

**TOWN OF KIMBALL, TENNESSEE**

**ANNUAL FINANCIAL REPORT**

**YEAR ENDED JUNE 30, 2012**

## **I. INTRODUCTORY SECTION**

**TOWN OF KIMBALL, TENNESSEE**  
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**TOWN OF KIMBALL, TENNESSEE**  
**Board of Mayor and Aldermen**  
**June 30, 2012**

Mayor ..... David Jackson  
Vice-Mayor ..... Rex Pesnell  
Aldermen ..... Johnny Sisk  
Aldermen ..... Mark Payne  
Aldermen ..... Jerry Don Case  
Recorder ..... Tonia May

## **II. FINANCIAL SECTION**



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Marianne Greene, CPA

## INDEPENDENT AUDITOR'S REPORT

Board of Mayor and Aldermen  
Town of Kimball, Tennessee  
Kimball, Tennessee

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the major funds, and the aggregate remaining fund information of the Town of Kimball, Tennessee, as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Town of Kimball, Tennessee's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the major funds, and the aggregate remaining fund information of the Town of Kimball, Tennessee, as of June 30, 2012, 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 Accounting Standards*, we have also issued our report dated November 21, 2012, on our consideration of the Town of Kimball, Tennessee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Required Supplementary Information on Page 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Kimball, Tennessee's financial statements as a whole. The Introductory Section, combining and individual nonmajor fund financial statements, and Supplemental Information, are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements and Supplemental Information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The Introductory Section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

*Johnson, Murpley & Wright, P.C.*

Chattanooga, Tennessee  
November 21, 2012

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Kimball, Tennessee, we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town of Kimball, Tennessee for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with the Town's financial statements.

### FINANCIAL HIGHLIGHTS

The assets of the Town of Kimball, Tennessee exceeded its liabilities at June 30, 2012, by \$6,274,710 (net assets). Of this amount \$1,470,200 (unrestricted net assets) may be used to meet the Town's ongoing obligations to citizens and creditors.

The Town's governmental activities operated at a surplus of \$247,533. The Town's business-type activities operated at a deficit of \$(1,572). The business-type activities' major expense is repairs and maintenance.

As of the close of the current fiscal year, the Town of Kimball, Tennessee's governmental funds reported combined ending fund balances of \$1,378,338. Approximately 2.21% is restricted for specific purposes, and the remaining 97.79%, or \$1,347,916, is available for spending at the Town's discretion (unassigned fund balance).

At the end of the current fiscal year, unassigned fund balance for the General Fund was 54.86% of total General Fund expenditures.

As of the close of the current fiscal year, the Town's enterprise fund reported ending net assets of \$1,474,563. Of that balance, \$141,141, or 9.57%, is unrestricted.

### OVERVIEW OF THE FINANCIAL STATEMENTS

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

#### **Government-wide Financial Statements**

The *Government-wide Financial Statements* are designed to provide readers with a broad overview of the Town of Kimball, Tennessee's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of the Town of Kimball, Tennessee's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town of Kimball, Tennessee 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 and earned but unused vacation leave).

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

The government-wide financial statements can be found on pages 14 and 15 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 Town of Kimball, Tennessee, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town of Kimball, Tennessee 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 on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund Balance Sheet and governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between the governmental funds and governmental activities.

The Town of Kimball, Tennessee maintains three 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. Data from the other two governmental funds are combined into a single aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements later in this report beginning on page 46.

The Town of Kimball, Tennessee adopts an annual appropriated budget for its governmental funds. A budgetary comparison statement has been provided for the major governmental fund, which is the General Fund, to demonstrate compliance with this budget, as well as for the non-major funds.

The basic governmental fund financial statements can be found on pages 16 through 23 of this report.

### **Proprietary Funds**

The Town of Kimball, Tennessee maintains one type of proprietary fund: enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Kimball, Tennessee uses enterprise funds to account for its sewer operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the Sewer Fund which is considered to be a major fund of the Town of Kimball, Tennessee.

The basic proprietary fund financial statements can be found on pages 24 through 26 of this report.

### Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 27 through 43 of this report.

## FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

### Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town of Kimball, Tennessee, assets exceeded liabilities by \$6,274,710 at the close of this fiscal year.

The largest portion of the Town of Kimball, Tennessee's net assets (76.08 percent) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any debt used to acquire those assets that is still outstanding. The Town of Kimball, Tennessee uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the Town of Kimball, Tennessee'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.

Approximately 0.48%, or \$30,422, of the Town of Kimball, Tennessee's net assets represent resources that are subject to external restrictions on how they may be used.

At June 30, 2012, the Town of Kimball, Tennessee is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The table below provides a summary of the Town's net assets broken down by governmental and business-type activities:

### Town of Kimball, Tennessee's Net Assets

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 1,466,185	\$ 1,511,474	\$ 141,141	\$ 398,151	\$ 1,607,326	\$ 1,909,625
Capital assets	<u>3,583,052</u>	<u>3,206,615</u>	<u>1,410,099</u>	<u>1,227,984</u>	<u>4,993,151</u>	<u>4,434,599</u>
Total assets	<u>\$ 5,049,237</u>	<u>\$ 4,718,089</u>	<u>\$ 1,551,240</u>	<u>\$ 1,626,135</u>	<u>\$ 6,600,477</u>	<u>\$ 6,344,224</u>
Long-term liabilities						
outstanding	\$ 164,228	\$ 83,422	\$ 76,677	\$ 150,000	\$ 240,905	\$ 233,422
Other liabilities	<u>84,862</u>	<u>82,053</u>	<u>-</u>	<u>-</u>	<u>84,862</u>	<u>82,053</u>
Total liabilities	<u>\$ 249,090</u>	<u>\$ 165,475</u>	<u>\$ 76,677</u>	<u>\$ 150,000</u>	<u>\$ 325,767</u>	<u>\$ 315,475</u>
Net assets:						
Invested in capital assets -						
net of related debt	\$ 3,440,666	\$ 3,143,725	\$ 1,333,422	\$ 1,077,984	\$ 4,774,088	\$ 4,221,709
Restricted	30,422	27,853	-	-	30,422	27,853
Unrestricted	<u>1,329,059</u>	<u>1,381,036</u>	<u>141,141</u>	<u>398,151</u>	<u>1,470,200</u>	<u>1,779,187</u>
Total net assets	<u>\$ 4,800,147</u>	<u>\$ 4,552,614</u>	<u>\$ 1,474,563</u>	<u>\$ 1,476,135</u>	<u>\$ 6,274,710</u>	<u>\$ 6,028,749</u>

### Change in Net Assets

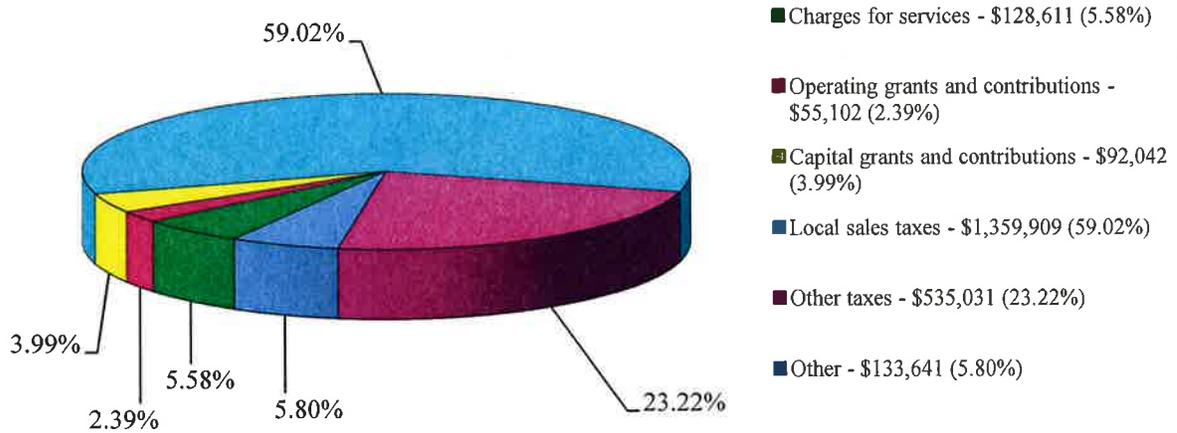
Governmental activities increased the Town of Kimball, Tennessee's net assets by \$247,533, while business activities decreased the Town's net assets by \$(1,572).

The table below provides a summary of the Town's net assets broken down by governmental and business-type activities.

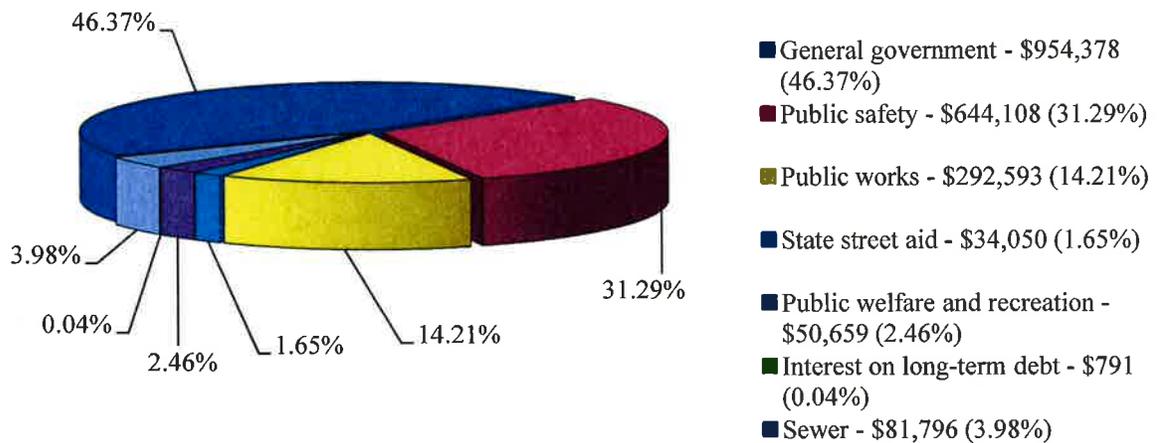
	Town of Kimball, Tennessee's Changes in Net Assets					
	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$ 50,149	\$ 40,784	\$ 78,462	\$ 73,663	\$ 128,611	\$ 114,447
Operating grants and contributions	55,102	92,198	-	-	55,102	92,198
Capital grants and contributions	92,042	-	-	-	92,042	-
General revenues:						
Local sales tax	1,359,909	1,327,728	-	-	1,359,909	1,327,728
Other taxes	535,031	537,996	-	-	535,031	537,996
Other	131,879	58,977	1,762	2,125	133,641	61,102
Total revenues	<u>2,224,112</u>	<u>2,057,683</u>	<u>80,224</u>	<u>75,788</u>	<u>2,304,336</u>	<u>2,133,471</u>
Expenses:						
General government	954,378	974,902	-	-	954,378	974,902
Public safety	644,108	538,228	-	-	644,108	538,228
Public works	292,593	537,065	-	-	292,593	537,065
State street aid	34,050	34,050	-	-	34,050	34,050
Public welfare and recreation	50,659	51,652	-	-	50,659	51,652
Interest on long-term debt	791	1,572	-	-	791	1,572
Sewer	-	-	81,796	121,506	81,796	121,506
Total expenses	<u>1,976,579</u>	<u>2,137,469</u>	<u>81,796</u>	<u>121,506</u>	<u>2,058,375</u>	<u>2,258,975</u>
Change in net assets	247,533	( 79,786)	( 1,572)	( 45,718)	245,961	( 125,504)
Net assets - beginning	<u>4,552,614</u>	<u>4,632,400</u>	<u>1,476,135</u>	<u>1,521,853</u>	<u>6,028,749</u>	<u>6,154,253</u>
Net assets - end	<u>\$ 4,800,147</u>	<u>\$ 4,552,614</u>	<u>\$ 1,474,563</u>	<u>\$ 1,476,135</u>	<u>\$ 6,274,710</u>	<u>\$ 6,028,749</u>

The graphs below summarize the \$2,304,336 of town-wide revenues by source and the associated \$2,058,375 of expense by program. The graphs combine data from both governmental and business-type activities.

### Town-Wide Sources of Revenue



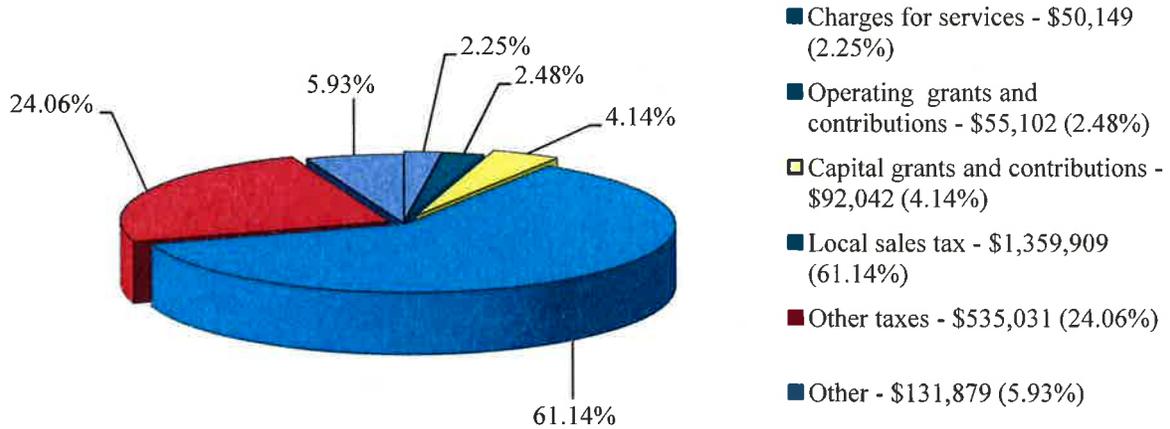
### Town-Wide Program Expenses



**Governmental Activities**

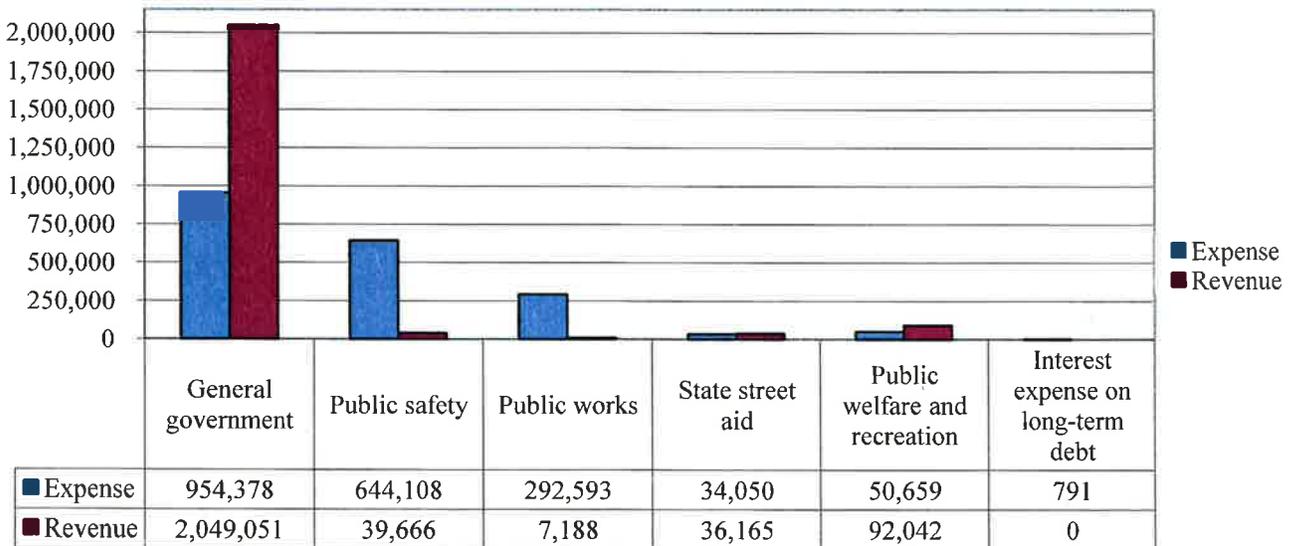
Governmental activities accounted for revenues of \$2,224,112. The following graph summarizes the revenue by source.

**Revenue by Source -  
Governmental Activities**



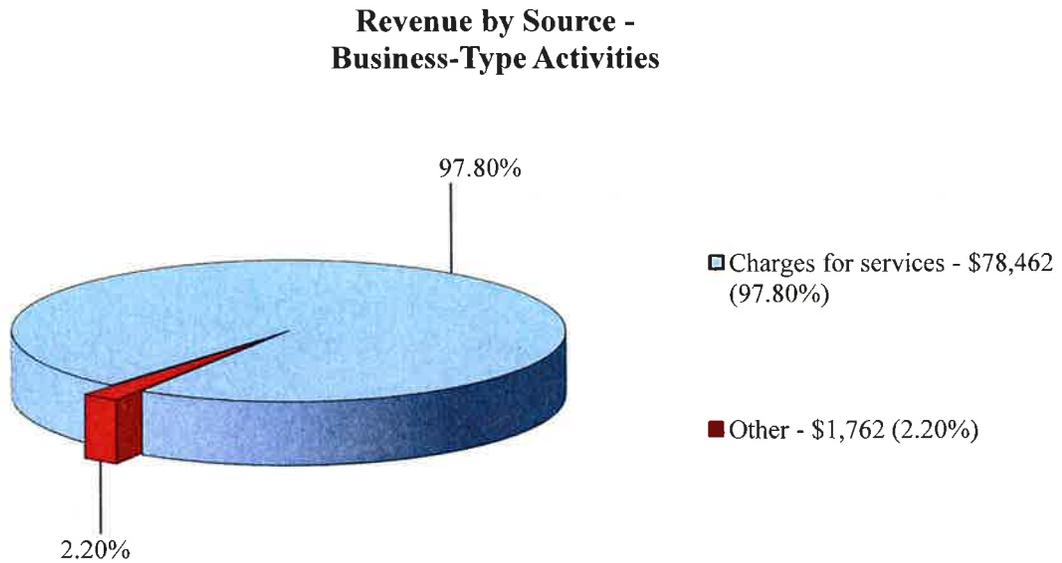
The following graph summarizes the revenue and related expense for each government program of the Town. The difference between expense and revenue is the financial burden placed on the Town's taxpayers for each program.

**Expenses and Program Revenues -  
Governmental Activities**



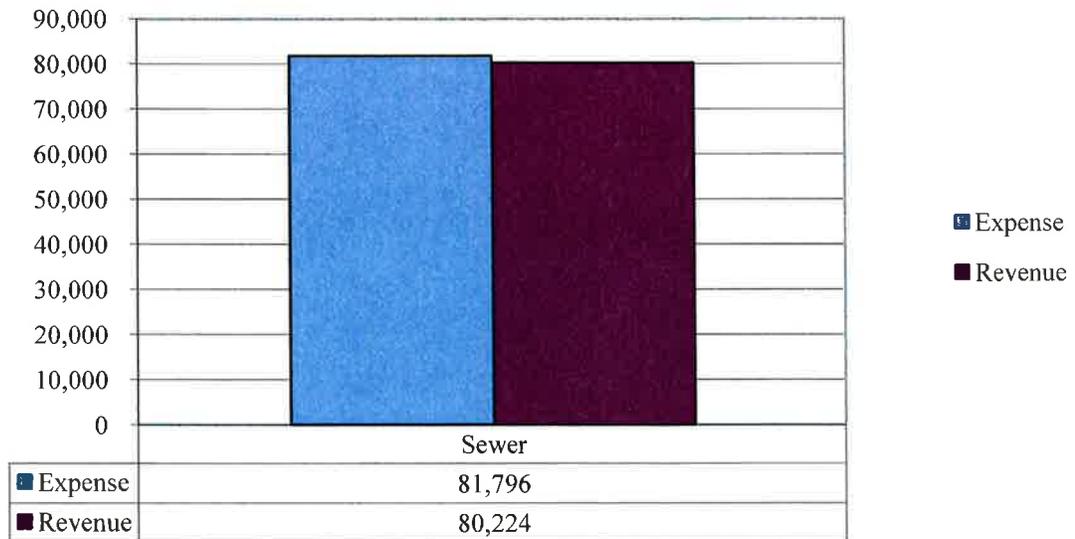
**Business-type Activities**

Business-type activities accounted for revenues of \$80,224. The following graph summarizes the revenue by source.



The following graph summarizes the revenue and related expense of operating the sewer system.

**Expenses and Revenues - Business-type Activities**



## FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

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

### **Governmental Funds**

The focus of the Town of Kimball, Tennessee's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town of Kimball, Tennessee's financing requirements. The unassigned fund balance may serve as a useful measure of a government's net resources available at the end of the fiscal year for future unforeseen emergencies.

As of the end of the current fiscal year, the Town of Kimball, Tennessee's governmental funds reported combined ending fund balances of \$1,378,338. Approximately 97.79% of this total amount or \$1,347,916 constitutes unassigned fund balance. The remainder of fund balance is reserved to indicate that it is not available for spending because it has already been restricted. Within the governmental funds, \$2,797 is restricted for drug enforcement in the Drug Fund and \$27,625 is restricted for state street aid expenditures in the State Street Aid Fund.

The General Fund is the chief operating fund of the Town of Kimball, Tennessee. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$1,347,916. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance to total General Fund expenditures. Unassigned fund balance represents 54.86% of total fund expenditures.

### **Proprietary Funds**

The Town of Kimball, Tennessee's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets at the end of the year amounted to \$141,141 for the Sewer Fund.

### **General Fund Budgetary Highlights**

The Town of Kimball, Tennessee had several amendments to their original budget. The effect of these amendments was to increase revenues by \$217,300, increase expenditures by \$508,582 and increase loan proceeds by \$218,842.

Departmental budget officers closely monitored expenditures during the fiscal year in order to minimize budget amendments.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

The Town of Kimball, Tennessee's investment in capital assets for its governmental and business-type activities as of June 30, 2012, amounts to \$4,993,151 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, and furniture, fixtures, equipment and vehicles.

Major capital asset events during the current fiscal year include the following:

#### Governmental Activities

8 - 2012 Dodge Chargers	\$ 218,842
8 - police car cameras	\$ 35,633
Ballfield lights	\$ 65,200
Fence	\$ 49,758
Fire rescue truck	\$ 101,932

#### Business-type Activities

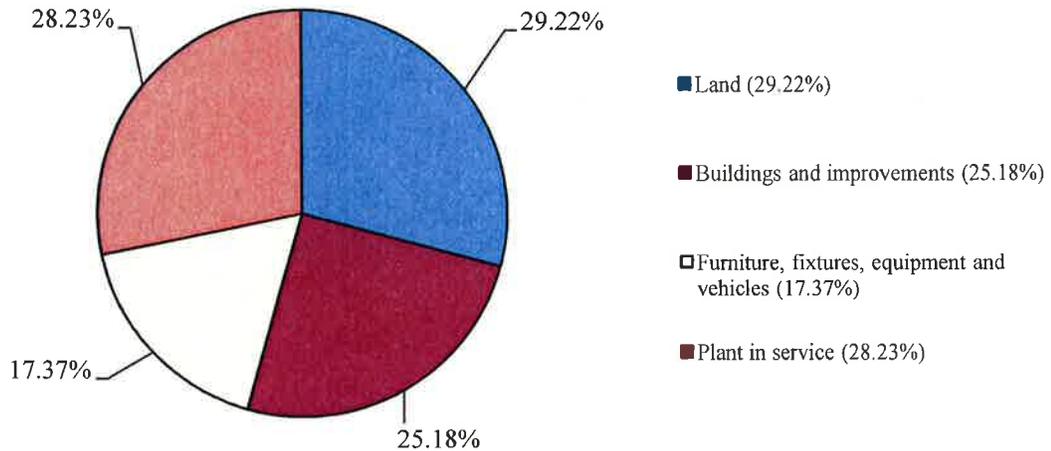
Sewer lines	\$ 228,651
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#### Town of Kimball, Tennessee's Capital Assets (Net of Depreciation)

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Land	\$ 1,458,831	\$ 1,458,831	\$ -	\$ -	\$ 1,458,831	\$ 1,458,831
Buildings and improvements	1,257,051	1,259,429	-	-	1,257,051	1,259,429
Furniture, fixtures, equipment, vehicles	867,170	488,355	-	-	867,170	488,355
Plant in service	-	-	1,410,099	1,227,984	1,410,099	1,227,984
	<u>\$ 3,583,052</u>	<u>\$ 3,206,615</u>	<u>\$ 1,410,099</u>	<u>\$ 1,227,984</u>	<u>\$ 4,993,151</u>	<u>\$ 4,434,599</u>

The following graph provides a breakdown of which assets make up the largest portion of the Town's total investment in capital assets. The graph combines assets used in both governmental and business-type activities.

### Town-Wide Capital Assets



Additional information on the Town of Kimball, Tennessee's capital assets can be found in Note 6 on page 35 and 36 of this report.

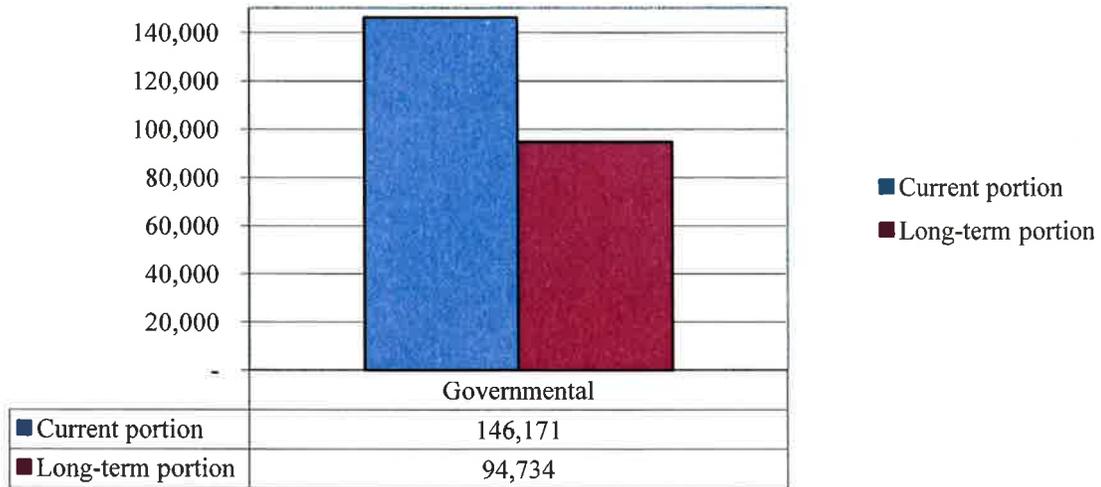
### Town Of Kimball, Tennessee's Outstanding Debt

At the end of the current fiscal year, the Town of Kimball, Tennessee had total long-term debt outstanding of \$240,905. Of that amount, \$146,171 is due in the next fiscal year.

	2012		2011	
	Governmental-type Activities	Business-type Activities	Governmental-type Activities	Business-type Activities
Capital outlay note	\$ -	\$ 76,677	\$ 62,890	\$ 150,000
Capital lease	142,386	-	-	-
Accrued leave	21,842	-	20,532	-
Less current portion	( 69,494)	( 76,677)	( 62,890)	( 75,000)
Long-term debt	\$ 94,734	\$ -	\$ 20,532	\$ 75,000

The graph below shows debt for governmental and business-type activities broken down into current and long-term portions.

### Long-term Debt



Additional information on outstanding debt can be found in Note 8 on pages 37 and 38.

### Currently Known Conditions Effecting Future Years

The Town of Kimball, Tennessee has modified a grant application through the Local Parks and Recreation Fund to request funds of \$315,000 for dugouts, scoreboards, a pavilion, batting caging and a playground area.

The Town has also committed \$750,000 toward a new college campus facility.

### Requests for Information

This financial report is designed to provide a general overview of the Town of Kimball, Tennessee's finances for all those with an interest in the Town's finances. Questions concerning any of the information provided in this report or requests for additional financial information may be addressed to the Town of Kimball, Tennessee, 675 Main Street, Kimball, Tennessee 37347.

## **BASIC FINANCIAL STATEMENTS**

**TOWN OF KIMBALL, TENNESSEE**  
**Statement of Net Assets**  
**June 30, 2012**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business- type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash	\$ 772,260	\$ 58,637	\$ 830,897
Investments	325,000	76,315	401,315
Property taxes receivable - net	62,370	-	62,370
Accounts receivable - net	34,666	6,189	40,855
Due from other governments	271,889	-	271,889
Capital assets:			
Land	1,458,831	-	1,458,831
Other capital assets - net of accumulated depreciation	<u>2,124,221</u>	<u>1,410,099</u>	<u>3,534,320</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 5,049,237</u></b>	<b><u>\$ 1,551,240</u></b>	<b><u>\$ 6,600,477</u></b>
<b>LIABILITIES</b>			
Accrued liabilities	\$ 25,762	\$ -	\$ 25,762
Deferred revenue - property taxes	59,100	-	59,100
Non-current liabilities:			
Due within one year	69,494	76,677	146,171
Due in more than one year	72,892	-	72,892
Accrued leave	<u>21,842</u>	<u>-</u>	<u>21,842</u>
<b>TOTAL LIABILITIES</b>	<b><u>\$ 249,090</u></b>	<b><u>\$ 76,677</u></b>	<b><u>\$ 325,767</u></b>
<b>NET ASSETS</b>			
Invested in capital assets - net of related debt	\$ 3,440,666	\$ 1,333,422	\$ 4,774,088
Restricted for:			
Non-recurring police expenditures	2,797	-	2,797
State street aid expenditures	27,625	-	27,625
Unrestricted	<u>1,329,059</u>	<u>141,141</u>	<u>1,470,200</u>
<b>TOTAL NET ASSETS</b>	<b><u>\$ 4,800,147</u></b>	<b><u>\$ 1,474,563</u></b>	<b><u>\$ 6,274,710</u></b>

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

**TOWN OF KIMBALL, TENNESSEE**  
**Statement of Activities**  
**Year Ended June 30, 2012**

<b>Functions/Programs</b>	<b>Program Revenues</b>				<b>Net (Expense) Revenue and Changes in Net Assets</b>		
	<b>Expenses</b>	<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Primary Government</b>		<b>Total</b>
					<b>Govern- mental Activities</b>	<b>Business- type Activities</b>	
<b>Primary Government:</b>							
Governmental activities:							
General Government	\$ 954,378	\$ 15,738	\$ 6,494	\$ -	\$ (932,146)	\$ -	\$ (932,146)
Public Safety	644,108	30,086	9,580	-	(604,442)	-	(604,442)
Public Works	292,593	4,325	2,863	-	(285,405)	-	(285,405)
State Street Aid	34,050	-	36,165	-	2,115	-	2,115
Public Welfare and Recreation	50,659	-	-	92,042	41,383	-	41,383
Interest on long-term debt	791	-	-	-	(791)	-	(791)
Total governmental activities	<u>1,976,579</u>	<u>50,149</u>	<u>55,102</u>	<u>92,042</u>	<u>(1,779,286)</u>	<u>-</u>	<u>(1,779,286)</u>
Business-type activities:							
Sewer	81,796	78,462	-	-	-	(3,334)	(3,334)
Total business-type activities	<u>81,796</u>	<u>78,462</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,334)</u>	<u>(3,334)</u>
<b>Total primary government</b>	<u>\$ 2,058,375</u>	<u>\$ 128,611</u>	<u>\$ 55,102</u>	<u>\$ 92,042</u>	<u>(1,779,286)</u>	<u>(3,334)</u>	<u>(1,782,620)</u>
General revenues and transfers:							
Local sales tax					1,359,909	-	1,359,909
Local beer tax					90,612	-	90,612
Property tax					59,719	-	59,719
Other state taxes					97,886	-	97,886
Gross receipts tax					101,915	-	101,915
Hotel-motel tax					177,710	-	177,710
Franchise tax					7,189	-	7,189
TVA replacement					16,117	-	16,117
Interest					5,442	1,762	7,204
Miscellaneous					110,320	-	110,320
Total general revenues and transfers					<u>2,026,819</u>	<u>1,762</u>	<u>2,028,581</u>
Change in net assets					247,533	(1,572)	245,961
Net assets - beginning					4,552,614	1,476,135	6,028,749
Net assets - end					<u>\$ 4,800,147</u>	<u>\$ 1,474,563</u>	<u>\$ 6,274,710</u>

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

**TOWN OF KIMBALL, TENNESSEE**  
**Governmental Funds**  
**Balance Sheet**  
**June 30, 2012**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash	\$ 748,259	\$ 24,001	\$ 772,260
Investments	325,000	-	325,000
Property taxes receivable - net	62,370	-	62,370
Accounts receivable - net	34,666	-	34,666
Due from other governments	<u>265,468</u>	<u>6,421</u>	<u>271,889</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 1,435,763</u></b>	<b><u>\$ 30,422</u></b>	<b><u>\$ 1,466,185</u></b>
 <b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities</b>			
Accrued liabilities	\$ 25,762	\$ -	\$ 25,762
Deferred revenue - property taxes	<u>62,085</u>	<u>-</u>	<u>62,085</u>
Total liabilities	<u>87,847</u>	<u>-</u>	<u>87,847</u>
 <b>Fund Balances</b>			
Restricted	-	30,422	30,422
Unassigned	<u>1,347,916</u>	<u>-</u>	<u>1,347,916</u>
Total fund balances	<u>1,347,916</u>	<u>30,422</u>	<u>1,378,338</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 1,435,763</u></b>	<b><u>\$ 30,422</u></b>	<b><u>\$ 1,466,185</u></b>

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

**TOWN OF KIMBALL, TENNESSEE**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Statement of Net Assets**  
**June 30, 2012**

Total fund balances per governmental funds balance sheet	\$ 1,378,338
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	
	3,583,052
Some of the Town's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	2,985
Long-term liabilities, including a capital lease and accrued leave, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(164,228)</u>
Net assets of governmental activities	<u>\$ 4,800,147</u>

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

**TOWN OF KIMBALL, TENNESSEE**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Year Ended June 30, 2012**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Taxes	\$ 1,797,331	\$ -	\$ 1,797,331
Licenses, fees and permits	9,338	-	9,338
Intergovernmental	224,982	36,165	261,147
Charges for services	34,340	-	34,340
Fines and forfeitures	14,265	421	14,686
Other	<u>107,515</u>	<u>33</u>	<u>107,548</u>
<b>TOTAL REVENUES</b>	<u>2,187,771</u>	<u>36,619</u>	<u>2,224,390</u>
<b>EXPENDITURES</b>			
<b>Current expenditures</b>			
General government	918,658	-	918,658
Public safety	538,186	-	538,186
Public works	205,935	-	205,935
State street aid	-	34,050	34,050
Public welfare and recreation	145,057	-	145,057
<b>Capital outlay</b>	509,029	-	509,029
<b>Debt service</b>	<u>140,138</u>	<u>-</u>	<u>140,138</u>
<b>TOTAL EXPENDITURES</b>	<u>2,457,003</u>	<u>34,050</u>	<u>2,491,053</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(269,232)</u>	<u>2,569</u>	<u>(266,663)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Loan proceeds	<u>218,842</u>	<u>-</u>	<u>218,842</u>
Net changes in fund balances	(50,390)	2,569	(47,821)
<b>Fund balances - beginning</b>	<u>1,398,306</u>	<u>27,853</u>	<u>1,426,159</u>
<b>Fund balances - end</b>	<u>\$ 1,347,916</u>	<u>\$ 30,422</u>	<u>\$ 1,378,338</u>

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

**TOWN OF KIMBALL, TENNESSEE**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Changes in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**Year Ended June 30, 2012**

Net change in fund balances for total governmental funds	\$ (47,821)
Governmental funds report capital outlay 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 capital outlay exceeds depreciation in the current period.	376,437
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	(277)
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	139,346
Capital leases are reported as a financial resource in the governmental funds. However, this is reported as an increase in long-term liabilities in the Statement of Net Assets. During the current year a capital lease was added to long-term debt.	(218,842)
Accrued leave reported in the Statement of Activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in governmental funds.	<u>(1,310)</u>
Change in net assets of governmental activities	<u>\$ 247,533</u>

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

**TOWN OF KIMBALL, TENNESSEE**  
**General Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balances -**  
**Budget and Actual**  
**Year Ended June 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable</u> <u>(Unfavorable)</u>
<b>REVENUES</b>				
Taxes				
Franchise tax	\$ 6,000	\$ 6,000	\$ 7,189	\$ 1,189
Gross receipts tax	100,000	100,000	101,915	1,915
Hotel-motel tax	125,000	145,000	177,710	32,710
Local beer tax	80,000	80,000	90,612	10,612
Local sales tax	1,200,000	1,256,500	1,359,909	103,409
Property tax	51,300	51,300	59,996	8,696
Total taxes	<u>1,562,300</u>	<u>1,638,800</u>	<u>1,797,331</u>	<u>158,531</u>
Licenses, Fees and Permits				
Beer license	1,500	1,500	2,638	1,138
Building permits	2,500	2,500	6,180	3,680
Clerk fees	1,200	1,200	520	(680)
Total licenses, fees and permits	<u>5,200</u>	<u>5,200</u>	<u>9,338</u>	<u>4,138</u>
Intergovernmental				
Grant revenue	47,500	91,550	101,622	10,072
State of Tennessee beer tax	1,650	1,650	2,441	791
State of Tennessee sales tax	80,100	88,800	94,717	5,917
State income tax	4,500	4,500	728	(3,772)
State reimbursement	15,000	15,000	6,494	(8,506)
Street and transportation funds	2,500	2,500	2,863	363
TVA replacement	9,000	12,000	16,117	4,117
Total intergovernmental	<u>160,250</u>	<u>216,000</u>	<u>224,982</u>	<u>8,982</u>
Charges for Services				
Parks and recreation charges	6,500	7,785	8,215	430
Rent of facilities	17,900	17,900	21,800	3,900
Sanitation charges	3,250	3,250	4,325	1,075
Total charges for services	<u>27,650</u>	<u>28,935</u>	<u>34,340</u>	<u>5,405</u>
Fines and Forfeitures				
Court fines	9,000	9,000	14,265	5,265
Other				
Contributions and donations	-	1,900	1,995	95
Insurance recoveries	-	75,965	75,016	(949)
Interest	12,000	12,000	5,409	(6,591)
Miscellaneous	1,950	7,850	17,155	9,305
Royalties	7,400	7,400	7,940	540
Total other	<u>21,350</u>	<u>105,115</u>	<u>107,515</u>	<u>2,400</u>
<b>TOTAL REVENUES</b>	<u>1,785,750</u>	<u>2,003,050</u>	<u>2,187,771</u>	<u>184,721</u>
(Continued)				

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

**TOWN OF KIMBALL, TENNESSEE**  
**General Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balances -**  
**Budget and Actual (Continued)**  
**Year Ended June 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable</u> <u>(Unfavorable)</u>
<b>EXPENDITURES</b>				
<b>Current Expenditures</b>				
General Government				
Salaries	\$ 149,191	\$ 149,191	\$ 142,362	\$ 6,829
Fringe benefits	275,200	275,200	242,039	33,161
Payroll tax	54,000	54,000	60,221	(6,221)
Advertising	10,000	10,000	8,725	1,275
Building inspector	10,600	10,600	10,600	-
Contract services	76,200	76,200	80,662	(4,462)
Fire hydrant rental	13,000	13,000	13,000	-
Gas and oil	40,000	40,000	41,673	(1,673)
Insurance	83,000	89,000	76,734	12,266
Kimball Firework Festival and concessions	-	-	15,428	(15,428)
Professional services	85,500	85,500	104,590	(19,090)
Litigation tax	1,200	1,200	884	316
Membership fees	8,500	8,500	6,327	2,173
Miscellaneous	100	100	6,235	(6,135)
Office supplies	3,500	3,500	3,211	289
Operating supplies	18,500	18,500	19,025	(525)
Planning commission	5,250	5,250	5,250	-
Repairs and maintenance	7,500	7,500	8,703	(1,203)
Scholarship	4,000	4,000	1,947	2,053
Travel	2,000	2,000	1,725	275
Uniforms	400	400	392	8
Utilities	61,650	77,550	68,785	8,765
Vehicle expenses	600	600	140	460
Total general government	<u>909,891</u>	<u>931,791</u>	<u>918,658</u>	<u>13,133</u>
Public Safety				
Police department				
Salaries	410,682	471,032	477,379	(6,347)
Contract services	500	500	1,968	(1,468)
Gas and oil	1,000	1,000	809	191
Contributions and grants	5,000	10,000	12,109	(2,109)
Membership fees	1,000	1,000	430	570
Office supplies	700	700	701	(1)
Operating supplies	4,800	4,800	4,227	573
Travel	1,200	1,200	1,106	94
Uniforms	5,500	5,500	6,340	(840)
Utilities	1,500	1,500	1,756	(256)
Vehicle expenses	13,500	13,500	5,233	8,267
Total police department	<u>445,382</u>	<u>510,732</u>	<u>512,058</u>	<u>(1,326)</u>

(Continued)

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

**TOWN OF KIMBALL, TENNESSEE**  
**General Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balances -**  
**Budget and Actual (Continued)**  
**Year Ended June 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable</u> <u>(Unfavorable)</u>
<b>EXPENDITURES (Continued)</b>				
<b>Current Expenditures (Continued)</b>				
Public Safety (Continued)				
Fire Department				
Salaries	\$ 14,500	\$ 14,500	\$ 14,877	\$ (377)
Advertising	500	500	100	400
Gas and oil	500	500	82	418
Insurance	3,700	3,700	3,630	70
Membership fees	500	500	50	450
Office supplies	200	200	-	200
Operating supplies	5,100	5,100	2,473	2,627
Professional fees	200	200	-	200
Repairs and maintenance	1,500	1,500	1,711	(211)
Travel	1,000	1,000	398	602
Uniforms	4,000	4,000	1,929	2,071
Vehicle expenses	2,500	2,500	527	1,973
Total fire department	<u>34,200</u>	<u>34,200</u>	<u>25,777</u>	<u>8,423</u>
Animal control				
Supplies	100	100	-	100
Total animal control	<u>100</u>	<u>100</u>	<u>-</u>	<u>100</u>
Rescue squad				
Membership fees	500	500	329	171
Operating supplies	2,000	2,000	-	2,000
Vehicle expenses	3,600	3,600	22	3,578
Total rescue squad	<u>6,100</u>	<u>6,100</u>	<u>351</u>	<u>5,749</u>
Total public safety	<u>485,782</u>	<u>551,132</u>	<u>538,186</u>	<u>12,946</u>
Public Works				
Street department				
Salaries	69,032	69,032	67,431	1,601
Contract services	1,500	1,500	4,892	(3,392)
Gas and oil	500	500	190	310
Membership fees	500	500	-	500
Operating supplies	8,800	8,800	9,604	(804)
Repairs and maintenance	7,000	7,000	4,565	2,435
Travel	200	200	-	200
Uniforms	1,500	1,500	1,150	350
Utilities	21,500	21,500	6,777	14,723
Vehicle expenses	6,000	6,000	4,608	1,392
Total street department	<u>116,532</u>	<u>116,532</u>	<u>99,217</u>	<u>17,315</u>
(Continued)				

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

**TOWN OF KIMBALL, TENNESSEE**  
**General Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balances -**  
**Budget and Actual (Continued)**  
**Year Ended June 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable</u> <u>(Unfavorable)</u>
<b>EXPENDITURES (Continued)</b>				
<b>Current Expenditures (Continued)</b>				
Public Works (Continued)				
Solid waste				
Salaries	\$ 73,532	\$ 73,532	\$ 75,240	\$ (1,708)
Gas and oil	500	500	160	340
Landfill	31,000	31,000	26,882	4,118
Vehicle expenses	10,000	10,000	1,468	8,532
Uniforms	3,000	3,000	2,468	532
Supplies	500	500	500	-
Total solid waste	<u>118,532</u>	<u>118,532</u>	<u>106,718</u>	<u>11,814</u>
Total public works	<u>235,064</u>	<u>235,064</u>	<u>205,935</u>	<u>29,129</u>
Public Welfare and Recreation				
Parks				
Concessions	500	500	-	500
Contract services	2,000	2,000	3,792	(1,792)
Contributions and grants	95,000	131,000	130,878	122
Operating supplies	3,000	3,000	3,379	(379)
Registration fees	2,500	2,500	2,882	(382)
Uniforms	7,000	7,000	4,126	2,874
Total parks	<u>110,000</u>	<u>146,000</u>	<u>145,057</u>	<u>943</u>
Capital Outlay				
General government	15,000	51,400	50,995	405
Public safety	101,504	348,979	350,136	(1,157)
Public works	90,000	90,000	78,488	11,512
Public welfare and recreation	2,000	27,000	29,410	(2,410)
Total capital outlay	<u>208,504</u>	<u>517,379</u>	<u>509,029</u>	<u>8,350</u>
Debt Service				
Principal and interest	<u>63,880</u>	<u>140,337</u>	<u>140,138</u>	<u>199</u>
<b>TOTAL EXPENDITURES</b>	<u>2,013,121</u>	<u>2,521,703</u>	<u>2,457,003</u>	<u>64,700</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(227,371)</u>	<u>(518,653)</u>	<u>(269,232)</u>	<u>249,421</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Loan proceeds	<u>-</u>	<u>218,842</u>	<u>218,842</u>	<u>-</u>
Net changes in fund balances	(227,371)	(299,811)	(50,390)	249,421
<b>Fund balances - beginning</b>	<u>1,398,306</u>	<u>1,398,306</u>	<u>1,398,306</u>	<u>-</u>
<b>Fund balances - end</b>	<u>\$ 1,170,935</u>	<u>\$ 1,098,495</u>	<u>\$ 1,347,916</u>	<u>\$ 249,421</u>

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

**TOWN OF KIMBALL, TENNESSEE**  
**Proprietary Fund**  
**Statement of Net Assets**  
**June 30, 2012**

	<u>Enterprise Fund</u> <u>Sewer</u> <u>Fund</u>
<b>ASSETS</b>	
<b>Current Assets</b>	
Cash	\$ 58,637
Investments	76,315
Accounts receivable - net	<u>6,189</u>
Total current assets	<u>141,141</u>
<b>Non-current Assets</b>	
Capital assets:	
Other capital assets - net of accumulated depreciation	<u>1,410,099</u>
Total non-current assets	<u>1,410,099</u>
<b>TOTAL ASSETS</b>	<u>\$ 1,551,240</u>
<b>LIABILITIES</b>	
<b>Current Liabilities</b>	
Note payable - due within one year	<u>\$ 76,677</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 76,677</u>
<b>NET ASSETS</b>	
Invested in capital assets - net of related debt	\$ 1,333,422
Unrestricted	<u>141,141</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 1,474,563</u>

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

**TOWN OF KIMBALL, TENNESSEE**  
**Proprietary Fund**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**Year Ended June 30, 2012**

	<b>Enterprise Fund</b>
	<b>Sewer Fund</b>
<b>OPERATING REVENUES</b>	
Sewer - billings	\$ 78,462
Total operating revenues	78,462
<b>OPERATING EXPENSES</b>	
Salaries	113
Chemicals	3,849
Membership fees	1,990
Office supplies	191
Professional fees	2,776
Repairs and maintenance	19,632
Utilities	5,030
Depreciation	46,536
Total operating expenses	80,117
Operating income (loss)	(1,655)
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Interest expense	(1,679)
Insurance recoveries	949
Interest revenue	813
Total non-operating revenues (expenses)	83
Change in net assets	(1,572)
<b>Net assets - beginning</b>	1,476,135
<b>Net assets - end</b>	<b>\$ 1,474,563</b>

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

**TOWN OF KIMBALL, TENNESSEE**  
**Proprietary Fund**  
**Statement of Cash Flows**  
**Year Ended June 30, 2012**

	<b>Enterprise Fund</b>
	<b>Sewer Fund</b>
<b>Cash Flows from Operating Activities</b>	
Cash received from customers	\$ 78,350
Cash paid to suppliers	(33,468)
Cash paid to employees	(113)
Net cash provided (used) by operating activities	44,769
<b>Cash Flows from Noncapital Financing Activities</b>	
Insurance recoveries	949
Net cash provided (used) by noncapital financing activities	949
<b>Cash Flows from Capital and Related Financing Activities</b>	
Principal paid on capital debt	(73,323)
Interest paid on note	(1,679)
Payments related to the acquisition of capital asset	(228,651)
Net cash provided (used) by capital and related financing activities	(303,653)
<b>Cash Flows from Investing Activities</b>	
Interest revenue	813
Purchase of investments	(189)
Net cash provided (used) by investing activities	624
Net increase (decrease) in cash	(257,311)
<b>Cash - beginning</b>	315,948
<b>Cash - end</b>	\$ 58,637
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>	
Operating income (loss)	\$ (1,655)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	46,536
(Increase) decrease in accounts receivable	(112)
Total adjustments	46,424
Net cash provided (used) by operating activities	\$ 44,769

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

**TOWN OF KIMBALL, TENNESSEE**  
**Notes to Financial Statements**  
**June 30, 2012**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Town of Kimball, Tennessee have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The Town of Kimball, Tennessee operates under the Mayor-Aldermen form of government within the following departments: general government, public safety, public works, state street aid, and public welfare and recreation.

The following is a summary of the more significant accounting policies:

**A. Reporting Entity**

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP and GASB issued Statement No. 14, *The Financial Reporting Entity*. This statement requires that the financial statements present the Town of Kimball, Tennessee (the primary government) and any component units. Component units generally are legally separate entities for which a primary government is financially accountable. Financial accountability ordinarily involves meeting one of the following criteria; the primary government is accountable for the potential component unit (i.e., the primary government appoints the voting majority of its board and the primary government is able to impose its will upon the potential component unit); or there is a possibility that the potential component unit may provide specific financial benefits or impose specific financial burdens on the primary government.

Based on the foregoing criteria, there are no entities, which meet the above criteria for inclusion in the Town of Kimball, Tennessee's financial statements.

**B. Basic Financial Statements**

The basic financial statements include both government-wide (based on the Town as a whole) and fund financial statements. Both the government-wide and fund financial statements categorize activities as either governmental activities or business-type activities.

**Government-wide Statements**

The Statement of Net Assets and Statement of Activities display information about the primary government. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the Town. In the government-wide statement of net assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis for column, and (b) are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **B. Basic Financial Statements (Continued)**

#### **Government-wide Statements (Continued)**

The Statement of Activities presents both a gross and net cost comparison between direct expenses and program revenues for the different business-type activities of the Town and for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. The net cost (by function or business-type activity) is normally covered by general revenue (property or sales taxes, intergovernmental revenues, interest income, etc.).

This government-wide focus is designed to view the Town as a complete entity and the change in aggregate financial position resulting from the activities of the fiscal period.

#### **Fund Financial Statements**

The fund financial statements provide information about the Town's funds, including its governmental funds and enterprise funds. Separate statements for each fund category are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The Town reports the following major governmental fund:

#### **General Fund**

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

The Town reports the following major enterprise fund:

#### **Sewer Fund**

This fund is used to account for the provision of sewer services to the residents of the Town.

### **C. Measurement Focus - Basis of Accounting**

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 revenue 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.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### C. Measurement Focus - Basis of Accounting (Continued)

Government 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. The Town considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Property taxes, sales taxes, franchise taxes, gasoline taxes, wholesale beer taxes, income taxes, mixed drink taxes, and in-lieu of taxes are susceptible to accrual. Licenses and permits, fines and forfeitures, gross receipts taxes and excise taxes are recorded as revenue when received in cash because they are generally not measurable until actually received. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the governmental activities column in the government-wide financial statements, a reconciliation is presented on the page following each statement which briefly explains the adjustments necessary to transform the fund-based financial statements into the governmental activities column of the government-wide presentation.

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 the proprietary fund's principal ongoing operation. The principal operating revenues of the Town's enterprise funds are charges to customers for sales and services. 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.

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

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

All governmental and business-type activities of the Town follow FASB ASC, unless those pronouncements conflict with GASB pronouncements, in which case, GASB prevails.

### D. Fund Balance Policy

#### Committed Fund Balances:

The Board of Mayor and Aldermen has the authority to commit funds for a specific purpose. Any funds set aside as committed fund balance requires, at a minimum, the passage of a resolution by a simple majority vote. An ordinance may also be used.

#### Assigned Fund Balance:

The Board of Mayor and Aldermen has the authority to set aside funds for the intended use of a specific purpose. Any funds set aside as assigned fund balance requires a simple majority vote and must be recorded in the minutes.

## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **D. Fund Balance Policy (Continued)**

Order of Use of Restricted and Unrestricted Funds:

When both restricted and unrestricted funds are available for expenditure, restricted funds should be spent first unless legal requirements disallow it.

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

### **E. Budgets and Budgetary Accounting**

The proposed annual budget is presented by the Board of Mayor and Aldermen for public hearings and is adopted by ordinance. Any changes in the budget must be within the revenues estimated as available by the Town or the estimates must be changed by an affirmative vote of the majority of the Board.

Expenditures may not legally exceed budgeted appropriations at the fund level. Any revisions that alter total expenditures must be approved by the Board.

Budgets as adopted and amended are on a basis consistent with accounting principles generally accepted in the United States of America (GAAP). Therefore, no adjustments are necessary to convert to the actual GAAP data from the budgetary basis. Annual appropriated budgets are adopted for the general and special revenue funds. Budget for the enterprise fund is not legally required, but is adopted for management control purposes. All annual appropriations which are not expended lapse at fiscal year-end.

Budgeted amounts reflected in the accompanying final budget and actual comparison are as originally adopted, or as amended by the Board. All annual appropriations, which are not expended, lapse at year-end.

During the year, supplementary appropriations were necessary. The effect of the amendments was to increase revenues by \$217,300, loan proceeds by \$218,842, and expenditures by \$508,582 in the General Fund. No amendments were considered necessary in the Sewer Fund, State Street Aid Fund or Drug Fund.

### **F. Cash and Cash Equivalents**

Cash consists of cash-on-hand and cash-on-deposit with financial institutions. For purposes of reporting cash flows in proprietary funds, the Town considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. Cash is reported on the Statement of Net Assets as "cash". At June 30, 2012, the Town had no cash equivalents.

### **G. Investments**

All investments are reported at fair value, which is based on quoted market prices.

The Town is authorized by State Statutes to invest in the following:

Bonds, notes or treasury bills of the United States.

Nonconvertible debt securities of the Federal Home Loan Bank, the Federal National Mortgage Association, the Federal Farm Credit Bank and the Student Loan Marketing Association.

Any obligation guaranteed by the United States or any of its agencies.

Certificates of deposit at state and federal chartered banks and savings and loan associations.

The Local Government Investment Pool created by Title 9.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**H. Interfund Transactions**

**Interfund Receivables and Payables**

Short-term advances between funds are not eliminated but accounted for in the appropriate interfund receivable and payable accounts classified as due from other funds or due to other funds in the fund financial statements, and are subject to elimination upon consolidation. Any residual balances outstanding between governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances”.

Transactions between funds that would be treated as revenues, expenditures, or expenses if they involve organizations external to the governmental unit are accounted for as revenues, expenditures, or expenses in the fund involved. Transactions which constitute reimbursements of a fund for expenditures or expenses initially made from that fund which are properly applicable to another fund are recorded as expenditures or expenses in the reimbursing fund and as reductions of the expenditures or expenses in the fund that is reimbursed. All other legally authorized transfers are not eliminated but treated as operating transfers and are included as other financing sources or uses in the governmental funds and reported after non-operating revenues or expenses in the enterprise funds.

**I. Capital Assets**

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. 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 assets’ lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Years</u>
Buildings and improvements	5-40
Furniture, fixtures, equipment and vehicles	3-40

Capital assets of the proprietary funds are accounted for in the proprietary fund and are stated at cost. Major additions are capitalized while maintenance and repairs, including the cost of minor items of property, are expensed as incurred. Upon disposal of such assets, the accounts are relieved of the related costs and accumulated depreciation, and resulting gains or losses are reflected in income. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets. The estimated useful lives are as follows:

Plant in service	<u>Years</u> 5-40
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Donated capital assets are valued at their estimated fair value on the date donated. The Town’s policy is to capitalize the net interest cost incurred during the year resulting from borrowings utilized to finance the construction of assets.

## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **J. Accrued Leave**

Town employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is paid for accumulated vacation leave; however, accumulated sick pay is not paid. Governmental activities accrue vacation benefits in the period they are earned. A liability for these amounts is reported in governmental funds only if they have matured.

### **K. Long-term Obligations**

In the governmental-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the Statement of Net Assets.

### **L. Restricted Net Assets**

The Town records restrictions of net assets, which are maintained for specific purposes.

### **M. Property Taxes**

Property taxes are levied by the Town on October 1<sup>st</sup> on property values assessed by the county for that calendar year. The lien date is also January 1<sup>st</sup>. The billings are mailed October 1<sup>st</sup> and are considered due upon receipt by the taxpayer; however the actual due date is based on a period ending approximately 60 days after the calendar year end. On this date, March 1st, the bill becomes delinquent and penalties and interest may be assessed.

Property taxes are recognized on the modified accrual basis on the governmental fund financial statements. Proper allowances are made for estimated uncollectible accounts and delinquent accounts when necessary. The tax rate for the 2011 levy is \$.10 per \$100 of assessed valuation, and the tax rate for the 2012 levy is \$.10 per \$100 of assessed valuation.

Property taxes for the 2012 levy are considered to be owed to the Town as of the lien date on January 1, 2012. Therefore, the entire 2012 levy was recorded as a receivable and deferred revenue as of June 30, 2012.

### **N. Prepayment of Expenditures**

Governmental fund expenditures for insurance and similar services extending over more than one accounting period are not allocated between accounting periods but accounted for as expenditures of the period of acquisition.

### **O. 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 affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

### **P. Proprietary Accounting and Financial Reporting**

For its proprietary activities, the Town of Kimball has applied all applicable pronouncements of the Governmental Accounting Standards Board (GASB) as well as those Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Q. Rental Activity**

The Town has entered into a non-cancelable lease agreement as lessor. The Town recognizes, in the government-wide financial statements and the governmental funds, the receipts as revenue when they are measurable and available. The Town does not recognize any future rental revenue.

**R. Events Occurring after Reporting Date**

The Town has evaluated events and transactions that occurred between June 30, 2012, and November 21, 2012, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

**NOTE 2 - DEPOSITS AND INVESTMENTS**

**Deposits**

Custodial credit risk is the risk that in the event of a bank failure the Town's deposits may not be returned to it. The Town does not have a deposit or investment policy for custodial credit risk, however, the State of Tennessee requires its governmental entities to either meet the deposit and collateralization regulations under TCA Title 9, Chapter 4, Parts 1 and 4, or as provided in the collateral pool. As of June 30, 2012, the carrying amount of the Town's deposits was \$830,497, and the bank balance was \$917,690. The carrying amount of investments was \$401,315, and the bank balance was \$401,562. None of the Town's bank balance was exposed to custodial credit risk as uninsured and uncollateralized.

The carrying amount of the Town's deposits is classified as follows on the Statement of Net Assets:

Cash	\$ 830,897
Investments	<u>401,315</u>
	1,232,212
Less: petty cash	<u>( 400)</u>
Total	<u>\$ 1,231,812</u>

**Investments**

The Town's investments are carried at fair value which is based on quoted market prices and consist of certificates-of-deposit totaling \$401,315. The Town's investments are listed on the Statement of Net Assets as "Investments".

**NOTE 3 - PROPERTY TAXES RECEIVABLE - NET**

Property taxes were levied for 2011 at the rate of \$.10 per \$100 of assessed value and for 2012 at the rate of \$.10 per \$100 of assessed value. Property taxes receivable as of June 30, 2012, including prior years unpaid taxes are composed of the following:

<u>Year of Levy</u>	<u>Amount</u>
2012	\$ 59,100
2011	3,521
2010	693
2009	464
2008	452
2007	262
2006	28
2005	3
2004	5
2003	<u>5</u>
Total	64,533
Allowance for uncollectible taxes	<u>( 2,163)</u>
Property taxes receivable - net	<u>\$ 62,370</u>

**NOTE 4 - ACCOUNTS RECEIVABLE - NET**

Accounts receivable - net at June 30, 2012, consist of the following:

	<u>General Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Franchise tax	\$ 2,527	\$ -	\$ 2,527
Hotel/motel tax	18,630	-	18,630
Beer tax	11,557	-	11,557
Rent	1,000	-	1,000
Other	952	-	952
Customer charges	<u>-</u>	<u>6,189</u>	<u>6,189</u>
Total	<u>\$ 34,666</u>	<u>\$ 6,189</u>	<u>\$ 40,855</u>

Due to the collection history of the Town no allowance for bad debt was deemed necessary.

**NOTE 5 - DUE FROM OTHER GOVERNMENTS**

Due from other governments consists of taxes collected for the Town by other governments for the periods prior to June 30, 2012, but not received or deposited by the Town until after June 30, 2012. Those amounts are:

<u>State of Tennessee</u>		
Town sales tax		\$ 16,541
Town streets		477
Communications tax		12
Gasoline tax		6,421
Income tax		728
Mixed drinks		247
Business tax		10,885
<u>Marion County</u>		
Sales tax		<u>236,578</u>
Total		<u>\$ 271,889</u>

**NOTE 6 - CAPITAL ASSETS**

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	<u>\$ 1,458,831</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,458,831</u>
Total capital assets not being depreciated	<u>1,458,831</u>	<u>-</u>	<u>-</u>	<u>1,458,831</u>
Capital assets being depreciated:				
Buildings and improvements	<u>1,715,886</u>	<u>45,380</u>	<u>-</u>	<u>1,761,266</u>
Furniture, fixtures, equipment and vehicles	<u>1,621,490</u>	<u>503,730</u>	<u>( 156,725)</u>	<u>1,968,495</u>
Total capital assets being depreciated	<u>3,337,376</u>	<u>549,110</u>	<u>( 156,725)</u>	<u>3,729,761</u>
Less accumulated depreciation for:				
Buildings and improvements	<u>456,457</u>	<u>47,758</u>	<u>-</u>	<u>504,215</u>
Furniture, fixtures, equipment and vehicles	<u>1,133,135</u>	<u>124,915</u>	<u>( 156,725)</u>	<u>1,101,325</u>
Total accumulated depreciation	<u>1,589,592</u>	<u>172,673</u>	<u>( 156,725)</u>	<u>1,605,540</u>
Total capital assets being depreciated - net	<u>1,747,784</u>	<u>376,437</u>	<u>-</u>	<u>2,124,221</u>
Governmental activities capital assets - net	<u>\$ 3,206,615</u>	<u>\$ 376,437</u>	<u>\$ -</u>	<u>\$ 3,583,052</u>

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

General government	\$ 36,667
Public safety	115,216
Public works	5,752
Public welfare and recreation	15,038
Total	<u>\$ 172,673</u>

**NOTE 6 - CAPITAL ASSETS (Continued)**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-type activities:</b>				
Capital assets being depreciated:				
Plant in service	\$ 1,756,189	\$ 228,651	\$ -	\$ 1,984,840
Total capital assets not being depreciated	<u>1,756,189</u>	<u>228,651</u>	<u>-</u>	<u>1,984,840</u>
Less accumulated depreciation for:				
Plant in service	528,205	46,536	-	574,741
Total accumulated depreciation	<u>528,205</u>	<u>46,536</u>	<u>-</u>	<u>574,741</u>
Total capital assets being depreciation - net	<u>1,227,984</u>	<u>182,115</u>	<u>-</u>	<u>1,410,099</u>
Business-type activities capital assets - net	<u>\$ 1,227,984</u>	<u>\$ 182,115</u>	<u>\$ -</u>	<u>\$ 1,410,099</u>

**NOTE 7 - DEFERRED REVENUES**

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Property taxes	<u>\$ 2,985</u>	<u>\$ 59,100</u>	<u>\$ 62,085</u>

Funds that are earned, but not available, are realized as revenue under GASB #33.

**NOTE 8 - LONG-TERM DEBT**

**Governmental Debt**

**General Fund:**

Long-term debt payable by the General Fund, which consists of a capital lease and accrued leave, is summarized as follows:

	<u>Principal Balance</u>
Capital lease, Ally Financial, 8 Dodge Charger police cars, 4.89%, due June 30, 2014	\$ 142,386
Capital Outlay Note Series 2009, Citizens State Bank, Lofty Drive, original amount, \$125,000 at 1.24%, maturing December 14, 2012	-
Accrued leave	<u>21,842</u>
	164,228
Less: current portion of governmental long-term debt	<u>( 69,494)</u>
Total governmental long-term debt	<u>\$ 94,734</u>

A summary of changes in governmental long-term debt for the year ended June 30, 2012, is as follows:

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2012</u>	<u>Amount due Within One Year</u>
Series 2009	\$ 62,890	\$ -	\$( 62,890)	\$ -	\$ -
Capital lease	-	218,842	( 76,456)	142,386	69,494
Accrued leave	<u>20,532</u>	<u>1,310</u>	<u>-</u>	<u>21,842</u>	<u>-</u>
Total	<u>\$ 83,422</u>	<u>\$ 220,152</u>	<u>\$(139,346)</u>	<u>164,228</u>	<u>\$ 69,494</u>
Less: current portion of governmental long-term debt				<u>( 69,494)</u>	
Total governmental long- term debt				<u>\$ 94,734</u>	

Interest paid during the year ended June 30, 2012, on governmental long-term debt was \$791.

Governmental fund debt service requirements to maturity, including interest of \$10,526 are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2013	\$ 69,494	\$ 6,962	\$ 76,456
2014	<u>72,892</u>	<u>3,564</u>	<u>76,456</u>
Total	<u>\$ 142,386</u>	<u>\$ 10,526</u>	<u>\$ 152,912</u>

Note: The above debt service requirement schedule does not include accrued leave.

**NOTE 8 - LONG-TERM DEBT (Continued)**

**Business-Type Debt**

**Sewer Fund:**

Long-term debt payable by the Sewer Fund, which consists of a note payable, is summarized as follows:

	<u>Principal Balance</u>
Capital Outlay Note Series 2011, sewage collection system repairs, original amount \$150,000, at 1.10%, maturing May 23, 2013	\$ 76,677
Less: Current portion of sewer long-term debt	<u>( 76,677)</u>
Total sewer long-term debt	<u>\$ _____ -</u>

A summary of changes in sewer long-term debt for the year ended June 30, 2012, are as follows:

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2012</u>	<u>Amount due Within One Year</u>
Series 2012	\$ 150,000	\$ _____ -	\$ ( 73,323)	\$ 76,677	\$ 76,677
Less: Current portion of sewer long-term debt				<u>( 76,677)</u>	
Total sewer long-term debt				<u>\$ _____ -</u>	

Interest paid during the year ended June 30, 2012, on sewer long-term debt was \$1,679.

Sewer debt service requirements to maturity including interest of \$2,480 are as follows:

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2013	\$ 76,677	\$ 2,480	\$ 79,157

**NOTE 9 - NET ASSET AND FUND BALANCE RESTRICTIONS**

The Town can restrict net assets and fund balances and designate portions of unrestricted net assets and fund balances to be maintained for specific purposes. The nature and purpose of these are explained as follows:

**Restricted Net Assets and Fund Balances**

Restricted for non-recurring police expenditures - Drug funds in the amount of \$2,797 are legally restricted for non-recurring police expenditures.

Restricted for state street aid expenditures - State street aid funds in the amount of \$27,625 are legally restricted for state street aid expenditures.

**NOTE 10 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

Explanation of certain differences between the governmental fund Balance Sheet and the government-wide Statement of Net Assets:

The governmental fund balance includes a 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, "long-term liabilities, including a capital lease and accrued leave, are not due and payable in the current period and, therefore, are not reported in the funds". The details of this \$(164,228) difference are as follows:

Capital lease	\$( 142,386)
Accrued leave	<u>( 21,842)</u>
Net adjustment	<u>\$ ( 164,228)</u>

Explanation of certain differences between the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances and the government-wide Statement of Activities:

The governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances includes a reconciliation between net changes in fund balances for 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 \$376,437 difference are as follows:

Depreciation expense	\$( 172,673)
Capital outlay	<u>549,110</u>
Net adjustment	<u>\$ 376,437</u>

Another element of that reconciliation states that, "Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets". The details of this \$139,346 difference are as follows:

Principal repayments:	
Series 2009	\$ 62,890
Capital lease	<u>76,456</u>
Net adjustments	<u>\$ 139,346</u>

**NOTE 11 - LINE-OF-CREDIT**

On May 18, 2010, Citizens State Bank authorized the Town to draw upon a \$300,000 line-of-credit. This one-time draft expires on May 18, 2015. As of June 30, 2012, no amount has been drawn on the line-of-credit.

**NOTE 12 - MATERIAL COMPLIANCE WITH FINANCE RELATED LEGAL AND CONTRACTUAL PROVISIONS**

The Town has no material violations of finance related legal and contractual provisions.

## **NOTE 13 - EMPLOYEE RETIREMENT PLAN**

### **Plan Description**

Employees of the Town of Kimball, Tennessee are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979, become vested after five years of service and members joining prior to July 1, 1979, were vested after four years of service. Benefit provisions are established in state statute found in Title, 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as the Town of Kimball, Tennessee 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, 10<sup>th</sup> Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at <http://www.tn.gov/treasury/tcrs/ps/>.

### **Funding Policy**

The Town of Kimball, Tennessee requires employees to contribute 5.0 percent of earnable compensation.

The Town of Kimball, Tennessee is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2012, was 6.83% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement of the Town of Kimball, Tennessee is established and may be amended by the TCRS Board of Trustees.

### **Annual Pension Cost**

For the year ended June 30, 2012, the Town of Kimball, Tennessee's annual pension cost of \$45,399 to TCRS was equal to the Town of Kimball, Tennessee's required and actual contributions. The required contribution was determined as part of the July 1, 2009, actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected 3.0 percent annual rate of inflation, (c) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5 percent annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten-year period. The Town of Kimball, Tennessee'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 15 years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

**NOTE 13 - EMPLOYEE RETIREMENT PLAN (Continued)**

**Trend Information**

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2012	\$ 45,399	100.00%	\$0.00
June 30, 2011	\$ 37,748	100.00%	\$0.00
June 30, 2010	\$ 43,112	100.00%	\$0.00

**Funded Status and Funding Progress**

As of July 1, 2011, the most recent actuarial valuation date, the plan was 86.57 percent funded. The actuarial accrued liability for benefits was \$0.67 million, and the actuarial value of assets was \$0.58 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.09 million. The covered payroll (annual payroll of active employees covered by the plan) was \$0.63 million, and the ratio of the UAAL to the covered payroll was 14.31%.

The Schedule of Funding Progress, presented as Required Supplementary Information (RSI) following the Notes to the Financial Statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AAL's for benefits.

(Dollar amounts in thousands)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Plan Assets (a)</u>	<u>Actuarial Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b) - (a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
July 01, 2011	\$ 582	\$ 673	\$ 90	86.57%	\$ 631	14.31%
July 01, 2009	\$ 327	\$ 327	\$ 0	100.00%	\$ 593	0.00%
July 01, 2007	\$ 203	\$ 203	\$ 0	100.00%	\$ 528	0.00%

**NOTE 14 - RISK MANAGEMENT**

The Town is exposed to various risk of loss related to torts, errors and omissions, damages to assets, and injuries to employees. The Town has joined the Tennessee Municipal League Risk Management Pool (TML). The membership allows the Town to share liability and motor vehicle risks. The Town purchases commercial insurance to cover employee injury risk.

The TML Risk Management Pool is a governmental entity organized by Tennessee cities as a not-for-profit corporation to provide liability and workers’ compensation coverage to Tennessee cities. Emphasis is on risk management and controlling losses, as all costs are shared by the Pool member cities. An extensive program of loss prevention, employee training, and legal counsel supplements experienced claims processing for member cities.

Coverages are as follows:

Buildings, personal property and equipment	\$ 4,700,415	
Workmen’s compensation	\$ 1,000,000	per accident
	\$ 1,000,000	policy limit
	\$ 1,000,000	per employee
General liability, law enforcement, automobile liability	\$ 300,000	per person
	\$ 700,000	per occurrence
	\$ 300,000	per property
	\$ 2,000,000	each other loss - per occurrence
Automobile physical damage (\$250/\$500 deductible)	\$ 300,000	per person
	\$ 700,000	per occurrence
	\$ 300,000	per property
Errors and omissions	\$ 2,000,000	per occurrence

**The responsibilities of the Town are as follows:**

To pay all contributions or other sums due to TML at such times and in such amounts as shall be established by TML.

To allow TML and its agents reasonable access to all facilities of the Town and all records, including but not limited to financial records, which relate to the purposes of TML during the coverage period and up to (3) three years afterward.

To allow attorneys appointed by TML to represent the Town in investigation, settlement discussions and all levels of litigation arising out of any claim made against the Town within the scope of loss protection furnished by TML.

To assist and cooperate in the defense and settlement of claims against the Town.

**NOTE 14 - RISK MANAGEMENT (Continued)**

**The responsibilities of the Town are as follows: (Continued)**

To furnish full cooperation to TML’s attorneys, claims adjusters, and any agent, employee, officers or independent contractor of TML relating to the purposes of TML.

To follow all loss reduction and prevention procedures established by TML where possible.

To furnish to TML such operating and underwriting information as may be requested.

To report as promptly as possible, and in accordance with any conditions issued, all incidents which could result in TML being required to pay claim for loss or injuries to municipal property or injuries to persons or property when such loss or injury is within the scope of the protection in which the Town participates.

To allow TML to inspect and appraise any damaged property before its repair or disposition.

The Town must cooperate with the pool in any dispute resolutions with other insurance companies.

**The responsibilities of TML are as follows:**

TML will defend any suit against the Town or covered party seeking damages even if any of the allegations of the suit are groundless, false, or fraudulent.

TML’s duty to pay on behalf of or to indemnify a covered party other than the Town does not apply to any act, error or omission:

- (1) That constitutes malfeasance in office;
- (2) That constitutes willful and wanton neglect of duty;
- (3) That constitutes dishonesty on the part of a covered party; or
- (4) That constitutes the willful violation of a statute or ordinance by any official, employee, or agent of the municipality.

The Town has not compiled a record of the claims paid up to the applicable deductible for the prior or current fiscal year. The Town is not aware of any claims which the Town is liable for (up to the applicable deductible) which were outstanding and unpaid at June 30, 2012. No provision has been made in the financial statements for the year ended June 30, 2012, for any estimate of potential unpaid claims.

**NOTE 15 - LITIGATION AND CLAIMS**

The Town generally follows the practice of recording liabilities from claims and legal actions only when it is probable that both (1) an asset has been impaired or a liability has been incurred, and (2) the amount of loss can be reasonably estimated. Settlement of any potential claims from a lawsuit in which the Town is involved would not, in management’s estimation, materially affect the financial statements of the Town.

**NOTE 16 - RELATED PARTIES**

An Alderman owns a janitorial service, which contracts cleaning services for the Town. During the year, the Town paid \$10,035 to this company.

**REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A**

**TOWN OF KIMBALL, TENNESSEE**  
**Tennessee Consolidated Retirement System**  
**Schedule of Funding Progress**  
**June 30, 2012**

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets ( a )	Actuarial Accrued Liability (AAL) - Entry Age ( b )	Unfunded AAL (UAAL) ( b ) - ( a )	Funded Ratio ( a/b )	Covered Payroll ( c )	UAAL as a Percentage of Covered Payroll ( (b-a)/c )
July 1, 2011	\$582	\$673	\$90	86.57%	\$631	14.31%
July 1, 2009	\$327	\$327	\$0	100.00%	\$593	0.00%
July 1, 2007	\$203	\$203	\$0	100.00%	\$528	0.00%

**OTHER INFORMATION**

## **NON-MAJOR GOVERNMENTAL FUNDS**

### **Special Revenue Funds**

Special revenue funds are used to account for and report the proceeds of special revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

#### **Drug Fund**

This fund is used to account for investigations of violations of controlled substance laws and is funded primarily by the state statute from the receipt of fines and costs related to drug enforcement cases.

#### **State Street Aid Fund**

This fund accounts for maintenance of all non-state streets in the Town. Revenues are provided from a portion of the State of Tennessee gasoline and motor fuels tax.

**TOWN OF KIMBALL, TENNESSEE**  
**Non-major Governmental Funds**  
**Combining Balance Sheet**  
**June 30, 2012**

	<u>Special Revenue</u>		<u>Total Non-major Governmental Funds</u>
	<u>Drug Fund</u>	<u>State Street Aid Fund</u>	
<b>ASSETS</b>			
Cash	\$ 2,797	\$ 21,204	\$ 24,001
Due from other governments	<u>-</u>	<u>6,421</u>	<u>6,421</u>
<b>TOTAL ASSETS</b>	<u>\$ 2,797</u>	<u>\$ 27,625</u>	<u>\$ 30,422</u>
 <b>FUND BALANCES</b>			
Restricted	<u>\$ 2,797</u>	<u>\$ 27,625</u>	<u>\$ 30,422</u>
<b>TOTAL FUND BALANCES</b>	<u>\$ 2,797</u>	<u>\$ 27,625</u>	<u>\$ 30,422</u>

**TOWN OF KIMBALL, TENNESSEE**  
**Non-major Governmental Funds**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Year Ended June 30, 2012**

	<u>Special Revenue</u>		<b>Total</b>
	<u>Drug Fund</u>	<u>State Street Aid Fund</u>	<b>Non-major Governmental Funds</b>
<b>REVENUES</b>			
Intergovernmental	\$ -	\$ 36,165	\$ 36,165
Fines and forfeitures	421	-	421
Other	<u>-</u>	<u>33</u>	<u>33</u>
<b>TOTAL REVENUES</b>	<u>421</u>	<u>36,198</u>	<u>36,619</u>
<b>EXPENDITURES</b>			
<b>Current expenditures</b>			
State street aid	<u>-</u>	<u>34,050</u>	<u>34,050</u>
<b>TOTAL EXPENDITURES</b>	<u>-</u>	<u>34,050</u>	<u>34,050</u>
Excess (deficiency) of revenues over (under) expenditures	421	2,148	2,569
<b>Fund balances - beginning</b>	<u>2,376</u>	<u>25,477</u>	<u>27,853</u>
<b>Fund balances - end</b>	<u>\$ 2,797</u>	<u>\$ 27,625</u>	<u>\$ 30,422</u>

**TOWN OF KIMBALL, TENNESSEE**  
**Drug Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances -**  
**Budget and Actual**  
**Year Ended June 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Fines and forfeitures				
Court fines	\$ 1,500	\$ 1,500	\$ 421	\$ (1,079)
<b>TOTAL REVENUES</b>	<u>1,500</u>	<u>1,500</u>	<u>421</u>	<u>(1,079)</u>
<b>EXPENDITURES</b>				
<b>Current expenditures</b>				
Public safety				
Supplies	<u>1,500</u>	<u>1,500</u>	<u>-</u>	<u>1,500</u>
<b>TOTAL EXPENDITURES</b>	<u>1,500</u>	<u>1,500</u>	<u>-</u>	<u>1,500</u>
Excess (deficiency) of revenues over (under) expenditures	-	-	421	421
<b>Fund balances - beginning</b>	<u>2,376</u>	<u>2,376</u>	<u>2,376</u>	<u>-</u>
<b>Fund balances - end</b>	<u>\$ 2,376</u>	<u>\$ 2,376</u>	<u>\$ 2,797</u>	<u>\$ 421</u>

**TOWN OF KIMBALL, TENNESSEE**  
**State Street Aid Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances -**  
**Budget and Actual**  
**Year Ended June 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Intergovernmental				
State gas tax	\$ 34,000	\$ 34,000	\$ 36,165	\$ 2,165
Other				
Interest	<u>50</u>	<u>50</u>	<u>33</u>	<u>(17)</u>
<b>TOTAL REVENUES</b>	<u>34,050</u>	<u>34,050</u>	<u>36,198</u>	<u>2,148</u>
<b>EXPENDITURES</b>				
<b>Current expenditures</b>				
State street aid				
Utilities	<u>34,050</u>	<u>34,050</u>	<u>34,050</u>	<u>-</u>
<b>TOTAL EXPENDITURES</b>	<u>34,050</u>	<u>34,050</u>	<u>34,050</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	-	-	2,148	2,148
<b>Fund balances - beginning</b>	<u>25,477</u>	<u>25,477</u>	<u>25,477</u>	<u>-</u>
<b>Fund balances - end</b>	<u>\$ 25,477</u>	<u>\$ 25,477</u>	<u>\$ 27,625</u>	<u>\$ 2,148</u>

**SUPPLEMENTAL INFORMATION**

**TOWN OF KIMBALL, TENNESSEE**  
**Schedule of Expenditures of Federal and State Awards**  
**Year Ended June 30, 2012**

<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Deferred (Receivable) 6-30-11</u>	<u>Cash Received</u>	<u>Expenditures</u>	<u>Deferred (Receivable) 6-30-12</u>
<b>FEDERAL AWARDS</b>						
Department of Transportation - through Tennessee DOT - Highway Safety Grant	20.600	PT-11-16	\$ ( 2,650)	\$ 2,650	\$ -	\$ -
Tennessee DOT - Highway Safety Grant	20.607 /20.600	154AL-12-60	-	492	492	-
Tennessee DOT - Highway Safety Grant	20.607 /20.600	PT-12-18	-	4,088	4,088	-
Tennessee DOT - High Visibility Law Enforcement	20.601	K8-11-104	-	5,000	5,000	-
Total Federal Awards			( 2,650)	12,230	9,580	-
<b>STATE AWARDS</b>						
Tennessee Department of Agriculture		2543	-	3,050	3,050	-
State of TN - Dept. of Environment & Conservation LPRF Grant FY11		GG-09-26739-00	( 11,235)	100,227	88,992	-
Total State Awards			( 11,235)	103,277	92,042	-
Total Federal and State Awards			\$ ( 13,885)	\$ 115,507	\$ 101,622	\$ -

**TOWN OF KIMBALL, TENNESSEE**  
**Note to the Schedule of Expenditures of Federal and State Awards**  
**For the Year Ended June 30, 2012**

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal and State Awards includes the federal and state grant activity of the Town of Kimball, Tennessee and is presented on the modified accrual basis of accounting.

**TOWN OF KIMBALL, TENNESSEE**  
**Solid Waste Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances -**  
**Budget and Actual**  
**Year Ended June 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance</b>
	<u>Original</u>	<u>Final</u>		<b>Favorable</b> <b>(Unfavorable)</b>
<b>EXPENDITURES</b>				
<b>Current expenditures</b>				
Public works				
Salaries	\$ 73,532	\$ 73,532	\$ 75,240	\$ (1,708)
Gas and oil	500	500	160	340
Landfill	31,000	31,000	26,882	4,118
Vehicle expense	10,000	10,000	1,468	8,532
Uniforms	3,000	3,000	2,468	532
Supplies	500	500	500	-
Total public works	<u>118,532</u>	<u>118,532</u>	<u>106,718</u>	<u>11,814</u>
<b>TOTAL EXPENDITURES</b>	<u>118,532</u>	<u>118,532</u>	<u>106,718</u>	<u>11,814</u>
Excess (deficiency) of revenues over (under) expenditures	(118,532)	(118,532)	(106,718)	11,814
<b>OPERATING SOURCES (USES)</b>				
Transfer in	<u>118,532</u>	<u>118,532</u>	<u>106,718</u>	<u>(11,814)</u>
Net changes in fund balances	-	-	-	-
<b>Fund balances - beginning</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund balances - end</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**TOWN OF KIMBALL, TENNESSEE**  
**Sewer Fund**  
**Schedule of Revenues, Expenses and Changes in Net Assets - Budget and Actual**  
**Year Ended June 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance</b>
	<u>Original</u>	<u>Final</u>		<b>Favorable (Unfavorable)</b>
<b>OPERATING REVENUES</b>				
Sewer - billings	\$ 79,000	\$ 79,000	\$ 78,462	\$ (538)
Sewer tap fees	1,000	1,000	-	(1,000)
Total operating revenues	<u>80,000</u>	<u>80,000</u>	<u>78,462</u>	<u>(1,538)</u>
<b>OPERATING EXPENSES</b>				
Salaries	1,200	1,200	113	1,087
Chemicals	7,550	7,550	3,849	3,701
Membership fees	2,000	2,000	1,990	10
Office supplies	500	500	191	309
Professional fees	3,000	3,000	2,776	224
Repairs and maintenance	24,000	24,000	19,632	4,368
Travel	500	500	-	500
Utilities	4,800	4,800	5,030	(230)
Depreciation	<u>37,000</u>	<u>37,000</u>	<u>46,536</u>	<u>(9,536)</u>
Total operating expenses	<u>80,550</u>	<u>80,550</u>	<u>80,117</u>	<u>433</u>
Operating income (loss)	<u>(550)</u>	<u>(550)</u>	<u>(1,655)</u>	<u>(1,105)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Interest expense	(1,650)	(1,650)	(1,679)	(29)
Retirement of debt	(75,000)	(75,000)	-	75,000
Insurance recoveries	-	-	949	949
Interest revenue	<u>2,200</u>	<u>2,200</u>	<u>813</u>	<u>(1,387)</u>
Total non-operating revenues (expenses)	<u>(74,450)</u>	<u>(74,450)</u>	<u>83</u>	<u>74,533</u>
Change in net assets	(75,000)	(75,000)	(1,572)	73,428
<b>Net assets - beginning</b>	<u>1,476,135</u>	<u>1,476,135</u>	<u>1,476,135</u>	<u>-</u>
<b>Net assets - end</b>	<u>\$ 1,401,135</u>	<u>\$ 1,401,135</u>	<u>\$ 1,474,563</u>	<u>\$ 73,428</u>

**TOWN OF KIMBALL, TENNESSEE**  
**Schedule of Changes in Property Taxes Receivable**  
**General Fund**  
**Year Ended June 30, 2012**

<u>Year of Levy</u>	<u>Taxes Receivable June 30, 2011</u>	<u>Levy</u>	<u>Pickups (Releases)</u>	<u>Collections</u>	<u>Taxes Receivable June 30, 2012</u>
2012	\$ -	\$ 59,100	\$ -	\$ -	\$ 59,100
2011	59,400	-	(271)	(55,608)	3,521
2010	3,800	-	-	(3,107)	693
2009	1,808	-	-	(1,344)	464
2008	540	-	-	(88)	452
2007	271	-	-	(9)	262
2006	37	-	-	(9)	28
2005	12	-	-	(9)	3
2004	14	-	-	(9)	5
2003	5	-	-	-	5
2002	<u>15</u>	<u>-</u>	<u>(15)</u>	<u>-</u>	<u>-</u>
	<u>\$ 65,902</u>	<u>\$ 59,100</u>	<u>\$ (286)</u>	<u>\$ (60,183)</u>	64,533
					<u>(2,163)</u>
					<u>\$ 62,370</u>

**TOWN OF KIMBALL, TENNESSEE**  
**Governmental Funds**  
**Schedule of Debt Service Requirements**  
**June 30, 2012**

**CAPITAL LEASE**  
**8 DODGE CHARGER POLICE CARS**  
**4.89%**

<u>Maturing June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2013	\$ 69,494	\$ 6,962	\$ 76,456
2014	<u>72,892</u>	<u>3,564</u>	<u>76,456</u>
<b>Total</b>	<u>\$ 142,386</u>	<u>\$10,526</u>	<u>\$ 152,912</u>

**TOWN OF KIMBALL, TENNESSEE**  
**Sewer Fund**  
**Schedule of Debt Service Requirements**  
**June 20, 2012**

**CAPITAL OUTLAY NOTE - SERIES 2011**  
**SEWAGE COLLECTION SYSTEM REPAIRS**  
**ORIGINAL LOAN \$150,000**

<u>Maturing</u> <u>June 30,</u> <u>2013</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Requirements</u>
	<u>\$ 76,677</u>	<u>\$ 2,480</u>	<u>\$ 79,157</u>
 Total	 <u>\$ 76,677</u>	 <u>\$ 2,480</u>	 <u>\$ 79,157</u>

**TOWN OF KIMBALL, TENNESSEE**  
**Schedule of Rates**  
**June 30, 2012**

**ANALYSIS OF TAX RATES AND ASSESSMENTS**

<u>Tax Year</u>	<u>Rates Per \$100</u>	<u>Assessment</u>	<u>Levy</u>
2003	\$.10	\$ 38,912,000	\$38,912
2004	\$.10	\$ 41,399,000	\$41,399
2005	\$.10	\$ 47,626,430	\$47,626
2006	\$.10	\$ 48,041,000	\$48,041
2007	\$.10	\$ 53,491,000	\$53,491
2008	\$.10	\$ 55,424,000	\$55,424
2009	\$.10	\$ 55,804,000	\$55,804
2010	\$.10	\$ 59,559,000	\$59,559
2011	\$.10	\$ 59,129,000	\$59,129
2012	\$.10	\$ 59,100,000	\$59,100

**DELINQUENT TAXES FILED**

The Town has filed uncollected delinquent taxes.

**SEWER RATE STRUCTURE**

The sewer rates that were in effect as of June 30, 2012, were:

\$12.24 per month up to 3,000 gallons (minimum bill) plus  
\$4.08 per 1,000 gallons over 3,001 gallons

The number of customers as of June 30, 2012, was 73.

**TOWN OF KIMBALL, TENNESSEE**  
**Schedule of Insurance Coverage**  
**June 30, 2012**

**INSURANCE COVERAGE**

<b>TML Pool:</b>	<u>Expiration</u>	<u>Amount</u>	
Buildings, personal property and equipment	08/01/2012	\$ 4,700,415	
Workmen's compensation	04/01/2013	\$ 1,000,000	per accident
		\$ 1,000,000	policy limit
		\$ 1,000,000	per employee
General liability, law enforcement, automobile liability	08/01/2012	\$ 300,000	per person
		\$ 700,000	per occurrence
		\$ 300,000	per property
		\$ 2,000,000	each other loss per occurrence
Automobile physical damage (\$250/\$500 deductible)	08/01/2012	\$ 300,000	per person
		\$ 700,000	per occurrence
		\$ 300,000	per property
Errors and omissions	08/01/2012	\$ 2,000,000	per occurrence

### **III. INTERNAL CONTROL AND COMPLIANCE SECTION**



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Mayor and Aldermen  
Town of Kimball, Tennessee  
Kimball, Tennessee

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the major funds and the aggregate remaining fund information of the Town of Kimball, Tennessee, as of and for the year ended June 30, 2012, and have issued our report thereon dated November 21, 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 Town of Kimball, Tennessee is responsible for establishing and maintaining effective control over financial report. In planning and performing our audit, we considered the Town of Kimball, Tennessee's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Kimball, Tennessee's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Kimball, Tennessee's internal control over financial reporting.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Town's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as 12-1 and 12-2 to be material weaknesses.

Board of Mayor and Aldermen  
Town of Kimball, Tennessee  
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**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town of Kimball, 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 two instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 12-3 and 12-4.

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

This report is intended solely for the information and use of the Board of Mayor and Aldermen, management and the Comptroller of the Treasury of the State of Tennessee, and is not intended to be and should not be used by anyone other than these specified parties.

Chattanooga, Tennessee  
November 21, 2012

*Johnson, Murphy & Wright, P.C.*

**TOWN OF KIMBALL, TENNESSEE**  
**Schedule of Findings and Responses**  
**June 30, 2012**

**SUMMARY OF AUDIT RESULTS**

**Opinion:**

Unqualified opinion issued on the financial statements in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

**Internal Control Deficiencies:**

During the audit of the financial statements two significant deficiencies in internal controls were disclosed, which also were considered in the aggregate to be material weaknesses.

**Material Noncompliance:**

Two instances of noncompliance or other matters was disclosed.

**FINDINGS RELATING TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS**

**INTERNAL CONTROL:**

**Finding 12-1 - Inadequate separation of duties (Repeat finding 11-1)**

**Criteria:**

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 5, Chapter 1, Section 1, states:

“Municipal officials should separate duties of employees so that no one person has control over a complete transaction from beginning to end. Work flow should be established so that one employee’s work is automatically verified by another employee working independently.”

**Condition Found:**

The Town of Kimball, Tennessee has two office employees that are responsible for collecting, depositing, and recording funds. A proper division of duties should provide a system of checks and balances so that no one person has control over a complete transaction from beginning to end. Due to the limited number of staff, this cannot be accomplished in all areas.

**Recommendation:**

Great improvements have been made in this area over the years. However, due to the limited office staff, there are always going to be situations where only one employee has too much control over a transaction. To decrease the risk of undetected errors and irregularities, additional employees would be needed to divide duties. However, the benefits of the additional controls are not justified by the cost to the Town for the additional personnel.

**Management’s Response:**

We concur. We will try to involve other staff where possible to improve controls.

(Continued)

## Schedule of Findings and Responses (Continued)

Page Two

### INTERNAL CONTROL: (Continued)

#### **Finding 12-2 - Accounting expertise** (Repeat finding 11-2)

**Criteria:**

SAS 115 states in part that the lack of accounting personnel with sufficient “training” to properly design controls over the year-end financial reporting process, including the actual “preparation of financial statements” is a “significant deficiency” and a strong indication of a “material weakness”.

**Condition Found:**

The Town did not have accounting personnel on staff that had sufficient training to prepare their own financial report.

**Recommendation:**

The Town should consider the risk benefits of continuing to allow the outside auditors to prepare the financial report, versus having an internal auditor/CPA to perform the year-end financial reporting process.

**Management’s Response:**

We concur. However, even though we are aware that we cannot theoretically rely on our outside CPA as a part of our system, we feel that this is still a very important and very reliable way to safeguard our assets and report the transactions of the Town. We are taking responsibility for the preparation and fair presentation of the financial statements and we possess suitable skill, knowledge, and/or experience to evaluate the adequacy of any services in this area provided by the auditor. In addition, we are currently sending one of our staff members through the CMFO training so that they are better equipped to review the financial report prepared by the auditor. They have currently completed all but two sections of the training.

### COMPLIANCE:

#### **Finding 12-3 - Enterprise fund operating at a loss** (Repeat finding 11-5)

**Criteria:**

Tennessee Code Annotated Section 7-35-414 states in part that, “...Such rates and charges shall be adjusted so as to provide funds sufficient to pay all reasonable expenses of operation...”

**Condition Found:**

The Sewer Fund operated at a net loss of \$(1,572).

**Recommendation:**

The Town officials should closely monitor operating expenses and consider rate restructuring in order to eliminate the net operating losses.

**Management’s Response:**

We concur. We will more closely monitor this fund in the future.

**Schedule of Findings and Responses (Continued)**

Page Three

**COMPLIANCE:** (Continued)

**Finding 12-4 - Related party transaction (Repeat finding 11-6)**

**Criteria:**

Tennessee Code Annotated Section 12-4-101 states in part that, “it is unlawful for any officer...whose duty it is to vote for, let out, overlook, or in any manner to superintend any work or any contract in which any municipal corporation...to be directly interested in any such contract.”

**Condition Found:**

An Alderman owns a janitorial service, which contracts cleaning services for the Town. During the year, the Town paid \$10,035 to this company.

- 1) The contract was in place before the Alderman became a member of the council.
- 2) The contract was bid out and this company was the only bidder.
- 3) The contract was in place before the Alderman took over the business.
- 4) The contract amount is immaterial to the Town of Kimball.
- 5) When voting on the contract, the Alderman publicly acknowledged a conflict of interest and abstained from voting.

**Recommendation:**

The Town should seek legal counsel regarding this matter.

**Management's Response:**

We concur. We will seek legal counsel to resolve this issue.

**TOWN OF KIMBALL, TENNESSEE**  
**Schedule of Prior Audit Findings**  
**June 30, 2012**

**Internal Control:**

**Finding 11-1** - Inadequate separation of duties  
Still in effect.

**Finding 11-2** - Accounting expertise  
Still in effect.

**Finding 11-3** - Approvals and documentation  
Corrected.

**Finding 11-4** - Bank statements not approved  
Corrected.

**Compliance:**

**Finding 11-5** - Enterprise fund operating at a loss  
Still in effect.

**Finding 11-6** - Related party transaction  
Still in effect.