11, 2044. Interest only payments were required for the first year, then monthly principal and interest payments of \$1,872 are required. The balance of the bond at June 30, 2011 is \$404,124.

The City has an additional sewer revenue and tax bond with the USDA Rural Development Program in the amount of \$306,000. The bond has an interest rate of 4.25% and a maturity date of January 11, 2047. Interest only payments were required for the first year, then monthly principal and interest payments of \$1,356 are required. The balance of the bond at June 30, 2011 is \$300,267.

Principal and interest requirements to maturity are as follows:

Year	Business-Type Activities		Total
	Principal	Interest	
2012	\$ 19,029	\$ 57,419	\$ 76,448
2013	19,893	56,555	76,448
2014	20,797	55,651	76,448
2015	21,742	54,706	76,448
2016	22,731	53,717	76,448
2017 -2021	125,991	252,223	378,214
2022 -2026	143,325	223,395	366,720
2027 -2031	177,518	189,202	366,720
2032 -2036	219,866	146,854	366,720
2037 -2041	272,318	94,402	366,720
2042 -2046	273,073	31,735	304,808
2047 -2048	23,552	516	24,068
Total	<u>\$1,339,835</u>	<u>\$1,216,375</u>	<u>\$2,556,210</u>

## **NOTES TO THE FINANCIAL STATEMENTS**

### **CITY OF HENRY, TENNESSEE**

**For the Year Ended June 30, 2011**

#### **NOTE 7 – COMMITMENTS AND CONTINGENCIES**

The City is subject to various claims and lawsuits, which arise, primarily in the ordinary course of operations. The City does not anticipate any significant losses with respect to such existing or pending claims and lawsuits at June 30, 2011.

The City receives Federal and State Grants for specific purposes that are subject to review and audit by grantor agencies. Such audits could result in reimbursements to the grantor agencies for expenditures disallowed under the terms of the grants. City management is not aware of any potential losses from such disallowances and believes that reimbursements, if any, would not be material.

In a prior period, the City lost a breach of promise lawsuit involving a sewer construction contract. The City has agreed to settle the judgement for \$500,000 which includes attorney fees and interest.

#### **NOTE 8 – RISK MANAGEMENT**

The City is exposed to various risks of loss related to workers' compensation, general liability, law enforcement liability, automobile liability, automobile physical damage, and property. The City felt it was more economically feasible to join public entity risk pools as opposed to purchasing commercial insurance for these areas. The City is a member of Tennessee Municipal League Risk Management Pool, which is a public entity risk pool established by the Tennessee Municipal League, an association of member cities towns.

The City pays an annual premium to the pool for coverage under the above areas. The creation of the Tennessee Municipal League Risk Management Pool provides for it to be self-sustaining through member premiums.

The City continues to carry commercial insurance for all other risks of loss, including employee health and accident, surety bonds, and volunteer firefighters' disability. Settled claims from these losses have not exceeded commercial insurance coverage in any of the past three fiscal years.

**NOTES TO THE FINANCIAL STATEMENTS**

**CITY OF HENRY, TENNESSEE**

**For the Year Ended June 30, 2011**

**NOTE 9 – INTERFUND RECEIVABLES AND PAYABLES**

During the course of normal operations, the City has numerous transactions between funds including expenditures or transfers of resources primarily to provide services.

Interfund receivable and payable balances at June 30, 2011, arising from these transactions were as follows:

<u>Due From</u>	<u>Due To</u>			<u>Total</u>
	<u>General</u>	<u>Water Fund</u>	<u>Garbage Fund</u>	
General Fund	\$ —	\$ 68	\$ —	\$ 68
Water Fund	<u>42,775</u>	<u>—</u>	<u>20,178</u>	<u>62,953</u>
Total	<u>\$ 42,775</u>	<u>\$ 68</u>	<u>\$ 20,178</u>	<u>\$ 63,021</u>

**NOTE 10 – EXPENDITURES OVER APPROPRIATIONS**

The City had excess expenditures over appropriations in the Water Fund and Garbage Fund for the fiscal year in the amounts of \$30,624 and \$2,119 respectively.

The General Fund had expenditures in excess of appropriations in the Public Safety, Public Works and Civic Center departments in the amounts of \$375, \$119, and \$684 respectively.

**NOTE 11 – ACCOUNTING CHANGE**

Provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* became effective for the year ended June 30, 2011. GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. These classifications include nonspendable, restricted, committed, assigned, and unassigned and are based on the relative strength of the constraints that control how specific amounts can be spent. Also, Statement No. 54 clarified the definitions of the General Fund and the special revenue, capital projects, debt service, and permanent fund types. The City has implemented provisions of this statement in the financial statements of this report for its governmental funds.

**SUPPLEMENTARY INFORMATION**

**WATER FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**CITY OF HENRY, TENNESSEE**  
**For the Year Ended June 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Over</u> <u>(Under)</u>
<b>Operating Revenues</b>				
Metered Water Sales	\$ 120,000	\$ 120,000	\$ 105,464	\$ (14,536)
Sewer User Fees	90,000	90,000	98,422	8,422
Tap Fees	8,600	8,600	9,975	1,375
Miscellaneous	<u>1,100</u>	<u>1,100</u>	<u>1,786</u>	<u>686</u>
<b>Total Operating Revenues</b>	219,700	219,700	215,647	(4,053)
<b>Operating Expenses</b>				
Salaries	26,948	26,948	26,948	—
Payroll Expenses	2,115	2,115	2,115	—
Health Insurance	4,191	4,191	4,191	—
Advertising	185	185	46	(139)
Audit	5,200	5,200	1,200	(4,000)
Accounting Services	700	700	595	(105)
Legal Services	20,000	20,000	6,916	(13,084)
Contract Labor	15,000	15,000	14,157	(843)
Liability/Property Insurance	13,000	13,000	9,088	(3,912)
Chemical Supplies	8,000	8,000	6,903	(1,097)
Maintenance & Supplies	20,750	20,750	10,229	(10,521)
Service Truck Fuel	3,500	3,500	3,102	(398)
Utilities	6,334	6,334	6,144	(190)
Telephone	250	250	281	31
Cell Phone	860	860	775	(85)
Right-of-Way Leases	1,423	1,423	1,437	14
Dues & Subscriptions	1,900	1,900	1,380	(520)
Depreciation	37,000	37,000	98,464	61,464
Postage	1,700	1,700	883	(817)
Training and Travel	100	100	—	(100)
Office Supplies	200	200	671	471
Laboratory Fees	1,200	1,200	1,836	636
Clothing Allowance	150	150	—	(150)
Miscellaneous	<u>100</u>	<u>100</u>	<u>16</u>	<u>(84)</u>
<b>Total Operating Expenses</b>	<u>170,806</u>	<u>170,806</u>	<u>197,377</u>	<u>26,571</u>
<b>Net Income from Operations</b>	<u>48,894</u>	<u>48,894</u>	<u>18,270</u>	<u>(30,624)</u>
<b>Non-Operating Revenue (Expenses)</b>				
Interest Income	50	50	16	(34)
Interest Expense	<u>(56,014)</u>	<u>(56,014)</u>	<u>(56,014)</u>	<u>—</u>
<b>Total Other Financing</b>				
<b>Sources (Uses)</b>	<u>(55,964)</u>	<u>(55,964)</u>	<u>(55,998)</u>	<u>(34)</u>
<b>Net increase (decrease)</b>				
<b>In net assets</b>	<u>\$ (7,070)</u>	<u>\$ (7,070)</u>	<u>\$ (37,728)</u>	<u>\$ (30,658)</u>
Retained Earnings - Beginning			<u>2,314,662</u>	
<b>Retained Earnings - Ending</b>			<u><b>\$2,276,934</b></u>	

**GARBAGE FUND  
 BUDGETARY COMPARISON SCHEDULE  
 CITY OF HENRY, TENNESSEE  
 For the Year Ended June 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance Over (Under)
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Charges for Services	\$ 33,600	\$ 33,600	\$ 36,721	\$ 3,121
<b>Total Revenues</b>	<u>33,600</u>	<u>33,600</u>	<u>36,721</u>	<u>3,121</u>
<b>Expenditures</b>				
Garbage Service	29,400	29,400	31,519	2,119
Personnel Expense	<u>3,918</u>	<u>3,918</u>	<u>3,918</u>	<u>—</u>
<b>Total Expenditures</b>	<u>33,318</u>	<u>33,318</u>	<u>35,437</u>	<u>2,119</u>
<b>Net Increase in Net Assets</b>	<u>\$ 282</u>	<u>\$ 282</u>	\$ 1,284	<u>\$ 1,002</u>
Retained Earnings - Beginning			<u>25,149</u>	
<b>Retained Earnings - Ending</b>			<u><b>\$ 26,433</b></u>	

**SCHEDULE OF CHANGES PROPERTY TAXES RECEIVABLE**

**CITY OF HENRY, TENNESSEE**

**For the Year Ended June 30, 2011**

<b>Year</b>	<b>Balance July 1, 2010</b>	<b>Additions and Adjustments</b>	<b>Collections</b>	<b>Balance June 30, 2011</b>
2011	\$ —	\$ 36,589	\$ —	\$ 36,589
2010	33,680	—	(33,295)	385
2009	2,947	—	—	2,947
2008	4,018	—	(395)	3,623
2007	429	—	(109)	320
2006	61	—	—	61
2005	804	—	—	804
2004	—	—	—	—
2003	1,364	—	—	1,364
2002	513	—	—	513
2001	1,589	—	—	1,589
2000	415	—	—	415
Total	<u>\$ 45,820</u>	<u>\$ 36,589</u>	<u>\$ (33,799)</u>	<u>\$ 48,610</u>

All delinquent taxes prior to 2008 have been filed with the county.  
Schedule includes Ad Valorem Taxes.

**WATER FUND  
SCHEDULE OF NOTES PAYABLE – COMMUNITY RESOURCE GROUP**

**CITY OF HENRY, TENNESSEE**

**For the Year Ended June 30, 2011**

<u>For Fiscal Year Ending June 30,</u>	<u>Total Payment</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 3,104	\$ 1,905	\$ 1,199
2013	3,104	2,021	1,083
2014	3,104	2,144	960
2015	3,104	2,273	831
2016	3,104	2,411	693
2017	3,104	2,557	547
2018	3,104	2,712	392
2019	3,104	2,877	227
2020	2,182	2,123	59
	<u>\$ 27,014</u>	<u>\$ 21,023</u>	<u>\$ 5,991</u>

**WATER FUND  
SCHEDULE OF BONDS PAYABLE – USDA RURAL DEVELOPMENT (92-05)**

**CITY OF HENRY, TENNESSEE**

**For the Year Ended June 30, 2011**

<u>For Fiscal Year Ending June 30,</u>	<u>Total Payments</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 34,560	\$ 8,614	\$ 25,946
2013	34,560	8,987	25,573
2014	34,560	9,376	25,184
2015	34,560	9,783	24,777
2016	34,560	10,207	24,353
2017	34,560	10,649	23,911
2018	34,560	11,111	23,449
2019	34,560	11,592	22,968
2020	34,560	12,094	22,466
2021	34,560	12,619	21,941
2022	34,560	13,165	21,395
2023	34,560	13,736	20,824
2024	34,560	14,331	20,229
2025	34,560	14,952	19,608
2026	34,560	15,600	18,960
2027	34,560	16,276	18,284
2028	34,560	16,982	17,578
2029	34,560	17,718	16,842
2030	34,560	18,486	16,074
2031	34,560	19,287	15,273
2032	34,560	20,123	14,437
2033	34,560	20,995	13,565
2034	34,560	21,905	12,655
2035	34,560	22,854	11,706
2036	34,560	23,844	10,716
2037	34,560	24,878	9,682
2038	34,560	25,956	8,604
2039	34,560	27,081	7,479
2040	34,560	28,254	6,306
2041	34,560	29,479	5,081
2042	34,560	30,756	3,804
2043	34,560	32,089	2,471
2044	34,560	33,480	1,080
2045	7,208	7,162	46
	<u>\$ 1,147,688</u>	<u>\$ 614,421</u>	<u>\$ 533,267</u>

**WATER FUND  
SCHEDULE OF BONDS PAYABLE – USDA RURAL DEVELOPMENT (92-03)**

**CITY OF HENRY, TENNESSEE**

**For the Year Ended June 30, 2011**

<u>For Fiscal Year Ending June 30,</u>	<u>Total Payments</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 22,512	\$ 4,930	\$ 17,582
2013	22,512	5,150	17,362
2014	22,512	5,380	17,132
2015	22,512	5,620	16,892
2016	22,512	5,871	16,641
2017	22,512	6,133	16,379
2018	22,512	6,406	16,106
2019	22,512	6,692	15,820
2020	22,512	6,991	15,521
2021	22,512	7,303	15,209
2022	22,512	7,629	14,883
2023	22,512	7,970	14,542
2024	22,512	8,325	14,187
2025	22,512	8,697	13,815
2026	22,512	9,085	13,427
2027	22,512	9,491	13,021
2028	22,512	9,914	12,598
2029	22,512	10,357	12,155
2030	22,512	10,819	11,693
2031	22,512	11,302	11,210
2032	22,512	11,807	10,705
2033	22,512	12,334	10,178
2034	22,512	12,884	9,628
2035	22,512	13,460	9,052
2036	22,512	14,060	8,452
2037	22,512	14,688	7,824
2038	22,512	15,344	7,168
2039	22,512	16,028	6,484
2040	22,512	16,744	5,768
2041	22,512	17,491	5,021
2042	22,512	18,272	4,240
2043	22,512	19,088	3,424
2044	22,512	19,940	2,572
2045	22,512	20,830	1,682
2046	22,512	21,760	752
2047	5,366	5,329	37
	<u>\$ 793,286</u>	<u>\$ 404,124</u>	<u>\$ 389,162</u>

**WATER FUND  
SCHEDULE OF BONDS PAYABLE – USDA RURAL DEVELOPMENT (92-07)**

**CITY OF HENRY, TENNESSEE**

**For the Year Ended June 30, 2011**

<u>For Fiscal Year Ending June 30,</u>	<u>Total Payments</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 16,272	\$ 3,580	\$ 12,692
2013	16,272	3,735	12,537
2014	16,272	3,897	12,375
2015	16,272	4,066	12,206
2016	16,272	4,242	12,030
2017	16,272	4,426	11,846
2018	16,272	4,618	11,654
2019	16,272	4,818	11,454
2020	16,272	5,026	11,246
2021	16,272	5,244	11,028
2022	16,272	5,472	10,800
2023	16,272	5,709	10,563
2024	16,272	5,956	10,316
2025	16,272	6,214	10,058
2026	16,272	6,484	9,788
2027	16,272	6,765	9,507
2028	16,272	7,058	9,214
2029	16,272	7,364	8,908
2030	16,272	7,683	8,589
2031	16,272	8,016	8,256
2032	16,272	8,363	7,909
2033	16,272	8,725	7,547
2034	16,272	9,104	7,168
2035	16,272	9,498	6,774
2036	16,272	9,910	6,362
2037	16,272	10,339	5,933
2038	16,272	10,787	5,485
2039	16,272	11,255	5,017
2040	16,272	11,743	4,529
2041	16,272	12,251	4,021
2042	16,272	12,782	3,490
2043	16,272	13,336	2,936
2044	16,272	13,914	2,358
2045	16,272	14,517	1,755
2046	16,272	15,147	1,125
2047	16,272	15,803	469
2048	2,430	2,420	10
	<u>\$ 588,222</u>	<u>\$ 300,267</u>	<u>\$ 287,955</u>

**STATISTICAL SECTION**

# SCHEDULE OF TAX RATES AND ASSESSMENTS

## CITY OF HENRY, TENNESSEE

For the Year Ended June 30, 2011

<u>YEAR</u>	<u>Tax Rate Per \$100 Assessments</u>	<u>Assessed Value</u>	<u>Total Assessment</u>
2011	0.845	4,330,149	\$ 36,589
2010	0.845	3,987,264	33,680
2009	0.845	4,021,693	33,972
2008	0.845	3,869,224	32,683
2007	0.845	4,708,681	39,744
2006	0.845	4,780,235	40,390
2005	0.845	5,088,244	42,995
2004	0.700	5,525,103	38,685
2003	0.700	6,023,842	42,178
2002	0.700	5,889,294	41,234
2001	0.630	5,440,176	34,298
2000	0.630	6,033,374	38,017
1999	0.630	5,563,930	35,060

**SCHEDULE OF UTILITY RATES IN FORCE  
TOWN OF HENRY, TENNESSEE**

**For the Year Ended June 30, 2011**

**Water Fund Rate Structure**

		<u>Monthly</u>
Residential – inside city limits	0-2,000 gallons	25.40
	over 2,000 gallons	3.41 per 1,000
Residential – outside city limits	0-2,000 gallons	31.50
	over 2,000 gallons	3.67 per 1,000
Commercial and Industrial	0-2,000 gallons	29.30
	over 2,000 gallons	4.39 per 1,000
outside city limits	0-2,000 gallons	31.50
	over 2,000 gallons	4.72 per 1,000

Number of Customers at Year End - 220

**Sewer Fund Rate Structure**

Connected to Municipal Water

Residential	Base	29.00
	Per 1,000 gallons	2.50
Commercial	Base	29.00
	Per 1,000 gallons	2.50

Not connected to Municipal Water

Residential	Flat Rate	45.00
Commercial	Flat Rate	45.00

Number of Customers at Year End - 223

**Garbage Fund Rate Structure**

Residential	\$ 12.60
Small Hand Container	21.00
Dumpsters	
2 Yard	80.85
4 Yard	108.15
6 Yard	127.05

Number of Customers at Year End – 132

**SCHEDULE OF UNACCOUNTED FOR WATER - unaudited  
TOWN OF HENRY ROCK, TENNESSEE**

**For the Year Ended June 30, 2011**

*(All amounts in gallons)*

		<u>Totals</u>	
<b>A</b>	<b>Water Treated and Purchased:</b>		
<b>B</b>	Water Pumped (potable)	16,932,000	
<b>C</b>	Water Purchased	0	
<b>D</b>	<b>Total Water Treated and Purchased (Sum Lines B and C)</b>		16,932,000
<b>E</b>	<b>Accounted for Water:</b>		
<b>F</b>	Water Sold	12,821,000	
<b>G</b>	Metered for Consumption	0	
<b>H</b>	Fire Department Usage	0	
<b>I</b>	Flushing	34,000	
<b>J</b>	Tank Cleaning/Filling	89,000	
<b>K</b>	Street Cleaning	0	
<b>L</b>	Bulk Sales	0	
<b>M</b>	Water Bill Adjustments	0	
<b>N</b>	<b>Total Accounted for Water (Sum Lines F thru M)</b>		12,944,000
<b>O</b>	<b>Unaccounted for Water (Line D minus N)</b>		3,988,000
<b>P</b>	<b>Percent Unaccounted for Water (Line O divided by Line D times 100)</b>		23.553%
<b>Q</b>	<b>Other (explain)</b>	See Below	

Explain Other

0
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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.

# Vance CPA LLC

*Certified Public Accountants*

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Belvidere, Tennessee 37306

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## **Report On Internal Control Over Financial Reporting And On Compliance and Other Matters based On An Audit of Financial Statements Performed In Accordance With Government Auditing Standards**

To the Honorable Mayor and Board of Aldermen  
City of Henry, Tennessee

We have audited the governmental activities, the business-type activities, each major fund, the statements of budgetary comparison for the general fund and the state street aid fund, and the aggregate remaining fund information of the City of Henry, Tennessee, as of and for the year ended June 30, 2011, which collectively comprise the City of Henry, Tennessee's basic financial statements and have issued our report thereon dated September 15, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control over Financial Reporting**

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

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

*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 and responses* to be material weaknesses. We consider items 2011- 1, 2011-2 and 2011-6 to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as items 2011-3, 2011-4, and 2011-5.

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

This report is intended solely for the information and use of the Mayor, the Board of Aldermen, the City of Henry, Tennessee's management, federal and state awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

September 15, 2012  
Belvidere, Tennessee

*Vance CPA LLC*

**Vance CPA LLC**

## SCHEDULE OF FINDINGS AND RESPONSES

### CITY OF HENRY, TENNESSEE

For the Year Ended June 30, 2011

#### SECTION II – FINDINGS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.

##### Status of Prior Year Findings

##### **2009-1 Finding      Lack of detailed accounting and office procedures manual**

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 1, Chapter 1, Section 1 states:

Municipal officials should ensure that a policies and procedures manual is part of the written record system of the municipality. The municipality's manual should incorporate or reference all the policies and procedures required in this manual and should include any additional policies and procedures specific to the municipality. All policies and procedures should be in strict compliance with federal, state and local laws.

##### Recommendation:

A detailed accounting and office procedures manual should be developed to ensure all cases of similar nature are handled in the same approved manner.

##### Management's Response:

We concur. Action will be taken to correct this weakness. We have contacted MTAS to help us with developing this manual.

##### Current Year Follow-up:

This issue still exists.

##### **2009-2 Finding      General Ledger Control Accounts Not Reconciled**

There were numerous accounts in the general ledger that did not reflect the correct balance per documentation examined during our audit.

##### Recommendation:

All accounts in the general ledger should be balanced monthly to ensure the proper reporting to the Mayor and Board of Aldermen of the City's finances.

##### Management's Response:

We concur

##### Current Year Follow-up:

This issue still exists.

**2009-3 Finding      Reserve Fund Not Set Up as Required by Loan**

The City's loan agreement with Community Resource Group required that a Debt Reserve Fund be established and funded. However, the City has failed to comply with this.

Recommendation:

The City should establish and fund a Debt Reserve Fund as outlined in the loan agreement.

Management's Response:

We concur.

Current Year Follow-up:

This issue still exists.

**2009-4 Finding      Drug fund Revenues and Expenses Reported in General Fund**

The City reported drug fund revenue and expenses in the general fund.

Recommendation:

Per TCA Section 53-11-415, drug funds should be accounted for in a special revenue fund. The City currently accounts for drug fund transactions in a separate checking account which is reported in the general fund; however, the City should establish a new special revenue fund for drug fund activity only.

Management's Response:

We concur. All of the drug fund monies are accounted for in a separate checking account. No general fund monies are used for these activities. However, we will set up a new special revenue fund for reporting purposes.

Current Year Follow-up:

This issue still exists.

**2010-5**

Issue addressed and corrected

**2010-6**

Issue addressed and corrected

## **Current Year Findings**

**2011-1** Repeat of 2009-1

**2011-2** Repeat of 2009-2

**2011-3** Repeat of 2009-3

**2011-4** Repeat of 2009-4

### **2011-5 Finding      Expenditures in Excess of Appropriations**

The City of Henry had expenditures in excess of appropriations in the General Fund for the year ended June 30, 2011.

#### **Criteria:**

TCA 6-56-203 states “notwithstanding any other provision of law, no municipality may expend any monies regardless of their source, including moneys derived from bond and long-term note proceeds, federal, state or private grants or loans, or special assessments, except in accordance with a budget ordinance adopted under this section or through a proprietary type fund or a fiduciary type fund properly excluded from the budget ordinance.”

#### **Recommendation:**

We recommend the City carefully monitor their budget each month and make amendments as appropriate in order to authorize all expenditures. All final budget amendments for a current fiscal year must be approved prior to June 30.

#### **Management’s Response:**

We concur. We will monitor expenses closer in the future so that expenditures do not exceed revenues.

## **2011-6 Finding      Segregation of Duties**

The City of Henry has a city recorder and a clerk who work together in performing the accounting duties for the City. At present, the city recorder writes and signs checks for all disbursements of the City while also having cash receipts and recordkeeping duties.

### Criteria:

Generally accepted accounting principles require that accounting functions be adequately segregated to ensure that the internal accounting controls are effective.

### Effect:

The risk of errors and irregularities occurring and not being detected in a timely manner increases when accounting functions are not adequately segregated.

### Recommendation:

We realize that the staff size will not allow the City to completely segregate the duties to the optimum level desired. However, the accounting functions should be segregated as much as possible. Management needs to be aware that a weakness does exist in the system of internal accounting controls.

### Management's Response:

Due to financial conditions additional staff is not possible. The Mayor will provide management oversight to add additional control procedures.