

TOWN OF HORNBEAK, TENNESSEE

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

June 30, 2012

**TOWN OF HORNBEAK, TENNESSEE
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INTRODUCTORY SECTION

TOWN OF HORNBEAK, TENNESSEE
SCHEDULE OF OFFICIALS
June 30, 2012

Board of Aldermen

Pete Burpo, Mayor
Paul Truett
Dennis Dozier
Leon Walden
Lynn Finch
Christina Gray
Debi Jerden
Cody Cakksakar

Joyce Truett, City Recorder

FINANCIAL SECTION

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Independent Auditor's Report

Mayor and Board of Aldermen
Town of Hornbeak, 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 Hornbeak, Tennessee, as of and for the year ended June 30, 2012, 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, and the aggregate remaining fund information of the Town of Hornbeak, Tennessee, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof, and the budgetary comparison for the general fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2013, on our consideration of the Town of Hornbeak's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Mayor and Board of Aldermen
Town of Hornbeak, Tennessee

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 through 8 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 financial statements. The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – State Street Aid Fund, Schedule of Expenditures of Federal Awards, Schedule of Debt Service Requirements by Individual Issue – All Funds, Schedule of Changes in Property Taxes Receivable, Schedule of Customers and Utility Rates in Force, and Schedule of Official Bonds of Principal Officials are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates 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 Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – State Street Aid Fund, Schedule of Expenditures of Federal Awards, Schedule of Debt Service Requirements by Individual Issue – All Funds, Schedule of Changes in Property Taxes Receivable, Schedule of Customers and Utility Rates in Force, and Schedule of Official Bonds of Principal Officials are fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The Introductory Section and the Schedule of Property Tax Rates and Assessments are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has 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 it.

Alexander Thompson Arnold PLLC

Union City, Tennessee
February 28, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Hornbeak, Tennessee, we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2012.

FINANCIAL HIGHLIGHTS

- The assets of the Town of Hornbeak exceeded its liabilities at the close of the most recent fiscal year by \$1.37 million (*net assets*).
- Total net assets decreased by \$55 thousand during the year ended June 30, 2012, with an additional \$7 thousand decrease due to a prior period adjustment to correct previously reported receivables and accumulated depreciation on the Town's capital assets.
- As of the close of the current fiscal year, the Town of Hornbeak's general fund reported an ending fund balance of \$132 thousand, a decrease of \$15 thousand in comparison with the prior year. Of the total fund balance, the amount available for spending at the Town of Hornbeak's discretion (*unassigned fund balance*) was \$82 thousand. The Town has assigned \$50 thousand to specific functions, such as cemetery maintenance and insurance payments funded by the beer tax.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements are comprised of the following components:

1. Government-wide financial statements
2. Fund financial statements
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 government-wide financial statements are designed to provide readers with a broad overview of the Town of Hornbeak'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 only result in cash flows in future fiscal periods (e.g., uncollected taxes, compensated absences, etc.).

The government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Town include general government, public safety, and public works. The business-type activities of the Town include a sewer department.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Town has two governmental funds and one proprietary fund.

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

Because the focus of governmental funds is narrower than that of 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 Town's near-term financing decisions. Both the Balance Sheet - Governmental Funds and the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town maintains two governmental funds. Information is presented separately in the Balance Sheet – Governmental Funds and in the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds for the General Fund, which is considered to be a major fund. The State Street Aid Fund was determined to be a non-major fund for the current year's financial statements.

The Town adopts an annual appropriated budget for its governmental funds. Budgetary comparison statements have been provided in this report to demonstrate compliance with these budgets.

Proprietary funds - Proprietary funds are used to account for the business-type activities of the Town. The measurement focus is the same as for the government-wide financial statements. The Town has one proprietary fund, the Sewer Fund.

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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets - As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town of Hornbeak, assets exceeded liabilities by \$1,366,885 at the close of the most recent fiscal year. The largest portion of the Town's net assets (84.63%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment and infrastructure) less any related debt used to acquire those assets that is still outstanding. The Town of Hornbeak 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, since the capital assets themselves cannot be used to liquidate these liabilities.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 235,619	\$ 252,803	\$ 29,028	\$ 17,623	\$ 264,647	\$ 270,426
Capital assets	254,750	302,130	1,060,390	1,072,842	1,315,140	1,374,972
Total assets	490,369	554,933	1,089,418	1,090,465	1,579,787	1,645,398
Current liabilities	39,385	52,343	14,487	4,889	53,872	57,232
Long-term liabilities	7,831	7,837	151,199	151,925	159,030	159,762
Total liabilities	47,216	60,180	165,686	156,814	212,902	216,994
Net assets:						
Invested in capital assets, net of related debt	246,919	302,130	909,891	920,206	1,156,810	1,222,336
Restricted	64,352	62,071	13,988	724	78,340	62,795
Unrestricted	131,882	130,552	(147)	12,721	131,735	143,273
Total net assets	\$ 443,153	\$ 494,753	\$ 923,732	\$ 933,651	\$ 1,366,885	\$ 1,428,404

At the end of the current fiscal year, the Town as a whole is able to report positive balances in all categories of net assets. Net assets decreased by \$62 thousand from the prior year. This decrease was mainly attributable to decreased grant revenues from the prior year. Continued depreciation on infrastructure assets also decreases net assets. A portion of net assets (5.73%) are restricted for use by the State Street Aid Fund and for grant expenditures. Unrestricted net assets (9.64%) may be used to meet the Town's ongoing obligations to citizens and creditors. The remaining balance of net assets is attributable to the Town's investment in its capital assets, net of the debt related to those assets.

Statement of Activities - The following statement of activities summarizes the revenues and expenses of the Town and compares them to the prior year's activities.

Condensed Statement of Activities

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$ 36,176	\$ 9,236	\$ 44,270	\$ 45,292	\$ 80,446	\$ 54,528
Operating grants and contributions	14,488	43,949	-	-	14,488	43,949
Capital grants and contributions	2,551	162,938	18,246	-	20,797	162,938
General revenues:						
Taxes	118,480	119,606	-	-	118,480	119,606
Other sources	4,533	18,048	-	-	4,533	18,048
Total revenues	176,228	353,777	62,516	45,292	238,744	399,069

MANAGEMENT'S DISCUSSION AND ANALYSIS

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Expenses:						
General government	\$ 81,488	\$ 71,637	\$ -	\$ -	\$ 81,488	\$ 71,637
Public safety	109,519	106,024	-	-	109,519	106,024
Public works, etc.	29,469	32,062	-	-	29,469	32,062
Sewer	-	-	72,876	83,146	72,876	83,146
Total expenses	220,476	209,723	72,876	83,146	293,352	292,869
Transfers	-	(6,040)	-	6,040	-	-
Change in net assets	(44,248)	138,014	(10,360)	(31,814)	(54,608)	106,200
Net assets - beginning	494,753	356,739	933,651	965,465	1,428,404	1,322,204
Prior period adjustment	(7,352)	-	441	-	(6,911)	-
Net assets - as restated	487,401	356,739	934,092	965,465	1,421,493	1,322,204
Net assets - ending	\$ 443,153	\$ 494,753	\$ 923,732	\$ 933,651	\$ 1,366,885	\$ 1,428,404

Governmental activities – Governmental activities decreased the Town’s net assets by \$44 thousand, while business-type activities decreased net assets by \$10 thousand during the current year. The most significant decrease in revenue was in capital grants and contributions. General government expenses increased by \$9 thousand, mainly attributable to survey expense.

Business-type activities – Charges for services in the Sewer Fund remained steady, and expenses decreased by \$10 thousand due to decreased maintenance and repair. The Sewer Fund also received grant proceeds during the current year for sewer line extension.

FUND FINANCIAL STATEMENTS ANALYSIS

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, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of June 30, 2012, the General Fund had unassigned fund balance of \$82 thousand.

The General Fund had capital outlay expenditures of \$14 thousand during the year ended June 30, 2012. This was a decrease of \$174 thousand from the prior year. There was also an increase in salaries due to the hiring of a new employee.

Proprietary fund - The Town of Hornbeak has one proprietary fund, the Sewer Fund. Revenue remained steady in the Sewer Fund, while expenses decreased \$11 thousand from the prior year. The main decreases were in maintenance and parts. The Sewer Fund also received \$18 thousand in capital grant proceeds during the current year.

Budgetary highlights - Actual revenues for the General Fund were \$66 thousand less than budgeted revenues. The largest variances were in grant revenues (\$52 thousand) and local sales tax (\$5 thousand). Actual expenditures in the General Fund were \$58 thousand less than the total amount budgeted, mainly attributable to \$50 thousand in grant expenditures budgeted but not spent, and public works, streets, and parks expenditures \$11 thousand under budget.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets – As of June 30, 2012, the Town had invested approximately \$1.32 million (net of accumulated depreciation) in a variety of capital assets, including buildings, utility plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), park facilities and land. During the current year, there were capital asset additions of \$18 thousand in the Sewer Fund. In governmental activities, the change in capital assets was due to depreciation of \$49 thousand. Additional details on the Town's capital assets can be found in the Notes to Financial Statements of this report.

Long-term debt – The Town of Hornbeak had long-term debt of \$7,831 in governmental activities and \$158,330 in business-type activities at June 30, 2012. The change in long-term debt for the current year consisted entirely of principal payments made against existing debt. Additional details about the Town's debt can be found in the Notes to Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Town has lost a large local retailer and its related sales tax revenue. An overall downturn in revenue is expected for the upcoming year.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town of Hornbeak's finances for citizens, taxpayers, customers, investors, creditors and all others with an interest in the Town's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Recorder, Town of Hornbeak, P.O. Box 265, Hornbeak, TN 38232.

TOWN OF HORNBEAK, TENNESSEE
STATEMENT OF NET ASSETS
June 30, 2012

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 177,661	\$ 5,876	\$ 183,537
Restricted cash	-	14,688	14,688
Receivables:			
Accounts	4,400	-	4,400
Taxes, net	53,170	8,035	61,205
Interest	88	-	88
Grants	-	429	429
Internal balances	300	(300)	-
Capital assets, not being depreciated			
Land	39,000	-	39,000
Capital assets, net of accumulated depreciation:			
Buildings	-	-	-
Equipment, furniture and fixtures	195,986	-	195,986
Park facilities	18,512	-	18,512
Streets and street equipment	1,252	-	1,252
Utility plant in service	-	1,060,390	1,060,390
Total assets	490,369	1,089,118	1,579,487
LIABILITIES			
Accounts payable	1,687	13,995	15,682
Payroll taxes payable	3,147	192	3,339
Deferred property tax revenue	34,198	-	34,198
Deferred state and county tax revenue	353	-	353
Noncurrent liabilities:			
Due in one year	4,422	2,228	6,650
Due after one year	3,409	148,271	151,680
Customer deposits	-	700	700
Total liabilities	47,216	165,386	212,602
NET ASSETS			
Invested in capital assets	246,919	909,891	1,156,810
Restricted	64,352	13,988	78,340
Unrestricted	131,882	(147)	131,735
Total net assets	\$ 443,153	\$ 923,732	\$ 1,366,885

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

TOWN OF HORNBEAK, TENNESSEE
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012

<u>Functions/Programs</u>	<u>Expenses</u>	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary Government							
Governmental activities:							
General government	\$ 81,488	\$ 690	\$ -	\$ 2,551	\$ (78,247)	\$ -	\$ (78,247)
Public safety	109,519	35,336	1,875	-	(72,308)	-	(72,308)
Public works, streets and parks	29,469	150	12,613	-	(16,706)	-	(16,706)
Total governmental activities	220,476	36,176	14,488	2,551	(167,261)	-	(167,261)
Business-type activities:							
Sewer department	72,876	44,270	-	18,246	-	(10,360)	(10,360)
Total primary government	\$ 293,352	\$ 80,446	\$ 14,488	\$ 20,797	(167,261)	(10,360)	(177,621)
General revenues:							
Property taxes - levied for general government					31,939	-	31,939
In lieu of property taxes - TVA					4,900	-	4,900
Sales taxes					63,694	-	63,694
Franchise and excise taxes					2,085	-	2,085
Alcoholic beverage taxes					208	-	208
Beer distributor taxes					15,157	-	15,157
State income taxes					497	-	497
Sale of equipment					2,451	-	2,451
Other sources					782	-	782
Unrestricted interest income					1,300	-	1,300
Total general revenues					<u>123,013</u>	<u>-</u>	<u>123,013</u>
					(44,248)	(10,360)	(54,608)
Change in net assets							
Net assets - July 1, 2011					494,753	933,651	1,428,404
Prior period adjustment					(7,352)	441	(6,911)
Net assets - July 1, 2011 - as restated					<u>487,401</u>	<u>934,092</u>	<u>1,421,493</u>
Net assets - June 30, 2012					<u>\$ 443,153</u>	<u>\$ 923,732</u>	<u>\$1,366,885</u>

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

TOWN OF HORNBEAK, TENNESSEE
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012

	MAJOR	NONMAJOR	
	General Fund	State Street Aid Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 114,577	\$ 63,084	\$ 177,661
Receivables:			
Accounts	4,400	-	4,400
Taxes, net	51,218	1,952	53,170
Interest	88	-	88
Due from State Street Aid Fund	684	-	684
Due from Sewer Fund	300	-	300
	\$ 171,267	\$ 65,036	\$ 236,303
 Total assets			
 LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$ 1,687	\$ -	\$ 1,687
Payroll taxes payable	3,147	-	3,147
Due to General Fund	-	684	684
Deferred property tax revenue	34,198	-	34,198
Deferred state and county tax revenue	353	-	353
Total liabilities	39,385	684	40,069
 Fund balance			
Restricted	-	64,352	64,352
Assigned	50,221	-	50,221
Unassigned	81,661	-	81,661
Total fund balance	131,882	64,352	196,234
	\$ 171,267	\$ 65,036	\$ 236,303
 Total liabilities and fund balance			

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

TOWN OF HORNBEAK, TENNESSEE
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2012

Amounts reported for the governmental activities in the Statement of Net Assets are different because:

Fund balance - total governmental funds (Page 11)	\$ 196,234
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in funds.	254,750
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(7,831)</u>
Net assets - governmental activities (Page 9)	<u>\$ 443,153</u>

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

TOWN OF HORNBEAK, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2012

	<u>General Fund</u>	<u>State Street Aid Fund</u>	<u>Total Governmental Funds</u>
REVENUES			
Local taxes	\$ 82,002	\$ -	\$ 82,002
Intergovernmental revenue	40,499	10,992	51,491
Charges for services	35,486	-	35,486
Other revenues	4,562	2,687	7,249
Total revenues	<u>162,549</u>	<u>13,679</u>	<u>176,228</u>
EXPENDITURES			
Current			
General government	80,931	-	80,931
Public safety	83,257	-	83,257
Public works, streets, and parks	<u>13,856</u>	<u>11,399</u>	<u>25,255</u>
Total expenditures	<u>178,044</u>	<u>11,399</u>	<u>189,443</u>
Revenues over (under) expenditures	<u>(15,495)</u>	<u>2,280</u>	<u>(13,215)</u>
Fund balances - July 1, 2011	130,552	62,072	192,624
Prior period adjustment	<u>16,825</u>	<u>-</u>	<u>16,825</u>
Fund balances - July 1, 2011, as restated	<u>147,377</u>	<u>62,072</u>	<u>209,449</u>
Fund balances - June 30, 2012	<u>\$ 131,882</u>	<u>\$ 64,352</u>	<u>\$ 196,234</u>

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

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

For the Year Ended June 30, 2012

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

Net change in fund balances - total governmental funds (Page 13) \$ (13,215)

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 exceeded capital outlay in the current period. (49,457)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of long-term debt consumes financial resources of governmental funds. Neither transaction, however, has any effect on net assets. 18,424

Change in net assets - governmental activities (Page 10) \$ (44,248)

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

TOWN OF HORNBEAK, TENNESSEE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance Over (Under)
REVENUES				
Local taxes				
Current year property taxes	\$ 29,658	\$ 29,658	\$ 26,880	\$ (2,778)
Prior year property taxes	4,727	4,727	1,749	(2,978)
Interest and penalty - property taxes	700	700	424	(276)
Ad valorem taxes	3,300	3,300	2,886	(414)
Local sales tax	40,000	40,000	34,906	(5,094)
Beer distributor tax	14,500	14,500	15,157	657
Total local taxes	92,885	92,885	82,002	(10,883)
Intergovernmental revenue				
TVA in lieu of tax	4,800	4,800	4,900	100
State sales tax	29,000	29,000	28,788	(212)
State income tax	1,000	1,000	497	(503)
State beer tax	300	300	208	(92)
Corporate excise tax	500	500	657	157
Cable TV franchise tax	2,800	2,800	1,428	(1,372)
Petroleum special tax	1,000	1,000	870	(130)
State salary supplements	600	600	600	-
State grants	55,000	55,000	2,551	(52,449)
Total intergovernmental revenue	95,000	95,000	40,499	(54,501)
Charges for services				
City court fines and costs	4,200	4,200	3,412	(788)
Fire calls	5,000	5,000	5,150	150
Rural fire member program	20,000	20,000	26,774	6,774
Dirt removal	300	300	150	(150)
Total charges for services	29,500	29,500	35,486	5,986
Other revenues				
Rent income	750	750	690	(60)
Beer excise fee	100	100	100	-
Interest earnings	3,000	3,000	1,300	(1,700)
Fire donations	5,000	5,000	1,275	(3,725)
Cemetery donations	2,200	2,200	515	(1,685)
Cemetery lots sold	500	500	-	(500)
Miscellaneous income	-	-	682	682
Total other revenues	11,550	11,550	4,562	(6,988)
Total revenues	228,935	228,935	162,549	(66,386)

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

TOWN OF HORNBEAK, TENNESSEE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
EXPENDITURES				
General Government				
Salary - recorder	22,884	23,917	24,051	134
Salaries - judges	1,800	1,800	1,800	-
Payroll taxes	5,000	5,000	37	(4,963)
Unemployment insurance	800	800	430	(370)
Postage and box rent	300	300	319	19
Public and legal notices	300	300	397	97
Dues and memberships	500	956	956	-
Utilities and phone	9,000	9,000	7,542	(1,458)
Legal and accounting	7,400	7,400	4,512	(2,888)
Office expense and maintenance	3,300	3,300	6,557	3,257
Training and travel	1,200	1,600	1,645	45
Litigation tax	300	420	447	27
Insurance	13,500	17,203	17,925	722
Capital outlay	5,000	5,000	-	(5,000)
Repairs and maintenance	500	640	927	287
Surveying cost	-	-	9,000	9,000
Fundraiser expense	500	500	-	(500)
Interest expense - City	500	500	622	122
Miscellaneous	2,800	3,764	3,764	-
Total general government	<u>75,584</u>	<u>82,400</u>	<u>80,931</u>	<u>(1,469)</u>
Public Safety				
Police department				
Payroll expenses	-	-	5,309	5,309
Salaries	35,020	35,020	35,275	255
State salary supplement	600	600	600	-
Training and travel	300	300	285	(15)
Uniforms/supplies	250	250	53	(197)
Repairs and maintenance	300	691	691	-
Office and communications	500	500	549	49
Operating supplies	200	200	20	(180)
Fuel, oil, etc.	3,000	3,000	3,035	35
Grant expenditures	2,500	2,500	-	(2,500)
Capital outlay	4,600	4,600	4,262	(338)
Total police department	<u>47,270</u>	<u>47,661</u>	<u>50,079</u>	<u>2,418</u>

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

TOWN OF HORNBEAK, TENNESSEE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Fire department				
Utilities	-	-	1,070	1,070
Training and travel	1,986	1,986	1,075	(911)
Fire department medical	500	958	957	(1)
Repairs and maintenance	2,500	2,652	2,651	(1)
Operating supplies	2,000	2,000	1,954	(46)
Fuel, oil, etc.	1,500	3,047	3,112	65
Fire membership admin salary	-	300	400	100
Fire membership billing expense	-	800	926	126
Fire call collection fee	950	950	1,042	92
Grant expenditures	50,000	50,000	-	(50,000)
Radio, pagers	1,500	1,500	3,762	2,262
Other purchases	1,000	1,000	907	(93)
Firefighter subscription reimbursement	900	900	600	(300)
Food/water	850	850	560	(290)
Capital outlay	14,414	14,414	14,162	(252)
Total fire department	<u>78,100</u>	<u>81,357</u>	<u>33,178</u>	<u>(48,179)</u>
Public Works, Streets, and Parks				
Maintenance salary	7,000	7,000	4,284	(2,716)
Park maintenance	1,461	1,461	642	(819)
Park utilities	3,000	3,000	1,220	(1,780)
Repairs and maintenance - equipment	2,000	2,000	257	(1,743)
Operating supplies	100	255	255	-
Gas, oil, diesel fuel, grease	1,500	1,500	1,099	(401)
Visual enhancement	4,000	4,000	2,101	(1,899)
Street repairs and material	1,500	1,500	-	(1,500)
Mowing maintenance	3,000	3,700	3,900	200
Supplies	100	100	78	(22)
State filing fees	40	40	20	(20)
Total public works, streets and parks	<u>23,701</u>	<u>24,556</u>	<u>13,856</u>	<u>(10,700)</u>
Total expenditures	<u>224,655</u>	<u>235,974</u>	<u>178,044</u>	<u>(57,930)</u>
Revenues over (under) expenditures	<u>\$ 4,280</u>	<u>\$ (7,039)</u>	<u>(15,495)</u>	<u>\$ (8,456)</u>
Fund balance - July 1, 2011			130,552	
Prior period adjustment			<u>16,825</u>	
Fund balance - July 1, 2011, as restated			<u>147,377</u>	
Fund balance - June 30, 2012			<u><u>\$ 131,882</u></u>	

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

TOWN OF HORNBEAK, TENNESSEE
STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2012

	<u>Sewer Fund</u>
ASSETS	
Current assets	
Cash in bank	\$ 5,876
Restricted cash	14,688
Accounts receivable - customer	8,035
Due from grantor	<u>429</u>
Total current assets	<u>29,028</u>
Noncurrent assets	
Property, plant and equipment:	
Utility plant in service	1,233,147
Accumulated depreciation	<u>(172,757)</u>
Net property, plant and equipment	<u>1,060,390</u>
Total assets	<u>1,089,418</u>
LIABILITIES	
Current liabilities	
Accounts payable	13,995
Interest payable	192
Current portion of long-term note payable	2,228
Due to other funds	<u>300</u>
Total current liabilities	16,715
Noncurrent liabilities	
Note payable - Rural Development	148,271
Customer deposits	<u>700</u>
Total noncurrent liabilities	<u>148,971</u>
Total liabilities	<u>165,686</u>
NET ASSETS	
Invested in capital assets	909,891
Restricted	13,988
Unrestricted	<u>(147)</u>
Total net assets	<u>\$ 923,732</u>

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

TOWN OF HORNBEAK, TENNESSEE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
For the Year Ended June 30, 2012

	Sewer Fund
Operating revenues	
Charges for services	\$ 44,270
Operating expenses	
Reelfoot utility fees	23,952
Contract labor	4,650
Maintenance and parts	2,235
Utilities	1,317
Billing costs	1,035
Legal and accounting	1,703
Surety bond	300
Grease trap pumping expense	150
Depreciation	31,139
Total operating expenses	66,481
Income (loss) from operations	(22,211)
Non-operating revenues (expenses)	
Interest expense	(6,395)
Net loss before contributed capital	(28,606)
Capital grant proceeds	18,246
Change in net assets	(10,360)
Net assets - July 1, 2011, as originally reported	933,651
Prior period adjustment	441
Net assets - July 1, 2011, as restated	934,092
Net assets - June 30, 2012	\$ 923,732

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

TOWN OF HORNBEAK, TENNESSEE
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2012

	Sewer Fund
Cash flows from operating activities	
Cash received from consumers	\$ 41,899
Cash paid to suppliers of goods and services	<u>(24,780)</u>
Net cash provided by operating activities	17,119
 Cash flows from capital and related financing activities	
Purchase of capital assets	(18,246)
Principal payments on note payable	(2,136)
Interest paid on note payable	(6,395)
Grant proceeds received	<u>17,817</u>
Net cash used by capital and related financing activities	<u>(8,960)</u>
 Net increase in cash and cash equivalents	 8,159
Cash and cash equivalents - July 1, 2011	<u>12,405</u>
Cash and cash equivalents - June 30, 2012	<u>\$ 20,564</u>
 Reconciliation of operating income (loss) to net cash provided by operating activities:	
Income (loss) from operations	\$ (22,211)
Adjustments to reconcile income (loss) from operations to net cash provided by operating activities:	
Depreciation	31,139
Increase in accounts receivable	(2,487)
Increase in accounts payable	10,561
Increase in sales tax payable	16
Increase in customer deposits	<u>100</u>
Net cash provided by operating activities	<u>\$ 17,118</u>

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

TOWN OF HORNBEAK, TENNESSEE
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Hornbeak, Tennessee, is a municipal corporation that operates under a Mayor–Board of Aldermen form of government and provides the following services to its citizens: public safety (police and fire), highways and streets, public works, culture/recreation, a public sewer utility, planning and zoning, and general administrative services.

The financial statements of the Town have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the Town are described below.

A. Reporting Entity

The Town's basic financial statements include the accounts of all Town operations. There are no component units that should be included in the Town's reporting entity according to the criteria for including organizations as component units as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*.

B. 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 activities of the primary government. For the most part, the effect of 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 a 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.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the 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 flow. 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.

TOWN OF HORNBEAK, TENNESSEE
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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 Town considers revenues to be available if they are collected within 60 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.

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

The Town reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Town reports the following major proprietary fund:

The Sewer Fund accounts for the activities associated with the Town's collection, transportation, treatment and disposal of wastewater.

The financial statements of the Town are prepared in accordance with generally accepted accounting principles. The Town's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Town's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principle ongoing operations. The principle operating revenue of the Town's enterprise fund is charges to customers for sales and services. The sewer

TOWN OF HORNBEAK, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the systems. Utility funds recognize income based on cycle billings. This results in recognizing as income the usage through each respective cycle each month, which may not coincide with the last day of the fiscal year. Non-recognition of income from sales as a result of cycle billing is a common industry practice. Operating expenses for the proprietary fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets or Equity

Deposits and Investments

The Town's cash and cash equivalents are considered to be unrestricted demand deposit accounts, petty cash funds and highly liquid investments with an original maturity of three months or less.

State statutes authorize the Town to invest in certificates of deposit, obligations of the U.S. Treasury, agencies and instrumentalities, obligations guaranteed by the U.S. Government or its agencies, repurchase agreements and the State's investment pool.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans).

Accounts receivable result from unpaid billings for sewer service to customers and from unpaid billings related to work performed for or materials sold. The Town records sewer bad debts using the direct write-off method. Although this method is not in accordance with generally accepted accounting principles, its use does not distort the financial statements by a material amount.

Property taxes are levied in October of each year and attach as an enforceable lien on property as of February 28th or 29th. The Town's property tax rate as of June 30, 2012, is \$.82 per \$100 of assessed valuation. The Town bills and collects its own property taxes, and tax revenues are recognized when levied to the extent that they result in current receivables. The Town reports its property tax receivable net of an allowance for doubtful accounts, which estimates uncollectible taxes.

Restricted Assets

Certain cash and investment balances of the Town are classified as restricted assets on the balance sheet because they are maintained in separate accounts and their use is limited by certain agreements and contracts with third parties. The Sewer Fund has set up a restricted account for its grant proceeds.

TOWN OF HORNBEAK, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
 June 30, 2012

Capital Assets

Capital assets, including property, plant, vehicles, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) and construction in progress are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital 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.

The cost 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. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. For the year under examination, there were no interest costs capitalized.

Capital assets of the Town are depreciated using the straight line method. Capital assets are depreciated over the following useful lives:

Buildings	25 years	Vehicles	5 - 7 years
Park improvements	10 years	Sewer equipment	5 years
Furniture and equipment	5 - 7 years	Sewer plant	40 years

Compensated Absences

The Town does not accrue compensated absences since the amount would be immaterial to the financial statements. Only two employees receive vacation and sick leave, and the amount is limited to 16 hours per year.

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Balances

In the governmental fund financial statements, fund balances may be classified as follows:

**TOWN OF HORNBEAK, TENNESSEE
NOTES TO FINANCIAL STATEMENTS**

June 30, 2012

- Nonspendable – amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.
- Restricted – amounts that can be spent only for specific purposes because of limitations imposed by creditors, grantors, or contributors or by enabling legislation or constitutional provisions.
- Committed – amounts that can be used only for specific purposes determined by a formal action of the Board by ordinance.
- Assigned – amounts that are designated by the Board for a particular purpose.
- Unassigned – all amounts in the general fund not included in other spendable classifications.

Net assets in the government-wide statements are categorized as follows:

- Invested in capital assets, net of related debt – consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any payables that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net assets – net assets that have third party limitations on their use.
- Unrestricted net assets – all net assets that are not included in the categories identified above.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net assets), the Town’s policy is to first apply the expense toward restricted resources and then toward unrestricted resources. In governmental funds, the Town’s policy is to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications – committed and then assigned fund balances before using unassigned fund balances.

Use of Estimates

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

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Assets

The financial statements include a reconciliation between *fund balances – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.” The details of the \$254,750 difference are as follows:

Governmental funds capital assets	\$ 1,033,267
Less: accumulated depreciation	(778,517)
Net adjustment	<u>\$ 254,750</u>

TOWN OF HORNBEAK, TENNESSEE
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The financial statements include a reconciliation between *net change in fund balances – total governmental funds* and *change in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “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. This is the amount by which depreciation exceeded capital outlay in the current period.” The \$49,457 difference is the amount of depreciation on governmental capital assets for the year. There were no capital outlay expenditures.

Another element of that reconciliation states that “the issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.” The difference of \$18,424 consists entirely of principal payments on notes payable.

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The Town is required by state law to adopt annual budgets for the general fund and all special revenue funds. These budgets are adopted on a basis consistent with generally accepted accounting principles for governmental units. All annual appropriations lapse at the end of each fiscal year. Once the budget ordinance has been approved, amendments must be approved by a majority of the Board of Aldermen. The Town has set the level of control for expenditures at the function level for governmental activities.

NOTE 4 – DETAILED NOTES ON ALL FUNDS

A. Deposits and Invested Funds

As of June 30, 2012, the Town’s only investments were certificates of deposit at local banks, which do not meet the definition of investments for the purposes of investment risk disclosures. These deposits are reported as “invested funds” in the financial statements.

Custodial Credit Risk - The Town’s policies limit deposits and investments to those instruments allowed by applicable state laws as described in Note 1. State statute requires that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the value of uninsured deposits. The deposits must be collateralized by federal depository insurance or the Tennessee Bank Collateral Pool, by eligible collateral held by the Town’s agent in the Town’s name, or by the Federal Reserve Banks acting as third party agents. Eligible collateral means bonds or obligations guaranteed by the United States or any of its agencies or by various entities in Tennessee. Such collateral shall not include state or municipal bonds from other states or from municipalities in other states. State statutes also authorize the Town 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, and the state pooled investment fund. Statutes also require that securities underlying repurchase agreements must have a market value of at least equal to the

TOWN OF HORNBEAK, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

amount of funds invested in the repurchase transaction. As of June 30, 2012, all deposits were insured or collateralized.

B. Receivables

Receivables are detailed in the statement of net assets and governmental funds balance sheet. Taxes receivable as of June 30, 2012, include a provision for uncollectible accounts in the amount of \$3,914. Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. As of June 30, 2012, deferred revenue consisted of \$34,198 in deferred property taxes receivable and \$353 in other deferred taxes receivable.

C. Interfund receivables, payables, and transfers

As of June 30, 2012, the General Fund had an interfund receivable from the Sewer Fund of \$300 and from the State Street Aid Fund for \$684. All interfund balances were incurred in the normal course of business and are expected to be paid during the next fiscal year.

D. Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 39,000	\$ -	\$ -	\$ 39,000
Capital assets, being depreciated				
Buildings	61,752	-	-	61,752
Park facilities	88,510	-	-	88,510
Equipment, furniture and fixtures	720,927	-	-	720,927
Streets and street equipment	128,178	-	(5,100)	123,078
Total capital assets being depreciated	<u>999,367</u>	<u>-</u>	<u>(5,100)</u>	<u>994,267</u>
Less accumulated depreciation for:				
Buildings	61,752	-	-	61,752
Park facilities	66,308	3,690	-	69,998
Equipment, furniture and fixtures	479,698	45,243	-	524,941
Streets and street equipment	126,402	524	(5,100)	121,826
Total accumulated depreciation	<u>734,160</u>	<u>49,457</u>	<u>(5,100)</u>	<u>778,517</u>
Net capital assets being depreciated	<u>265,207</u>	<u>(49,457)</u>	<u>-</u>	<u>215,750</u>
Governmental activities, net	<u>\$ 304,207</u>	<u>\$ (49,457)</u>	<u>\$ -</u>	<u>\$ 254,750</u>

TOWN OF HORNBEAK, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets, being depreciated				
Sewer system	\$ 1,211,993	\$ 18,246	\$ -	\$ 1,230,239
Computer system	<u>2,908</u>	<u>-</u>	<u>-</u>	<u>2,908</u>
Total being depreciated	<u>1,214,901</u>	<u>18,246</u>	<u>-</u>	<u>1,233,147</u>
Less accumulated depreciation for:				
Sewer system	138,710	31,139	-	169,849
Computer system	<u>2,908</u>	<u>-</u>	<u>-</u>	<u>2,908</u>
Total accumulated depreciation	<u>141,618</u>	<u>31,139</u>	<u>-</u>	<u>172,757</u>
Net capital assets, being depreciated	<u>1,073,283</u>	<u>(12,893)</u>	<u>-</u>	<u>1,060,390</u>
Business-type activities net	<u>\$ 1,073,283</u>	<u>\$ (12,893)</u>	<u>\$ -</u>	<u>\$ 1,060,390</u>

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

Governmental activities:	
General government	\$ 557
Police	3,326
Fire	41,360
Street department	524
Parks	<u>3,690</u>
Total depreciation expense - governmental activities	<u>\$ 49,457</u>
Business-type activities:	
Sewer	<u>\$ 31,139</u>

E. Long-Term Debt

Governmental Activities

Note payable – dated March 22, 2011, between First Citizens National Bank and Town of Hornbeak for a police car; interest rate is 3.6% with monthly payments of \$386; matures on March 22, 2014. The outstanding balance as of June 30, 2012, was \$7,831.

Note payable – dated March 9, 2011, between Reelfoot Bank and the Town of Hornbeak for a fire truck; principal amount of \$30,000 with interest rate of 5.25%, matured March 9, 2014 with annual principal payments; outstanding balance of \$14,162 was paid in entirety during the current year. The note was unsecured.

TOWN OF HORNBEAK, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Business-type Activities

Note payable, Series 2005 – USDA Rural Development; principal borrowed of \$57,000; interest rate of 4.25%; monthly payments of \$2,772; matures in 2043. The balance outstanding as of June 30, 2012, was \$48,047.

Note payable, Series 2007 – USDA Rural Development; principal borrowed of \$67,000; interest rate of 4.25%; monthly payments of \$3,555; matures in 2043. The balance outstanding at June 30, 2012, was \$62,114.

Note payable, Series 2009 – USDA Rural Development; principal borrowed of \$42,000; interest rate of 4.125%; monthly payments of \$2,196; matures in 2046. The balance outstanding at June 30, 2012, was \$40,338.

All of the above loans are secured by a pledge and second lien on the revenues of the Sewer Fund.

A summary of estimated debt service requirements for the Town is shown below:

Year ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2013	\$ 4,422	\$ 210	\$ 2,228	\$ 6,304
2014	3,409	52	2,325	6,207
2015	-	-	2,424	6,108
2016	-	-	2,529	6,003
2017	-	-	2,638	5,894
2018-2022	-	-	14,992	27,668
2023-2027	-	-	18,506	24,154
2028-2032	-	-	22,847	19,814
2033-2037	-	-	28,204	14,456
2038-2042	-	-	34,815	7,845
2043-2047	-	-	18,991	1,227
Total	<u>\$ 7,831</u>	<u>\$ 262</u>	<u>\$ 150,499</u>	<u>\$ 125,680</u>

Changes in long-term debt for the year ended June 30, 2012, were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Note payable - Reelfoot Bank	\$ 14,162	\$ -	\$ 14,162	\$ -	n/a
Note payable - First Citizens Bank	12,093	-	4,262	7,831	\$ 4,422
	<u>\$ 26,255</u>	<u>\$ -</u>	<u>\$ 18,424</u>	<u>\$ 7,831</u>	<u>\$ 4,422</u>
Business-type activities:					
Note 92-05	\$ 48,760	\$ -	\$ 713	\$ 48,047	\$ 744
Note 92-07	63,017	-	903	62,114	942
Note 92-09	40,858	-	520	40,338	542
Totals	<u>\$ 152,635</u>	<u>\$ -</u>	<u>\$ 2,136</u>	<u>\$ 150,499</u>	<u>\$ 2,228</u>

TOWN OF HORNBEAK, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

F. Fund Balances

The Town has categorized spendable fund balances as follows:

	General Fund	Nonmajor Funds
Restricted:		
State Street Aid	\$ -	\$ 64,352
Assigned:		
Cemetery maintenance	\$ 32,994	\$ -
Beer tax for insurance payments	17,227	-
Total assigned	\$ 50,221	\$ -

NOTE 5 – OTHER INFORMATION

A. Risk Management

The Town purchases commercial insurance for the risks of losses to which it is exposed. These risks include general liability, law enforcement liability, automobile liability and physical damage, buildings, personal property and EDP equipment insurance, worker's compensation, employee health insurance, fire department accident and sickness insurance, and public officials and employee errors or omissions liability. Settled claims from losses have not exceeded commercial insurance coverage in any of the past three fiscal years.

B. Prior Period Adjustments

Prior period adjustments were made during the current year to correct fund balance for notes payable that were recorded in the general fund in error and to correct receivable balances previously reported. Beginning fund balance was increased \$26,255 to reflect the removal of the notes payable at the fund level. This adjustment had no effect on beginning net assets at the government-wide level. Receivables at the fund level and government-wide level were decreased \$9,430 and fund balance/net assets decreased by the same amount. In addition, an adjustment to beginning net assets of governmental activities for \$2,078 was made to correct accumulated depreciation at the government-wide level. Accumulated depreciation and beginning net assets in the Sewer Fund were also corrected by \$441.

OTHER SUPPLEMENTARY INFORMATION SECTION

TOWN OF HORNBEAK, TENNESSEE
STATE STREET AID FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
REVENUES				
Gas and motor fuel tax	\$ 12,300	\$ 12,300	\$ 10,992	\$ (1,308)
Interest income	800	800	236	(564)
Sale of equipment	-	-	2,451	2,451
Total revenues	<u>13,100</u>	<u>13,100</u>	<u>13,679</u>	<u>579</u>
EXPENDITURES				
Street light utilities	10,200	10,200	10,039	(161)
Repairs and maintenance - equipment	800	800	87	(713)
Street paving	900	900	118	(782)
Street repairs and material	1,200	1,200	200	(1,000)
Street signs	-	-	791	791
Other	-	-	164	164
Total expenditures	<u>13,100</u>	<u>13,100</u>	<u>11,399</u>	<u>(1,701)</u>
Revenues over expenditures	-	-	2,280	2,280
Fund balance - July 1, 2011	<u>62,072</u>	<u>62,072</u>	<u>62,072</u>	<u>-</u>
Fund balance - June 30, 2012	<u>\$ 62,072</u>	<u>\$ 62,072</u>	<u>\$ 64,352</u>	<u>\$ 2,280</u>

See independent auditor's report

TOWN OF HORNBEAK, TENNESSEE
SCHEDULE OF CHANGES IN PROPERTY TAXES RECEIVABLE
For the Year Ended June 30, 2012

<u>Tax Levy For Year</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Collections/ Adjustments</u>	<u>Ending Balance</u>
2012	\$ -	\$ 33,089	\$ -	\$ 33,089
2011	29,269	-	26,875	2,394
2010	2,150	-	766	1,384
2009	1,310	-	604	706
2008	590	-	245	345
2007	164	-	-	164
2006	13	-	-	13
2005	13	-	-	13
2004	2	-	-	2
2003	2	-	-	2
2003	<u>210</u>	<u>-</u>	<u>210</u>	<u>-</u>
	<u>\$ 33,723</u>	<u>\$ 33,089</u>	<u>\$ 28,700</u>	<u>\$ 38,112</u>

As of June 30, 2012, these balances included no delinquent property taxes filed with chancery court.

SCHEDULE OF PROPERTY TAX RATES AND ASSESSMENTS - UNAUDITED

<u>Year</u>	<u>Assessed Valuation</u>	<u>Tax Rate Per \$100</u>	<u>Levy</u>
2012	\$4,035,265	\$0.82	\$33,089
2011	\$3,921,976	\$0.82	\$32,160

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**TOWN OF HORNBEAK, TENNESSEE
SCHEDULE OF DEBT SERVICE REQUIREMENTS
BY INDIVIDUAL ISSUE - ALL FUNDS**

June 30, 2012

Year Ending June 30,	BUSINESS-TYPE ACTIVITIES								GOVERNMENTAL	
	Note 92-05		Note 92-07		Note 92-09		Total Sewer Fund		Note Payable	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 744	\$ 2,028	\$ 942	\$ 2,622	\$ 542	\$ 1,654	\$ 2,228	\$ 6,304	\$ 4,422	\$ 210
2014	777	1,995	983	2,581	565	1,631	2,325	6,207	3,409	52
2015	810	1,962	1,026	2,538	588	1,608	2,424	6,108	-	-
2016	846	1,926	1,070	2,494	613	1,583	2,529	6,003	-	-
2017	882	1,890	1,117	2,447	639	1,557	2,638	5,894	-	-
2018	920	1,852	1,165	2,399	666	1,530	2,751	5,781	-	-
2019	960	1,812	1,216	2,348	694	1,502	2,870	5,662	-	-
2020	1,002	1,770	1,268	2,296	723	1,473	2,993	5,539	-	-
2021	1,045	1,727	1,323	2,241	753	1,443	3,121	5,411	-	-
2022	1,091	1,681	1,381	2,183	785	1,411	3,257	5,275	-	-
2023	1,138	1,634	1,440	2,124	818	1,378	3,396	5,136	-	-
2024	1,187	1,585	1,503	2,061	852	1,344	3,542	4,990	-	-
2025	1,239	1,533	1,568	1,996	888	1,308	3,695	4,837	-	-
2026	1,292	1,480	1,636	1,928	926	1,270	3,854	4,678	-	-
2027	1,348	1,424	1,707	1,857	964	1,232	4,019	4,513	-	-
2028	1,407	1,365	1,781	1,783	1,005	1,191	4,193	4,339	-	-
2029	1,468	1,304	1,858	1,706	1,047	1,149	4,373	4,159	-	-
2030	1,531	1,241	1,939	1,626	1,091	1,105	4,561	3,972	-	-
2031	1,598	1,174	2,023	1,541	1,137	1,059	4,758	3,774	-	-
2032	1,667	1,105	2,110	1,454	1,185	1,011	4,962	3,570	-	-
2033	1,739	1,033	2,202	1,362	1,235	961	5,176	3,356	-	-
2034	1,815	957	2,297	1,267	1,287	909	5,399	3,133	-	-
2035	1,893	879	2,397	1,167	1,341	855	5,631	2,901	-	-
2036	1,975	797	2,500	1,064	1,397	799	5,872	2,660	-	-
2037	2,061	711	2,609	955	1,456	740	6,126	2,406	-	-
2038	2,150	622	2,722	842	1,517	679	6,389	2,143	-	-
2039	2,243	529	2,840	724	1,581	615	6,664	1,868	-	-
2040	2,340	432	2,963	601	1,647	549	6,950	1,582	-	-
2041	2,442	330	3,091	473	1,717	479	7,250	1,282	-	-
2042	2,548	224	3,225	339	1,789	407	7,562	970	-	-
2043	2,658	114	3,365	199	1,864	332	7,887	645	-	-
2044	1,231	7	2,847	53	1,942	254	6,020	314	-	-
2045	-	-	-	-	2,024	172	2,024	172	-	-
2046	-	-	-	-	2,109	87	2,109	87	-	-
2047	-	-	-	-	951	9	951	9	-	-
	<u>\$ 48,047</u>	<u>\$ 39,123</u>	<u>\$ 62,114</u>	<u>\$ 51,271</u>	<u>\$ 40,338</u>	<u>\$ 35,286</u>	<u>\$ 150,499</u>	<u>\$125,680</u>	<u>\$ 7,831</u>	<u>\$ 262</u>

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TOWN OF HORNBEAK, TENNESSEE
SCHEDULE OF CUSTOMERS AND UTILITY RATES IN FORCE
June 30, 2012

Number of customers: 130

Sewer rates

First 2,000 gallons	\$12.00 per month
Over 2,000 gallons	\$3.00 per 1,000 gallons

See independent auditor's report

TOWN OF HORNBEAK, TENNESSEE
SCHEDULE OF OFFICIAL BONDS OF PRINCIPAL OFFICIALS
For the Year Ended June 30, 2012

<u>Name</u>	<u>Title</u>	<u>Bond Amount</u>
Pete Burpo	mayor	*
Joyce Truett	city recorder/ CMFOA designee	\$50,000

*covered by employee dishonesty insurance of \$150,000

TOWN OF HORNBEAK, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2012

<u>Federal Grantor/Pass-Through Grantor Program Title</u>	<u>Federal CFDA #</u>	<u>Project or Grant Number</u>	<u>Balance July 1, 2011</u>	<u>Cash Receipts</u>	<u>Cash Expended</u>	<u>Balance June 30, 2012</u>
U. S. Department of Housing and Urban Development						
Pass-Through Tennessee Department of Economic and Community Development Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	33004-46112	\$ -	\$ 17,817	\$ 18,246	\$ (429)
U. S. Department of Transportation						
High Visibility Law Enforcement Campaigns	20.601	Z11GHS152	-	2,551	2,551	-
Total federal awards			<u>\$ -</u>	<u>\$ 20,368</u>	<u>\$ 20,797</u>	<u>\$ (429)</u>

Note: This schedule is prepared on the modified accrual basis.

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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**

Mayor and Board of Aldermen
Town of Hornbeak, 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 Hornbeak, Tennessee, as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements and have issued our report thereon dated February 28, 2013. 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 Hornbeak, Tennessee, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town of Hornbeak'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.

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 as Item 12-01 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Hornbeak's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Town of Hornbeak's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Town's response and, accordingly, we express no opinion on the response.

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

Alexander Thompson Arnold PLLC

Union City, Tennessee
February 28, 2013

TOWN OF HORNBEAK, TENNESSEE
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2012

12-01 Segregation of Duties

Condition: The Town of Hornbeak employs one person who performs the day-to-day accounting functions of the Town.

Criteria: Proper segregation of duties involves separating the various accounting functions of the Town, such as collections, payments, recording transactions, and reconciling accounts.

Effect: The risk of fraud and material misstatements occurring and not being detected in a timely manner increases when accounting functions are not adequately segregated.

Recommendation: We recommend that the Mayor and Board of Aldermen analyze the Town's accounting functions to see if there are any steps that can be taken to compensate for the lack of adequate personnel needed to properly segregate accounting duties.

Response: *Management understands that a lack of segregation of duties exists. However, the cost of additional personnel required to perform functions necessary for a complete internal control system would exceed the benefits derived.*