CITY OF KENTON, TENNESSEE

FINANCIAL STATEMENTS
AND AUDITOR'S REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

CITY OF KENTON, TENNESSEE
Table of Contents

Introductory Section
City Officials

Financial Section
Independent Auditor's Report 1

Management's Discussion and Analysis 3

Basic Financial Statements
- Government-Wide Financial Statements
  - Statement of Net Assets 9
  - Statement of Activities 10
- Fund Financial Statements
  - Balance Sheet – Governmental Funds 11
  - Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets 12
  - Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds 13
  - Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities 14
  - Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund 15
  - Statement of Net Assets – Water and Sewer Fund 19
  - Statement of Revenues, Expenses, and Changes in Net Assets – Water and Sewer Fund 20
  - Statement of Cash Flows – Water and Sewer Fund 21
- Notes to Financial Statements 22
- Required Supplemental Information
  - Schedule of Funding Progress – Employee Retirement System 36

Other Supplementary Information
- Combining and Individual Fund Statements and Schedules
  - Combining Balance Sheet – Non-major Governmental Funds 37
  - Combining Statement of Revenues, Expenditures, and Changes in Fund Balance – Non-major Governmental Funds 38
- Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual
  - State Street Aid Fund 39
  - Park Fund 40
  - Drug Fund 41
  - Sanitation Fund 42

Supporting Schedules
- Schedule of Expenditures of Federal Awards 43
- Schedule of Investments – All Funds 44
- Schedule of Bond and Interest Requirements 45
- Schedule of Changes in Property Taxes Receivable 48
- Schedule of Property Tax Rates and Assessments 49
- Schedule of Unaccounted for Water - unaudited 50

CITY OF KENTON, TENNESSEE
Table of Contents

Internal Control and Compliance

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* 51

Schedule of Findings and Responses 53

CITY OF KENTON, TENNESSEE
CITY OFFICIALS
JUNE 30, 2011

Mayor

Virginia Davidson

Alderman

Tim Johns
Faye Sharp
Delores Agee
Angie Choate
Wade Simpson
Sarah Skinner

Department Heads

Recorder	Camelia Cunningham
Police Chief	Steve Meeks
Fire Chief	Ed Sims
Director of Public Works	Jim Cooper
Director of Street Department	Ricky Dean

ALEXANDER THOMPSON ARNOLD PLLC

Certified Public Accountants

www.atacpa.net

185 North Church Street
Dyersburg, TN 38024

Telephone: (731) 285-7900
(800) 608-5612
Fax: (731) 285-6221

Members of

American Institute of Certified Public Accountants
AICPA Center for Public Company Audit Firms
AICPA Governmental Audit Quality Center
AICPA Employee Benefit Plan Audit Quality Center
Tennessee Society of Certified Public Accountants
Kentucky Society of Certified Public Accountants

Independent Auditor's Report

Honorable Mayor and
Board of Aldermen
City of Kenton, Tennessee

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kenton, Tennessee (the City), 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, 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 as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund 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 August 31, 2012, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provision 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.

Dyersburg, TN
Union City, TN
Henderson, TN
Jackson, TN
Martin, TN
McKenzie, TN
Milan, TN
Murray, KY
Paris, TN
Trenton, TN

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 and the schedule of funding progress – employee retirement system on page 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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 historic 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 assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The introductory section and the other supplementary information section are presented for purposes of additional analysis and are not a required part of the financial statements. The other supplementary information, except for that portion marked "unaudited", are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. This information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section and other supplementary information marked "unaudited" have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Alexander Thompson Arnold, PLLC

Dyersburg, Tennessee
August 31, 2012

Management's Discussion and Analysis

As management of the City of Kenton, Tennessee, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented in conjunction with additional information that we have furnished in the basic financial statements and the accompanying notes to those financial statements. All amounts, unless otherwise indicated, are expressed in actual dollars. Comparative analysis of key elements of the total governmental funds and total enterprise funds has been provided.

Financial Highlights

Management believes the City of Kenton's financial condition is strong. The following are the key highlights.

- The assets of the City of Kenton exceeded its liabilities at the close of the fiscal year by $2,731,696 (*net assets*). Of this amount, $475,699 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets decreased by $27,567.
- As of the close of the current fiscal year, the City of Kenton's governmental funds reported combined ending fund balances of $1,594,814, a decrease of $13,765 in comparison with the prior year. Of this amount, $36,801 is available for spending at the government's discretion (*unassigned fund balance).*
- At the end of the current fiscal year, unassigned fund balance for the general fund was $36,801, or 8% percent of total general fund expenditures.
- The City of Kenton's total debt decreased by $61,375 (2.76%) during the current fiscal year.

Overview of the Financial Statements

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

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

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

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows.* Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

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

The government-wide financial statements can be found on pages 9 and 10 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Kenton, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Kenton can be divided into two categories: governmental funds and proprietary funds.

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

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

The City maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund which is considered to be a major fund.

The City of Kenton failed to adopt an annual appropriated budget for its general fund.

The basic governmental fund financial statements can be found on pages 11 through 18 of this report.

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

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer distribution operation, which is considered to be a major fund of the City of Kenton.

The basic proprietary fund financial statements can be found on pages 19 through 21 of this report.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22 through 35 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents information concerning the City's progress in funding its obligation to provide pension benefits to its employees. The pension information can be found on page 36.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Kenton assets exceeded liabilities by $2,731,696 at the close of the fiscal year.

By far the largest portion of the City of Kenton's net assets (81.19%) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. The City of Kenton uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Kenton'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.

City of Kenton's Net Assets

	Governmental Activities		Business-type Activities		Total	
	6-30-11	6-30-10	6-30-11	6-30-10	6-30-11	6-30-10
Current and other assets	$ 1,808,827	$ 1,784,396	$ 455,594	$ 493,971	$ 2,264,421	$ 2,278,367
Capital assets	1,251,792	1,282,202	1,624,417	1,676,641	2,876,209	2,958,843
Total assets	3,060,619	3,066,598	2,080,011	2,170,612	$ 5,140,630	$ 5,237,210
Long-term liabilities outstanding	1,465,000	1,505,000	570,372	595,910	2,035,372	2,100,910
Other liabilities	306,075	247,699	67,487	129,338	373,562	377,037
Total liabilities	1,771,075	1,752,699	637,859	725,248	2,408,934	2,477,947
Net assets						
Invested in capital assets, net of related debt	1,199,730	1,245,320	1,018,100	1,028,770	2,217,830	2,274,090
Restricted	23,946	17,452	14,221	14,196	38,167	31,648
Unrestricted	65,868	51,127	409,831	402,398	475,699	453,525
Total net assets	$ 1,289,544	$ 1,313,899	$ 1,442,152	$ 1,445,364	$ 2,731,696	$ 2,759,263

A portion of the City of Kenton's net assets (1.40%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* ($475,699) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Kenton is able to report positive balances in all three categories of net assets.

The following is a summary of financial activities for the City of Kenton during the fiscal year ended June 30, 2011.

City of Kenton's Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	6-30-11	6-30-10	6-30-11	6-30-10	6-30-11	6-30-10
Revenues						
Program revenues:						
Charges for services	$ 143,946	$ 126,847	$ 269,208	$ 268,184	$ 413,154	$ 395,031
Grants & contributions	57,587	37,367			57,587	37,367
General revenues						
Property taxes	164,937	165,643			164,937	165,643
Sales tax	221,652	218,137			221,652	218,137
Other taxes & intergovernmental	47,984	41,033			47,984	41,033
Miscellaneous	89,959	93,261			89,959	93,261
Investment earnings	187	148	5,026	6,795	5,213	6,943
Total revenues	726,252	682,436	274,234	274,979	1,000,486	957,415
Expenses						
General government	175,705	163,532			175,705	163,532
Judicial	5,723	6,126			5,723	6,126
Public safety	215,766	212,680			215,766	212,680
Highways & streets	130,153	122,748			130,153	122,748
Sanitation	100,404	91,139			100,404	91,139
Recreation	42,250	44,391			42,250	44,391
Public welfare	520	357			520	357
Interest on long-term debt	80,086	82,649	30,592	33,024	110,678	115,673
Water and sewer			246,854	257,538	246,854	257,538
Total expenses	750,607	723,622	277,446	290,562	1,028,053	1,014,184
Changes in net assets	(24,355)	(41,186)	(3,212)	(15,583)	(27,567)	(56,769)
Net assets, Beginning	1,313,899	1,355,085	1,445,364	1,460,947	2,759,263	2,816,032
Net assets, Ending	$ 1,289,544	$ 1,313,899	$ 1,442,152	$ 1,445,364	$ 2,731,696	$ 2,759,263

The government's net assets decreased $27,567 during the current fiscal year. The net assets from governmental activities decreased by $24,355, while the net assets from business-type activities decreased by $3,212.

Financial Analysis of the City of Kenton's Funds

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

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

ending fund balances of $1,594,814, a decrease of $13,765, in comparison with the prior year. The City's unassigned fund balance totaled $36,801, which is available for spending at the City's discretion.

The general fund is the chief operating fund of the City of Kenton. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 8% of the total general fund expenditures.

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

Net assets of the proprietary fund at the end of the year was $1,442,152. The total decrease in net assets for this fund was $3,212.

Capital Asset and Debt Administration

Capital assets. The City of Kenton's investment in capital assets for its governmental and business type activities as of June 30, 2011, amounts to $2,876,209 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements other than buildings, machinery and equipment.

The major capital asset acquisitions during the current fiscal year for the governmental funds included $37,560 for a new roof for the gymnasium. The proprietary fund added $24,706 in capital assets primarily with upgrades to the backwash controls and installation of new meters.

City of Kenton's Capital Assets

	Governmental Activities	Business-type Activities	Total
Land	$ 141,054	$ 14,018	$ 155,072
Buildings	412,911	253,894	666,805
Improvements other than buildings	858,226	-	858,226
Machinery and equipment	727,852	-	727,852
Utility plant and equipment	-	3,947,619	3,947,619
Less accumulated depreciation	(888,251)	(2,591,114)	(3,479,365)
Total capital assets	$ 1,251,792	$ 1,624,417	$ 2,876,209

Long-term debt. At the end of the current fiscal year the City of Kenton has total debt outstanding of $2,163,379, all of which is backed by the full faith and credit of the government.

	Governmental Activities	Business-type Activities	Total
Revenue Bonds	$ 1,505,000	$ 596,545	$ 2,101,545
Notes Payable	52,062	9,772	61,834
	$ 1,557,062	$ 606,317	$ 2,163,379

The City of Kenton's total debt decreased by $61,375 (2.76%) during the current fiscal year.

Economic Factors and Next Year's Budget and Rates – 2012.

Factors considered in preparing the City's budget for the 2012 fiscal year include the following:

- State and local tax revenues have continually increased. There have been no change of property tax rates for the City.
- Inflation in employee health care costs and energy fuels will no doubt result in increased expenditures in all funds.

The City has approved a General Fund operating budget of $511,232 for the fiscal year 2012. The property tax rate remained the same.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any information provided in this report or requests for any additional information should be directed to the Office of the City Recorder, City of Kenton, 108 N. Poplar, Kenton, Tennessee 38233.

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

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash	$ 120,416	$ 31,659	$ 152,075
Investments	-	343,180	343,180
Receivables:	-	-	-
Taxes	194,118	-	194,118
Accounts	8,582	33,927	42,509
Accrued interest	-	1,443	1,443
Capital lease	1,505,000	-	1,505,000
Internal balances	(19,289)	19,289	-
Inventory	-	11,875	11,875
Restricted assets:cash	-	14,221	14,221
Land & construction in progress	141,054	14,018	155,072
Capital assets (net of accumulated depreciation)	1,110,738	1,610,399	2,721,137
Total Assets	3,060,619	2,080,011	5,140,630
LIABILITIES			
Accounts payable and other current liabilities	25,150	10,180	35,330
Customer deposits	-	21,362	21,362
Deferred revenues - taxes	188,863	-	188,863
Notes payable - current	52,062	9,772	61,834
Bonds payable-current	40,000	26,173	66,173
Bonds payable-due after one year	1,465,000	570,372	2,035,372
Total Liabilities	1,771,075	637,859	2,408,934
NET ASSETS			
Invested in capital assets, net of related debt	1,199,730	1,018,100	2,217,830
Restricted	31,284	14,221	45,505
Unrestricted	58,530	409,831	468,361
Total Net Assets	$ 1,289,544	$ 1,442,152	$ 2,731,696

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

CITY OF KENTON, TENNESSEE
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2011

Functions/Programs	Expenses	Program revenues: Charges for Services	Program revenues: Capital Grants & Contributions	Program revenues: Operating Grants & Contributions	Net (Expense) Revenue and Changes in Net Assets Primary Government: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets Primary Government: Business-Type Activities	Net (Expense) Revenue and Changes in Net Assets Primary Government: Total
Primary Government							
Government activities:							
General government	$ 175,705	$ 48,769	$ 19,084	$ -	$ (107,852)	$ -	$ (107,852)
Judicial	5,723	-	-	-	(5,723)	-	(5,723)
Public safety	215,766	-	-	-	(215,766)	-	(215,766)
Highways and streets	130,153	-	-	38,503	(91,650)	-	(91,650)
Sanitation	100,404	95,177	-	-	(5,227)	-	(5,227)
Recreation	42,250	-	-	-	(42,250)	-	(42,250)
Public welfare	520	-	-	-	(520)	-	(520)
Interest on long-term debt	80,086	-	-	-	(80,086)	-	(80,086)
Total governmental activities	750,607	143,946	19,084	38,503	(549,074)	-	(549,074)
Business-type activities							
Water and sewer fund	277,446	269,208	-	-	-	(8,238)	(8,238)
Total Primary Government	$ 1,028,053	$ 413,154	$ 19,084	$ 38,503	(549,074)	(8,238)	(557,312)
General revenues							
Property taxes					164,937	-	164,937
Sales taxes					221,652	-	221,652
Alcoholic beverage taxes					25,589	-	25,589
Business taxes					60	-	60
Gross receipts taxes					14,829	-	14,829
Franchise & excise taxes					5,610	-	5,610
State income tax					1,896	-	1,896
Investment earnings					187	5,026	5,213
Miscellaneous					89,959	-	89,959
Total general revenues and transfers					524,719	5,026	529,745
Changes in net assets					(24,355)	(3,212)	(27,567)
Net assets - beginning					1,313,899	1,445,364	2,759,263
Net assets - ending					$ 1,289,544	$ 1,442,152	$ 2,731,696

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

CITY OF KENTON, TENNESSEE
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2011

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash	$ 47,298	$ 73,118	$ 120,416
Taxes receivable	194,118	-	194,118
Account receivable	8,582	-	8,582
Capital lease receivable	1,505,000	-	1,505,000
TOTAL ASSETS	$ 1,754,998	$ 73,118	$ 1,828,116
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	$ 14,428	$ 6,151	$ 20,579
Due to other funds	2,434	16,855	19,289
Accrued liabilities	4,571	-	4,571
Deferred revenue - taxes	188,863	-	188,863
Total Liabilities	210,296	23,006	233,302
Fund Balances			
Nonspendable			
Capital lease receivable	1,505,000	-	1,505,000
Assigned	-	-	-
Sanitation	2,901	-	2,901
Restricted	-	-	-
State street aid	-	22,279	22,279
Recreation	-	26,166	26,166
Drug	-	1,667	1,667
Unassigned	36,801	-	36,801
Total fund balance	1,544,702	50,112	1,594,814
TOTAL LIABILITIES AND FUND BALANCES	$ 1,754,998	$ 73,118	$ 1,828,116

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

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

Amounts reported for governmental activities in the statement of net assets are different because:	
Total fund balances of governmental funds	$ 1,594,814
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,251,792
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(1,557,062)
Net assets of governmental activities	$ 1,289,544

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

CITY OF KENTON, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2011

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	$ 272,546	$ -	$ 272,546
Licenses and permits	18,522	-	18,522
Intergovernmental revenues	151,439	68,175	219,614
Charges for services	110,755	4,200	114,955
Fines and seizures	10,116	353	10,469
Miscellaneous revenues	11,544	94	11,638
Total Revenues	574,922	72,822	647,744
Expenditures			
Current:			
General government	173,915	-	173,915
Judicial	5,723	-	5,723
Public safety	189,779	-	189,779
Highways and streets	81,149	29,133	110,282
Sanitation	100,138	-	100,138
Recreation	10,198	11,996	22,194
Drug education and expense		520	520
Capital outlay		37,560	37,560
Total Expenditures	560,902	79,209	640,111
Excess of Revenues Over (Under) Expenditures	14,020	(6,387)	7,633
Other Financing Sources (Uses)			
Debt service	(31,881)	10,483	(21,398)
Total Other Financing Sources (Uses)	(31,881)	10,483	(21,398)
Net Change in Fund Balance	(17,861)	4,096	(13,765)
Fund Balance - July 1, 2010	1,562,563	46,016	1,608,579
Fund Balance - June 30, 2011	$ 1,544,702	$ 50,112	$ 1,594,814

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

CITY OF KENTON, 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, 2011

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

Net change in fund balances-total governmental funds	$	(13,765)
Government 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 in the current period exceeded capital outlay.		(30,410)
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. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		19,820
Change in net assets of governmental activities	$	(24,355)

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

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

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Taxes				
Property taxes	$ -	$ -	$ 146,975	$ 146,975
Interest and penalties	-	-	2,317	2,317
Local sales tax	-	-	102,755	102,755
Business taxes	-	-	60	60
Gross receipts tax	-	-	14,829	14,829
Cable TV franchise tax	-	-	5,610	5,610
Total Taxes	-	-	272,546	272,546
Licenses and Permits				
Automobile registration	-	-	18,274	18,274
Beer licenses	-	-	200	200
Building permits	-	-	48	48
Total Licenses and Permits	-	-	18,522	18,522
Intergovernmental Revenues				
Housing Authority payments in lieu of taxes	-	-	947	947
TVA payments in lieu of taxes	-	-	14,698	14,698
State of Tennessee sales tax	-	-	86,422	86,422
State of Tennessee income tax	-	-	1,896	1,896
State of Tennessee beer tax	-	-	25,589	25,589
State of Tennessee streets and transportation funds	-	-	2,803	2,803
Grant revenue	-	-	19,084	19,084
Total Intergovernmental Revenues	-	-	151,439	151,439
Charges for Services				
Fire protection fees	-	-	13,975	13,975
Other fees	-	-	1,603	1,603
Total Charges for Services	-	-	15,578	15,578
Fines and Forfeits				
City court fines	-	-	9,045	9,045
Court fines and costs from county	-	-	1,071	1,071
Total Fines and Forfeits	-	-	10,116	10,116

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

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

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Miscellaneous Revenues				
Rent	$ -	$ -	$ 6,162	$ 6,162
Interest revenue	-	-	93	93
Community center fees	-	-	1,340	1,340
Other	-	-	3,949	3,949
Total Miscellaneous Revenues	-	-	11,544	11,544
Total Revenue	-	-	479,745	479,745
Expenditures				
General Government				
Salaries	-	-	38,049	(38,049)
Payroll taxes	-	-	4,246	(4,246)
Insurance	-	-	60,319	(60,319)
Board and committee fees	-	-	8,800	(8,800)
Memberships and registration	-	-	1,946	(1,946)
Advertising	-	-	116	(116)
Utilities and telephone	-	-	11,003	(11,003)
Professional services	-	-	32,439	(32,439)
Repair and maintenance	-	-	324	(324)
Travel	-	-	165	(165)
Supplies	-	-	12,001	(12,001)
Retirement contributions	-	-	4,507	(4,507)
Total General Government	-	-	173,915	(173,915)
Judicial				
Salaries	-	-	3,300	(3,300)
Payroll taxes	-	-	252	(252)
Supplies	-	-	1,650	(1,650)
Miscellaneous	-	-	521	(521)
Total Judicial	-	-	5,723	(5,723)
Public Safety				
Police Department				
Salaries	-	-	134,761	(134,761)
Payroll taxes	-	-	11,024	(11,024)
Retirement	-	-	7,046	(7,046)
Memberships and registrations	-	-	100	(100)
Utilities and telephone	-	-	6,477	(6,477)
Repair and maintenance	-	-	2,375	(2,375)
Supplies	-	-	2,574	(2,574)
Travel	-	-	212	(212)
Gas and oil	-	-	8,765	(8,765)
Miscellaneous	-	-	21	(21)
Total Police Department	-	-	173,355	(173,355)

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

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

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Fire Department				
Salaries	$ -	$ -	$ 4,511	$ (4,511)
Payroll taxes	-	-	345	(345)
Supplies	-	-	953	(953)
Repair and maintenance	-	-	7,036	(7,036)
Gas and oil	-	-	1,056	(1,056)
Memberships and registrations	-	-	150	(150)
Miscellaneous	-	-	2,373	(2,373)
Total Fire Department	-	-	16,424	(16,424)
Total Public Safety	-	-	189,779	(189,779)
Highways and Streets				
Salaries	-	-	53,587	(53,587)
Payroll taxes	-	-	4,085	(4,085)
Retirement	-	-	3,438	(3,438)
Utilities and telephone	-	-	2,555	(2,555)
Repair and maintenance	-	-	6,987	(6,987)
Gas and oil	-	-	7,412	(7,412)
Gravel and sand	-	-	1,031	(1,031)
Supplies	-	-	2,054	(2,054)
Total Highways and Streets	-	-	81,149	(81,149)
Culture and recreation				
Salaries	-	-	7,100	(7,100)
Utilities and telephone	-	-	2,475	(2,475)
Supplies	-	-	623	(623)
Total Recreation	-	-	10,198	(10,198)

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

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

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Capital Outlay				
General government	$ -	$ -	$ -	$ -
Police department	-	-	-	-
Fire department	-	-	-	-
Highways and streets	-	-	-	-
Total Capital Outlay	-	-	-	-
Total Expenditures	-	-	460,764	(460,764)
Excess (deficiency) of revenues over (under) expenditures	-	-	18,981	18,981
Other Financing Sources(Uses)				
Note proceeds	-	-	18,175	18,175
Special School District payment on bonds	-	-	78,509	(127,696)
Interest on notes	-	-	(869)	(869)
Bond and note payments	-	-	(127,696)	(127,696)
Total Other Financing Sources (Uses)	-	-	(31,881)	(238,086)
Net change in fund balance	-	-	(12,900)	(12,900)
Fund Balance - July 1, 2010	1,554,701	1,554,701	1,554,701	-
Fund Balance - June 30, 2011	$ 1,554,701	$ 1,554,701	$ 1,541,801	$ (12,900)

Reconciliation to fund financial statements:	
Excess (deficit) of revenues and other financing sources over (under) expenditures and other financing uses - budgetary	(12,900)
Revenues and expenditures not included in budgetary statements:	
Sanitation - revenues	95,177
Sanitation - expenditure	(100,138)
Excess (deficit) of revenues over (under) expenditures	(17,861)
Fund balance - budgetary	1,541,801
Assets related to sanitation operations	10,726
Liabilities related to sanitation operations	(7,825)
Fund balance - June 30, 2011	1,544,702

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

CITY OF KENTON, TENNESSEE
STATEMENT OF NET ASSETS - WATER AND SEWER FUND
June 30, 2011

ASSETS		
Current Assets		
Cash	$ 31,659	
Investments, at cost	343,180	
Accounts receivable	33,927	
Accrued interest receivable	1,443	
Due from other funds	19,289	
Inventory	11,875	
Total Current Assets		441,373
Restricted Assets		
Cash		14,221
Utility Plant		
Land	14,018	
Buildings	253,894	
Plant in service	3,947,619	
Less: Accumulated depreciation	(2,591,114)	
Net Utility Plant in Service		1,624,417
Total Assets		2,080,011
LIABILITIES		
Current Liabilities		
Accounts payable	4,098	
Accrued interest payable	4,814	
Other accrued expenses	1,268	
Notes payable - current	9,772	
Bonds payable - current	26,173	
Total Current Liabilities		46,125
Other Liabilities		
Customer deposits	21,362	
Long-term bonds payable	570,372	
Total Other Liabilities		591,734
Total Liabilities		637,859
NET ASSETS		
Invested in Capital Assets, Net of Related Debt		1,018,100
Restricted Net Assets		14,221
Unrestricted Net Assets		409,831
Total Net Assets		$ 1,442,152

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

CITY OF KENTON, TENNESSEE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
WATER AND SEWER FUND
For the Year Ended June 30, 2011

	Water and Sewer
Operating Revenues	
Water and sewer services	$ 248,853
Late payment penalties	10,248
Miscellaneous revenue	10,107
Total Water and Sewer Operating Revenues	269,208
Operating Expenses	
Salaries	65,818
Payroll taxes	2,575
Retirement	500
Utilities	40,723
Telephone	1,182
Professional services	580
Office supplies and postage	2,080
Supplies	9,398
Repair and maintenance	15,802
Purification testing and supplies	18,216
Depreciation	76,930
Insurance	10,000
Miscellaneous	3,050
Total Operating Expenses	246,854
Total Operating Income (Loss)	22,354
Non-Operating Revenues (Expenses)	
Interest revenue	5,026
Interest expense	(30,592)
Total Non-Operating Revenues (Expenses)	(25,566)
Change in Net Assets	(3,212)
Total Net Assets - July 1, 2010	1,445,364
Total Net Assets - June 30, 2011	$ 1,442,152

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

CITY OF KENTON, TENNESSEE
STATEMENT OF CASH FLOWS - WATER AND SEWER FUND
For the Year Ended June 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$	259,704
Payments to suppliers		(112,273)
Payments to employees		(65,818)
Net cash provided by operating activities		81,613
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets		(65,263)
Principal paid on capital debt		(41,554)
Interest paid on capital debt		(31,106)
Payments from other funds		922
Net cash used by capital and related financing activities		(137,001)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income		5,786
Customer deposits collections net of refunds		3,403
Net cash provided by investing activities		9,189
Net decrease in cash and cash equivalents		(46,199)
Balances - beginning of year		92,079
Balances - end of the year	$	45,880
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	$	22,354
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expense		76,930
Changes in assets and liabilities:		
Receivables, net		(9,504)
Accounts payable		(8,147)
Accrued expenses		(20)
Net cash provided by operating activities	$	81,613

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies followed by the City of Kenton conform to generally accepted accounting principles applicable to governmental entities. The City's significant accounting policies are summarized as follows:

A. Reporting Entity

The City, for financial statement purposes, includes all of the funds relevant to the operations of the City of Kenton. The criteria of control or dependence are used to determine which activities are included in the City's financial statements. Control or dependence is determined on the basis of budget adopting, taxing authority, funding and appointment of the respective governing board.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund 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 is 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 the proprietary fund. 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 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 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 are recorded only when payment is due.

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

The government reports the following major governmental fund:

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 government reports the following major proprietary fund:

The *water and sewer fund* accounts for the activities associated with the distribution of water and treatment and the City's collection, transportation, treatment and disposal of wastewater.

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

As a general rule the effect of inter-fund activity has been eliminated from the government-wide financial statements.

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

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided and 2) operating 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 *non operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer enterprise fund are charges to customers for sales and services. The enterprise fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating

expenses for enterprise funds 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 non operating revenues and expenses.

D. Assets, Liabilities and Net Assets or Fund Balance

Deposits and Investments

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

Investments of the City consist primarily of certificates of deposit at area banks. Investments are valued at cost. State statutes authorize the City 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 states 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). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances". Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Property taxes are levied each year and become payable on October 1 and become delinquent the following March 1. Property taxes receivable by year are shown in the schedule of changes in property taxes receivable.

Inventories and Prepaid Items

Perpetual inventory records are not maintained. Physical inventory counts are made annually, and inventory balances are recorded at cost, using the first-in, first-out method.

Certain prepayments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, vehicles, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) and construction in progress, are reported in the applicable governmental or business-type activity column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than $5,000 for improvements other than buildings and equipment, and $10,000 for infrastructure and buildings. Such assets are recorded at historical cost or estimated historical cost if purchased or

constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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 City are also depreciated using the straight line method over the following estimated useful lives:

Buildings	25-40 years
Plant in operation	10-35 years
Vehicles and equipment	5 years
Furniture and fixtures	3-10 years
Infrastructure	40 years

Compensated Absences
The City provides one week of paid vacation annually for employees who have one year of continuous service, 10 days for those who have 3 years of continuous service and 15 days for those who have 10 years of continuous service. Vacation days do not accumulate from year to year.

All full-time employees earn one day of paid sick leave for each month of work up to a maximum of twelve days per year. Sick leave days do not carry over or accumulate from year to year.

Long-term Obligations
In the government-wide financial statements and proprietary fund type 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 recognize 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 Equity
Effective July 1, 2010, the City adopted the provisions of GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. The objective of the statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying governmental fund type definitions.

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balance for governmental funds can consist of the following:

Nonspendable fund balance
This classification includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term notes receivable.

Restricted fund balance
This classification includes amounts that are restricted for specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changes or lifted with the consent or resource providers.

Committed fund balance
This classification includes amounts that can only be used for the specific purposes determined by a formal action of the City's highest level of decision-making authority, the Board of Alderman of the City of Kenton. Commitments may be changed or lifted only by the City taking the same formal action that imposed the constraint originally (for example: resolution).

Assigned fund balance
This classification includes amounts intended to be used by the City for specific purposes that are neither restricted nor committed. The Board and its designees (of which there are none) have the authority to assign amounts to be used for specific purposes. Assigned amounts also include all residual amounts in governmental funds (except negative amounts) that are not classified as nonspendable, restricted, or committed.

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

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned, and unassigned.

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

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

The governmental fund balance sheet includes reconciliation between *fund balance – 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 $1,251,792 difference are as follows:

Governmental funds capital assets	$ 2,140,043
Less: accumulated depreciation	(888,251)
Net adjustment to increase fund balance - total governmental funds to arrive at net assets - governmental activities	$ 1,251,792

Another element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The detail of this $1,557,062 difference is as follows:

Notes payable	$ 52,062
Bonds payable	1,505,000
Net adjustment to reduce fund balances - total governmental funds to arrive at net assets - governmental activities	$ 1,557,062

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes 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." The details of this $30,410 differences are as follows:

Capital outlay	$ 37,560
Depreciation expense	(67,970)
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	$ (30,410)

Another element of that reconciliation states that "the issuance of long-term debt (e.g., bonds, leases) 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. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this $19,820 difference are as follows:

Debt issued	$ (58,290)
Principal repayments	78,110
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	$ 19,820

NOTE 3 - BUDGETARY INFORMATION

The City is required by state law to adopt annual budgets for the general fund and special revenue funds. Each budget is adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. Once the budget is approved, it can be amended at the Function and Fund level only by approval of a majority of the Board of Aldermen.

The City failed to adopt a budget for the year ending June 30, 2011. Therefore, during the year ending June 30, 2011 expenditures exceeded appropriations in all funds where budget amounts are required.

NOTE 4 – DETAILED NOTES ON ALL FUNDS

Deposits and Invested Funds

Custodial Credit Risk – The City'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 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 of at least equal to the amount of funds invested in the repurchase transaction. As of June 30, 2011, all bank deposits were fully collateralized or insured.

Cash and cash equivalents and investments as reflected in the accompanying financial statements are allocated as follows under the *Governmental Accounting Standards Board Statement No. 3.*

	Cash on Hand	Deposits	Total
Cash and cash equivalents			
General fund	$ 200	$ 47,098	$ 47,298
Other governmental funds	40	73,078	73,118
Proprietary funds	-	31,659	31,659
Total cash and cash equivalents	240	151,835	152,075
Investments			
General fund	-		-
Other governmental funds	-		-
Proprietary funds	-	343,180	343,180
Total investments	-	343,180	343,180
Total	$ 240	$ 495,015	$ 495,255

Receivables

Receivables as of June 30, 2011 for the City's individual major funds, and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General	Water and Sewer	Total
Receivables:			
Property taxes	$ 296,759	$ -	$ 296,759
Accounts	8,582	33,927	42,509
Capital lease	1,505,000		1,505,000
Gross receivables	1,810,341	33,927	1,844,268
Less: Allowance for Uncollectibles	(102,641)	-	(102,641)
Net total receivables	$ 1,707,700	$ 33,927	$ 1,741,627

Governmental funds report deferred revenue in the 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. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable
Property taxes receivable	$ 188,863
Total deferred/unearned revenue for governmental funds (government-wide statement of net assets)	$ 188,863

Capital Assets

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

Governmental activities:	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	$ 141,054	$ -	$ -	141,054
Total capital assets, not being depreciated	141,054	-	-	141,054
Capital assets, being depreciated				
Buildings	375,351	37,560	-	412,911
Improvements other than buildings	858,226	-	-	858,226
Machinery and equipment	727,852	-	-	727,852
Total capital assets, being depreciated	1,961,429	37,560	-	1,998,989
Less accumulated depreciation				
Buildings	189,916	10,787	-	200,703
Improvements other than buildings	184,188	24,739	-	208,927
Machinery and equipment	446,177	32,444	-	478,621
Total accumulated depreciation	820,281	67,970	-	888,251
Total capital assets being depreciated, net	1,141,148	(30,410)	-	1,110,738
Governmental activities capital assets, net	$ 1,282,202	$ (30,410)	$ -	$ 1,251,792

Business-type activities:	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	$ 14,018	$ -	$ -	$ 14,018
Capital assets, being depreciated				
Buildings	253,894	-	-	253,894
Utility Plant and equipment	3,922,913	24,706	-	3,947,619
Total capital assets, being depreciated	4,176,807	24,706	-	4,201,513
Less accumulated depreciation				
Buildings	193,469	3,347	-	196,816
Utility Plant and equipment	2,320,715	73,583	-	2,394,298
Total accumulated depreciation	2,514,184	76,930	-	2,591,114
Total capital assets being depreciated, net	1,662,623	(52,224)	-	1,610,399
Business-type activities capital assets, net	$ 1,676,641	$ (52,224)	$ -	$ 1,624,417

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

Governmental activities:	
General government	$ 1,790
Public safety	25,987
Highways and streets	19,871
Sanitation	266
Recreation	20,056
Total depreciation expense - governmental activities	$ 67,970
Business-type activities:	
Water and sewer fund	$ 76,930

Interfund Receivable, Payables, and Transfers

The composition of inter-fund balances as of June 30, 2011 is as follows:

Due to/from other funds:

	Due from		
Due to	General Fund	State Street Aid Fund	Total
Water & Sewer Fund	$ 2,434	$ 16,855	$ 19,289

The amounts payable to the Water and Sewer Fund from the General and State Street Aid Fund relate to the sharing on mutually beneficial equipment paid for out of the Water and Sewer Fund. The City expects that all balances noted will be repaid within the next fiscal year.

During the year ended June 30, 2011 there were no transfers between funds.

Long-Term Debt

Water and Sewer Fund

During the fiscal year ended June 30, 1985, the City closed a Water and Sewer Revenue 5% Revenue and Tax Bond, Series with Farmers Home Administration for $600,000, with maturity set for 2023. A pledge and second lien on the revenues of the system secure the loan. The bonds require interest of 5% and are to be repaid over the length of the bond with payments being amortized semi-annually. At June 30, 2011, the principal balance outstanding was $304,830.

During the fiscal year ended June 30, 2000, the City was approved for a $337,000 Water and Sewer 4.75% Tax Bond Series 1999 through Rural Development to help finance water and sewer plant improvements. During the year ended June 30, 2001, the City closed the loan with Rural Development. A pledge and second lien on the revenues of the system secure the loan. The loan requires interest of 4.75% to be repaid with monthly installments of $1,601, maturing in 2038. At June 30, 2011, the principal balance outstanding was $291,714.

During the fiscal year ended June 30, 2009, the City borrowed $47,319 from First State Bank. The terms of the loan require monthly payments of $1,500 with the balance due at maturity on January 9, 2012. Interest is charged at 3.90%. At June 30, 2011 the principal balance outstanding was $9,772.

General Fund

During the fiscal year ending June 30, 2009, the City borrowed $38,146 from First State Bank to assist with the purchase of fire equipment. During the fiscal year ending June 30, 2011 the City borrowed an additional $5,075 to purchase office equipment and added it to the remaining balance of this note. This unsecured note requires monthly payments of $1,134 bearing an interest rate of 3.35% and matures March 25, 2012. The balance at June 30, 2011 was $9,402.

During the fiscal year ending June 30, 2002, the City entered into an agreement with the Kenton Special School District to acquire the funding necessary to construct, furnish and equip a school facility. The funding was acquired by the City by issuance of the $1,680,000 General Obligation School Bonds, Series 2001. The interest rate on the bonds varies, ranging from 3% to 5.5% with a net interest cost of 5.07%. The Kenton Special School District is required to submit to the City an amount equal to the next debt service requirement no later than fifteen days prior to the debt service payment date. The balance at June 30, 2011 was $1,505,000.

During the fiscal year ending June 30, 2011, the City borrowed $13,100 from First State Bank to assist with operations. This unsecured note bears an interest rate of 3.90% and matures June 7, 2012. The balance at June 30, 2011 was $13,100.

Park Fund

During the fiscal year ending June 30, 2011, the City borrowed $32,490 from First State Bank used for improvements to the gymnasium. This unsecured note requires monthly payments of $1,556 bearing an interest rate of 3.90% and matures January 9, 2012. The balance at June 30, 2011 was $29,560.

The annual debt service requirements to maturity, including principle and interest, for long-term debt as of June 30, 2011 are as follows:

Year Ending June 30	Principal Payments	Interest Payments	Total
2012	$ 116,284	$ 102,954	$ 219,238
2013	84,221	98,350	182,571
2014	78,891	95,110	174,001
2015	85,353	91,713	177,066
2016	96,889	82,977	179,866
2017-2021	610,350	358,410	968,760
2022-2026	751,511	182,118	933,629
2027-2031	226,410	42,095	268,505
2032-2036	77,837	18,223	96,060
2037-2041	35,633	1,748	37,381
Total	$ 2,163,379	$ 1,073,698	$ 3,237,077

The following is a summary of long-term debt transactions for the year ended June 30, 2011:

	Beginning Balance	Borrowings	Retirements	Balance June 30, 2011
Revenue Bonds	$ 620,823	$ -	$ 24,278	$ 596,545
General Obligation School Bonds	1,540,000		35,000	1,505,000
Notes Payable	62,405	58,290	58,861	61,834
Capital Lease	1,526		1,526	-
	$ 2,224,754	$ 58,290	$ 119,665	$ 2,163,379

NOTE 5 – OTHER INFORMATION

Risk Management
The City manages the various types of risk through the use of commercial insurance. The City insures against the risk of loss of property and misappropriation of funds. There were no settlements in excess of insurance coverage in any of the past three years.

Concentration of Credit Risk
The City bills local property owners for property taxes and customers of the Proprietary Fund for utility services. At June 30, 2011, these property owners and customers are indebted to the City as noted on the Balance Sheets of the General and Proprietary Funds. The majority of the property owners and customers are local businesses or individuals. The property is subject to foreclosure in the event of non-payment of property taxes after certain legal requirements are met. The utility services are sold to the customers without requiring any collateral although deposits are required in certain situations.

Net Working Capital
At June 30, 2011, Water and Sewer Fund current assets exceeded current liabilities by $395,248.

Events Occurring After Reporting Date
The City has evaluated events and transactions that occurred between June 30, 2011 and August 31, 2012 which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

Retirement Plans

Plan Description
Employees of the City of Kenton are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with 5 (five) years of service or at any age with 30 years of service.

A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who became disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or

injury occurring while the member was in the performance of duty. Members joining the system after July1, 1979 become vested after 5 (five) years of service and members joining prior to July 1, 1979, were vested after 4 (four) years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as the City of Kenton participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

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

Funding Policy

The City of Kenton is contributory whereby most employees contribute 5.0 percent of earnable compensation.

The City of Kenton is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2011 was 5.60% of annual covered payroll. The contribution requirements of plan members are set by state statute. Contribution requirements for the City of Kenton are established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ending June 30, 2011, the City of Kenton's annual pension cost of $11,713 to TCRS was equal to the City of Kenton's required and actual contributions.

The required contribution was determined as part of the July 1, 2009 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), and (c) projected 3.5 percent annual increase in the Social Security wage base. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. City of Kenton's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2009 was 7 years. An actuarial valuation was performed as of July 1, 2009, which established rates effective July 1, 2010.

Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2011	$ 11,713	100%	$ -
6/30/2010	$ 10,252	100%	-
6/30/2009	$ 10,539	100%	-

Funding Status and Funding

As of July 1, 2009, the most recent actuarial valuation date, the plan was 79.58 percent funded. The actuarial accrued liability for benefits was $0.3 million, and the actuarial value of assets was $0.20 million, resulting in an unfunded actuarial accrued liability (UAAL) of $0.1 million. The covered payroll (annual payroll of active employees covered by the plan) was $0.2 million; the ratio of the UAAL to the covered payroll was 22.59 percent.
The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of the plan assets are increasing or decreasing over time relative to the AALs for benefits.

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

NOTE 6 – THEFT

During the fiscal year ending June 30, 2011, the City, based on evidence discovered by City personnel, suspected that a theft of cash had occurred by a City employee. The City investigated and determined that the employee had stolen less than $2,000. The amount of the loss was corroborated by the employee as part of the investigation and by an independent investigation by the State of Tennessee. The employee was dismissed and has repaid the City for its loss. The State of Tennessee, Division of Municipal of Audit was notified about the theft.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF KENTON, TENNESSEE
SCHEDULE OF FUNDING PROGRESS-
EMPLOYEE RETIREMENT SYSTEM
For the Year Ended June 30, 2011

Schedule of Funding Progress for Kenton

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) -Entry age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(b)-(a)	(a/b)	(c)	((b-a)/c)
7/1/09	$ 205	$ 257	$ 52	79.58%	$ 232	22.59%
7/1/07	$ 181	$ 205	$ 24	88.29%	$ 138	17.39%

The Governmental Accounting Standards Board (GASB) requires the plan to prepare the Schedule of Funding Progress using the entry age actuarial cost method. The requirement to present the Schedule of Funding Progress using the entry age actuarial cost method change was made during the year of the most recent actuarial valuation date, therefore only the most current year is presented.

OTHER SUPPLEMENTARY INFORMATION

CITY OF KENTON, TENNESSEE
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
June 30, 2011

	Special Revenue			
	State Street Aid	Park Fund	Drug Fund	Total Nonmajor Governmental Funds
ASSETS				
Cash	$ 41,323	$ 30,128	$ 1,667	$ 73,118
TOTAL ASSETS	$ 41,323	$ 30,128	$ 1,667	$ 73,118
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable	$ 2,189	$ 3,962	$ -	$ 6,151
Due to other funds	16,855	$ -	-	16,855
Total Liabilities	19,044	3,962	-	23,006
Fund Balance	29,617	26,166	1,667	57,450
TOTAL LIABILITIES AND FUND BALANCE	$ 48,661	$ 30,128	$ 1,667	$ 80,456

See independent auditor's report.

CITY OF KENTON, TENNESSEE
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2011

	Special Revenue			
	State Street Aid	Park Fund	Drug Fund	Total Nonmajor Governmental Funds
Revenues				
Intergovernmental revenues	$ 35,700	$ 32,475	$ -	$ 68,175
Charges for service	-	4,200	-	4,200
Fines and seizures	-	-	353	353
Miscellaneous revenues	94	-	-	94
Total Revenues	35,794	36,675	353	72,822
Expenditures				
Current:				
Highways and streets	29,133	-	-	29,133
Drug education and expenses	-	-	520	520
Recreation expenses	-	11,996	-	11,996
Capital outlay	-	37,560	-	37,560
Total Expenditures	29,133	49,556	520	79,209
Other Financing Sources (Uses)				
Proceeds from debt	-	32,490	-	32,490
Retirement of notes payable	-	(21,299)	-	(21,299)
Interest on notes payable	-	(708)	-	(708)
Total Other Financing Sources (Uses)	-	10,483	-	10,483
Excess of Revenues Over (Under) Expenditures	6,661	(2,398)	(167)	4,096
Fund Balance - July 1, 2010	15,618	28,564	1,834	46,016
Fund Balance - June 30, 2011	$ 22,279	$ 26,166	$ 1,667	$ 50,112

See independent auditor's report.

CITY OF KENTON, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - STATE STREET AID FUND
For the Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance-Favorable (Unfavorable)
Revenues				
Intergovernmental Revenues				
Gasoline and motor fuel tax	$ -	$ -	$ 24,409	$ 24,409
Gas 3 cent tax	-	-	3,953	3,953
Gas 1989 tax	-	-	7,338	7,338
Total Intergovernmental revenue	-	-	35,700	35,700
Miscellaneous Revenues				
Interest revenue	-	-	94	94
Total Revenues	-	-	35,794	43,132
Expenditures				
Highways and Streets				
Street lighting			28,530	(28,530)
Repairs and maintenance	-	-	603	(603)
Total Highways and Streets	-	-	29,133	(29,133)
Excess of Revenues Over (Under) Expenditures	-	-	6,661	13,999
Fund Balance - July 1, 2010	15,618	15,618	15,618	-
Fund Balance - June 30, 2011	$ 15,618	$ 15,618	$ 22,279	$ 6,661

See independent auditor's report.

CITY OF KENTON, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - PARK FUND
For the Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance-Favorable (Unfavorable)
Revenues				
Intergovernmental Revenues				
Local sales tax	$ -	$ -	$ 32,475	$ 32,475
Total Intergovernmental Revenues	-	-	32,475	32,475
Charges for Services				
Parks and recreation charges	-	-	4,200	4,200
Total Revenues	-	-	36,675	36,675
Expenditures				
Recreation				
Supplies	-	-	5,738	(5,738)
Repair & maintenance	-	-	2,036	(2,036)
Utility services	-	-	4,222	(4,222)
Total Recreation Expenditures	-	-	11,996	(11,996)
Capital Outlay				
Parks	-	-	37,560	(37,560)
Total Expenditures	-	-	49,556	(49,556)
Excess of Revenues Over (Under) Expenditures	-	-	(12,881)	(12,881)
Other Financing Sources (Uses)				
Proceeds from debt	-	-	32,490	32,490
Retirement of notes payable	-	-	(21,299)	(21,299)
Interest on notes payable	-	-	(708)	(708)
Total Other Financing Sources (Uses)	-	-	10,483	10,483
Net Change in Fund Balance			(2,398)	(2,398)
Fund Balance - July 1, 2010	28,564	28,564	28,564	-
Fund Balance - June 30, 2011	$ 28,564	$ 28,564	$ 26,166	$ (2,398)

See independent auditor's report.

CITY OF KENTON, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - DRUG FUND
For the Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance-Favorable (Unfavorable)
Revenues				
Court Fines and Costs	-	-	$ 353	$ 353
Expenditures				
Drug Fund				
Drug operations	-	-	-	-
Supplies	-	-	520	(520)
Total Drug Fund	-	-	520	(520)
Total Expenditures	-	-	520	(520)
Excess of Revenues Over (Under) Expenditures	-	-	(167)	(167)
Fund Balance - July 1, 2010	1,834	1,834	1,834	-
Fund Balance - June 30, 2011	$ 1,834	$ 1,834	$ 1,667	$ (167)

See independent auditor's report.

CITY OF KENTON, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - SANITATION FUND
For the Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance-Favorable (Unfavorable)
Revenues				
Charges for Services				
Refuse collection charges	-	-	$ 95,177	$ 95,177
Total Revenues	-	-	95,177	95,177
Expenditures				
Sanitation				
Landfill services	-	-	90,556	(90,556)
Collection charges	-	-	9,582	(9,582)
Total Expenditures	-	-	100,138	(100,138)
Excess of Revenues Over (Under) Expenditures	-	-	(4,961)	(4,961)
Fund Balance - July 1, 2010	7,862	7,862	7,862	-
Fund Balance - June 30, 2011	$ 7,862	$ 7,862	$ 2,901	$ (4,961)

See independent auditor's report.

CITY OF KENTON, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2011

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA #	Grant Number	Balance July 1, 2010	Cash Receipts	Expenditures	Balance June 30, 2011
Federal Awards						
Federal Emergency Management Agency	97.036	34101-0000005400	$ -	$ 19,084	$ 19,084	$ -

See independent auditor's report.

CITY OF KENTON, TENNESSEE
SCHEDULE OF INVESTMENTS - ALL FUNDS
For the Year Ended June 30, 2011

Water and Sewer Fund Unrestricted	Interest Rate	Maturity Date	Cost
Certificate of Deposit #10011033			
First State Bank, Kenton, Tennessee	1.15%	01/07/12	$ 180,000
Certificate of Deposit #10005115			
First State Bank, Kenton, Tennessee	0.92%	03/29/12	42,000
Certificate of Deposit #40586			
First State Bank, Kenton, Tennessee	1.00%	04/24/12	10,000
Certificate of Deposit #8004824			
First State Bank, Kenton, Tennessee	1.15%	03/25/12	111,180
Total Water and Sewer Fund Investments			$ 343,180

See independent auditor's report.

CITY OF KENTON, TENNESSEE
SCHEDULE OF BOND AND INTEREST REQUIREMENTS
WATER AND SEWER 5% REVENUE AND TAX BOND, SERIES 1983
For the Year Ended June 30, 2011

Due For Year Ending June 30	Principal Balance	Principal Payment	Interest Payment	Total Payment
2012	$ 304,830	$ 20,700	$ 14,724	$ 35,424
2013	284,130	21,758	13,666	35,424
2014	262,372	22,873	12,551	35,424
2015	239,499	24,042	11,382	35,424
2016	215,457	25,272	10,152	35,424
2017	190,185	26,564	8,860	35,424
2018	163,621	27,925	7,499	35,424
2019	135,696	29,351	6,073	35,424
2020	106,345	30,854	4,570	35,424
2021	75,491	32,431	2,993	35,424
2022	43,060	34,090	1,334	35,424
2023	8,970	8,970	75	9,045
		$ 304,830	$ 93,879	$ 398,709

See independent auditor's report.

CITY OF KENTON, TENNESSEE
SCHEDULE OF BOND AND INTEREST REQUIREMENTS
WATER AND SEWER 4.75% REVENUE AND TAX BOND, SERIES 1999
For the Year Ended June 30, 2011

Due For Year Ending June 30	Principal Balance	Principal Payment	Interest Payment	Total Payment
2012	$ 291,714	$ 5,473	$ 13,739	$ 19,212
2013	286,241	5,739	13,473	19,212
2014	280,502	6,018	13,194	19,212
2015	274,484	6,311	12,901	19,212
2016	268,173	6,617	12,595	19,212
2017	261,556	6,938	12,274	19,212
2018	254,618	7,274	11,938	19,212
2019	247,344	7,628	11,584	19,212
2020	239,716	7,999	11,213	19,212
2021	231,717	8,386	10,826	19,212
2022	223,331	8,794	10,418	19,212
2023	214,537	9,221	9,991	19,212
2024	205,316	9,668	9,544	19,212
2025	195,648	10,138	9,074	19,212
2026	185,510	10,630	8,582	19,212
2027	174,880	11,146	8,066	19,212
2028	163,734	11,687	7,525	19,212
2029	152,047	12,255	6,957	19,212
2030	139,792	12,849	6,363	19,212
2031	126,943	13,473	5,739	19,212
2032	113,470	14,127	5,085	19,212
2033	99,343	14,814	4,398	19,212
2034	84,529	15,532	3,680	19,212
2035	68,997	16,287	2,925	19,212
2036	52,710	17,077	2,135	19,212
2037	35,633	17,907	1,305	19,212
2038	17,726	17,726	443	18,169
		$ 291,714	$ 225,967	$ 517,681

See independent auditor's report.

CITY OF KENTON, TENNESSEE
SCHEDULE OF BOND AND INTEREST REQUIREMENTS
GENERAL OBLIGATION SCHOOL BONDS, SERIES 2001
For the Year Ended June 30, 2011

Due For Year Ending June 30	Principal Balance	Principal Payment	Interest Payment	Total Payment
2012	$ 1,505,000	$ 40,000	$ 72,970	$ 112,970
2013	1,465,000	45,000	71,045	116,045
2014	1,420,000	50,000	69,365	119,365
2015	1,370,000	55,000	67,430	122,430
2016	1,315,000	65,000	60,230	125,230
2017	1,250,000	70,000	62,755	132,755
2018	1,180,000	75,000	59,765	134,765
2019	1,105,000	85,000	51,475	136,475
2020	1,020,000	95,000	47,875	142,875
2021	925,000	100,000	48,710	148,710
2022	825,000	110,000	38,960	148,960
2023	715,000	120,000	33,860	153,860
2024	595,000	130,000	28,195	158,195
2025	465,000	145,000	16,955	161,955
2026	320,000	155,000	15,130	170,130
2027	165,000	165,000	7,445	172,445
		$ 1,505,000	$ 752,165	$ 2,257,165

See independent auditor's report.

CITY OF KENTON, TENNESSEE
SCHEDULE OF CHANGES IN PROPERTY TAXES RECEIVABLE
For the Year Ended June 30, 2011

Year of Levy	Balance 6/30/2010	Current Assessments and Adjustments	Collections	Balance 6/30/2011
2010	$ -	$ 159,566	$ 138,807	$ 20,759
2009	20,340	-	5,614	14,726
2008	32,681	-	-	32,681
2007	37,335	-	-	37,335
2006	507	-	-	507
2005	127	-	-	127
2004	494	-	-	494
2003	487	-	-	487
2002	32	-	-	32
2001	748	-	-	748
	$ 92,751	$ 159,566	$ 144,421	$ 107,896
Allowance for uncollectible revenues				(102,641)
2011 levy considered as deferred revenue				188,863
Net taxes receivable				$ 194,118

See independent auditor's report.

CITY OF KENTON, TENNESSEE
SCHEDULE OF PROPERTY TAX RATES AND ASSESSMENTS
For the Year Ended June 30, 2011

Year	Assessed Value	Tax Rate Per $100	Levy	
2001	8,301,585	1.320	109,581	Obion Co.
2001	4,152,957	1.340	55,650	Gibson Co.
2002	12,352,655	1.130	139,585	Obion Co.
2002	4,887,076	1.230	60,111	Gibson Co.
2003	11,599,931	1.130	131,079	Obion Co.
2003	4,478,452	1.230	55,085	Gibson Co.
2004	11,025,761	1.130	124,591	Obion Co.
2004	5,240,673	1.230	64,460	Gibson Co.
2005	12,426,679	1.130	140,421	Obion Co.
2005	5,312,347	1.230	65,342	Gibson Co.
2006	10,474,913	1.130	118,367	Obion Co.
2006	5,758,385	1.230	70,828	Gibson Co.
2007	9,898,005	1.130	111,847	Obion Co.
2007	5,348,481	1.230	65,786	Gibson Co.
2008	9,738,183	1.130	110,041	Obion Co.
2008	5,323,444	1.230	65,478	Gibson Co.
2009	7,712,763	1.130	87,154	Obion Co.
2009	6,173,092	1.150	70,991	Gibson Co.
2010	7,708,555	1.130	87,107	Obion Co.
2010	6,300,815	1.150	72,459	Gibson Co.

See independent auditor's report.

CITY OF KENTON, TENNESSEE
SCHEDULE OF UNACCOUNTED FOR WATER - Unaudited
June 30, 2011

	(All amounts in gallons)	
Water treated and purchased:		
Water pumped (potable)	59,383,000	
Water purchased	0	
Total water treated and purchased		59,383,000
Accounted for water:		
Water sold	31,405,000	
Metered for Consumption	0	
Fire Department(s) Usage	0	
Flushing	424,000	
Tank Cleaning/Filling	0	
Street Cleaning	0	
Bulk Sales	0	
Water Bill Adjustments / plus or (minus)	0	
Total accounted for water		31,829,000
Unaccounted for water		27,554,000
Percent unaccounted for water		46.400%
Other (explain)	See Below	

Explain Other:

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.

INTERNAL CONTROL AND COMPLIANCE SECTION

ALEXANDER THOMPSON ARNOLD PLLC

Certified Public Accountants

www.atacpa.net

185 North Church Street
Dyersburg, TN 38024

Telephone: (731) 285-7900
(800) 608-5612
Fax: (731) 285-6221

Members of

American Institute of Certified Public Accountants
AICPA Center for Public Company Audit Firms
AICPA Governmental Audit Quality Center
AICPA Employee Benefit Plan Audit Quality Center
Tennessee Society of Certified Public Accountants
Kentucky Society of Certified Public Accountants

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

Honorable Mayor and
Board of Aldermen
City of Kenton, Tennessee

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kenton, Tennessee, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 31, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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.

Dyersburg, TN
Union City, TN
Henderson, TN
Jackson, TN
Martin, TN
McKenzie, TN
Milan, TN
Murray, KY
Paris, TN
Trenton, TN

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting. They are 2011-1, 2011-2 and 2011-4. *A significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

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

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

Alexander Thompson Arnold, PLLC

Dyersburg, Tennessee
August 31, 2012

CITY OF KENTON, TENNESSEE
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2011

Significant Deficiencies

2011-1 – General Ledger Maintenance

Condition: The City does not reconcile the utility customers' accounts receivable to the general ledger, post the prior year audit adjustments or record depreciation expense. The general ledger is adjusted as a part of the annual audit.

Criteria: In order to maintain accurate account balances and avoid discrepancies, the City should reconcile accounts receivable on a monthly basis, post the audit adjustments and record depreciation expense.

Effect: This situation could allow the integrity of the collections to be compromised and not be discovered on a timely basis, as well as maintain account balances that are not indicative of the actual amounts.

Recommendation: We recommend the City personnel reconcile the accounts receivable balances on, at a minimum, monthly basis, record the audit adjustments and depreciation expense.

Response: The City agrees and will try to implement our recommendation.

2011-2 – Inadequate Segregation of Duties

Condition: The City has inadequate segregation of duties. The City employs only two people to maintain the accounting records which cause implementation of an extensive system of internal control to be impractical.

Criteria: In order to protect the assets of the City and detect errors, bookkeeping duties should be segregated whenever possible.

Effect: Failure to adequately segregate duties increases the risk of misappropriation of assets and the occurrence of errors without detection.

Recommendation: We recommend that the City try to segregate as many duties as possible when it is feasible to do so. The Board of Aldermen approves all monthly expenditures. In addition to this, we recommend that the Board take an active role in reviewing bank reconciliations, daily cash reports and deposits and other documentation to oversee the accounting functions. Doing so will reduce the risk of material misstatement resulting from the lack of segregation of duties.

Reply: The City's response is that 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.

CITY OF KENTON, TENNESSEE
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2011

2011-3 – Budget - Noncompliance

Condition: The City failed to adopt a budget for the fiscal year ending June 30, 2011.

Criteria: TCA 6-56-205 states that "the governing body shall not make any appropriations in excess of estimated available funds, except to provide for an actual emergency threatening the health, property, or lives of inhabitants of the municipality and declared by a two-thirds (2/3) vote of all members of the governing body present, when there is a quorum".

Effect: Failure to adopt a budget results in the City's violation of state law.

Recommendation: To avoid possible legal conflict, the City should authorize all expenditures either in the original budget, in an amendment, or in a supplemental appropriation.

Response: Management agrees to take the appropriate action to insure that expenditures are properly authorized as noted above.

2011-4 – Water Loss – Significant Deficiency

Condition: According to the City's records, the unaccounted for water exceeded 46% for the year ended June 30, 2011.

Criteria: TCA 7-82-401 requires the City to present the average unaccounted for water in the annual audit with "excessive" water loss to be reported to the utility management review board.

Effect: Excessive water loss results in unnecessary costs incurred by the City.

Recommendation: We recommend that the City determine the source of the water loss as soon as possible and make the necessary steps to reduce it's unaccounted for water.

Response: Management is aware that the statistics indicate an excessive water loss but they believe it is due to a defective master meter and that there is an error in the total number of gallons produced. They are taking steps to determine the source of the faulty readings. Management agrees to take the appropriate action to insure that expenditures are properly authorized as noted above.