

CITY OF MIDDLETON, TENNESSEE

BASIC FINANCIAL STATEMENTS
AND ACCOMPANYING INFORMATION

June 30, 2011

JONES & JONES
CERTIFIED PUBLIC ACCOUNTANTS
OF BOONEVILLE, P.A.
BOONEVILLE, MISSISSIPPI 38829-0250

CITY OF MIDDLETON, TENNESSEE
Basic Financial Statements
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June 30, 2011

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CITY OF MIDDLETON, TENNESSEE
Roster of Publicly Elected Officials and Management Officials
June 30, 2011
(Unaudited)

PUBLICLY ELECTED OFFICIALS

TITLE

Vernon Henderson

Mayor

Bill Sain

Aldersperson - Vice Mayor

Doug Henderson

Aldersperson

Jackie Cox

Aldersperson

Bo Callahan

Aldersperson

James Simpson, Jr

Aldersperson

MANAGEMENT OFFICIALS

Jerry Mills

City Recorder

JONES & JONES
CERTIFIED PUBLIC ACCOUNTANTS
OF BOONEVILLE PA

Kermit V Jones Jr., C.P.A.

Christopher D. Jones, C.P.A.

Jeremy D. Jones, C.P.A.

David W. Jones, C.P.A.

Independent Auditors' Report

To the Mayor and Board of Alderpersons
City of Middleton, Tennessee

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Middleton, Tennessee, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Middleton, 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

As described in Note 21 to the financial statements, the City adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2011, on our consideration of the City of Middleton, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 15 and the municipal employees' pension fund information on page 64 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Middleton, Tennessee's financial statements as a whole. The combining and individual nonmajor fund financial statements and schedules, and other supplemental information listed in the table of contents as Schedules 2 through 8 and 13 through 15 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, the schedule of expenditures of federal awards and state financial assistance and other supplemental information listed in the table of contents as Schedules 2 through 8 and 13 through 15 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 other supplementary information listed in the table of contents as Roster of Publicly Elected Officials and Management Officials and Schedules 9 through 12 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Sincerely yours,



JONES & JONES
Certified Public Accountants
of Booneville, P.A.

December 23, 2011

CITY OF MIDDLETON, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Middleton, Tennessee, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with the City's financial statements, which follow this section.

Financial Highlights

The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$3,687,029 (net assets). Of this amount, \$553,826 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

The government's total net assets increased by \$33,111.

As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$365,942 an increase of \$77,525 in comparison with the prior year. Approximately 55.1 percent of this total amount, or \$201,638, is available for spending at the government's discretion (unassigned fund balance).

At the close of the current fiscal year, unassigned fund balance for the general fund was \$201,638 or 30.9 percent of total General Fund expenditures.

The City had fixed asset additions of \$248,280 during the current year. Of this amount, \$182,946 occurred in the Enterprise Funds.

The City's total debt increased by \$1,938,271 (approximately 77.4 percent) during the current fiscal year. The City issued new debt during the current year totaling \$2,000,000.

The City's property tax millage rate remained at 99 mills in 2010 and 2011.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise of 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 City's finances, in a manner similar to a private-sector business.

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

Overview of the Financial Statements – continued

Government-wide financial statements – continued. 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., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, parks and recreation, and community development. The business-type activities of the City include water and sewer operations and solid waste collection operations.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate authority—the City of Middleton Industrial Development Board, the Planning Committee Board, the Library Board, and the Cemetery Board. These boards, although legally separate, function for all practical purposes as a department of the City; therefore, they have been included as an integral part of the primary government.

The government-wide financial statements can be found on pages 16 – 17 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary 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 effect of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Overview of the Financial Statements – continued

Governmental funds – continued. The City maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, which is considered to be a major fund. Data from the other four 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 elsewhere in this report.

The City adopts an annual appropriated budget for its General Fund and its Special Revenue Funds. Budgetary comparison schedules for the General Fund has been provided in the financial statements on pages 28 – 33 to demonstrate compliance with those budgets. The City had no major special revenue fund which required budget comparison schedules. The City also presents non-major governmental fund budgetary comparison schedules on pages 77-79 as required by the State of Tennessee Department of Audit *Audit Manual*.

The basic governmental fund financial statements can be found on pages 18 – 21 of this report.

Proprietary funds. The City maintains three different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer operations, its natural gas operations and its solid waste collection 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 separate information for the water and sewer operations, natural gas operations and the sanitation operations. The Water and Sewer Fund and Natural Gas Fund are considered to be a major fund of the City. The Sanitation Fund is considered to be a non-major fund of the City.

The basic Proprietary Fund financial statements can be found on pages 22 – 27 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The City currently has no fiduciary funds for which it is responsible; therefore, no fiduciary fund financial statements are included in 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 34 – 63 of this report.

Overview of the Financial Statements – continued

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This is limited to the municipal employees pension fund. Required supplementary information can be found on page 64 of this report. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 65 – 66 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Middleton, assets exceeded liabilities by \$3,687,029 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (83.9 percent) reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City'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.

An additional portion of the City's net assets (approximately 1.1% or \$39,026) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (approximately 15.0% or \$553,826) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City 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 government's net assets increased by \$33,111 during the current fiscal year. This increase was mainly due to governmental activities expenditures decreasing by \$60,830, governmental activities revenue increasing by \$99,596 net of transfers and natural gas expenditures of \$86,782 due to natural gas system not being completed.

City of Middleton, Tennessee's Net Assets

	Governmental Activities				Business-Type Activities				Total			
	2011	2010	Increase (Decrease)	% Change	2011	2010	Increase (Decrease)	% Change	2011	2010	Increase (Decrease)	% Change
	Current and other assets	\$ 670,926	\$ 477,202	\$ 193,724	40.6%	\$ 1,993,273	\$ 307,498	\$ 1,685,775	548.2%	\$ 2,664,199	\$ 784,700	\$ 1,879,499
Capital assets	1,190,369	1,165,668	24,701	2.1%	2,803,566	2,569,316	234,250	9.1%	3,993,935	3,734,984	258,951	6.9%
Total Assets	1,861,295	1,642,870	218,425	13.3%	4,796,839	2,876,814	1,920,025	66.7%	6,658,134	4,519,684	2,138,450	47.3%
Long-term liabilities outstanding	206,187	235,926	(29,739)	-12.6%	2,407,672	435,776	1,971,896	452.5%	2,613,859	671,702	1,942,157	289.1%
Other liabilities	241,936	175,130	66,806	38.1%	115,310	18,934	96,376	509.0%	357,246	194,064	163,182	84.1%
Total Liabilities	448,123	411,056	37,067	9.0%	2,522,982	454,710	2,068,272	454.9%	2,971,105	865,766	2,105,339	243.2%
Net assets												
Investment in capital assets, net of related debt	1,008,996	951,639	57,357	6.0%	2,085,181	2,136,609	(51,428)	-2.4%	3,094,177	3,088,248	5,929	0.2%
Restricted	24,677	14,363	10,314	71.8%	14,349	14,331	18	0.1%	39,026	28,694	10,332	36.0%
Unrestricted	379,499	265,812	113,687	42.8%	174,327	271,164	(96,837)	-35.7%	553,826	536,976	16,850	3.1%
Total Net Assets	\$ 1,413,172	\$ 1,231,814	\$ 181,358	14.7%	\$ 2,273,857	\$ 2,422,104	\$ (148,247)	-6.1%	\$ 3,687,029	\$ 3,653,918	\$ 33,111	0.9%

City of Middleton, Tennessee's Changes in Net Assets

	Governmental Activities				Business-Type Activities				Total			
	2011	2010	Increase (Decrease)	% Change	2011	2010	Increase (Decrease)	% Change	2011	2010	Increase (Decrease)	% Change
	Revenue											
Program Revenues												
Charges for services	\$ 66,473	\$ 68,764	\$ (2,291)	-3.3%	\$ 214,578	\$ 237,566	\$ (22,988)	-9.7%	\$ 281,051	\$ 306,330	\$ (25,279)	-8.3%
Operating grants and contributions	42,698	41,294	1,404	3.4%	-	-	-	0.0%	42,698	41,294	1,404	3.4%
Capital grants and contributions	62,242	5,328	56,914	1068.2%	85,941	400	85,541	21385.3%	148,183	5,728	142,455	2487.0%
General Revenues												
Taxes												
Property taxes and late fees	156,313	171,198	(14,885)	-8.7%	-	-	-	0.0%	156,313	171,198	(14,885)	-8.7%
Sales tax	271,748	255,102	16,646	6.5%	-	-	-	0.0%	271,748	255,102	16,646	6.5%
Beer tax	80,681	81,905	(1,224)	-1.5%	-	-	-	0.0%	80,681	81,905	(1,224)	-1.5%
Franchise tax	24,579	24,305	274	1.1%	-	-	-	0.0%	24,579	24,305	274	1.1%
In lieu taxes	14,243	8,371	5,872	70.1%	-	-	-	0.0%	14,243	8,371	5,872	70.1%
Income and excise tax	22,185	2,202	19,983	907.5%	-	-	-	0.0%	22,185	2,202	19,983	907.5%
Investment income	1,427	1,169	258	22.1%	11,142	2,156	8,986	416.8%	12,569	3,325	9,244	278.0%
Miscellaneous	4,301	2,265	2,036	89.9%	2,101	2,288	(187)	-8.2%	6,402	4,553	1,849	40.6%
Gain on disposition of capital assets	15,804	1,195	14,609	1222.5%	-	-	-	0.0%	15,804	1,195	14,609	1222.5%
Total revenue	\$ 762,694	\$ 663,098	\$ 99,596	15.0%	\$ 313,762	\$ 242,410	\$ 71,352	29.4%	\$ 1,076,456	\$ 905,508	\$ 170,948	18.9%

City of Middleton, Tennessee's Changes in Net Assets - continued

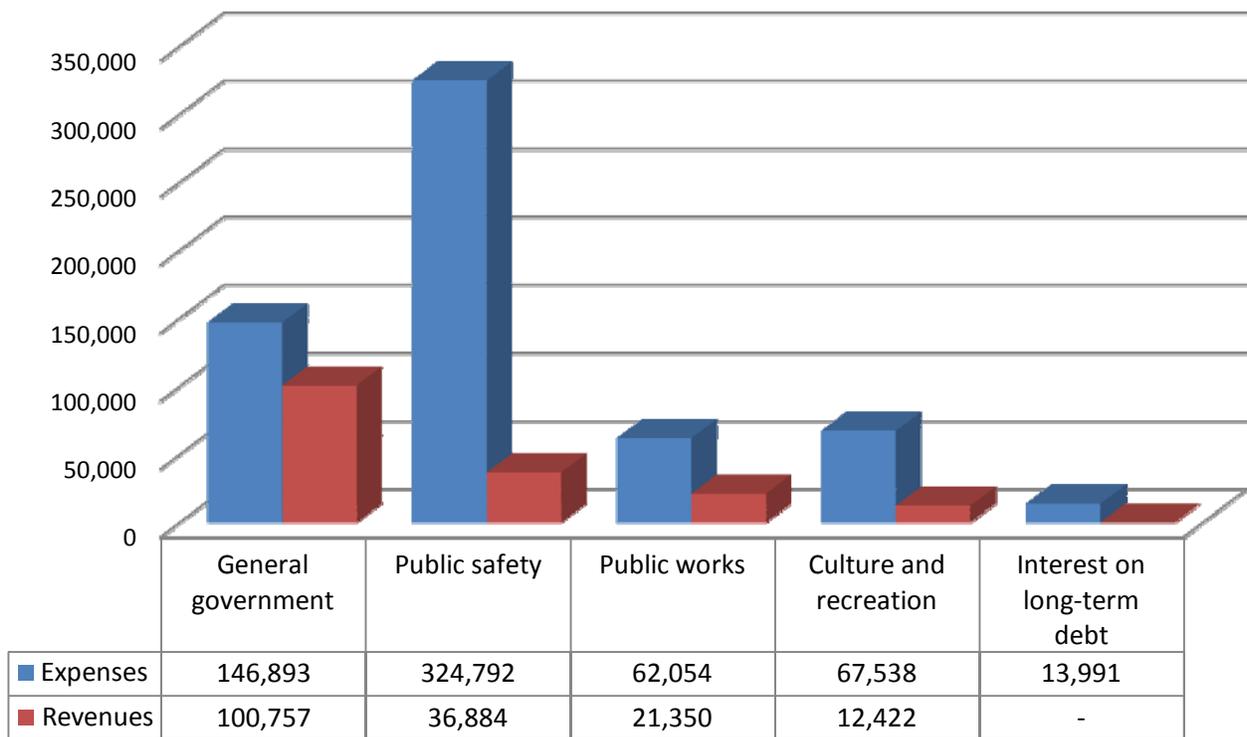
	Governmental Activities				Business-Type Activities				Total			
	2011	2010	Increase (Decrease)	% Change	2011	2010	Increase (Decrease)	% Change	2011	2010	Increase (Decrease)	% Change
	Expenses:											
General government	\$ 146,893	\$ 208,338	\$ (61,445)	-29.5%	\$ -	\$ -	\$ -	0.0%	\$ 146,893	\$ 208,338	\$ (61,445)	-29.5%
Public safety	324,792	329,279	(4,487)	-1.4%	-	-	-	0.0%	324,792	329,279	(4,487)	-1.4%
Public works	62,054	70,494	(8,440)	-12.0%	-	-	-	0.0%	62,054	70,494	(8,440)	-12.0%
Culture and recreation	67,538	57,178	10,360	18.1%	-	-	-	0.0%	67,538	57,178	10,360	18.1%
Interest	13,991	10,809	3,182	29.4%	-	-	-	0.0%	13,991	10,809	3,182	29.4%
Water and sewer	-	-	-	0.0%	313,738	299,051	14,687	4.9%	313,738	299,051	14,687	4.9%
Natural gas	-	-	-	0.0%	86,782	-	86,782	0.0%	86,782	-	86,782	0.0%
Sanitation	-	-	-	0.0%	27,557	27,560	(3)	0.0%	27,557	27,560	(3)	0.0%
Total expenses	615,268	676,098	(60,830)	-9.0%	428,077	326,611	101,466	31.1%	1,043,345	1,002,709	40,636	4.1%
Increase (decrease) in net assets												
before contributions and transfers	147,426	(13,000)	160,426	-1234.0%	(114,315)	(84,201)	(30,114)	35.8%	33,111	(97,201)	130,312	-134.1%
Transfers	33,932	-	33,932	0.0%	(33,932)	-	(33,932)	0.0%	-	-	-	0.0%
Increase (decrease) in net assets	181,358	(13,000)	194,358	-1495.1%	(148,247)	(84,201)	(64,046)	76.1%	33,111	(97,201)	130,312	-134.1%
Net assets—beginning of year	1,231,814	1,244,814	(13,000)	-1.0%	2,422,104	2,506,305	(84,201)	-3.4%	3,653,918	3,751,119	(97,201)	-2.6%
Net assets—end of year	\$1,413,172	\$1,231,814	\$ 181,358	14.7%	\$2,273,857	\$2,422,104	\$ (148,247)	-6.1%	\$3,687,029	\$3,653,918	\$ 33,111	0.9%

Government-wide Financial Analysis- continued

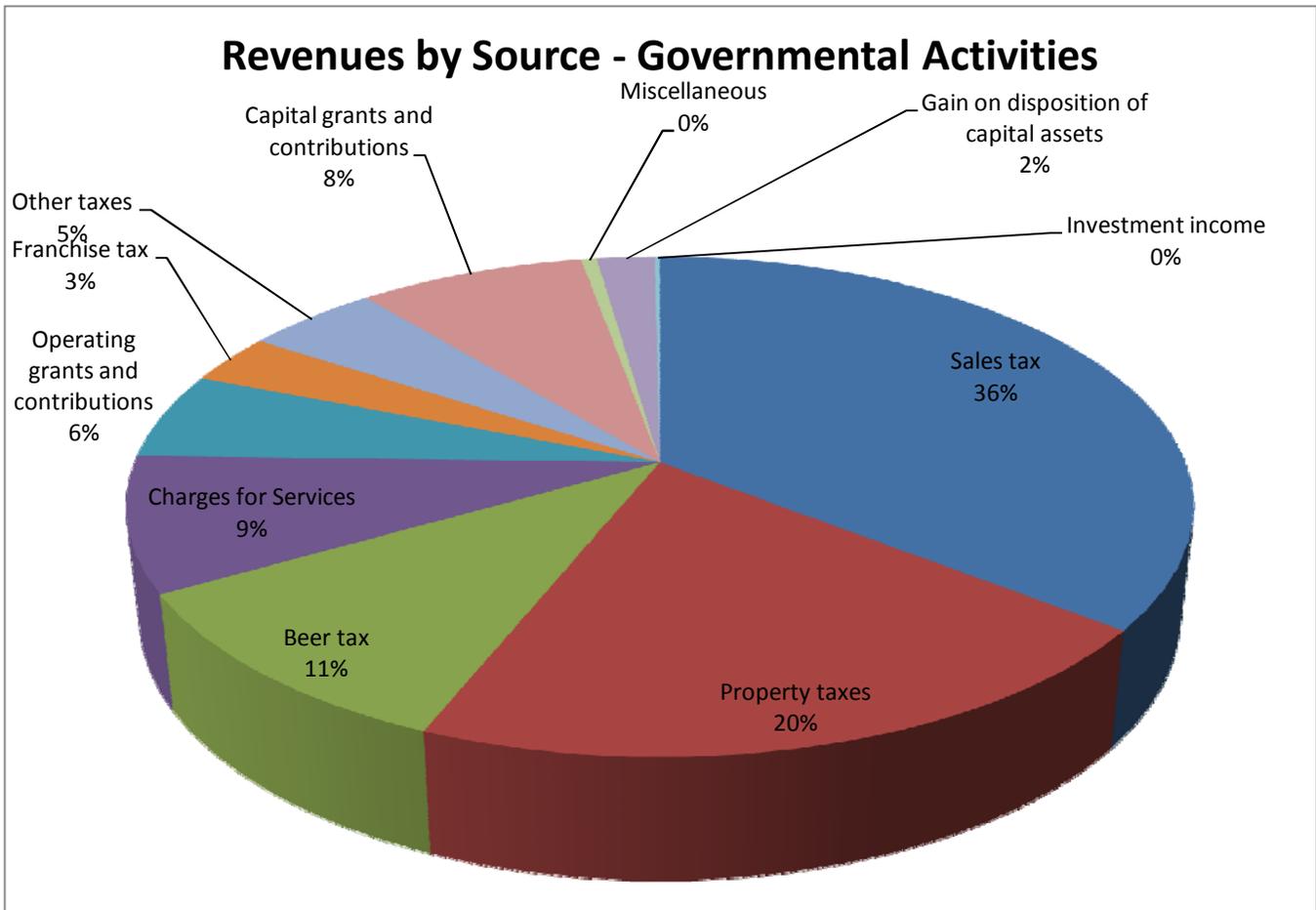
Governmental activities. Governmental activities increased the City's net assets by \$181,358 accounting for approximately 548% of the total increase in the government's net assets for the current year. By comparison, governmental activities reported a decrease in net assets the previous fiscal year of approximately \$13,000. Key elements of the changes are as follows:

During the year, general government expenses decreased by \$61,445 (approximately 29 percent), public safety expense decreased by \$4,487 (approximately 1 percent), public works expenses decreased by \$8,440 (approximately 12 percent), culture and recreation expenses increased by \$10,360 (approximately 18 percent), interest expense increased by \$3,182 (approximately 29 percent). The 2010 tax rate stayed the same as the 2009 tax rate of 99 mils. Governmental activities general revenue increased by \$77,500 including a \$33,932 transfer from the gas system fund.

**Expenses and Program Revenues -
Governmental Activities**



Government-wide Financial Analysis- continued



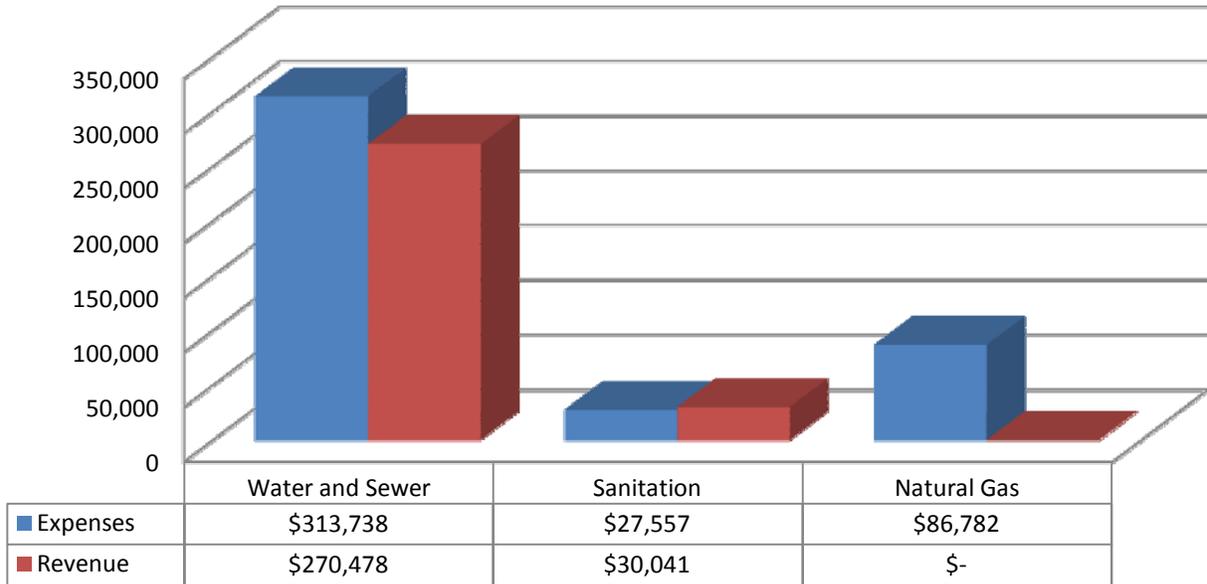
Business-type activities. Business-type activities decreased the City's net assets by \$148,247 accounting for -447.7% of the total increase in the government's net assets for the current year. By comparison, business-type activities reported a decrease in net assets the previous fiscal year of approximately \$84,201. Key elements of the changes are as follows:

Charges for services for business-type activities decreased approximately \$22,988, or roughly 10 percent, compared to the prior year. This is a result of a decrease in volume of water sales. Capital grants and contributions increased by \$85,541 compared to the prior year. The City's natural gas operations incurred \$86,782 of expenses with no revenues due to the the system not being completed.

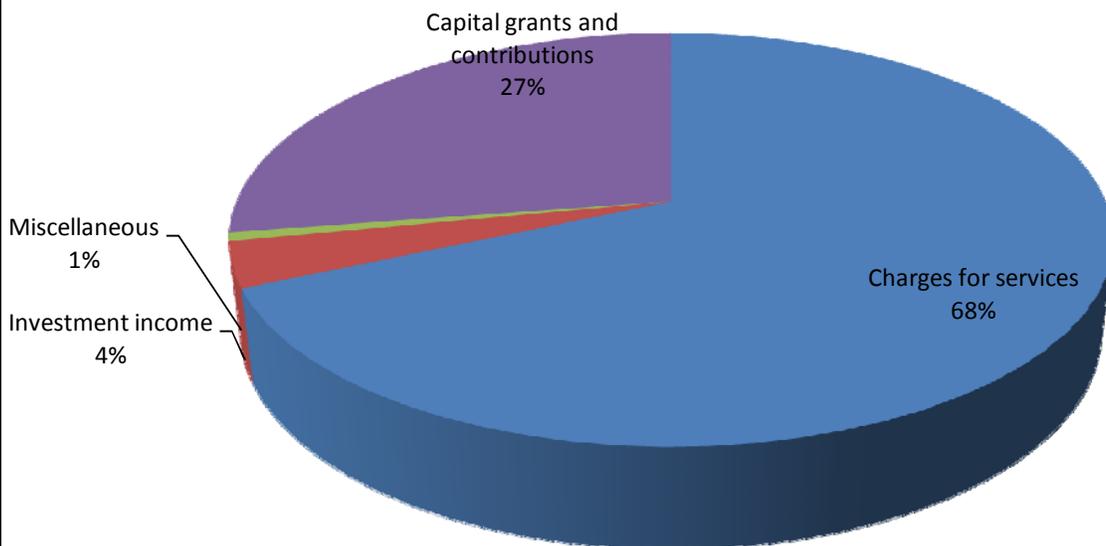
Expenses increased approximately 31 percent or \$101,466 when compared to the prior year.

Government-wide Financial Analysis- continued

Expenses and Program Revenues - Business-Type Activities



Revenues by Source - Business-Type Activities



Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$365,942 an increase of \$77,525 in comparison with the prior year. Approximately 55.1 percent of this total amount, or \$201,638, is available for spending at the government's discretion (unassigned fund balance).

The remainder of the fund balance is either restricted by laws, regulations or by donor, committed by the Board of Alderpersons, or assigned by the Board of Alderpersons or the Mayor, to indicate that it is not available for new spending or it can be spent only for specific items.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$201,638, while total fund balance was \$341,254. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 30.9 percent of total general fund expenditures.

The fund balance of the City's General Fund increased by \$67,189 during the current fiscal year. This is primarily attributable to an increase in taxes of \$9,390 (approximately 2 percent), intergovernmental revenues increase of \$26,450 (approximately 28 percent), general government expense decrease of \$65,366 (approximately 33 percent) and capital outlays increase of \$36,378 (approximately 67 percent).

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

Unrestricted net assets of the Water and Sewer, Natural Gas, and Solid Waste Collection Funds at the end of the year amounted to \$259,483, -\$112,546 and \$27,390, respectively. The Water and Sewer Fund had a decrease in net assets for the year of \$38,199, the Natural Gas Fund had a decrease of \$112,546, and the Waste Collection Fund had an increase of

Other factors concerning the finances of these three funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

The City had budget amendments during the year which are detailed on Statement 8 on pages 28 to 33 and in the notes to the financial statements in Note 3 on page 44.

During the year, General Fund revenues were less and expenditures were less than the budgetary estimates, resulting in an actual increase in fund balance that was more than the final budget fund balance by approximately \$117,870.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2011, amounted to \$3,858,145 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, and park facilities. Capital assets also include roads, highways, bridges and other infrastructure acquired after July 1, 2003. The total increase in the City's investment in capital assets for the current fiscal year was approximately 3.3 percent (an approximate 2.1 percent increase for governmental activities and an approximate 3.8 percent increase for business-type activities).

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

- 1 Energy saving remodeling of buildings \$58,330
- 2 Purchase of police radio equipment totaling \$7,004.
- 3 Willow road sewer extension in progress totaling \$85,841.
- 4 Natural gas system construction in progress totaling \$97,105.
- 5 Depreciation expense for governmental activities of \$40,633.
- 6 Depreciation expense for business-type activities of \$84,486.

City of Middleton, Tennessee's Capital Assets - Net

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Land	\$ 476,398	\$ 5,622	\$ 482,020
Construction in progress	58,330	182,946	241,276
Infrastructure	103,900	-	103,900
Buildings and improvements	386,666	20,487	407,153
Water and sewer system	-	2,444,733	2,444,733
Automotive and equipment	165,075	13,988	179,063
Total	\$ 1,190,369	\$ 2,667,776	\$ 3,858,145

Additional information on the City's capital assets can be found in Note 6 on pages 48 - 49 of this report and in the long-term debt section on the next page.

Capital Asset and Debt Administration - continued

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of \$2,583,507. Of this amount, \$173,216 comprises debt backed by the full faith and credit of the government and \$8,157 from obligations under capital leases. The remainder of the City's debt of \$2,402,134 represents bonds secured by specified revenue sources (i.e., revenue bonds) and the full faith and credit of the government, if specified revenue sources are insufficient to retire this debt.

City of Middleton, Tennessee's Outstanding Debt General Obligation and Revenue Bonds

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
General obligation bonds	\$ 173,216	\$ -	\$ 173,216
Lease agreements	8,157	-	8,157
Combination revenue and general obligation bonds	-	2,402,134	2,402,134
Total	<u>\$ 181,373</u>	<u>\$ 2,402,134</u>	<u>\$ 2,583,507</u>

The City's total debt increased by \$1,938,271 (approximately 77.4 percent) during the current fiscal year. The City issued new debt during the current year totaling \$2,000,000.

The City has not received a rating from Standard & Poor's.

State statute does not limit the amount of general obligation debt a governmental entity may issue. Other short-term debt must be approved by the State. Additional information on the City's long-term debt can be found in Note 7 on pages 49 – 52 of this report.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the City's budget for the 2012 fiscal year:

The City has one major industry located inside its city limits. This favorably increases the amount of taxes and utility revenue the City receives.

The City's tax millage rate remains at 99 mills on the 2011 tax rolls. The City does not expect its tax base to vary significantly from the current year.

Inflationary and recessionary trends in the region compare favorably to national indices.

During the current fiscal year, unassigned fund balance in the General Fund decreased to \$201,638.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Recorder, P.O. Box 40, Middleton, Tennessee 38052.

CITY OF MIDDLETON, TENNESSEE
Statement of Net Assets
June 30, 2011

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 224,768	\$ 56,092	\$ 280,860
Restricted cash and cash equivalents	-	1,678,159	1,678,159
Investments - certificates of deposit	107,398	171,887	279,285
Receivables (Net, where applicable, of allowances for uncollectibles)			
Accounts (net of allowances of \$423)	8,224	29,088	37,312
Property taxes (net of allowances of \$1,678)	165,965	-	165,965
Police fines (net of allowances of \$774)	884	-	884
Interest	293	1,654	1,947
Other (net of allowances of \$0)	10,182	-	10,182
Prepaid expenses	16,857	924	17,781
Inventory	3,819	-	3,819
Due from other governments	129,649	58,356	188,005
Due from other funds	2,887	(2,887)	-
Land and construction in progress	534,728	188,568	723,296
Other capital assets (net of accumulated depreciation)	655,641	2,479,208	3,134,849
Deferred bond issuance cost - net	-	135,790	135,790
	<u>1,861,295</u>	<u>4,796,839</u>	<u>6,658,134</u>
Total Assets			
LIABILITIES			
Accounts payable	56,744	9,228	65,972
Accounts payable - fixed assets	-	64,740	64,740
Accrued liabilities	20,207	6,308	26,515
Due to other government	-	1,176	1,176
Accrued interest	1,122	28,808	29,930
Customer deposits	-	5,050	5,050
Deferred revenues	163,863	-	163,863
Long-term debt and capital leases			
Bonds and notes payable due within one year	21,108	53,415	74,523
Obligations under capital lease due within one year	8,157	-	8,157
Compensated absence due within one year	3,605	3,607	7,212
Bonds and notes payable due in more than one year	152,108	2,348,719	2,500,827
Compensated absense due in more than one year	21,209	1,931	23,140
	<u>448,123</u>	<u>2,522,982</u>	<u>2,971,105</u>
Total Liabilities			
NET ASSETS			
Investment in capital assets, net of related debt	1,008,996	2,085,181	3,094,177
Restricted for:			
State Street Aid	12,522	-	12,522
Drug abuse prevention and enforcement	3,458	-	3,458
Library memorial	5,270	-	5,270
Permanent fund - perpetual care - nonspendable	3,427	-	3,427
Debt service	-	14,349	14,349
Unrestricted	379,499	174,327	553,826
	<u>\$ 1,413,171.50</u>	<u>\$ 2,273,857</u>	<u>\$ 3,687,029</u>
TOTAL NET ASSETS			

The accompanying notes are an integral part of these statements.

CITY OF MIDDLETON, TENNESSEE
Statement of Activities
For the fiscal year ended June 30, 2011

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Governmental Activities:							
General government	\$ 146,893	\$ 42,542	\$ -	\$ 58,215	\$ (46,136)	\$ -	\$ (46,136)
Public safety	324,792	17,475	19,409	-	(287,908)	-	(287,908)
Public works	62,054	1,729	19,621	-	(40,704)	-	(40,704)
Culture and recreation	67,538	4,727	3,668	4,027	(55,116)	-	(55,116)
Interest	13,991	-	-	-	(13,991)	-	(13,991)
Total Governmental Activities	615,268	66,473	42,698	62,242	(443,855)	-	(443,855)
Business-Type Activities:							
Water and Sewer	313,738	184,537	-	85,941	-	(43,260)	(43,260)
Natural Gas	86,782	-	-	-	-	(86,782)	(86,782)
Sanitation	27,557	30,041	-	-	-	2,484	2,484
Total Business-Type Activities	428,077	214,578	-	85,941	-	(127,558)	(127,558)
TOTAL PRIMARY GOVERNMENT	\$ 1,043,345	\$ 281,051	\$ 42,698	\$ 148,183	(443,855)	(127,558)	(571,413)
General Revenues							
Taxes							
Property taxes and late fees					156,313	-	156,313
Payment in lieu of taxes					14,243	-	14,243
Sales tax					271,748	-	271,748
Beer tax					80,681	-	80,681
Franchise tax - cable TV and natural gas					24,579	-	24,579
Income and excise tax					22,185	-	22,185
Investment income					1,427	11,142	12,569
Miscellaneous					4,301	2,101	6,402
Gain (loss) on disposition of capital assets					15,804	-	15,804
Transfers					33,932	(33,932)	-
Total					625,213	(20,689)	604,524
Change in Net Assets					181,358	(148,247)	33,111
NET ASSETS--BEGINNING					1,231,814	2,422,104	3,653,918
NET ASSETS--ENDING					\$ 1,413,172	\$ 2,273,857	\$ 3,687,029

The accompanying notes are an integral part of these statements.

CITY OF MIDDLETON, TENNESSEE
Governmental Funds
Balance Sheet
June 30, 2011

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 205,821	\$ 18,947	\$ 224,768
Investments - certificates of deposit	103,962	3,436	107,398
Receivables (Net, where applicable, of allowances for uncollectibles)			
Property taxes (net of allowances of \$1,678)	165,965	-	165,965
Interest	291	2	293
Beer tax (net of allowances of \$0)	8,224	-	8,224
Police fines (net of allowances of \$774)	884	-	884
Other (net of allowances of \$0)	10,182	-	10,182
Due from other governments	126,488	3,161	129,649
Due from other funds	2,887	-	2,887
Inventory	3,819	-	3,819
Prepaid expense	16,857	-	16,857
TOTAL ASSETS	<u>\$ 645,380</u>	<u>\$ 25,546</u>	<u>\$ 670,926</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 55,886	\$ 858	\$ 56,744
Accrued liabilities	20,207	-	20,207
Compensated absences	3,605	-	3,605
Deferred revenues	224,428	-	224,428
Total Liabilities	<u>304,126</u>	<u>858</u>	<u>304,984</u>
FUND BALANCES			
Nonspendable	20,677	3,032	23,709
Restricted	-	21,656	21,656
Assigned	118,939	-	118,939
Unassigned	201,638	-	201,638
Total Fund Balances	<u>341,254</u>	<u>24,688</u>	<u>365,942</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 645,380</u>	<u>\$ 25,546</u>	<u>\$ 670,926</u>

The accompanying notes are an integral part of these statements.

CITY OF MIDDLETON, TENNESSEE
Reconciliation of Fund Balances of Governmental Funds to the
Governmental Activities in the Statement of Net Assets
June 30, 2011

FUND BALANCES OF GOVERNMENTAL FUNDS \$ 365,942

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

Capital assets used in governmental activities are not financial resources and; therefore, were not reported in the governmental funds. The capital assets were adjusted as follows:

Land and construction in progress	534,728
Other capital assets	1,317,363
Less accumulated depreciation	<u>(661,722)</u>
 Total capital asset adjustments	 <u>1,190,369</u>

Some of the City's revenues will be collected after year end but will not be available soon enough to pay for the current period's expenditures and; therefore, are deferred in the funds. The deferred revenues were adjusted as follows:

Franchise fees	3,449
Natural Gas franchise fees	4,375
State beer tax	88
Energy grant	48,215
Insurance rebate	750
Interest	133
Police fines	238
Property taxes	<u>3,318</u>
	<u>60,566</u>

Long-term liabilities, including bonds payable, accrued interest and compensated absences not due and payable in the current period and; therefore, are not reported in the governmental funds. The long-term liabilities were adjusted as follows:

General obligation bonds	(173,216)
Obligations under capital lease	(8,157)
Accrued interest	(1,123)
Compensated absences	<u>(21,209)</u>

Total long-term liability adjustments (203,705)

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 1,413,172

The accompanying notes are an integral part of these statements.

CITY OF MIDDLETON, TENNESSEE
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the fiscal year ended June 30, 2011

	General	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES			
Taxes	\$ 480,477	\$ -	\$ 480,477
License and permits	1,079	-	1,079
Intergovernmental revenues	122,314	18,183	140,497
Charges for services	5,575	-	5,575
Fines, forfeits and penalties	14,337	2,294	16,631
Investment income	1,308	3	1,311
Contributions	2,164	-	2,164
Other revenue	47,038	2,318	49,356
	<u>674,292</u>	<u>22,798</u>	<u>697,090</u>
EXPENDITURES			
Current			
General government	130,294	-	130,294
Public safety	303,918	685	304,603
Public works	37,196	14,132	51,328
Culture and recreation	43,410	934	44,344
Capital outlay	90,430	1,873	92,303
Debt Service			
Principal retirement	32,657	-	32,657
Interest and fiscal charges	13,772	-	13,772
	<u>651,677</u>	<u>17,624</u>	<u>669,301</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES			
	<u>22,615</u>	<u>5,174</u>	<u>27,789</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from disposition of capital assets	15,804	-	15,804
Transfers in	33,932	5,162	39,094
Transfers out	(5,162)	-	(5,162)
	<u>44,574</u>	<u>5,162</u>	<u>49,736</u>
NET CHANGE IN FUND BALANCES			
	67,189	10,336	77,525
Fund balances--beginning	<u>274,065</u>	<u>14,352</u>	<u>288,417</u>
Fund balances--ending	<u>\$ 341,254</u>	<u>\$ 24,688</u>	<u>\$ 365,942</u>

The accompanying notes are an integral part of these statements.

CITY OF MIDDLETON, TENNESSEE
Proprietary Fund
Statement of Net Assets
June 30, 2011

	Business-Type Activities-- Enterprise Fund			Total
	Water and Sewer	Natural Gas	Nonmajor Fund Solid Waste Collection	
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 27,804	\$ -	\$ 28,288	\$ 56,092
Investments - certificates of deposit	171,887	-	-	171,887
Accounts receivable (net of allowance for uncollectables of \$423)	29,088	-	-	29,088
Due from other funds	-	-	1,387	1,387
Due from other governments	58,356	-	-	58,356
Prepaid expenses	924	-	-	924
Accrued interest	1,654	-	-	1,654
Total Current Assets	289,713	-	29,675	319,388
RESTRICTED ASSETS				
Cash and cash equivalents	14,348	1,663,811	-	1,678,159
Total Restricted Assets	14,348	1,663,811	-	1,678,159
NONCURRENT ASSETS				
Land and construction in progress	91,463	97,105	-	188,568
Other capital assets, net of depreciation	2,479,208	-	-	2,479,208
Deferred bond issuance cost - net	-	135,790	-	135,790
Net Capital Assets	2,570,671	232,895	-	2,803,566
Total Assets	\$ 2,874,732	\$ 1,896,706	\$ 29,675	\$ 4,801,113

The accompanying notes are an integral part of these statements.

CITY OF MIDDLETON, TENNESSEE
Proprietary Fund
Statement of Net Assets
June 30, 2011

	Business-Type Activities-- Enterprise Fund			Total
	Water and Sewer	Natural Gas	Nonmajor Fund Solid Waste Collection	
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	\$ 6,943	\$ -	\$ 2,285	\$ 9,228
Accounts payable - fixed assets	61,356	3,384	-	64,740
Accrued liabilities	6,308	-	-	6,308
Current portion of long term debt	7,415	46,000	-	53,415
Current portion of compensated absences	3,607	-	-	3,607
Due to other funds	4,274	-	-	4,274
Due to other governments	1,176	-	-	1,176
Accrued interest	940	27,868	-	28,808
Customer deposits	5,050	-	-	5,050
Total Current Liabilities	<u>97,069</u>	<u>77,252</u>	<u>2,285</u>	<u>176,606</u>
NONCURRENT LIABILITIES				
Compensated absences	1,931	-	-	1,931
Revenue bonds and notes payable, less current maturities	416,719	1,932,000	-	2,348,719
Total Noncurrent Liabilities	<u>418,650</u>	<u>1,932,000</u>	<u>-</u>	<u>2,350,650</u>
Total Liabilities	<u>515,719</u>	<u>2,009,252</u>	<u>2,285</u>	<u>2,527,256</u>
NET ASSETS				
Invested in capital assets, net of related debt	2,085,181	-	-	2,085,181
Restricted for debt service - expendable	14,349	-	-	14,349
Unrestricted	259,483	(112,546)	27,390	174,327
TOTAL NET ASSETS	<u>\$ 2,359,013</u>	<u>\$ (112,546)</u>	<u>\$ 27,390</u>	<u>\$ 2,273,857</u>

The accompanying notes are an integral part of these statements.

CITY OF MIDDLETON, TENNESSEE
Proprietary Fund
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the fiscal year ended June 30, 2011

	Business-Type Activities-- Enterprise Fund			Total
	Water and Sewer	Natural Gas	Nonmajor Fund Solid Waste Collection	
OPERATING REVENUES				
Charges for services	\$ 184,537	\$ -	\$ 30,041	\$ 214,578
 Total Operating Revenues	 184,537	 -	 30,041	 214,578
OPERATING EXPENSES				
Personnel services	51,349	-	-	51,349
Payroll taxes	3,928	-	-	3,928
Health insurance	16,805	-	-	16,805
Retirement	5,279	-	-	5,279
Postage	1,590	-	-	1,590
Electricity	46,835	-	-	46,835
Other professional services	8,441	18,046	27,557	54,044
Office supplies	32	127	-	159
Operating supplies	1,384	-	-	1,384
Repair and maintenance	38,598	108	-	38,706
Sundry	19,545	-	-	19,545
Chemicals and laboratory supplies	9,116	-	-	9,116
Insurance	6,268	-	-	6,268
Depreciation	84,486	-	-	84,486
 Total Operating Expenses	 293,656	 18,281	 27,557	 339,494
 OPERATING INCOME (LOSS)	 \$ (109,119)	 \$ (18,281)	 \$ 2,484	 \$ (124,916)

The accompanying notes are an integral part of these statements.

CITY OF MIDDLETON, TENNESSEE
Proprietary Fund
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the fiscal year ended June 30, 2011

	Business-Type Activities-- Enterprise Fund			Total
	Water and Sewer	Natural Gas	Nonmajor Fund Solid Waste Collection	
OPERATING INCOME (LOSS)	\$ (109,119)	\$ (18,281)	\$ 2,484	\$ (124,916)
NONOPERATING REVENUES (EXPENSES)				
Investment income	2,974	8,168	-	11,142
Miscellaneous revenues	2,087	-	14	2,101
Interest expense	(20,082)	(68,501)	-	(88,583)
Total Nonoperating Revenues (Expenses)	(15,021)	(60,333)	14	(75,340)
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	(124,140)	(78,614)	2,498	(200,256)
Capital contributions and grants	85,941	-	-	85,941
Transfers out	-	(33,932)	-	(33,932)
CHANGES IN NET ASSETS	(38,199)	(112,546)	2,498	(148,247)
TOTAL NET ASSETS--BEGINNING OF YEAR	2,397,212	-	24,892	2,422,104
TOTAL NET ASSETS--END OF YEAR	\$ 2,359,013	\$ (112,546)	\$ 27,390	\$ 2,273,857

The accompanying notes are an integral part of these statements.

CITY OF MIDDLETON, TENNESSEE
Proprietary Funds
Statement of Cash Flows
For the fiscal year ended June 30, 2011

	<u>Business-Type Activities--Enterprise Funds</u>			
	<u>Water and Sewer</u>	<u>Natural Gas</u>	<u>Nonmajor Fund Solid Waste Collection</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 189,067	\$ -	\$ 30,041	\$ 219,108
Other miscellaneous receipts	2,087	-	14	2,101
Cash payments to employees including fringe benefits	(76,392)	-	-	(76,392)
Cash payments to suppliers for goods and services	(126,150)	(18,281)	(27,586)	(172,017)
Net cash provided by (used in) operating activities	(11,388)	(18,281)	2,469	(27,200)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Operating transfers out to other funds	-	(33,932)	-	(33,932)
Net changes in due from other funds	-	-	55	55
Net changes in due to other funds	(294)	-	-	(294)
Net cash provided by (used in) non-capital financing activities	(294)	(33,932)	55	(34,171)
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES				
Acquisition and construction of fixed assets	(25,985)	(93,721)	-	(119,706)
Proceeds from bonds and notes	-	2,000,000	-	2,000,000
Bond and note principal payments	(7,073)	(22,000)	-	(29,073)
Bond issuance cost	-	(140,000)	-	(140,000)
Interest paid on bonds and notes	(19,963)	(36,423)	-	(56,386)
Capital contributions and grants received	27,585	-	-	27,585
Net cash provided by (used in) capital financing activities	(25,436)	1,707,856	-	1,682,420
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from maturities of investments	34,871	-	-	34,871
Purchase of investments	(128,286)	-	-	(128,286)
Interest income received	1,437	8,168	-	9,605
Net cash provided by (used in) investing activities	(91,978)	8,168	-	(83,810)
Net increase (decrease) in cash and cash equivalents	(129,096)	1,663,811	2,524	1,537,239
Cash and cash equivalents, beginning of year	171,248	-	25,764	197,012
Cash and cash equivalents, end of year	\$ 42,152	\$ 1,663,811	\$ 28,288	\$ 1,734,251

The accompanying notes are an integral part of these statements.

CITY OF MIDDLETON, TENNESSEE
Proprietary Funds
Statement of Cash Flows
For the fiscal year ended June 30, 2011

	<u>Business-Type Activities--Enterprise Funds</u>			
	<u>Water and Sewer</u>	<u>Natural Gas</u>	<u>Nonmajor Fund Solid Waste Collection</u>	<u>Total</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Operating income (loss)	\$ (109,119)	\$ (18,281)	\$ 2,484	\$ (124,916)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	84,486	-	-	84,486
Miscellaneous revenues	2,087	-	14	2,101
Changes in assets and liabilities:				
Accounts receivable	1,542	-	-	1,542
Prepaid expense	3,467	-	-	3,467
Accounts payable	2,192	-	(29)	2,163
Accrued liabilities	4,163	-	-	4,163
Compensated absences	969	-	-	969
Customer deposits	(1,175)	-	-	(1,175)
Total adjustments	97,731	-	(15)	97,716
Net cash provided by (used in) operating activities	\$ (11,388)	\$ (18,281)	\$ 2,469	\$ (27,200)
 Schedule of Non-Cash Investing Activities:				
Purchase of fixed assets	\$ (59,856)	\$ (3,384)	\$ -	\$ (63,240)
Accounts payable used to purchase fixed assets	59,856	3,384	-	63,240
 Cash and Cash Equivalents Include the Following Statement of Net Assets Accounts				
Cash and cash equivalents	\$ 27,804	\$ -	\$ 28,288	\$ 56,092
Restricted cash and cash equivalents	14,348	1,663,811	-	1,678,159
Total cash and cash equivalents	\$ 42,152	\$ 1,663,811	\$ 28,288	\$ 1,734,251

The accompanying notes are an integral part of these statements.

CITY OF MIDDLETON, TENNESSEE
General Fund
Schedule of Revenues, Expenditures and Changes in
Fund Balance--Budget and Actual
For the fiscal year ended June 30, 2011

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget Positive/ Negative
	Original	Final		
REVENUES				
Taxes				
Real estate taxes	\$ 150,000	\$ 150,000	\$ 140,919	\$ (9,081)
Personal property taxes	13,500	13,500	12,536	(964)
Delinquent property taxes	3,000	3,000	4,630	1,630
Penalties and interest	750	750	813	63
In lieu taxes - Thyssenkrupp	1,001	1,001	6,703	5,702
Local sales tax	205,000	205,000	227,643	22,643
Local beer tax	80,000	80,000	80,334	334
Franchise tax	6,250	6,250	6,898	648
Total Taxes	459,501	459,501	480,476	20,975
Licenses and Permits				
Beer license	300	300	250	(50)
Beer annual privilege tax	-	-	300	300
Building permits	100	100	529	429
Total Licenses and Permits	400	400	1,079	679
Intergovernmental Revenues				
Library grant	-	-	2,264	2,264
In service training	32,926	32,926	9,008	(23,918)
County library assistance	2,300	2,300	2,300	-
TVA in lieu	5,000	5,000	7,540	2,540
COPS grant	91,000	91,000	-	(91,000)
Sales tax allocation	41,000	41,000	44,105	3,105
Income tax allocation	1,500	1,500	18,758	17,258
Beer tax allocation	300	300	350	50
Energy grant	100,000	100,000	10,000	(90,000)
Fire department grant	200,000	200,000	-	(200,000)
Natural Gas franchise tax	17,495	17,495	13,124	(4,371)
Street and transportation	1,200	1,200	1,438	238
County fire dept. assistance	12,000	12,000	10,000	(2,000)
Corporate excise tax	2,300	2,300	3,427	1,127
Total Intergovernmental Revenues	\$ 507,021	\$ 507,021	\$ 122,314	\$ (384,707)

The accompanying notes are an integral part of these statements.

CITY OF MIDDLETON, TENNESSEE
General Fund
Schedule of Revenues, Expenditures and Changes in
Fund Balance--Budget and Actual
For the fiscal year ended June 30, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts Budgetary Basis	Final Budget Positive/ Negative
REVENUES - CONTINUED				
Charges for Services				
Fire protection fees	\$ 1,800	\$ 1,800	\$ 1,615	\$ (185)
Library fines	3,000	3,000	4,232	1,232
Police in service training charges	1,200	1,200	3,960	2,760
Total Charges for Services	<u>6,000</u>	<u>6,000</u>	<u>9,807</u>	<u>3,807</u>
Fines, Forfeits and Penalties				
City court fines	7,000	7,000	5,870	(1,130)
County court fines	4,000	4,000	4,235	235
Total Fines, Forfeits and Penalties	<u>11,000</u>	<u>11,000</u>	<u>10,105</u>	<u>(895)</u>
Investment income--interest	<u>50</u>	<u>50</u>	<u>1,309</u>	<u>1,259</u>
Other Revenues				
Rent	40,500	40,500	41,992	1,492
Library donations	-	-	1,763	1,763
Police department donations	100	100	101	1
Fire department donations	100	100	300	200
Other income	2,500	2,500	5,046	2,546
Total Other Revenues	<u>43,200</u>	<u>43,200</u>	<u>49,202</u>	<u>6,002</u>
Total Revenues	<u>1,027,172</u>	<u>1,027,172</u>	<u>674,292</u>	<u>(352,880)</u>
EXPENDITURES				
General Government				
General				
Salaries	62,000	62,000	55,804	6,196
Payroll taxes	4,750	4,750	4,710	40
Health insurance	36,500	36,500	11,458	25,042
Retirement	6,500	6,500	5,737	763
Unemployment insurance	400	400	261	139
Employee training	1,000	1,000	1,313	(313)
Postage	750	750	293	457
Memberships, registration	2,500	2,500	2,190	310
Advertising	1,700	1,700	835	865
Utility services	1,500	1,500	1,319	181
Electricity	6,000	6,000	4,708	1,292
Solid waste	156	156	143	13
Telephone	3,700	3,700	3,534	166
Legal services	15,000	15,000	7,940	7,060

The accompanying notes are an integral part of these statements.

CITY OF MIDDLETON, TENNESSEE
General Fund
Schedule of Revenues, Expenditures and Changes in
Fund Balance--Budget and Actual
For the fiscal year ended June 30, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts Budgetary Basis	Final Budget Positive/ Negative
EXPENDITURES - CONTINUED				
General Government - continued				
General - continued				
Audit	\$ 6,500	\$ 6,500	\$ 6,475	\$ 25
Data processing service	2,200	2,200	2,113	87
Office supplies	2,100	2,100	1,918	182
Repairs	500	500	17	483
Insurance	17,000	17,000	14,302	2,698
Bonds	1,000	1,000	1,170	(170)
Christmas decorations	300	300	-	300
Other supplies	-	-	4	(4)
Other miscellaneous	2,500	2,500	457	2,043
Miscellaneous	25,000	25,000	1,655	23,345
Total General	<u>199,556</u>	<u>199,556</u>	<u>128,356</u>	<u>71,200</u>
Judicial				
Salaries	1,800	1,800	1,800	-
Payroll taxes	138	138	138	-
Total Judicial	<u>1,938</u>	<u>1,938</u>	<u>1,938</u>	<u>-</u>
Total General Government	<u>201,494</u>	<u>201,494</u>	<u>130,294</u>	<u>71,200</u>
Public Safety				
Police Department				
Salaries	195,000	195,000	165,231	29,769
Police salaries - overtime	21,696	21,696	5,213	16,483
Payroll taxes	15,000	15,000	13,041	1,959
Hospital insurance	88,500	88,500	43,766	44,734
Retirement	20,100	20,100	17,522	2,578
Employee training	2,000	2,000	2,636	(636)
Postage	50	50	34	16
Electricity	2,500	2,500	2,309	191
Data processing	1,200	1,200	375	825
Telephone	3,300	3,300	3,563	(263)
Radio repair and maintenance	1,400	1,400	840	560
Operating supplies	9,500	9,500	1,655	7,845
Office supplies	-	-	139	(139)
Police department uniforms	2,400	2,400	1,658	742
Repairs	2,000	2,000	1,992	8
Gasoline and oil	13,500	13,500	15,420	(1,920)
Moving violations to state	500	500	136	364
Miscellaneous	1,000	1,000	266	734
Total Police Department	<u>\$ 379,646</u>	<u>\$ 379,646</u>	<u>\$ 275,796</u>	<u>\$ 103,850</u>

The accompanying notes are an integral part of these statements.

CITY OF MIDDLETON, TENNESSEE
General Fund
Schedule of Revenues, Expenditures and Changes in
Fund Balance--Budget and Actual
For the fiscal year ended June 30, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts Budgetary Basis	Final Budget Positive/ Negative
EXPENDITURES - CONTINUED				
Public Safety - continued				
Fire Department				
Volunteer fireman	\$ 10,000	\$ 10,000	\$ 7,820	\$ 2,180
Electricity	1,600	1,600	1,433	167
Telephone	1,600	1,600	1,377	223
Radio repair and maintenance	3,000	3,000	3,045	(45)
Supplies	4,000	4,000	1,174	2,826
Repairs	2,250	2,250	2,004	246
Gasoline and oil	5,000	5,000	1,022	3,978
Insurance	10,000	10,000	8,597	1,403
Rent	1,550	1,550	1,550	-
Miscellaneous	500	500	100	400
Total Fire Department	<u>39,500</u>	<u>39,500</u>	<u>28,122</u>	<u>11,378</u>
Total Public Safety	<u>419,146</u>	<u>419,146</u>	<u>303,918</u>	<u>115,228</u>
Public Works				
Highways, Streets and Roadways				
Salaries	12,750	12,750	14,206	(1,456)
Payroll taxes	1,000	1,000	1,087	(87)
Hospital insurance	6,750	6,750	5,940	810
Retirement	1,300	1,300	1,460	(160)
Electricity	5,500	5,500	4,402	1,098
Repair and maintenance - buildings	500	500	173	327
Repair and maintenance - roads	42,000	42,000	800	41,200
Gas, oil and diesel	3,000	3,000	4,528	(1,528)
Agricultural and engineering	1,000	1,000	-	1,000
Repair and maintenance - street equipment	1,000	1,000	3,125	(2,125)
Repairs and maintenance - supplies	<u>1,000</u>	<u>1,000</u>	<u>967</u>	<u>33</u>
Total Highways, Streets and Roadways	<u>\$ 75,800</u>	<u>\$ 75,800</u>	<u>\$ 36,688</u>	<u>\$ 39,112</u>

The accompanying notes are an integral part of these statements.

CITY OF MIDDLETON, TENNESSEE
General Fund
Schedule of Revenues, Expenditures and Changes in
Fund Balance--Budget and Actual
For the fiscal year ended June 30, 2011

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget Positive/ Negative
	Original	Final		
EXPENDITURES - CONTINUED				
Public Works - continued				
Cemetaries				
Repairs and maintenance	\$ 700	\$ 700	\$ 508	\$ 192
Total Cemetaries	<u>700</u>	<u>700</u>	<u>508</u>	<u>192</u>
 Total Public Works	 <u>76,500</u>	 <u>76,500</u>	 <u>37,196</u>	 <u>39,304</u>
 Culture and Recreation				
Recreation center				
Utility service	5,500	5,500	4,618	882
Solid waste	312	312	286	26
Repair and maintenance - services	<u>3,000</u>	<u>3,000</u>	<u>1,133</u>	<u>1,867</u>
Total Recreation Center	<u>8,812</u>	<u>8,812</u>	<u>6,037</u>	<u>2,775</u>
 Parks				
Utility services	6,800	6,800	8,574	(1,774)
Repair and maintenance - service	1,000	1,000	268	732
Repair and maintenance - supplies	300	300	371	(71)
Sundry	<u>-</u>	<u>-</u>	<u>(118)</u>	<u>118</u>
Total Parks	<u>8,100</u>	<u>8,100</u>	<u>9,095</u>	<u>(995)</u>
 Library				
Salaries	13,000	13,500	15,398	(1,898)
Payroll taxes	1,000	1,200	1,178	22
Utility services	1,700	2,000	2,194	(194)
Solid waste	170	170	143	27
Telephone	1,100	1,100	1,021	79
Repair and maintenance - service	300	300	183	117
Travel	500	500	227	273
Supplies	4,000	3,500	5,239	(1,739)
Office supplies	1,000	1,500	1,692	(192)
Repairs	100	100	84	16
Miscellaneous	<u>300</u>	<u>300</u>	<u>919</u>	<u>(619)</u>
Total Library	<u>23,170</u>	<u>24,170</u>	<u>28,278</u>	<u>(4,108)</u>
 Total Culture and Recreation	 <u>\$ 40,082</u>	 <u>\$ 41,082</u>	 <u>\$ 43,410</u>	 <u>\$ (2,328)</u>

The accompanying notes are an integral part of these statements.

CITY OF MIDDLETON, TENNESSEE
General Fund
Schedule of Revenues, Expenditures and Changes in
Fund Balance--Budget and Actual
For the fiscal year ended June 30, 2011

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget Positive/ Negative
	Original	Final		
EXPENDITURES - CONTINUED				
Capital Outlays				
General government	\$ 108,000	\$ 108,000	\$ 63,980	\$ 44,020
Police department	10,230	10,230	3,564	6,666
Fire department	202,000	202,000	8,930	193,070
Public property	1,000	1,000	336	664
Parks	20,000	20,000	6,081	13,919
Library	4,500	4,500	5,833	(1,333)
Economic development	30,600	30,600	1,706	28,894
Total Capital Outlays	<u>376,330</u>	<u>376,330</u>	<u>90,430</u>	<u>285,900</u>
Debt Service				
Retirement of mortgage notes	7,525	7,525	25,026	(17,501)
Interest	350	350	12,683	(12,333)
Principal payments on capital lease	-	-	7,631	(7,631)
Imputed interest on capital lease	-	-	1,089	(1,089)
Total Debt Service	<u>7,875</u>	<u>7,875</u>	<u>46,429</u>	<u>(38,554)</u>
Total Expenditures	<u>1,121,427</u>	<u>1,122,427</u>	<u>651,677</u>	<u>470,750</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(94,255)</u>	<u>(95,255)</u>	<u>22,615</u>	<u>117,870</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	-	-	15,804	15,804
Transfers in	-	-	33,932	33,932
Transfers out	-	-	(5,162)	(5,162)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>44,574</u>	<u>44,574</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>(94,255)</u>	<u>(95,255)</u>	<u>67,189</u>	<u>162,444</u>
Fund balance--beginning	<u>274,065</u>	<u>274,065</u>	<u>274,065</u>	<u>-</u>
Fund balance--ending	<u>\$ 179,810</u>	<u>\$ 178,810</u>	<u>\$ 341,254</u>	<u>\$ 162,444</u>

The accompanying notes are an integral part of these statements.

City of Middleton, Tennessee
Notes to the Financial Statements
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Middleton, Tennessee (the City) have been prepared in conformity with accounting principles generally accepted in the United States of America, as applied to government units, hereinafter referred to as generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has chosen not to do so. The more significant of the City's accounting policies are described below.

a. Reporting Entity

The City is a municipal corporation governed by an elected Mayor and five-member board. As required by generally accepted accounting principles, these financial statements present the City (the primary government) and its component unit, entities for which the government is considered to be financially accountable.

Component units are organizations for which the City is financially accountable and all other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Financial accountability exists if the City appoints a voting majority of an organization's governing board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the City. The financial statements of the component units may be discretely presented in a separate column from the primary government or blended with the financial statements of the primary government.

Based upon the application of these criteria, the following is a brief review of each potential component unit addressed in defining the government's reporting entity.

Blended Component Unit

The Industrial Development Board, the Planning Committee Board, the Library Board, the Zoning Board and the Cemetery Board meet the criteria listed for inclusion as a component unit. However, these boards do not have any financial activity; therefore, there are no separate financial statements for these component units. Any assets, liabilities, revenues, or expenses of these boards are paid by the City and are blended in the City's financial statements. The Industrial Development Board is 100 percent appointed by the City Board and provides industrial planning for the City. The Planning Committee Board is 100 percent appointed by the City Board and provides planning commission services to the City. The Library Board is 100 percent appointed by the City Board and provides library oversight services to the City.

City of Middleton, Tennessee
Notes to the Financial Statements
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

a. Blended Component Unit - continued

The Zoning Board is 100 percent appointed by the City Board and provides zoning oversight to the City. The Cemetery Board is 100 percent appointed by the City Board and provides cemetery oversight and recommendations.

b. Fund Accounting

The accounts of the City are organized and operated using funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

Funds are classified into the following categories: governmental, proprietary and fiduciary.

Governmental funds are used to account for all or most of a City's general activities, including the collection and disbursement of earmarked monies (special revenue funds), accounting for financial resources to be used for the acquisition or construction of major capital facilities (capital project funds) and to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's program (permanent funds). The General Fund is used to account for all activities of the general government not accounted for in some other fund.

Proprietary funds are used to account for activities for which a fee is charged to external or internal users for goods or services. Their reporting focuses on the determination of operating income and changes in net assets. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies primarily within the City (internal service funds). The City considers all revenues and expenses derived from the performance of the fund's function (water, sewer, gas, sanitation), or paid to provide the function, to be operating revenues and expenses. Everything else is considered nonoperating.

Fiduciary funds are used to account for assets held in a trustee or agency capacity for others and; therefore, cannot be used to support the City's own programs.

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City. The effect of material interfund activity has been eliminated from these statements.

Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges for support.

City of Middleton, Tennessee
Notes to the Financial Statements
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

c. Government-Wide and Fund Financial Statements

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

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The general fund is the City'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 Industrial Development Board, the Planning Committee Board, the Library Board, and the Cemetery Board transactions are blended into the general fund because all expenditures thereof are provided by the general fund. The general fund and the library fund has been combined on Schedule 14 and Schedule 15 because the library fund, which has been segregated as a fund by the City, but does not meet the definition of a GASB 54 special revenue fund which requires the revenue stream to be either restricted or committed.

Additionally, the nonmajor governmental funds include the following:

The state street aid special revenue fund is used to account for state street aid collections set aside for which income is restricted for street expenditures.

The drug special revenue fund is used to account for drug fund collections set aside for which income is restricted for police drug awareness and drug enforcement.

The library memorial special revenue fund is used to account for donations received that are restricted by donor action for library book purchases.

The cemetery perpetual care permanent fund is used to account for collections set aside for which original donations are nonspendable by donor action and income from investment of these donations is restricted by donor action to be used for cemetery maintenance.

City of Middleton, Tennessee
Notes to the Financial Statements
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

c. Government-Wide and Fund Financial Statements - continued

The City reports the following major proprietary funds:

The Water and Sewer Fund accounts for the activities of the water and sewer operations. The City operates the sewage treatment plant, sewage pumping stations and collection systems and the water distribution system.

The Natural Gas Fund accounts for the activities of the natural gas system. The City operates the natural gas distribution system.

Additionally, the nonmajor proprietary fund types include the following:

The Solid Waste Fund accounts for the activities of the collection and disposal of garbage.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues and additions are recorded when earned and expenses and deductions are recorded when a liability is incurred. Property taxes are recognized as revenues in the year for which they are levied (i.e., intended to finance). Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a fund liability is incurred; however, debt service expenditures are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, licenses, charges for services (except police fines occurring prior to February 5, 2009 which are not measurable), and interest associated with the current fiscal period are all considered to be susceptible to accrual and are recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

City of Middleton, Tennessee
Notes to the Financial Statements
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

d. Measurement Focus, Basis of Accounting, and Financial Statement Presentation - continued

The City reports deferred revenue on its governmental fund financial statements. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the City before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

e. Budgets

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted at the department level for the Governmental and Proprietary Funds. The annual appropriated budget is legally enacted and provides for a legal level of control at the department level. All annual appropriations lapse at fiscal year end.

f. Cash and Investments

For purposes of the statement of cash flows, the City's proprietary fund types consider all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Investments consist of certificates of deposit and are stated at cost which approximates fair value.

g. Receivables and Payables

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

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Governmental fund other receivables include police fines, franchise fees and other miscellaneous receivables.

City of Middleton, Tennessee
Notes to the Financial Statements
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

h. Inventories

Inventory of gasoline is valued at cost on a first-in first-out basis. Inventories of office materials, and water and sewer supplies were deemed to be immaterial and were not inventoried or reflected in the City's records.

i. Prepaid Items/Expenses

Payments made to vendors for services that will benefit periods beyond the date of this report are reported on the consumption basis on both the government-wide and fund financial statements.

j. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items acquired after June 30, 2003), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City has elected not to report infrastructure acquired prior to implementation of GASB 34. Capital assets are defined by the City as assets with an initial, individual cost of \$5,000 or more for land, building, infrastructure, improvements other than buildings, and equipment (amounts not rounded) and an estimated useful life of over one year. 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. While implementing GASB 34, the City valued certain capital assets at estimated historical cost. It is at least reasonably possible that these estimates of historical cost could change in the near-term. The cost of normal maintenance and repairs and planned maintenance that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Property, plant and equipment is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	10-40
Improvements other than buildings	10-30
Infrastructure	20
Water and sewer system	10-50
Machinery and equipment	5-25

City of Middleton, Tennessee
Notes to the Financial Statements
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

k. Capitalization of Interest

In conformity with Financial Accounting Standards No. 34, *Capitalization of Interest Cost*, the City capitalizes interest costs for business-type activities only, net of related interest earned, from the date of the borrowing until the projects acquired with those funds are ready for their intended use. Total interest, fiscal charges and amortization of loan discount and deferred amount of refunding incurred in the enterprise funds was \$89,938. Interest costs, fiscal charges and amortization of loan discount and deferred amount of refunding of \$88,583 were charged to expense. Interest costs of \$1,355, net of interest earned, were capitalized as fixed assets in the enterprise funds.

l. Compensated Absences

It is the City's policy to permit employees to accumulate a limited amount of earned, but unused vacation leave, which will be paid to employees upon separation from City services.

The City accrues a liability for compensated absences which meet the following criteria:

1. The City's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated.

As of June 30, 2011, the liability for accrued vacation leave is approximately \$30,352. The amount applicable to the Enterprise Fund of \$5,538 and General Fund of \$3,605 has been recorded in these funds, the amount applicable to other funds of \$21,209 has been recorded in the government-wide statements.

In accordance with the provisions of GASB Statement No.16, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

m. Long-Term Obligations

The City has issued debt under the Tennessee Code. This code provides for the prompt payment of notes or certificates of indebtedness at maturity, both principal and interest. The full faith and credit and resources of the City are pledged for these notes. If the City does not have available funds in an amount sufficient to provide for the payment of principal and interest according to the terms of such notes or certificates of indebtedness, then the City is required to annually levy a special tax upon all of its taxable property at a rate, the avails of which will be sufficient to provide such payments. Funds derived from any such tax shall be paid into a sinking fund and used exclusively for the payment of principal and interest on the notes or certificates of indebtedness.

City of Middleton, Tennessee
Notes to the Financial Statements
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

m. Long-Term Obligations - continued

The City has not, and does not expect to be required, to levy such tax.

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type financial statements. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. There were no bond premiums, discounts, or issuance cost on the bonds outstanding at June 30, 2011.

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

n. Fund Equity/Net Assets

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources.

Nonspendable fund balance. This classification includes amounts that cannot be spent because they are either (a) not in spendable form – pre-paid items or inventories; or (b) legally or contractually required to be maintained intact.

Restricted fund balance. This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance. These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the Board of Alderpersons, the government's highest level of decision-making authority. Those committed amounts cannot be used for any other purpose unless the Board of Alderpersons removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

City of Middleton, Tennessee
Notes to the Financial Statements
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

n. Fund Equity/Net Assets - continued

Assigned fund balance. This classification reflects the amounts constrained by the City's "intent" to be used for a specific purpose, but are neither restricted nor committed. The Board of Alderpersons and Mayor have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

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

The constraints on fund balances as listed in aggregate in the Statement of Revenues, Expenditures, and Changes in Fund Balance are detailed according to balance classification and fund.

	General Fund	Other Governmental Funds
Fund Balances:		
Nonspendable:		
Prepaid items	\$ 16,858	\$ -
Inventories	3,819	-
Cemetery perpetual care	-	3,032
Total – Nonspendable:	<u>\$ 20,677</u>	<u>\$ 3,032</u>
Restricted:		
State Street Aid	\$ -	\$ 12,522
Drug awareness and prevention	-	3,458
Library memorials	-	5,270
Cemetery maintenance	-	406
Total – Restricted:	<u>\$ -</u>	<u>\$ 21,656</u>
Assigned:		
Library books	\$ 19,461	\$ -
Fire department equipment	51,028	-
Fiscal year 2012 budget shortfall	48,450	-
Total – Assigned	<u>\$ 118,939</u>	<u>\$ -</u>

City of Middleton, Tennessee
Notes to the Financial Statements
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

n. Fund Equity/Net Assets - continued

When restricted, committed, assigned and unrestricted resources are available for use, it is the City's policy to use externally restricted resources first, then committed, assigned, and unassigned in that order as needed.

o. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. As such, actual results could differ from those estimates.

p. Encumbrances

Encumbrance accounting, under which commitments for the expenditure of monies are disclosed to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the governmental funds. The City's budget basis is GAAP; therefore, the appropriations lapse at year end, even if encumbered. The City governmental funds had no material encumbrances as of June 30, 2011.

q. Reclassifications

Certain reclassifications have been made to the prior year financial statements in order to conform to the current year presentation.

2. PROPERTY TAX

Taxes are levied on January 1 and are due and payable October through February in the year succeeding the levy. Property taxes attach as an unperfected lien on property as of March 1. Taxes uncollected for one year past the due date are submitted to the Chancery Court for collection. Tax liens become perfected at the time the court enters judgment.

Appraised values are established by Hardeman County, Tennessee at 100 percent of estimated market values. The City is required to adopt county tax rolls. The 2010 taxes are collected in October, 2010 through February, 2011. The 2010 taxes are levied to fund the 2010-2011 budget year. The assessed value upon which the 2010 taxes were based was \$15,717,260.

City of Middleton, Tennessee
Notes to the Financial Statements
June 30, 2011

2. PROPERTY TAX - continued

City property tax revenue is recorded in governmental funds as receivables and deferred revenues at the time the tax attaches as an enforceable lien which includes the 2011 taxes intended to fund the 2011-2012 budget year of \$162,904. Current year revenues recognized are those collected within the current period, or soon enough thereafter to pay current liabilities, generally within sixty days after year end. An allowance is provided for property taxes not expected to be collected in the future.

The 2011 taxes of \$162,334 (\$162,904 net of \$570 allowance for bad debts) are also included in deferred revenue and not in current revenues in governmental activities because they are levied to fund the 2011- 2012 budget year.

The City assessed a tax rate of 99 mills for the 2010 and 2011 taxes.

3. LEGAL COMPLIANCE AND ACCOUNTABILITY

Budgets

The Mayor submits an annual budget to the Board of Alderpersons in accordance with the City charter and the State of Tennessee requirements. Prior to June 30, the Board of Alderpersons is required to adopt annual fiscal year appropriated budgets for specified City funds. These include general and special revenue funds. Annually appropriated budgets are also approved for certain portions of proprietary fund operations including water and sewer, natural gas and solid waste collection. Once approved, the Board of Alderpersons may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

Tennessee law requires the City to adopt a municipal budget on a basis consistent with U.S. generally accepted accounting principles; therefore, no reconciliation from budget basis to U.S. generally accepted accounting principles basis is required. In accordance with GASB 34, the City has presented the general fund budget comparison as part of the basic financial statements on Statement 8. The budgets shown on Statement 8 are the original and final adopted budgets.

The City is legally subject to the budgetary control requirements of its charter and the State of Tennessee. The City follows the following procedures in establishing the budgetary comparison:

- A. Prior to June 1, the Mayor is required to submit to the Board of Alderpersons a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
- B. Public hearings are conducted to obtain taxpayer comments.
- C. Prior to July 1, the budget is required to be legally enacted through passage of an ordinance.

City of Middleton, Tennessee
Notes to the Financial Statements
June 30, 2011

3. LEGAL COMPLIANCE AND ACCOUNTABILITY - continued

Budgets - continued

- D. The budget must be balanced. The balanced budget may include a contribution to or appropriation from fund balance.
- E. The budget must be amended when necessary.
- F. Debt cannot be entered into unless permitted by law.
- G. Expenditures cannot exceed budget appropriations.
- H. Expenditures cannot be made unless authorized in the budget.
- I. Appropriations lapse at the end of each year.

The following is a list of the excess of expenditures over appropriations for individual funds not included in the general fund budgetary comparisons on Statement 8:

<u>Fund/Category</u>	<u>Amount</u>
Drug fund – capital outlay	\$ 973
Water and Sewer – salaries	4,349
Water and Sewer – OASI	228
Water and Sewer – utility services	5,835
Water and Sewer – repair and maintenance	20,168
Water and Sewer – depreciation	84,483
Water and Sewer – interest on bonded debt	20,165
Water and Sewer – retirement of bonded debt	7,073
Natural gas system – consulting	18,046
Natural gas system – office supplies	127
Natural gas system – repairs and maintenance	108
Natural gas system – interest on bonded debt	68,500
Natural gas system – retirement of bonded debt	22,000

4. DEPOSITS AND INVESTMENTS

At June 30, 2011, the cash and investments included the following:

<u>Account Balances</u>		<u>Ownership of Funds</u>	
Petty cash/cash on hand	\$ 30	Governmental Funds	\$ 332,166
Demand deposits	1,958,989	Enterprise Funds	<u>1,906,138</u>
Certificates of deposit	<u>279,285</u>		
	<u>\$2,238,304</u>		<u>\$2,238,304</u>

The deposits of the City are governed by State of Tennessee statutes which allow depositories to collateralize excess deposits above federal depository insurance coverage by one of two methods: 1) 105% of all deposits exceeding the federal depository insurance coverage are collateralized with securities held by the City's agency in the City's name, or 2) the financial

City of Middleton, Tennessee
Notes to the Financial Statements
June 30, 2011

4. DEPOSITS AND INVESTMENTS – continued

institution must be a member of the State of Tennessee Bank Collateral Pool. Under this method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the City, these deposits are considered held by the City's agent in the City's name. The amount of the pledged collateral is based upon methods approved by the State of Tennessee.

Depositories using the pooling method report to the State Treasurer the adequacy of the pledged collateral covering uninsured deposits. The State Treasurer does not confirm this information with the City or with the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the City under the pooling method, the potential exists for under collateralization, and the risk may increase in periods of high cash flows. However, the State Treasurer for Tennessee enforces strict standards of financial stability for each depository that collateralizes under the State of Tennessee Bank Collateral Pool.

At June 30, 2011, the demand deposit and certificates of deposit held with various local financial institutions had carrying amounts totaling \$2,238,274 and bank balances totaling \$2,243,825, of which \$547,374 was covered by federal depository insurance and \$1,696,451 covered Tennessee bank Collateral Pool.

The City has designated First South Bank, Merchants & Planters Bank, and CB&S Bank as its official depositories.

Investments

State of Tennessee statutes authorize the City to invest in 1) short-term investments secured by FDIC in certificates of deposit, 2) short-term investments in treasury bills and treasury certificates, including security repurchase agreements at mutually agreeable interest rates for large sums available for very short-term investments, 3) short-term or long-term investments, which mature in two years or less, in TVA obligations, 4) long-term investments, which mature in two years or less, in housing authority bonds and in state, county, and city bonds, and 5) deposits in the Tennessee Local Government Investment Pool.

Investments are stated at cost. At June 30, 2011, the City investments consisted of certificates of deposit totaling \$279,285 with an average original maturity date of 399 days. There is no material difference in cost and market value of the certificates of deposit.

Interest Rate Risk

State law limits investments to maturities of two years or less. The City has no formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising for increasing interest rates. The City limited its investments during the year to federal depository insured certificates of deposit with Merchants & Planters Bank, First South Bank and Regions Bank. These banks allow the City to cash out the certificates of deposit prior to maturity with a 90-180 day loss of interest.

City of Middleton, Tennessee
Notes to the Financial Statements
June 30, 2011

4. DEPOSITS AND INVESTMENTS - continued

Credit Risk

State law limits investments to 1) financial institutions insured by FDIC that are members of the State of Tennessee Bank Collateral Pool or that provide pledged collateral held by the City's agent in the City's name, 2) TVA obligations with a maturity of two years or less, 3) housing authority bonds and state, county, and city bonds which mature in two years or less and 4) deposits in the Tennessee Local Government Investment Pool. The City has no investment policy that would limit its investment choices.

The City purchases certificates of deposit with the following financial institutions with the following ratings by Standard & Poor's: First South Bank (not rated), CB&S Bank (not rated) and Merchants & Planters Bank (not rated).

Custodial Credit Risks

Custodial credit risk is the risk that the City will not be able to recover the value of its investments that are in the possession of its safekeeping custodian. To minimize this risk, the City's investment policy requires that all negotiable instruments shall be held in safekeeping in the trust department of a bank. The City's pledged collateral is held in the City's name by a safekeeping agent that is independent of all counterparties.

Concentration of Credit Risks

The City had investments in certificates of deposit at June 30, 2011 with more than 5% of the total in First South Bank, Merchants & Planters Bank, and CB&S Bank. These investments represented 26.3%, 37.2%, and 36.5% respectively of total investments in certificates of deposit.

5. RECEIVABLES

Receivables at June 30, 2011 for the government's individual major funds and nonmajor funds, business-type funds, and fiduciary funds in the aggregate, including the applicable allowances for uncollectable accounts, consist of the following. It is at least reasonably possible that the City's estimate of allowance for doubtful accounts could change in the near-term.

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Water and Sewer System</u>	<u>Total</u>
Receivables:				
Taxes				
Property	\$167,643	\$ -	\$ -	\$167,643
Beer	8,224	-	-	8,224
Accounts	-	-	29,511	29,511
Police fines	1,658	-	-	1,658
Interest	291	2	1,654	1,947
Other	<u>10,182</u>	<u>-</u>	<u>-</u>	<u>10,182</u>
Gross receivables	187,998	2	31,165	219,165
Less: Allowance for uncollectables	<u>(2,452)</u>	<u>-</u>	<u>(423)</u>	<u>(2,875)</u>
Net receivables	<u>\$185,546</u>	<u>\$ 2</u>	<u>\$30,742</u>	<u>\$216,290</u>

City of Middleton, Tennessee
Notes to the Financial Statements
June 30, 2011

6. CAPITAL ASSETS

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

	Balance June 30, <u>2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Reclassifications</u>	Balance June 30, <u>2011</u>
GOVERNMENTAL ACTIVITIES					
Capital assets not being depreciated:					
Land	\$ 476,398	\$ -	\$ -	\$ -	\$ 476,398
Construction in progress	<u>-</u>	<u>58,330</u>	<u>-</u>	<u>-</u>	<u>58,330</u>
Total capital assets not being depreciated	<u>476,398</u>	<u>58,330</u>	<u>-</u>	<u>-</u>	<u>534,728</u>
Capital assets being depreciated:					
Building and improvements	796,661	-	-	-	796,661
Automotive and equipment	378,592	7,004	-	-	385,596
Infrastructure	<u>135,106</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>135,106</u>
Total capital assets being depreciated	<u>1,310,359</u>	<u>7,004</u>	<u>-</u>	<u>-</u>	<u>1,317,363</u>
Less accumulated depreciation for:					
Buildings and improvements	390,400	19,595	-	-	409,995
Automotive and equipment	206,239	14,283	-	-	220,522
Infrastructure	<u>24,450</u>	<u>6,755</u>	<u>-</u>	<u>-</u>	<u>31,205</u>
Total accumulated depreciation	<u>621,089</u>	<u>40,633</u>	<u>-</u>	<u>-</u>	<u>661,722</u>
Total capital assets being depreciated, net	<u>689,270</u>	<u>(33,629)</u>	<u>-</u>	<u>-</u>	<u>655,641</u>
GOVERNMENTAL ACTIVITIES					
CAPITAL ASSETS, NET	<u>\$1,165,668</u>	<u>\$ 24,701</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,190,369</u>
BUSINESS TYPE ACTIVITIES					
Capital assets not being depreciated:					
Land	\$ 5,622	\$ -	\$ -	\$ -	\$ 5,622
Construction in progress	<u>-</u>	<u>182,946</u>	<u>-</u>	<u>-</u>	<u>182,946</u>
Total capital assets not being depreciated	<u>5,622</u>	<u>182,946</u>	<u>-</u>	<u>-</u>	<u>188,568</u>
Capital assets being depreciated:					
Building and improvements	30,944	-	-	-	30,944
Automotive and equipment	26,712	-	-	-	26,712
Water and sewer system	<u>3,838,901</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,838,901</u>
Total capital assets being depreciated	<u>3,896,557</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,896,557</u>
Less accumulated depreciation for:					
Buildings and improvements	9,840	617	-	-	10,457
Automotive and equipment	10,334	2,390	-	-	12,724
Water and sewer system	<u>1,312,689</u>	<u>81,479</u>	<u>-</u>	<u>-</u>	<u>1,394,168</u>
Total accumulated depreciation	<u>1,332,863</u>	<u>84,486</u>	<u>-</u>	<u>-</u>	<u>1,417,349</u>
Total capital assets being depreciated, net	<u>2,563,694</u>	<u>(84,486)</u>	<u>-</u>	<u>-</u>	<u>2,479,208</u>
BUSINESS-TYPE ACTIVITIES					
CAPITAL ASSETS, NET	<u>\$2,569,316</u>	<u>\$ 98,460</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$2,667,776</u>

City of Middleton, Tennessee
Notes to the Financial Statements
June 30, 2011

6. CAPITAL ASSETS - continued

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

GOVERNMENTAL ACTIVITIES

General government	\$ 9,986
Public safety	11,280
Public works	8,088
Culture and recreation	<u>11,279</u>

TOTAL DEPRECIATION EXPENSE—GOVERNMENTAL ACTIVITIES **\$40,633**

BUSINESS-TYPE ACTIVITIES

Water and Sewer	<u>\$84,486</u>
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TOTAL DEPRECIATION EXPENSE—BUSINESS-TYPE ACTIVITIES **\$84,486**

7. LONG-TERM DEBT

GOVERNMENTAL ACTIVITIES

General obligation debt consists of debt issued that is backed by the full faith and credit of the City. The First South Bank capital outlay notes are secured by real estate. The capital lease is secured by one police car.

	Final Maturity Date	Interest Rate	Beginning Balance 7-1-2010	Additions	Repay- ments	Ending Amounts Due Balance Within One 6-30-2011 Year	
General obligation							
General obligation bonds series 1981	01-11-11	5%	\$ 7,000	\$ -	\$ 7,000	\$ -	\$ -
First South Bank capital outlay notes	05-09-18	5.76%	<u>191,241</u>	-	<u>18,025</u>	<u>173,216</u>	<u>21,108</u>
Total general obligation			<u>198,241</u>	-	<u>25,025</u>	<u>173,216</u>	<u>21,108</u>
Obligations under capital leases							
Ford Motor Credit Company	8-31-11	6.9%	<u>15,788</u>	-	<u>7,631</u>	<u>8,157</u>	<u>8,157</u>
Total obligations under capital leases			<u>15,788</u>	-	<u>7,631</u>	<u>8,157</u>	<u>8,157</u>
Compensated absences	-----	-----	<u>21,897</u>	<u>2,917</u>	-	<u>24,814</u>	<u>3,605</u>
			<u>\$235,926</u>	<u>\$ 2,917</u>	<u>\$32,656</u>	<u>\$206,187</u>	<u>\$32,870</u>

City of Middleton, Tennessee
Notes to the Financial Statements
June 30, 2011

7. LONG-TERM DEBT – continued

GOVERNMENTAL ACTIVITIES - continued

Annual debt service requirements to maturity for bonds for governmental activities are as follows:

Years Ending June 30	General Obligation Bonds			Obligations under Capital Leases		
	Principal	Interest	Total	Principal	Interest	Total
2012	\$ 21,108	\$ 9,426	\$ 30,534	\$ 8,157	\$563	\$8,720
2013	22,357	8,177	30,534	-	-	-
2014	23,679	6,855	30,534	-	-	-
2015	25,079	5,455	30,534	-	-	-
2016	26,563	3,971	30,534	-	-	-
2017-2018	<u>54,430</u>	<u>3,133</u>	<u>57,563</u>	-	-	-
Total	<u>\$173,216</u>	<u>\$37,017</u>	<u>\$210,233</u>	<u>\$8,157</u>	<u>\$563</u>	<u>\$8,720</u>

If funds are not available from other sources, the ordinances require the City to ascertain a rate and amount of ad valorem tax which will be sufficient to pay interest as it comes due. The City does not levy taxes for debt service. All governmental debt is paid by the General Fund.

Specific years for payment of compensated absences are not determinable and are not included in the table above.

BUSINESS-TYPE ACTIVITIES

Revenue bonds consist of debt issued by the Water and Sewer System. Revenue bonds are collateralized by revenues derived from the Water and Sewer System. The gross revenues of the Water and Sewer System, after deduction of reasonable expenses of operations and maintenance, are pledged to such funds in amounts equal to the total annual principal and interest requirements of the bonds and amounts required to maintain the reserve funds. If these revenues are insufficient to retire these bonds, the full faith and credit of the government is also pledged to these bonds.

	Final Maturity Date	Interest Rate	Beginning Balance 7-1-2010	Additions	Repay- ments	Ending Amounts Due	
						Balance 6-30-2011	Within One Year
Water and Sewer Fund							
Revenue and general obligation bonds							
Water and Sewer Revenue and Tax Bond Series 1996	11-14-34	5.125%	\$ 51,353	\$ -	\$1,114	\$ 50,239	\$ 1,173
Water and Sewer Revenue and Tax Bond Series 1999	02-18-37	4.75%	154,890	-	2,991	151,899	3,136
Water and Sewer Revenue and Tax Bond Series 2006	09-07-44	4.50%	224,964	-	2,968	221,996	3,106
Compensated absences	-----	-----	<u>777</u>	<u>4,761</u>	<u>-</u>	<u>5,538</u>	<u>3,607</u>
Total Water and Sewer			<u>\$431,984</u>	<u>\$4,761</u>	<u>\$7,073</u>	<u>\$429,672</u>	<u>\$11,022</u>

City of Middleton, Tennessee
Notes to the Financial Statements
June 30, 2011

7. LONG-TERM DEBT – continued

BUSINESS-TYPE ACTIVITIES - continued

	<u>Final Maturity Date</u>	<u>Interest Rate</u>	<u>Beginning Balance 7-1-2010</u>	<u>Additions</u>	<u>Repay- ments</u>	<u>Ending Amounts Due Balance 6-30-2011</u>	<u>Within One Year</u>
Natural Gas System Fund							
Revenue and general obligation bonds							
Tennessee Municipal Bond							
Fund Notes Payable	9-1-35	4.25%	\$ -	\$2,000,000	\$22,000	\$1,978,000	\$46,000
Total Natural Gas System Fund			\$ -	\$2,000,000	\$22,000	\$1,978,000	\$46,000
Total Business-Type Activities			<u>\$431,984</u>	<u>\$2,004,761</u>	<u>\$29,073</u>	<u>\$2,407,672</u>	<u>\$57,022</u>

Annual debt service requirements to maturity for bonds for business-type activities are as follows:

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 53,415	\$ 103,218	\$ 156,633
2013	56,771	100,865	157,636
2014	59,145	98,387	157,532
2015	61,536	95,807	157,343
2016	64,947	93,102	158,049
2017-2021	368,620	420,564	789,184
2022-2026	456,293	332,750	789,043
2027-2031	565,599	223,813	789,412
2032-2036	628,837	89,179	718,016
2037-2041	57,489	12,911	70,400
2042-2045	29,482	1,670	31,152
	<u>\$2,402,134</u>	<u>\$1,572,266</u>	<u>\$3,974,400</u>

Specific years for payment of compensated absences are not determinable and are not included in the table above. All Enterprise Fund debt is paid by the fund incurring the debt.

Tennessee law does not limit the amount of debt the City can issue; however, the State of Tennessee requires the City obtain approval to issue debt other than debt issued by referendum.

The ordinances authorizing the issuance of Water and Sewer System Revenue Bonds created the revenue fund, operations and maintenance fund, bond and interest retirement fund, debt service reserve fund, repair and extension reserve fund, and the bond redemption fund. The gross revenues of the Water and Sewer System, after deduction of reasonable expenses of operations and maintenance, are pledged to such funds in amounts equal to the total annual principal and interest requirements of the bonds and amounts required to maintain the reserve funds. This is also a general obligation bond.

City of Middleton, Tennessee
Notes to the Financial Statements
June 30, 2011

7. LONG-TERM DEBT – continued

BUSINESS-TYPE ACTIVITIES - continued

The ordinance authorizing the issuance of the Natural Gas System Tennessee Municipal Bond provides for an interest rate of 4.25% for the first 7 years. The above annual debt requirements projects interest rates continuing at 4.25% for the life of the loan. This ordinance requires a debt service fund and a \$100,000 reserve fund be established. The gross revenues of the Water and Sewer System, after deduction of reasonable expenses of operations and maintenance, are pledged to such funds in amounts equal to the total annual principal and interest requirements of the bonds and amounts required to maintain the reserve funds. This is also a general obligation bond.

At June 30, 2011, the Water and Sewer revenue bond reserve accounts were not funded sufficiently to satisfy such bond ordinance requirements. The repair and extension reserve fund that requires a maximum funding of \$3,713 had not been established. The bond redemption fund that requires the balance in the revenue fund be transferred within 60 days of year end had not been established. No action has been taken on these matters subsequent to year end.

8. COMPONENTS OF RESTRICTED ASSETS

Governmental Activities

June 30, 2011

State street aid	\$12,522
Drug abuse prevention and enforcement	3,458
Library memorial	5,270
Cemetery perpetual care	<u>3,427</u>
	<u>\$24,677</u>

The City segregates funds restricted by state laws and donations received that the donor intended use is restricted for a specific purpose. The City received donations to provide library books and cemetery perpetual care.

Business-Type Activities

June 30, 2011

Debt service reserve fund	<u>\$14,348</u>
	<u>\$14,348</u>

The ordinances authorizing the Water and Sewer System Revenue Bonds requires that the City establish the above revenue bond reserve. The City has not established the \$100,000 revenue bond reserve required by the Natural Gas System Revenue Bonds.

City of Middleton, Tennessee
Notes to the Financial Statements
June 30, 2011

9. DEFINED BENEFIT PENSION PLAN

Plan Description

Employees of the City of Middleton are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who became disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after 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 City of Middleton participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

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

Funding Policy

The City of Middleton requires employees to contribute 5.0 percent of earnable compensation.

The City of Middleton is required to contribute at an actuarially determined rate; the rate for the fiscal year ended June 30, 2011 was 10.28% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the City of Middleton is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ended June 30, 2011, the City of Middleton's annual pension cost of \$29,661 to TCRS was equal to the City of Middleton'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

City of Middleton, Tennessee
Notes to the Financial Statements
June 30, 2011

9. DEFINED BENEFIT PENSION PLAN - continued

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 City of Middleton'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 14 years. An actuarial valuation was performed as of July 1, 2009, which established contribution rates effective July 1, 2010.

Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2011	\$29,661	100.00%	\$ -
June 30, 2010	\$32,898	100.00%	\$ -
June 30, 2009	\$32,437	100.00%	\$ -

Funded Status and Funding Progress

As of July 1, 2009, the most recent actuarial valuation date, the plan was 74.37% percent funded. The actuarial accrued liability for benefits was \$0.6 million, and the actuarial value of assets was \$0.4 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.1 million. The covered payroll (annual payroll of active employees covered by the plan) was \$0.2 million, and the ratio of the UAAL to the covered payroll was 62.02% percent.

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

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

(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 01, 2009	\$411	\$552	\$142	74.37%	\$228	62.02%
July 01, 2007	345	461	116	74.84%	209	55.50%

City of Middleton, Tennessee
Notes to the Financial Statements
June 30, 2011

10. INTERFUND TRANSACTION

A summary of interfund receivables and payables at June 30, 2011 is as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$2,887	\$ -
Nonmajor Enterprise Fund – Sanitation Fund	1,387	-
Water and Sewer Fund	<u>-</u>	<u>4,274</u>
	<u>\$4,274</u>	<u>\$4,274</u>

<u>Fund</u>	<u>Interfund Transfers in</u>	<u>Interfund Transfers out</u>
General Fund	\$33,932	\$ 5,162
Library Memorial Fund	4,836	-
Drug Fund	326	-
Natural Gas Fund	<u>-</u>	<u>33,932</u>
	<u>\$39,094</u>	<u>\$39,094</u>

The General Fund receivables of \$2,887 represent \$2,887 unreimbursed Water and Sewer Fund expenditures paid by the General Fund. These receivables and payables are expected to be settled prior to June 30, 2012.

The Water and Sewer Fund payables of \$4,274 represent \$1,387 due to the Nonmajor Enterprise Fund – Sanitation Fund for sanitation fees collected that had not been remitted prior to June 30, 2011 and \$2,887 unreimbursed Water and Sewer Fund expenditures paid by the General Fund. These receivables and payables are expected to be settled prior to June 30, 2012.

Transfers are used to account for unrestricted revenues collected mainly in the General Fund to finance various programs accounted for in other funds in accordance with budget or legal authorizations. The General Fund transferred \$4,836 and \$326 to the Library Memorial Fund and Drug Fund. The Natural Gas Fund transferred \$33,932 to the General Fund to reimburse for expenses paid by the General Fund in the prior year.

City of Middleton, Tennessee
Notes to the Financial Statements
June 30, 2011

11. INTERGOVERNMENTAL REVENUES

Intergovernmental revenues include the following:

<u>Governmental Funds</u>	
Gasoline and motor fuel tax	\$ 18,183
Income tax allocation	18,758
TVA and other payments in lieu of taxes	7,540
Beer tax allocation	350
In service training	9,008
State sales tax allocation	44,105
Corporate excise tax	3,427
Street and transportation	1,438
Energy grant – federal	10,000
Library assistance – county	2,300
Fire department assistance – county	10,000
Library Technology grant – federal	2,264
City of Bolivar natural gas franchise fees	<u>13,124</u>
 Total Governmental Funds	 <u>\$140,497</u>

12. LEASES

The City has entered into capital lease agreements for capital assets under which they will become the property of the City when all terms of the lease agreement are met. The following schedule presents the future minimum lease payments as of June 30, 2011.

Governmental Activities:

Minimum Lease Payments	Ford Motor Credit
Years Ending June 30	Police Car
2012	<u>\$8,720</u>
	8,720
Less: amounts representing interest	<u>(563)</u>
Present value of minimum lease payments	<u>\$8,157</u>

See Note 7 for interest rates used to compute amounts representing interest and other information pertaining to capital lease transactions.

Capital assets and related accumulated amortization under capital leases are as follows:

	Ford Motor Credit
	Police Car
Capital asset discounted cost	\$24,608
Less: accumulated amortization	<u>4,432</u>
Book value	<u>\$20,176</u>

Amortization of leased equipment under capital assets is included with depreciation.

City of Middleton, Tennessee
Notes to the Financial Statements
June 30, 2011

12. LEASES - continued

Operating Leases

The City had no operating leases that require payments beyond June 30, 2011. The City paid no material rent during the year ended June 30, 2011.

13. NON COMPLIANCE WITH STATE LAW REVENUE BOND REQUIREMENTS AND GRANT REQUIREMENTS

The City did not comply with all the requirements of the State Department of Audit or loan requirements as set forth in the Internal Control and Compliance Manual for Tennessee Municipalities. The results of our tests disclosed instances of noncompliance listed on the schedule of findings and responses on pages 84 to 99. The ultimate resolution of these findings cannot presently be determined. Accordingly, no provision for any liabilities, if any, that may result has been recognized in the accompanying financial statement.

14. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The individual Enterprise Funds have the following net working capital (current assets less current liabilities) at June 30, 2011:

Water and Sewer Fund	\$192,644
Natural Gas System	(77,252)
Sanitation Fund	27,390

The Water and Sewer Fund is combined for both financial reporting and collateralizing debt with system revenues.

Enterprise Funds operate in the City of Middleton, Tennessee geographic area. Their revenues are subject to the economic conditions of Middleton, Tennessee. At June 30, 2011, the City had extended credit to customers totaling \$29,088. These receivables are unsecured other than security deposits totaling \$5,050.

15. COMMITMENTS, CONTINGENCIES, UNCERTAINTIES, AND SUBSEQUENT EVENTS

Litigation

The City has entered into a lawsuit against the City of Bolivar, Tennessee in which the City alleged that the City of Bolivar, Tennessee did not pay the correct amount of natural gas franchise fees and payment in lieu of taxes. The amount of any natural gas franchise fees or in lieu taxes due the City, if any, is presently unknown; therefore, the accompanying financial statements do not reflect any receivables or payables for this natural gas franchise tax or in lieu tax.

City of Middleton, Tennessee
Notes to the Financial Statements
June 30, 2011

15. COMMITMENTS, CONTINGENCIES, UNCERTAINTIES AND SUBSEQUENT EVENTS - continued

Grant Audit

The City receives federal and state grants for specific purposes that are subject to review and audit by federal and state agencies. Such audits could result in a request for reimbursement by the federal or state agencies for expenditures disallowed under the terms and conditions of the appropriate agency. In the opinion of the City's management, such disallowances, if any, will not be significant.

Commitments

Effective November 1, 1968, the City entered into a lease agreement with Dover Corporation to lease land with a book value of \$103,290 for \$1,000 per year until October 14, 2014. This lease automatically renews for three additional fifteen year terms, unless notice is given in writing sixty days prior to lease expiration.

Effective December 1, 2006, the City automatically renewed its contract with CNP Waste Company. This contract is in effect for 5 years. This contract is for sanitation services at a fee in effect on June 30, 2011 of \$6.10 per month per residential household, \$11.40 per month for commercial customers for once a week collection, and \$17.51 per month for twice weekly collection. This agreement will continue on 5 year increments, unless terminated by either party with written notice at least 90 days prior to expiration of each 5 year term. This contract can be increased 3% per year.

Effective March 15, 1999, the City entered into a contract with Utility Service Co., Inc to provide professional services needed to maintain its 200,000 gallon water storage tank. This contract remains in effect until canceled by notice prior to 120 days of anniversary date. The annual fee for 2011 was \$9,205. This fee was adjusted in 2009 and each third year thereafter to reflect the current cost of service, but will be limited to a maximum adjustment of 5% annually.

Effective March 15, 1999, the City entered into a contract with Utility Service Co., Inc to provide professional services needed to maintain its 50,000 gallon water storage tank. This contract remains in effect until canceled by notice prior to 120 days of anniversary date. The annual fee for 2011 was \$6,379. This fee was adjusted in 2009 and each third year thereafter to reflect the current cost of service, but will be limited to a maximum adjustment of 5% annually.

Effective May 20, 2004, the City entered into a contract with United Systems Technology Inc to provide accounting software for \$3,221 a year. This contract is for a period of 12 months and automatically extends from year to year.

The City has issued debt totaling \$2,000,000 to construct and operate a natural gas distribution system. The City had not started construction as of June 30, 2011.

City of Middleton, Tennessee
Notes to the Financial Statements
June 30, 2011

15. COMMITMENTS, CONTINGENCIES, UNCERTAINTIES AND SUBSEQUENT EVENTS - continued

Commitments - continued

Effective April 11, 2011 the City entered into an agreement with Tennessee Gas Pipeline Company to construct facilities at a cost estimate of \$303,780 and an FERC application at a cost to the City of \$30,000. This is a construction contract and not a purchase of gas contract.

Effective May 16, 2011 the City entered into an agreement with Fayette Utility District of Hardeman and Fayette Counties, Tennessee. This agreement provided for Fayette Utility District to provide operation and maintenance services on the Natural Gas System. The City is required to pay \$103,764 per year payable in 12 equal payments. The City is also required to pay for the repair of any damage to the system caused by customers or a third party for actual labor and materials plus 5%. The City is required to pay for repairing normal leaks including labor and materials plus 5% when the District's actual cost to repair normal leaks exceeds \$3,000 for a contract year. The City is required to pay \$350 to run a line and install a meter up to a 250 cubic foot house meter and 250 feet of PE pipe. The City is required to pay \$5.00 per foot for installation of a steel service line. For installations in excess of 250 feet of pipe or a meter other than a 250 cubic foot house meter, the City will be required to pay the District the same charge for such work which the District charges its own customers. These charges shall remain in effect for three years from the effective date of the agreement. The effective date is when the construction is complete. This contract can be terminated with material breach or default with six months written notice by either party. This agreement can be terminated by either party if they are unable to agree on compensation changes. The agreement can be terminated by the District for not following the District's recommendations with a 60 day notice. This agreement can be terminated if compensation for services are 30 days late.

Subsequent Events

On July 18, 2011 the City entered into an agreement with Altgen LLC to begin on August 1, 2011. This agreement is effective for 10 years. The City shall have the right to extend this agreement for three additional 10 year periods by providing to Altgen a request no later than 6 months prior to the expiration of the 10 year period. At the conclusion of the 10 year period, the City shall have the right to purchase improvements placed on the premises for one half of the appraised value of said improvements. If Altgen discontinues operations within the 10 year period, they have the same option to purchase said improvements for one half of the appraised value. The City can purchase the improvements at any time prior to the end of the initial term at a mutually agreed upon price. This lease agreement includes 15 acres of the property known as the Davis Industrial Site, 115 Pulse Road, Middleton TN parcel ID# 172 04700 0005 172. Altgen shall pay on or before June 30 each year to the City of Middleton 10% of the net revenues received from the sale of all products derived from any waste coming under the terms of this agreement or \$400,000 annually whichever is highest. Altgen shall also provide biodiesel and any other product derived from the waste tires to the City of Middleton at a rate of 75% of the lowest available price in the City of Middleton.

City of Middleton, Tennessee
Notes to the Financial Statements
June 30, 2011

16. RELATED PARTY TRANSACTIONS

The City has designated Merchants & Planters Bank as one of its depositories. One of the Alderpersons is employed by this bank. At June 30, 2011, the City had funds on deposit and certificates of deposit totaling \$144,877 with Merchants & Planters Bank.

The City paid Henderson Heating and Air Conditioning, a company owned by the brother of the Mayor, was paid \$140 for repair work done.

The City paid Matthews Electric, a company owned by the nephew of the Mayor, was paid \$200 for repair work done.

17. ECONOMIC DEPENDENCE

The City sells water and provides sewer services to Thyssenkrupp which accounts for approximately 23.93% of Proprietary Fund Water and Sewer revenues and approximately 16.47% of Proprietary Fund Water and Sewer receivables. The City receives property taxes from Thyssenkrupp which accounts for approximately 35.7% of General Fund property tax revenue and 34.6% of property taxes receivable. If this customer ceased operating in the Middleton, Tennessee area, the City's revenues would substantially decrease.

18. RISK MANAGEMENT - CLAIMS AND JUDGMENTS

Significant losses including comprehensive general liability, automobile liability, automotive collision and comprehensive, law enforcement, errors and omissions, standard workmen's compensation, property, equipment, employee dishonesty, forgery or alteration, theft, disappearance, or destruction, computer fraud, surety bond and notary bond are covered by the Tennessee Municipal League Risk Pool or commercial insurance for all major programs.

The City has had no significant reduction in insurance coverage during the year ended June 30, 2011. There have been no settlements in excess of insurance coverage during the current or prior three years.

The City is a member of the TML Risk Management Pool. The City pays insurance premiums based on experience ratios. The City does not expect to incur any liability in excess of insurance coverage.

City of Middleton, Tennessee
Notes to the Financial Statements
June 30, 2011

19. INVESTMENT IN CAPITAL ASSETS, NET OF RELATED DEBT

Investments in capital assets, net of related debt in the net asset section of the accompanying statement of net assets for the government-wide financial statements consist of the following:

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>
Land and construction in progress	\$ 534,728	\$ 188,568
Other capital assets (net of accumulated depreciation)	655,642	2,479,208
Unexpended bond proceeds	-	1,663,811
Deferred bond issuance cost paid from bond proceeds	-	140,000
Interest and other setup costs paid from bond proceeds	-	80,468
Less accounts payable – fixed asset	-	(64,740)
Less obligations under capital leases	(8,157)	-
Less bonds and notes payable	<u>(173,216)</u>	<u>(2,402,134)</u>
Investment in capital assets, net of related debt	<u>\$1,008,997</u>	<u>\$2,085,181</u>

20. NEW GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STANDARDS

During the year ended June 30, 2011, the City adopted the following Governmental Accounting Standards Board (GASB) standards.

Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* issued in February, 2009, and became effective for the fiscal year ended June 30, 2011. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of resources reported in governmental funds. The fund balances have been reclassified to comply with this statement.

Statement No. 59, *Financial Instruments Omnibus* issued in June, 2010, and became effective for the fiscal year ended June 30, 2011. The objective of this statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. Implementation of this standard had no material effect on the City's financial statements.

City of Middleton, Tennessee
Notes to the Financial Statements
June 30, 2011

20. NEW GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STANDARDS
- continued

The Governmental Accounting Standards Board (GASB) has issued 3 statements not yet implemented by the City. The statements which might impact the City are as follows:

Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans* issued in December, 2009, and will become effective for the fiscal year ending June 30, 2012. The objective of this statement is to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers).

Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* issued in November, 2010, and will become effective for the fiscal year ending June 30, 2013. The objective of this statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties.

Statement No. 61, *The Financial Reporting Entity: Omnibus—An Amendment of GASB Statements No. 14 and No. 34* issued in November, 2010, and will become effective for the fiscal year ending June 30, 2013. The objective of this statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those statements.

Statement No. 62, *A Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* issued in December, 2010, and will become effective for the fiscal year ending June 30, 2013. The objective of this statement is to incorporate into GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

City of Middleton, Tennessee
Notes to the Financial Statements
June 30, 2011

20. NEW GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STANDARDS
- continued

Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* issued in June, 2011, and will become effective for the fiscal year ending June 30, 2013. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—An Amendment of GASB Statement No. 53* issued in June, 2011, and will become effective for the fiscal year ending June 30, 2012. The objective of this statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied.

The City's management has not yet determined the effect these statements will have on the City's financial statements.

CITY OF MIDDLETON, TENNESSEE
Required Supplementary Information
Municipal Employees Pension Plan
June 30, 2011
(Dollar amounts expressed in thousands)

1. Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 01, 2009	\$411	\$552	\$142	74.37%	\$228	62.02%
July 01, 2007	345	461	116	74.84%	209	55.50%

Notes to Required Supplementary Information

NOTE A. The Governmental Accounting Standards Board (GASB) requires the plan to prepare the Schedule of Funding Progress using the entry age actuarial cost method. The requirement to present the Schedule of Funding Progress using the Entry Age actuarial cost method went into effect during the year of the 2007 actuarial valuation, therefore only the two most recent valuations are presented.

CITY OF MIDDLETON, TENNESSEE
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2011

ASSETS	State Street Aid	Drug	Library Memorials	Permanent Fund Cemetery Perpetual Care	Total Nonmajor Governmental Funds
Cash and cash equivalents	\$ 10,219	\$ 3,458	\$ 5,270	\$ -	\$ 18,947
Investments - certificates of deposit	-	-	-	3,436	3,436
Receivables (Net, where applicable of allowance for uncollectables)					
Interest	-	-	-	2	2
Due from other governments	<u>3,161</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,161</u>
TOTAL ASSETS	<u>\$ 13,380</u>	<u>\$ 3,458</u>	<u>\$ 5,270</u>	<u>\$ 3,438</u>	<u>\$ 25,546</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	<u>\$ 858</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 858</u>
Total Liabilities	<u>858</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>858</u>
FUND BALANCES					
Nonspendable	-	-	-	3,032	3,032
Restricted	<u>12,522</u>	<u>3,458</u>	<u>5,270</u>	<u>406</u>	<u>21,656</u>
Total Fund Balances	<u>12,522</u>	<u>3,458</u>	<u>5,270</u>	<u>3,438</u>	<u>24,688</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 13,380</u>	<u>\$ 3,458</u>	<u>\$ 5,270</u>	<u>\$ 3,438</u>	<u>\$ 25,546</u>

CITY OF MIDDLETON, TENNESSEE
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the fiscal year ended June 30, 2011

	Special Revenue Fund			Permanent Fund	Total Nonmajor
	State Street Aid	Drug	Library Memorial	Cemetery Perpetual Care	Governmental Funds
REVENUES					
Intergovernmental revenues	\$ 18,183	\$ -	\$ -	\$ -	\$ 18,183
Fines, forfeits, and penalties	-	2,294	-	-	2,294
Investment income	-	1	-	2	3
Other revenue	-	950	1,368	-	2,318
Total Revenues	18,183	3,245	1,368	2	22,798
EXPENDITURES					
Current					
Public safety	-	685	-	-	685
Public works	14,132	-	-	-	14,132
Culture and recreation	-	-	934	-	934
Capital outlay	-	1,873	-	-	1,873
Total Expenditures	14,132	2,558	934	-	17,624
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	4,051	687	434	2	5,174
OTHER FINANCING SOURCES (USES)					
Transfers in	-	326	4,836	-	5,162
Total Other Financing Sources (Uses)	-	326	4,836	-	5,162
NET CHANGE IN FUND BALANCES	4,051	1,013	5,270	2	10,336
Fund balances--beginning	8,471	2,445	-	3,436	14,352
Fund balances--ending	\$ 12,522	\$ 3,458	\$ 5,270	\$ 3,438	\$ 24,688

CITY OF MIDDLETON, TENNESSEE
Schedule of General Long-Term Debt Principal and Interest
Requirement by Fiscal Year
June 30, 2011

Year Ending June 30	First South Bank Series 2008		Ford Motor Credit Company Capital Lease		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 21,108	\$ 9,426	\$ 8,157	\$ 563	\$ 29,265	\$ 9,989
2013	22,357	8,177	-	-	22,357	8,177
2014	23,679	6,855	-	-	23,679	6,855
2015	25,079	5,455	-	-	25,079	5,455
2016	26,563	3,971	-	-	26,563	3,971
2017	28,134	2,400	-	-	28,134	2,400
2018	26,296	733	-	-	26,296	733
	<u>\$ 173,216</u>	<u>\$ 37,017</u>	<u>\$ 8,157</u>	<u>\$ 563</u>	<u>\$ 181,373</u>	<u>\$ 37,580</u>

CITY OF MIDDLETON, TENNESSEE
Schedule of Long-Term Debt Principal and Interest Requirements by Fiscal Year
Enterprise Funds
June 30, 2011

Year Ended	Water and Sewer Revenue and Tax Bond Series 1996		Water and Sewer Revenue and Tax Bond Series 1999		Water and Sewer Revenue and Tax Bond Series 2006		Water and Sewer Total		Natural Gas Revenue and General Obligation Bond Series 2010	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 1,173	\$ 2,547	\$ 3,136	\$ 7,148	\$ 3,106	\$ 9,926	\$ 7,415	\$ 19,621	\$ 46,000	\$ 83,598
2013	1,234	2,486	3,289	6,995	3,248	9,784	7,771	19,265	49,000	81,600
2014	1,299	2,421	3,448	6,836	3,398	9,634	8,145	18,891	51,000	79,496
2015	1,367	2,353	3,616	6,668	3,554	9,478	8,537	18,499	53,000	77,308
2016	1,439	2,281	3,791	6,493	3,717	9,315	8,947	18,089	56,000	75,013
2017	1,514	2,206	3,975	6,309	3,888	9,144	9,377	17,659	58,000	72,611
2018	1,594	2,126	4,169	6,116	4,066	8,966	9,829	17,208	61,000	70,125
2019	1,677	2,043	4,371	5,913	4,253	8,779	10,301	16,735	63,000	67,511
2020	1,765	1,955	4,583	5,700	4,448	8,584	10,796	16,239	66,000	64,791
2021	1,858	1,862	4,805	5,479	4,653	8,379	11,316	15,720	69,000	61,965
2022	1,955	1,765	5,039	5,245	4,867	8,165	11,861	15,175	71,000	59,011
2023	2,058	1,662	5,283	5,001	5,090	7,942	12,431	14,605	77,000	55,951
2024	2,166	1,554	5,540	4,744	5,324	7,708	13,030	14,006	76,000	52,679
2025	2,280	1,440	5,809	4,475	5,569	7,463	13,658	13,378	82,000	49,364
2026	2,399	1,321	6,091	4,193	5,824	7,208	14,314	12,722	85,000	45,858
2027	2,525	1,195	6,387	3,897	6,092	6,940	15,004	12,032	89,000	42,203
2028	2,658	1,062	6,697	3,587	6,372	6,660	15,727	11,309	93,000	38,378
2029	2,797	923	7,022	3,262	6,665	6,367	16,484	10,552	96,000	34,404
2030	2,944	776	7,362	2,922	6,971	6,062	17,277	9,760	100,000	30,281
2031	3,098	622	7,720	2,564	7,291	5,741	18,109	8,927	105,000	25,968
2032	3,261	459	8,095	2,189	7,626	5,406	18,982	8,054	109,000	21,463
2033	3,432	288	8,488	1,796	7,976	5,056	19,896	7,140	115,000	16,766
2034	3,612	108	8,900	1,384	8,343	4,689	20,855	6,181	119,000	11,836
2035	134	1	9,332	952	8,726	4,306	18,192	5,259	125,000	6,715
2036	-	-	9,785	499	9,127	3,905	18,912	4,404	64,000	1,358
2037	-	-	5,167	73	9,546	3,486	14,713	3,559	-	-
2038	-	-	-	-	9,985	3,047	9,985	3,047	-	-
2039	-	-	-	-	10,443	2,588	10,443	2,588	-	-
2040	-	-	-	-	10,923	2,109	10,923	2,109	-	-
2041	-	-	-	-	11,425	1,607	11,425	1,607	-	-
2042	-	-	-	-	11,950	1,082	11,950	1,082	-	-
2043	-	-	-	-	12,499	533	12,499	533	-	-
2044	-	-	-	-	5,030	57	5,030	57	-	-
	<u>\$ 50,239</u>	<u>\$ 35,456</u>	<u>\$ 151,900</u>	<u>\$ 110,440</u>	<u>\$ 221,995</u>	<u>\$ 200,116</u>	<u>\$ 424,134</u>	<u>\$ 346,012</u>	<u>\$ 1,978,000</u>	<u>\$ 1,226,253</u>

CITY OF MIDDLETON, TENNESSEE
Schedule of Interfund Transfers and Due to Other Funds
For the fiscal year ended June 30, 2011

INTERFUND TRANSFERS

TRANSFER TO

General Fund
 Library Memorial Fund
 Drug Fund

TRANSFER FROM

Natural Gas Fund
 General Fund
 General Fund

\$	33,932
	4,836
	<u>326</u>
\$	<u>39,094</u>

DUE TO

General Fund
 Sanitation Fund

DUE FROM

Water and Sewer Fund
 Water and Sewer Fund

\$	2,887
	<u>1,387</u>
\$	<u>4,274</u>

CITY OF MIDDLETON, TENNESSEE
Schedule of Changes in Property Taxes Receivable
June 30, 2011

Levy For Year	Tax Rate	Original Tax Year	Outstanding Taxes Beginning	Taxes Levied	Bad Debts, Releases and Adjustments	Collections	Outstanding Taxes Ending
2011	\$ 0.99	\$ 162,904	\$ -	\$ 162,904	\$ -	\$ -	\$ 162,904
2010	0.99	155,600	158,123	-	(2,523)	152,528	3,072
2009	0.99	169,966	5,910	-	-	5,035	875
2008	0.78	132,028	860	-	-	616	244
2007	0.78	127,252	154	-	-	84	70
2006	0.99	121,326	16	-	-	-	16
2005	0.99	119,784	-	-	-	-	-
2004	0.99	114,384	3	-	-	-	3
2003	0.99	115,547	137	-	-	-	137
2002	0.69	94,310	227	-	-	-	227
2001	0.59	81,308	95	-	-	-	95
			<u>\$ 165,525</u>	<u>\$ 162,904</u>	<u>\$ (2,523)</u>	<u>\$ 158,263</u>	167,643
Less allowance for bad debts							<u>(1,678)</u>
Property taxes receivable - net							<u>\$ 165,965</u>

CITY OF MIDDLETON, TENNESSEE
Schedule of Expenditures of Federal Awards and State Financial Assistance
For the fiscal year ended June 30, 2011

<u>Federal Grantor/ Pass-through Grantor</u>	<u>CFDA Number</u>	<u>Contract Number</u>	<u>Beginning (Accrued) Deferred</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Ending (Accrued) Deferred</u>
<u>Federal Awards</u>						
U. S. Department of Transportation Pass-through programs from State of Tennessee Alcohol Open Container Requirements	20.607	Z-11-GHS311	\$ -	\$ 1,427	\$ 9,007	\$ (7,580)
Total U. S. Department of Transportation			-	1,427	9,007	(7,580)
U. S. Institute of Museum and Library Service Pass-through programs from: State of Tennessee Library and Archives Grants to States	45.310	Z-09-217854-00	-	3,792	2,264	1,528
Total U. S. Institute of Museum and Library Services			-	3,792	2,264	1,528
Delta Regional Authority Pass-through programs from State of Tennessee Delta Area Economic Development	90-201	TN-4028	1,176	27,385	85,741	(57,180)
Total Delta Regional Authority			1,176	27,385	85,741	(57,180)
U.S. Department of Energy Pass-through programs from State of Tennessee Energy Efficient Conservation Block Grant	81.125	GG-1133080	-	10,000	58,215	(48,215)
Total U.S. Department of Energy			-	10,000	58,215	(48,215)
Total Federal Awards			1,176	42,604	155,227	(111,447)
<u>State Financial Assistance</u>						
None	N/A	NA	-	-	-	-
Total Federal and State Awards			\$ 1,176	\$ 42,604	\$ 155,227	\$ (111,447)

See accompanying notes to schedule of expenditures of federal awards and state financial assistance.

CITY OF MIDDLETON, TENNESSEE
Notes to Schedule of Expenditures of Federal Awards and State Financial Assistance
For the fiscal year ended June 30, 2011

Note A - Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance is a summary of the activity of the City's federal and state grant programs presented on the modified accrual basis of accounting for governmental funds and the accrual basis of accounting for Enterprise Funds in accordance with accounting principles generally accepted in the United States of America.

Note B - American Recovery and Reinvestment Act

The City did not receive any American Recovery and Reinvestment Act grant funds during the year ended June 30, 2011.

CITY OF MIDDLETON, TENNESSEE
Table of Utility Rates in Force and Number of Customers
June 30, 2011
(Unaudited)

Water Rates

Customers inside the corporate limits

First 2,000 gallons	\$9.75 (minimum bill)
Over 2,000 gallons	\$1.65 per 1,000 gallons

Customers outside the corporate limits

First 2,000 gallons	\$12.00 (minimum bill)
Over 2,000 gallons	\$ 3.00 per 1,000 gallons

Sewer Rates

Customers inside the corporate limits

First 2,000 gallons	\$9.75 (minimum bill)
Over 2,000 gallons	\$1.65 per 1,000 gallons

Customers outside the corporate limits

First 2,000 gallons	\$12.00 (minimum bill)
Over 2,000 gallons	\$ 3.00 per 1,000 gallons

Number of Customers at Year End

Water	385
Sewer	327
Garbage	329

CITY OF MIDDLETON, TENNESSEE
Schedule of Unaccounted For Water
June 30, 2011
(Unaudited)

(All amounts in gallons)

A. Water Treated and Purchased:		
B. Water pumped (potable)	51,139,800	
C. Water purchased	0	
D. Total Water Treated and Purchased		51,139,800
	(Sum Lines B and C)	
E. Accounted for Water:		
F. Water sold	37,080,407	
G. Metered for consumption (in house usage)	70,293	
H. Fire department usage	0	
I. Flushing	36,450	
J. Tank cleaning/filling	167,575	
K. Street cleaning	0	
L. Bulk sales	18,500	
M. Water bill adjustments	0	
N. Total Accounted for Water		37,373,225
	(Sum Lines F thru M)	
O. Unaccounted for Water		13,766,575
	(Line D Minus Line N)	
P. Percent Unaccounted for Water		26.919%
	(Line O divided by Line D times 100)	
 Q. Other (explain)		 See below

Explain other:

Water leaks	2,116,600
Water used by City not billed	24,088

All amounts included in this schedule are supported by documentation on file at the water system. If no support is on file for a line item or if the line item is not applicable, a "0" is shown.

CITY OF MIDDLETON, TENNESSEE
Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years
(Unaudited)

<u>Fiscal Year Ended June 30,</u>	<u>Residential Property</u>	<u>Industrial and Commercial Property</u>	<u>Farm and Agricultural Property</u>	<u>Public Utility Property</u>	<u>Less Tax Exempt Property</u>	<u>Total Taxable Assessed Value</u>	<u>Total Direct Tax Rate Per \$1,000</u>	<u>Estimated Actual Taxable Value</u>	<u>Assessed Value as a Percentage of Actual Value</u>
2002	3,595,075	8,818,746	169,475	1,084,820	Not available	13,668,116	6.90	44,388,447	30.79
2003	3,766,250	6,793,819	171,450	939,895	Not available	11,671,414	9.90	39,672,417	29.42
2004	3,809,050	6,597,805	170,400	975,790	Not available	11,553,045	9.90	38,467,972	30.03
2005	3,895,400	7,029,710	171,025	1,002,423	Not available	12,098,558	9.90	40,352,795	29.98
2006	3,955,700	7,133,719	162,675	1,071,613	Not available	12,323,707	9.90	42,768,616	28.81
2007	4,646,075	10,082,097	226,025	1,397,613	Not available	16,351,810	7.80	51,985,992	31.45
2008	4,653,025	10,603,653	264,475	1,405,081	Not available	16,926,234	7.80	53,866,059	31.42
2009	4,685,850	10,912,995	250,900	1,318,659	Not available	17,168,404	9.90	54,943,401	31.25
2010	4,726,750	9,460,882	249,650	1,279,978	Not available	15,717,260	9.90	50,676,366	31.01
2011	4,781,175	10,147,667	246,175	1,279,978	Not available	16,454,995	9.90	52,539,013	31.32

Source: Hardeman County, Tennessee Tax Assessor

Note:

Property in Hardeman County is reassessed every six years on average. The County assesses property at approximately 55 percent on utility property, 40 percent on industrial and commercial property, and 25 percent for residential and agricultural. Estimated actual value was obtained from records provided by Hardeman County, Tennessee. The County assessment summary does not provide details of tax exempt property and is not available; therefore, the information presented above does not present all GASB 44 required items for a ten year period. The information marked not available could not be located by the City. The property columns do not contain the assessed values for exempt properties. In accordance with GASB 44 available information has been presented.

CITY OF MIDDLETON, TENNESSEE
Table of Outstanding Delinquent Taxes Filed With Chancery Clerk
(Unaudited)
June 30, 2011

<u>Tax Year</u>	<u>Outstanding Balance</u>
2009	\$ 875
2008	244
2007	70
2006	16
2005	-
2004	3
2003	137
2002	227
2001	95
	<hr/>
	\$ 1,667

CITY OF MIDDLETON, TENNESSEE
Nonmajor Governmental Funds
Schedule of Revenues, Expenditures and Changes in
Fund Balance--Budget and Actual
For the fiscal year ended June 30, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts Budgetary Basis	Final Budget Positive/ Negative
STATE STREET AID FUND				
REVENUES				
State gasoline and motor fuel tax	\$ 17,500	\$ 17,500	\$ 18,183	\$ 683
Total Revenues	17,500	17,500	18,183	683
EXPENDITURES				
Repair and maintenance - street lighting	13,500	13,500	13,401	99
Repair and maintenance - roads	3,000	3,000	731	2,269
Total Expenditures	16,500	16,500	14,132	2,368
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,000	1,000	4,051	3,051
OTHER FINANCING SOURCES (USES)	-	-	-	-
NET CHANGE IN FUND BALANCES	1,000	1,000	4,051	3,051
Fund balance--beginning	8,471	8,471	8,471	-
Fund balance--ending	\$ 9,471	\$ 9,471	\$ 12,522	\$ 3,051

CITY OF MIDDLETON, TENNESSEE
Nonmajor Governmental Funds
Schedule of Revenues, Expenditures and Changes in
Fund Balance--Budget and Actual
For the fiscal year ended June 30, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts Budgetary Basis	Final Budget Positive/ Negative
DRUG FUND				
REVENUES				
Fines - County	\$ 1,800	\$ 1,800	\$ 2,294	\$ 494
Confiscated drug fines	100	100	-	(100)
Miscellaneous	-	-	950	950
Investment income	1	1	1	-
Total Revenues	<u>1,901</u>	<u>1,901</u>	<u>3,245</u>	<u>1,344</u>
EXPENDITURES				
Supplies and other	500	500	295	205
Miscellaneous	500	500	390	110
Capital outlay	900	900	1,873	(973)
Total Expenditures	<u>1,900</u>	<u>1,900</u>	<u>2,558</u>	<u>(658)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>1</u>	<u>1</u>	<u>687</u>	<u>686</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	326	326
Total Other Financing Sources(Uses)	<u>-</u>	<u>-</u>	<u>326</u>	<u>326</u>
NET CHANGES IN FUND BALANCES	<u>1</u>	<u>1</u>	<u>1,013</u>	<u>1,012</u>
Fund balance--beginning	<u>2,445</u>	<u>2,445</u>	<u>2,445</u>	<u>-</u>
Fund balance--ending	<u>\$ 2,446</u>	<u>\$ 2,446</u>	<u>\$ 3,458</u>	<u>\$ 1,012</u>

CITY OF MIDDLETON, TENNESSEE
Nonmajor Governmental Funds
Schedule of Revenues, Expenditures and Changes in
Fund Balance--Budget and Actual
For the fiscal year ended June 30, 2011

	Budgeted Amounts Original	Final	Actual Amounts Budgetary Basis	Variance with Final Budget Positive/ Negative
LIBRARY MEMORIAL				
REVENUES				
Donations	\$ 1,000	\$ 1,000	\$ 1,368	\$ 368
Total Revenues	<u>1,000</u>	<u>1,000</u>	<u>1,368</u>	<u>368</u>
EXPENDITURES				
Supplies	500	500	934	434
Total Expenditures	<u>500</u>	<u>500</u>	<u>934</u>	<u>434</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	500	500	434	802
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	4,836	4,836
Total Other Financing Sources(Uses)	<u>-</u>	<u>-</u>	<u>4,836</u>	<u>4,836</u>
NET CHANGES IN FUND BALANCES	500	500	5,270	5,638
Fund balance--beginning	<u>3,436</u>	<u>3,436</u>	<u>3,436</u>	<u>-</u>
Fund balance--ending	<u>\$ 3,936</u>	<u>\$ 3,936</u>	<u>\$ 8,706</u>	<u>\$ 5,638</u>
CEMETARY PERPETUAL CARE				
REVENUES				
Investment income	\$ 2	\$ -	\$ 2	\$ 2
Total Revenues	<u>2</u>	<u>-</u>	<u>2</u>	<u>2</u>
EXPENDITURES				
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	2	-	2	2
Fund balance--beginning	<u>3,436</u>	<u>3,436</u>	<u>3,436</u>	<u>-</u>
Fund balance--ending	<u>\$ 3,438</u>	<u>\$ 3,436</u>	<u>\$ 3,438</u>	<u>\$ 2</u>

CITY OF MIDDLETON, TENNESSEE
Combining of City Assigned Funds into the General Fund
that do not meet the GASB No. 54 Definition of a Special Revenue Fund
Combining Balance Sheet
June 30, 2011

	City Assigned Funds		GASB No. 54 Financial Statement Presentation
	General	Library	General
ASSETS			
Cash and cash equivalents	\$ 184,648	\$ 21,173	\$ 205,821
Investments - certificates of deposit	103,962	-	103,962
Property taxes (net of allowances of \$1,678)	165,965	-	165,965
Interest	291	-	291
Beer tax (net of allowances of \$0)	8,224	-	8,224
Police fines (net of allowances of \$774)	884	-	884
Other (net of allowances of \$0)	10,182	-	10,182
Due from other governments	126,488	-	126,488
Due from other funds	3,071	(184)	2,887
Inventory	3,819	-	3,819
Prepaid expense	16,857	-	16,857
TOTAL ASSETS	\$ 624,391	\$ 20,989	\$ 645,380
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 55,886	\$ -	\$ 55,886
Accrued liabilities	20,207	-	20,207
Compensated absences	3,605	-	3,605
Deferred revenues	222,900	1,528	224,428
Total Liabilities	302,598	1,528	304,126
FUND BALANCES			
Nonspendable	20,677	-	20,677
Assigned	99,478	19,461	118,939
Unassigned	201,638	-	201,638
Total Fund Balances	321,793	19,461	341,254
TOTAL LIABILITIES AND FUND BALANCES	\$ 624,391	\$ 20,989	\$ 645,380

NOTES TO SCHEDULE 14 AND SCHEDULE 15

GASB No. 54 requires the specific revenue stream to be either restricted or committed to be classified as a Special Revenue Fund. The State of Tennessee *Audit Manual* requires all City established funds be presented in the financial statements. Since the above fund's specific revenue stream is neither restricted nor committed under the definitions of GASB No. 54, the assigned fund is required to be presented with the General Fund. This schedule presents this assigned fund separately as required by the State of Tennessee *Audit Manual*.

CITY OF MIDDLETON, TENNESSEE
Combining of City Assigned Funds into the General Fund
that do not meet the GASB No. 54 Definition of a Special Revenue Fund
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the fiscal year ended June 30, 2011

	City Assigned Funds		GASB No. 54 Financial Statement Presentation
	General	Library	General
REVENUES			
Taxes	480,477	-	480,477
License and permits	1,079	-	1,079
Intergovernmental revenues	120,050	2,264	122,314
Charges for services	5,575	-	5,575
Fines, forfeits and penalties	10,105	4,232	14,337
Investment income	1,309	(1)	1,308
Contributions	2,164	-	2,164
Other revenue	46,543	495	47,038
Total Revenue	667,302	6,990	674,292
EXPENDITURES			
Current			
General government	130,294	-	130,294
Public safety	303,918	-	303,918
Public works	37,196	-	37,196
Culture and recreation	43,347	63	43,410
Capital outlay	85,903	4,527	90,430
Debt Service			
Principal retirement	32,657	-	32,657
Interest and fiscal charges	13,772	-	13,772
Total Expenditures	647,087	4,590	651,677
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	20,215	2,400	22,615
OTHER FINANCING SOURCES (USES)			
Proceeds from disposition of capital assets	15,804	-	15,804
Transfers in	33,932	-	33,932
Transfers out	(22,223)	17,061	(5,162)
Total Other Financing Sources (Uses)	27,513	17,061	44,574
NET CHANGE IN FUND BALANCES	47,728	19,461	67,189
Fund balances--beginning	274,065	-	274,065
Fund balances--ending	321,793	19,461	341,254

The accompanying note on page 80 for Schedule 15 is an integral part of this schedule.

JONES & JONES
CERTIFIED PUBLIC ACCOUNTANTS
OF BOONEVILLE PA

Kermit V Jones Jr., C.P.A. Christopher D. Jones, C.P.A. Jeremy D Jones, C.P.A. David W. Jones, C.P.A.

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

To the Mayor and Board of Alderpersons
City of Middleton, Tennessee

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Middleton, Tennessee, as of and for the year ended June 30, 2011, which collectively comprise the City of Middleton, Tennessee's basic financial statements and have issued our report thereon dated December 23, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. These findings and responses are labeled as items 1, 4, 6, and 8.

Internal Control Over Financial Reporting - continued

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies. These findings and responses are labeled as items 2, 3, 5, and 7.

Compliance and Other Matters

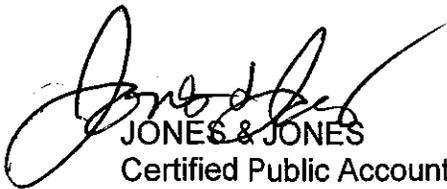
As part of obtaining reasonable assurance about whether City of Middleton, Tennessee's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct 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 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 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, and 20.

We noted certain other matters that we reported to management of City of Middleton, Tennessee in a separate letter dated December 23, 2011.

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

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

Sincerely yours,



JONES & JONES
Certified Public Accountants
of Booneville, PA

December 23, 2011

CITY OF MIDDLETON, TENNESSEE
Schedule of Findings and Responses
For the fiscal year ended June 30, 2011

Significant Deficiencies

Finding Number 1

Condition: The City does not have an adequate segregation of duties among most accounting functions.

Criteria: Internal controls should be in place and functioning to provide adequate segregation of duties among all accounting functions.

Effect: Invoices are being approved for payment by each department head. These department heads are ordering and receiving supplies. The office personnel collect cash, maintain receivable ledgers, maintain general ledgers, prepare payroll from time records, reconcile cash, write off bad debts, make adjustments to receivables, and order and receive supplies.

Cause: Due to the limited resources of the City, it is not practical to hire additional staff to have adequate segregation of duties.

Recommendation: We recommend the Board of Alderpersons review and approve all claims prior to disbursement. This approval process should be documented in the Board of Alderpersons' minutes and on each invoice. We recommend a list of bad debts and receivable adjustments be presented to the Board of Alderpersons monthly for their review and approval. This list should be made a permanent part of the Board of Alderpersons' minutes. We recommend the Board of Alderpersons and Mayor periodically review all accounting functions.

Response: We concur with the recommendation.

Finding Number 2

Condition: Internal controls over disbursements are inadequate.

Criteria: Internal controls should be in place and functioning that require purchase orders, invoice approval, and all claims be listed in the Board of Alderpersons minutes, and travel vouchers should be properly completed and signed.

Effect: In our test of 40 cash disbursements, we noted the following:

- A. 1 cash disbursement did not indicate the invoice had been approved for payment.
- B. 3 cash disbursements were not listed on the claims docket.
- C. 1 cash disbursement for travel did not contain the employee's signature on the travel voucher.
- D. 40 cash disbursements did not contain a purchase order.

Cause: The City does not use a purchase order system. The other items were apparent oversights.

CITY OF MIDDLETON, TENNESSEE
Schedule of Findings and Responses
For the fiscal year ended June 30, 2011

Significant Deficiencies - continued

Finding Number 2 - continued

Recommendation: We recommend the City adopt a formal purchase order system. This would ensure all purchases are properly approved. All approved claims should be listed in the Board of Alderpersons' minutes each month. Any claims requiring payment prior to the next board meeting should be approved by a Board of Alderpersons' representative and approved formally at the next Board of Alderpersons' meeting. All invoices should be documented that they had been reviewed and approved prior to payment. All travel vouchers should be properly completed and signed.

Response: We concur with the recommendation.

Finding Number 3

Condition: The City was withholding the wrong amount of medical insurance from employee's pay.

Criteria: Effective internal controls include following Board of Alderperson's directions in computing the appropriate portion of medical insurance withheld from employee's pay.

Effect: The City withheld 25% of total insurance paid for the employee instead of 25% of spouse and dependent insurance coverage cost as directed by the Board of Alderpersons.

Cause: This was an oversight by the bookkeeper.

Recommendation: The City should compute the amount withheld from employee payroll in error and refund the over withholdings to each employee.

Response: We have computed the amount withheld from the employee payroll in error and refunded the over withholdings to each employee affected.

Finding Number 4

Condition: The transactions for general fixed assets and general long term debt categories and capital lease transactions are not being recorded.

Criteria: Effective internal controls include recording all transactions.

Effect: The completed general ledger did not include the transactions for the general fixed assets category, general long-term debt category and capital lease transactions.

Cause: These are transactions that are not included when recording cash receipts and disbursements.

CITY OF MIDDLETON, TENNESSEE
Schedule of Findings and Responses
For the fiscal year ended June 30, 2011

Significant Deficiencies - continued

Finding Number 4 - continued

Recommendation: We recommend the bookkeeper record all transactions to the general ledger.

Response: We concur with the recommendation.

Finding Number 5

Condition: The City had unaccounted for water of approximately 26.9%.

Criteria: Effective internal controls include establishing procedures to reduce unaccounted for water.

Effect: During the year ended June 30, 2011, the City pumped 51,139,800 gallons of water. During this same period, the City sold 37,150,700 gallons water and used 222,525 gallons of water in line flushing, tank cleaning and bulk sales. The City had 13,766,575 gallons of unaccounted for water. Unaccounted for water was 26.9% of pumped water.

Cause: The primary cause is unknown.

Recommendation: The City should search for unmetered water usage and water leaks.

Response: We concur with the recommendation.

Finding Number 6

Condition: The City outsources financial statements, related notes, supplementary information preparation and depreciation schedule preparation.

Criteria: Part of effective internal controls over financial reporting is the ability to adequately produce financial statements and depreciation schedules in accordance with generally accepted accounting principles.

Effect: The City must incur the expense of outsourcing the preparation of the financial statements, related notes, supplementary information and depreciation schedules.

Cause: As is normal for cities of this type and size, the City's staff and management do not have the required technical expertise to meet the above criteria.

CITY OF MIDDLETON, TENNESSEE
Schedule of Findings and Responses
For the fiscal year ended June 30, 2011

Significant Deficiencies - continued

Finding Number 6 - continued

Recommendation: Due to the size of the City and the cost of hiring additional staff, no change is recommended.

Response: We agree with the finding, but feel the City is best served by continuing to outsource the preparation of financial statements, related notes, and supplementary information. This is less costly than hiring additional staff to perform these tasks.

Finding Number 7

Condition: There were addition errors in maintaining compensated absences records.

Criteria: Internal controls should be in place and functioning to require compensated absences records be rechecked to ensure mathematical accuracy.

Effect: In our test of vacation and sick leave records, we noted math errors resulting in one employee vacation day being understated by 9 hours and sick leave being overstated by 15.5 hours and one employee sick leave being understated by 8 hours.

Cause: These were apparent oversights.

Recommendation: We recommend the bookkeeper recheck the mathematical computation of vacation and sick leave.

Response: We concur with the recommendation.

Finding Number 8

Condition: As noted in finding numbers 9 through 20, there were violations of certain state laws and loan agreements.

Criteria: Internal controls should be in place to prevent violations of laws and loan agreements.

Effect: See effect of condition as listed in finding numbers 9 through 20.

Cause: The City did not have controls in place to prevent noncompliance. See cause of condition as listed in finding numbers 9 through 20.

Recommendation: We recommend the City install procedures to review each problem noted in finding numbers 9 through 20.

Response: We will install procedures to prevent noncompliance.

CITY OF MIDDLETON, TENNESSEE
Schedule of Findings and Responses
For the fiscal year ended June 30, 2011

Instances of Noncompliance and Other Matters Material to the Financial Statements

Finding Number 9

Condition: The City's request for advance was made in excess of grant expenditures in the prior year was not refunded. Grant revenue was not timely expended.

Criteria: Federal grant requests for advances should not exceed the grant expenditures. Federal grant revenues require grant funds on hand meet the \$5,000 three-day rule.

Effect: The City received Delta Regional Authority grant funds of \$1,176 in excess of grant expenditures made during the year ended June 30, 2010. This overpayment has not been refunded. The City also received Delta Regional Authority grant funds of \$24,285 on May 3, 2011; however, \$21,125 was not expended until May 18, 2011.

Cause: The overpayment was the result of carrying the wrong total of previously requested federal funds from request number 3 to request number 4. Excess cash on hand was an apparent oversight due to the check not being timely written.

Recommendation: The City should contact Delta Regional Authority and refund the \$1,176 overpayment. Federal funds on hand should not exceed the 3-day \$5,000 rule.

Response: We will contact our grant administrator and have them contact Delta Regional Authority.

Finding Number 10

Condition: Interfund loans are not being authorized or approved by the Board of Alderpersons.

Criteria: The Board of Alderpersons are required to approve all interfund loans.

Effect: The City had outstanding interfund loans of \$4,274 at June 30, 2011. The interfund loans have not been approved by the Board of Alderpersons.

Cause: The interfund loans resulted from expenditures being paid from the wrong accounts and collections not being remitted to the appropriate fund prior to June 30, 2011.

Recommendation: We recommend the Board of Alderpersons approve all interfund loans.

Response: We concur with the recommendation.

Finding Number 11

Condition: The City did not obtain advertised competitive bids for all required items.

CITY OF MIDDLETON, TENNESSEE
Schedule of Findings and Responses
For the fiscal year ended June 30, 2011

Instances of Noncompliance and Other Matters Material to the Financial Statements - continued

Finding Number 11 - continued

Criteria: Title 2 Section 6 of the Tennessee Code requires competitive bids for management services for construction projects. The State of Tennessee requires three requests for proposals be mailed for engineering services. The City should maintain documentation the three requests were mailed and documentation of the selection process. Contracts should be obtained and maintained for this type of professional services. The City's purchasing policy requires public advertisement and competitive bidding for the purchase of all goods and services exceeding \$5,000 except for those purchases specifically exempt from advertisement and bidding by the Municipal Purchasing Act of 1983.

Effect: The City did not require competitive bids for management services for administrative fees totaling \$4,660 for a grant contract. The City did not obtain advertised competitive bids for the following expenditures: insurance paid to The Steve Frost Agency totaling \$9,919, and water tank maintenance to Utility Service Company totaling \$15,584. The City obtained various bids for medical insurance that listed a number of options. The City awarded the contract to Blue Cross Blue Shield and paid them a total of \$83,012; however the Board of Alderperson's minutes did not reflect acceptance of this contract.

Cause: The City personnel were not aware of this requirement when the contract for management services was signed in the prior year. The City was not aware that it was required to get periodic advertised competitive bids on insurance and maintenance contracts when contracts were issued in the prior year.

Recommendation: We recommend the City require competitive bids for management services for construction projects and advertised competitive bids for all purchases exceeding \$5,000. We recommend the selection process be documented and professional contracts be obtained.

Response: We concur with the recommendation.

Finding Number 12

Condition: Capital assets are not tagged for proper identification.

Criteria: Tennessee Department of Audit requires the City to maintain detailed general fixed asset records. Annual inventories should be taken and compared to general fixed asset records. General fixed assets should be tagged for proper identification.

Effect: The City's governmental fund capital assets are not identified with a tag or other identification method.

Cause: The City officials established depreciation records for governmental fund capital assets as required by GASB 34; however, they did not tag the movable equipment.

CITY OF MIDDLETON, TENNESSEE
Schedule of Findings and Responses
For the fiscal year ended June 30, 2011

Instances of Noncompliance and Other Matters Material to the Financial Statements - continued

Finding Number 12 – continued

Recommendation: The City should permanently tag all City fixed assets.

Response: We will consider establish a tagging system.

Finding Number 13

Condition: The City did not sell a DUI confiscated vehicle and remit proceeds to the State Health Department by June 30, 2011.

Criteria: TCA 40-33-211 provides for the revenue from the sale of vehicles confiscated for driving under the influence or driving on a revoked driver's license be turned over to the State Health Department by June 30, of each year after withholding funds used to compensate the City for reasonable and direct expenses involved in the confiscation, towing, storage, and sale of forfeited vehicles.

Effect: The City did not sell a confiscated DUI vehicles and remit proceeds to the State Health Department prior to June 30, 2011.

Cause: This was an apparent oversight.

Recommendation: We recommend the City sell the DUI confiscated vehicle and remit the proceeds to the State Health Department immediately.

Response: We will contact MTAS and determine the correct procedure to follow.

Finding Number 14

Condition: Expenditures exceeded the budget.

Criteria: State law requires purchases to remain within budgeted amounts.

Effect: The City had the following budget overruns:

General Fund		
General Government		
General – employee training	\$	313
General – bonds		170
General – other supplies		4
Police – employee training		636
Public Safety		
Police – telephone		263

CITY OF MIDDLETON, TENNESSEE
Schedule of Findings and Responses
For the fiscal year ended June 30, 2011

Instances of Noncompliance and Other Matters Material to the Financial Statements - continued

Finding Number 14 - continued

Effect -- continued:

Public Safety - continued	
Police -- office supplies	139
Police -- gasoline and oil	1,920
Fire -- radio repair and maintenance	\$ 45
Public Works	
Street -- salaries	1,456
Street -- payroll taxes	87
Street -- retirement	160
Street -- gas, oil and diesel	1,528
Street -- repair and maintenance -- street equipment	2,125
Culture and Recreation	
Parks -- utility service	1,774
Parks -- repair and maintenance - supplies	71
Library -- salaries	1,898
Library -- utility services	194
Library -- supplies	1,739
Library -- office supplies	192
Library -- miscellaneous	619
Capital Outlays	
Library	1,333
Debt Service	
Retirement of mortgage notes	17,501
Interest	12,333
Principal payments on capital lease	7,631
Imputed interest on capital lease	1,089
Other Financing Sources (Uses)	
Transfers out	5,162
Drug Fund	
Capital outlay	973
Enterprise Fund	
Water and sewer -- salaries	4,349
Water and sewer -- OASI	228
Water and sewer -- utility services	5,835
Water and sewer -- repair and maintenance	20,168
Water and sewer -- depreciation	84,483
Water and sewer -- interest on bonded debt	20,165
Water and Sewer -- retirement of bonded debt	7,073
Natural gas system -- consulting	18,046
Natural gas system -- office supplies	127
Natural gas system -- repair and maintenance	108

CITY OF MIDDLETON, TENNESSEE
Schedule of Findings and Responses
For the fiscal year ended June 30, 2011

Instances of Noncompliance and Other Matters Material to the Financial Statements - continued

Finding Number 14 - continued

Enterprise Fund - continued

Natural gas system – interest on bonded debt	\$ 68,500
Natural gas system – retirement of bonded debt	22,000

Cause: The City Recorder requested budget amendments but they were not properly adopted by the Board of Alderpersons.

Recommendation: Budgets should be reviewed monthly and amendments made by the Board of Alderpersons when necessary.

Response: We concur with the recommendation.

Finding Number 15

Condition: The July 1, 2011 employee raises were implemented for the pay period from June 16, 2011 to June 30, 2011.

Criteria: Payroll rate increases should not be implemented for periods prior to the date of Board of Alderperson approval.

Effect: The Board of Alderperson authorized a payroll rate increase effective July 1, 2011. The bookkeeper inadvertently implemented the payroll rate increase effective June 16, 2011. This resulted in employees being overpaid \$485.

Cause: The bookkeeper implemented the payroll rate increase for the payroll written on July 1, 2011 instead of work performed on or after July 1, 2011

Recommendation: We recommend the overpayment from early implementation of the authorized payroll rate increase be recovered from each employee.

Response: We will recover the overpayment from each employee.

Finding Number 16

Condition: The City has not properly funded or established the bank accounts required by bond ordinances.

CITY OF MIDDLETON, TENNESSEE
Schedule of Findings and Responses
For the fiscal year ended June 30, 2011

Instances of Noncompliance and Other Matters Material to the Financial Statements - continued

Finding Number 16 – continued

Criteria: The Water and Sewer System Revenue and Tax Deficiency Bond Series 1996 and the Water and Sewer System Revenue and Tax Deficiency Bond Series 1999 bond ordinances and the Natural Gas System Tennessee Municipal Bond requires the City to establish the following bank accounts:

1. A revenue bank account in which all revenues of the water and sewer funds be deposited.
2. An operating and maintenance bank account which receives funding from the revenue bank account to cover operating and maintenance expenses. This account balance cannot exceed 25% of the water and sewer fund budgeted expenditures.
3. A debt service reserve bank account in which \$31 and \$86 is received monthly for the Series 1996 and Series 1999 bonds from the revenue bank account. These deposits are to be continued until a maximum of \$3,193 and \$10,284 for the Series 1996 and Series 1999 bonds has been obtained. This account can only be used if there is not sufficient funds available to make note payments.
4. A repair and extension bank account for the Series 1996 bond which is to be funded from the revenue account totaling \$3,713 after items 2 and 3 have been funded. This bank account can only be used to make repairs and extensions when there is not sufficient funds available to make said repairs or extensions.
5. A bond redemption bank account which receives the remaining year end balance in the revenue account after items 2, 3 and 4 have been fully funded. This bank account can only be used for early retirement of outstanding Series 1996 and 1999 bonds.
6. A 5% or \$100,000 of the initial Natural Gas Fund loan be established as a reserve.

Effect: The City has not established or funded the repair and extension bank account, the bond redemption bank account, or the 5% reserve account.

Cause: The City's personnel have not complied with these bond ordinance requirements.

Recommendation: The City should establish the repair and extension bank account, the bond redemption bank account, and the 5% reserve account immediately. The City should use revenue bank account funds to fully fund the bank accounts established in items 2, 3 and 4 above. Any remaining funds on deposit in the revenue bank account are required to be deposited into the bond redemption fund within sixty days of year end.

Response: We will review the bond ordinance with our attorney and Rural Development and fund the required bank accounts with the required amounts.

CITY OF MIDDLETON, TENNESSEE
Schedule of Findings and Responses
For the fiscal year ended June 30, 2011

Instances of Noncompliance and Other Matters Material to the Financial Statements - continued

Finding Number 17

Condition: Errors in calculating time cards resulted in overpayments to employees.

Criteria: Payroll should be paid based on time worked based on Wage and Hour approved methods of rounding to the closest quarter hour.

Effect: In our test of three payroll semi monthly payroll periods, we noted that certain employees were overpaid by \$179. This would project to an overpayment of \$1,431 per year.

Cause: The time cards were miscalculated.

Recommendation: We recommend that time cards be computed based on rounding to the nearest quarter hour as approved by the Wage and Hour Division.

Response: We will be careful in computing future time cards.

Finding Number 18

Condition: The City Board of Alderpersons' minutes do not document all decisions being made by the Board of Alderpersons.

Criteria: The Board of Alderpersons speak only through their minutes. If the minutes do not authorize a transaction, it did not legally happen.

Effect: The City had the following transactions which were apparently discussed by the Board of Alderpersons, but were not recorded in the minutes:

1. The City has entered into an agreement to rent 46 acres of the Davis Property to someone for twenty percent of production. That person is sub renting the land to another person for twenty-five percent of production thus keeping five percent of production. The City received bean rent of \$1,450 on October 26, 2010 and wheat rent of \$522 on July 18, 2011. The City has not been provided documentation to verify the correct rent was received.
2. The City entered into an agreement with an attorney to enter into a lawsuit without the Board of Alderpersons' minutes reflecting authorization.
3. The Board of Alderpersons' minutes did not reflect the assessed valuation adopted.

Cause: The Board of Alderpersons discussed these items but did not officially adopt them in their minutes.

CITY OF MIDDLETON, TENNESSEE
Schedule of Findings and Responses
For the fiscal year ended June 30, 2011

Instances of Noncompliance and Other Matters Material to the Financial Statements - continued

Finding Number 18 – continued

Recommendation: All transactions authorized by the Board of Alderpersons should be placed in their minutes. The Board of Alderpersons and City personnel should remember that if the Board of Alderpersons' minutes do not reflect authorization for a transaction, it did not occur.

Response: We will document all Board of Alderpersons authorizations in the minutes.

Finding Number 19

Condition: The City paid relatives of the Mayor \$140 for repair of an air conditioner and \$200 for two repair bills.

Criteria: Section 6-54-107 of the Tennessee Code states no person holding office under any municipal corporation shall, during the time for which such person was elected or appointed, be capable of contracting with such corporation for the performance of any work which is to be paid out of the treasury. This law provides an exception where the service is the sole supplier of goods or services in a municipality if the officer publically acknowledges such officer's interest. Similar rules apply for relatives.

Effect: The City hired Henderson Heating and Air Conditioning, a company owned by the Mayor's brother, to repair an air conditioner for \$140. The City hired Matthews Electric and Air, a company owned by the Mayor's nephew, to repair various items for a total of \$200.

Cause: The City did not realize they could not contract with relatives of the Mayor or Board of Alderpersons.

Recommendation: The City should not contract with any relative of the Board of Alderpersons or Mayor.

Response: We overlooked this requirement. We will follow Tennessee Code in the future.

Finding Number 20

Condition: The Water and Sewer Fund reported a negative change in net assets during the year ended June 30, 2010 and 2011.

Criteria: Section 68-221-1010 *Tennessee Code Annotated* provides that should the system incur a negative change in net assets for two consecutive years, it will meet one of the criteria defining a financially distressed system. If this occurs, the State of Tennessee Division of Municipal Audit will be required to refer financially distressed systems to the Water and Wastewater Financing Board.

CITY OF MIDDLETON, TENNESSEE
Schedule of Findings and Responses
For the fiscal year ended June 30, 2011

Instances of Noncompliance and Other Matters Material to the Financial Statements - continued

Finding Number 20 – continued

Effect: The Water and Sewer Fund has experienced a negative change in net assets of \$(86,282) and \$(38,199) during the years ended June 30, 2010 and 2011

Cause: The water usage of industry has decreased.

Recommendation: Management should consult with its engineer and increase water and sewer rates to result in an increase in net assets.

Response: We will consult our engineer and determine if a rate increase will be necessary.

CITY OF MIDDLETON, TENNESSEE
Results of Prior Audit Findings
For the fiscal year ended June 30, 2011

Prior Year Significant Deficiencies

Prior Year Finding Number 1

Condition: The City does not have an adequate segregation of duties among most accounting functions.

Recommendation: We recommend the Board of Alderpersons review and approve all claims prior to disbursement. This approval process should be documented in the Board of Alderpersons' minutes and on each invoice. We recommend a list of bad debts and receivable adjustments be presented to the Board of Alderpersons monthly for their review and approval. This list should be made a permanent part of the Board of Alderpersons' minutes. We recommend the Board of Alderpersons and Mayor periodically review all accounting functions.

Status: This is still a finding in this report. See finding number 1 on page 84.

Prior Year Finding Number 2

Condition: Internal controls over disbursements are inadequate.

Recommendation: We recommend the City adopt a formal purchase order system. This would ensure all purchases are properly approved. All approved claims should be listed in the Board of Alderpersons' minutes each month. Any claims requiring payment prior to the next board meeting should be approved by a Board of Alderpersons' representative and approved formally at the next Board of Alderpersons' meeting.

Status: Management now includes a list of claims approved as a formal part of the Board of Alderpersons' minutes; however, this is still a finding in this report. See finding number 2 on pages 84- 85.

Prior Year Finding Number 3

Condition: Adjustments and error corrections in the water, sewer and sanitation billing records are not being properly documented, reviewed and approved.

Recommendation: We recommend all credits posted to the water, sewer and sanitation billing system be properly documented and approved by the Board of Alderpersons or by their designee.

Status: The Board of Alderpersons' minutes now reflect adjustments and error corrections in the water, sewer and sanitation billing records.

CITY OF MIDDLETON, TENNESSEE
Results of Prior Audit Findings
For the fiscal year ended June 30, 2011

Prior Year Significant Deficiencies - continued

Prior Year Finding Number 4

Condition: The transactions for general fixed assets and general long term debt categories and capital lease transactions are not being recorded.

Recommendation: We recommend the bookkeeper record all transactions to the general ledger.

Status: This is still a finding in this report. See finding number 4 on pages 85-86.

Prior Year Finding Number 5

Condition: The City had unaccounted for water of approximately 21%. The Water and Sewer Fund is not billing the City for water and/or sewer usage. The City is not metering all water and sewer used by the City.

Recommendation: We recommend the City begin metering and billing City water and sewer usage. The City should also search for unmetered water usage and water leaks. The City should bill for all water used.

Status: The City partially corrected this finding by beginning to bill its various departments for water and sewage usage in September 2010; however, this is still a finding in this report. See finding number 5 on page 86.

Prior Year Finding Number 6

Condition: The City outsources financial statements, related notes, supplementary information preparation and depreciation schedule preparation.

Recommendation: Due to the size of the City and the cost of hiring additional staff, no change is recommended.

Status: This is still a finding in this report. See finding number 6 on pages 86-87.

Prior Year Finding Number 7

Condition: The June 30, 2009 year-end adjustments were posted to the June 30, 2009 year after the June 30, 2010 year had been opened.

Recommendation: We recommend the bookkeeper post the adjusting journal entries at year end and then reopen the subsequent year. The bookkeeper could also make a current year net adjustment through net assets or fund balances.

Status: The June 30, 2010 year-end adjustments were correctly posted this year.

CITY OF MIDDLETON, TENNESSEE
Results of Prior Audit Findings
For the fiscal year ended June 30, 2011

Prior Year Significant Deficiencies - continued

Prior Year Finding Number 8

Condition: As noted in finding numbers 9 through 21, there were violations of certain state laws and loan agreements.

Recommendation: We recommend the City install procedures to review each problem noted in finding numbers 9 through 21.

Status: This is still a finding in this report. See finding number 8 on page 87.

Prior Year Instances of Noncompliance and Other Matters Material to the Financial Statements

Prior Year Finding Number 9

Condition: The City's request for advance was made in excess of grant expenditures. Grant revenue was not timely expended.

Recommendation: The City should contact Delta Regional Authority and refund the \$1,176 overpayment. Federal funds on hand should not exceed the 3-day \$5,000 rule.

Status: The City has not refunded the \$1,176 to Delta Regional Authority. This is still a finding in this report. See finding number 9 on page 88.

Prior Year Finding Number 10

Condition: Interfund loans are not being authorized or approved by the Board of Alderpersons.

Recommendation: We recommend the Board of Alderpersons approve all interfund loans.

Status: This is still a finding in this report. See finding number 10 on page 88.

CITY OF MIDDLETON, TENNESSEE
Results of Prior Audit Findings
For the fiscal year ended June 30, 2011

Prior Year Instances of Noncompliance and Other Matters Material to the Financial Statements - continued

Prior Year Finding Number 11

Condition: The City did not obtain advertised competitive bids for all required items.

Recommendation: We recommend the City require competitive bids for management services for construction projects and advertised competitive bids for all purchases exceeding \$5,000. We recommend the selection process be documented and professional contracts be obtained.

Status: This is still a finding in this report. See finding number 11 on pages 88-89.

Prior Year Finding Number 12

Condition: Capital assets are not tagged for proper identification.

Recommendation: The City should permanently tag all City fixed assets.

Status: This is still a finding in this report. See finding number 12 on pages 89-90.

Prior Year Finding Number 13

Condition: The City did not remit proceeds from confiscated DUI vehicles to the State Health Department by June 30, 2010.

Recommendation: We recommend the City determine the amount due to the State Health Department and remit the net proceeds immediately.

Status: The City remitted proceeds from confiscated DUI vehicles to the State Health Department during the current year; however, the City did not sell one DUI confiscated vehicle. This is still a finding in this report. See finding number 13 on page 90.

Prior Year Finding Number 14

Condition: Expenditures exceeded the budget.

Recommendation: Budgets should be reviewed monthly and amendments made by the Board of Alderpersons when necessary.

Status: This is still a finding in this report. See finding number 14 on pages 90-92.

CITY OF MIDDLETON, TENNESSEE
Results of Prior Audit Findings
For the fiscal year ended June 30, 2011

Prior Year Instances of Noncompliance and Other Matters Material to the Financial Statements - continued

Prior Year Finding Number 15

Condition: Vehicles were sold at auction that had not been declared surplus by the Board of Alderpersons.

Recommendation: We recommend all surplus property available for sale be declared as surplus by the Board of Alderpersons prior to disposition.

Status: All vehicles sold were declared surplus prior to sale during the current year.

Prior Year Finding Number 16

Condition: The City has not properly funded or established the bank accounts required by the Rural Development bond ordinances.

Recommendation: The City should establish the repair and extension bank account and the bond redemption bank account immediately. The City should use revenue bank account funds to fully fund the bank accounts established in items 2, 3 and 4 above. Any remaining funds on deposit in the revenue bank account are required to be deposited into the bond redemption fund within sixty days of year end.

Status: This is still a finding in this report. See finding number 16 on pages 92-93.

Prior Year Finding Number 17

Condition: The budgets for the year ended June 30, 2010 were not timely approved by the Board of Alderpersons.

Recommendation: We recommend the City submit budgets sufficiently prior to June 1 to allow for public hearings and adoption of the budgets prior to July 1.

Status: The June 30, 2011 budget was properly adopted during the current year.

CITY OF MIDDLETON, TENNESSEE
Results of Prior Audit Findings
For the fiscal year ended June 30, 2011

Prior Year Instances of Noncompliance and Other Matters Material to the Financial Statements - continued

Prior Year Finding Number 18

Condition: The City Board of Alderpersons' minutes do not document all decisions being made by the Board of Alderpersons.

Recommendation: All transactions authorized by the Board of Alderpersons should be placed in their minutes. The Board of Alderpersons and City personnel should remember that if the Board of Alderpersons' minutes do not reflect authorization for a transaction, it did not occur.

Status: This is still a finding in this report. See finding number 18 on page 94-95.

Prior Year Finding Number 19

Condition: The City did not obtain Form I-9 Employment Eligibility Verification forms for employees hired during the current year. The City could not locate the Form I-9 Employment Eligibility forms for other employees.

Recommendation: We recommend the City obtain completed Form I-9 Employment Eligibility Verification forms for all employees.

Status: The City had completed Form I-9 for all employees tested during the current year.

Prior Year Finding Number 20

Condition: The City paid an Alderperson \$900 for contract surveying services. The Board of Alderpersons' minutes did not indicate the Alderperson declared his conflict of interest.

Recommendation: When an officer of the City is the sole supplier of goods or services, the officer must publically acknowledge his interest in the contract prior to performing the service or providing the goods. This public acknowledgement is done by placing the following on the Board of Alderpersons' minutes: "Because I am an employee of the City of Middleton, I have a conflict of interest in the proposal about to be voted on. However, I declare that my argument and my vote answer only to my conscience and to my obligation to my constituents and the citizens this body represents."

Response: No Alderpersons were contracted with during the current year.

CITY OF MIDDLETON, TENNESSEE
Results of Prior Audit Findings
For the fiscal year ended June 30, 2011

Prior Year Instances of Noncompliance and Other Matters Material to the Financial Statements - continued

Prior Year Finding Number 21

Condition: The City does not maintain complete copies of its cancelled checks and deposit tickets.

Recommendation: We recommend the City require its banks to provide both front and back of all checks and deposit slips.

Status: The City now maintains complete copies of its cancelled checks.