TOWN OF MONTEREY, TENNESSEE

Annual Financial Report

For the Year Ended June 30, 2012

TOWN OF MONTEREY, TENNESSEE

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INTRODUCTORY SECTION

TOWN OF MONTEREY, TENNESSEE

Officials of the Town of Monterey, Tennessee

June 30, 2012

Name	Title
Elected Officials:	
Jeff Hicks	Mayor and Town Recorder
Dale Welch	Vice Mayor
Jeff Murphy	Alderman
Mark Farley	Alderman
Peggy Matheney	Alderman
Rebecca Iaquinto	Alderman
Hershel Bohannon	Alderman
Claire Weist	Alderman
Billy Whalen	Alderman
Management:	
Ella Dishman	Office Manager

FINANCIAL SECTION

JOHN R. POOLE, CPA
CERTIFIED PUBLIC ACCOUNTANT

134 NORTHLAKE DRIVE
HENDERSONVILLE, TN 37075

(615) 822-4177

Independent Auditor's Report

Mayor and Board of Aldermen of the
Town of Monterey, Tennessee
Monterey, Tennessee

I have audited the accompanying financial statements of the governmental activities, the business type activities, and each major fund of the Town of Monterey, Tennessee as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Monterey's management. My responsibility is to express opinions on these financial statements based on my audit.

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

In my opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business - type activities, and each major fund of the Town of Monterey, Tennessee as of June 30, 2012, and the respective changes in financial position and the cash flows where applicable, thereof and the respective budgetary comparison for the General Fund, State Street Aid Fund, Sanitation Fund, Drug Fund and Health Care Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated September 30, 2012 on the consideration of the Town of Monterey's internal control over financial reporting and the tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of the testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of the audit.

Accounting principles generally accepted in the United States of America require that the Required Supplementary Information which includes the Management's Discussion and Analysis 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. I have applied certain limited procedures to the required supplementary information including the Management's Discussion and Analysis in accordance with auditing standards generally accepted in the United State 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 my inquiries, the basic financial statements and other knowledge we obtained during the audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

The audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Introductory Section and the Supplementary Information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The Introductory Section and the Supplementary Information (except for the Schedule of Unaccounted for Water) have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United State of America. In our opinion, the Introductory Section and the Supplementary Information (except for the Schedule of Unaccounted for Water), is fairly stated in all material respects in relation to the basic financial statements as a whole. The Schedule of Unaccounted for Water has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I do not express an opinion or provide any assurance on them.

Jodi R Poole, CPA

September 30, 2012

TOWN OF MONTEREY, TENNESSEE

Management's Discussion and Analysis

As management of the Town of Monterey, Tennessee (the Town) we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2012. The analysis focuses on significant financial position, budget changes and variances from the budget, and specific issues related to funds and the economic factors affecting the Town. Management's Discussion and Analysis (MD&A) focuses on current year activities and resulting changes.

Financial Highlights:

The assets of the Town of Monterey exceeded its liabilities at the close of the most recent fiscal year by $12,199,979. Of this amount, $248,676 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors. The Town's total net assets increased by $99,052 as a result of several capital grants received. These increases in revenues were offset by increases in expenditures of $142,100.

As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of $(203,907) a decrease of $219,130 in comparison to the prior year. The decrease in the fund balances was caused by significant investment in capital asset expenditures. The Town borrowed 120,000 to make certain of these expenditures.

The Town's total debt decreased by $49,944 during the current fiscal year. All Town debts are being paid as scheduled.

Overview of the Financial Statements:

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

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private-sector business. The Statement of Net Assets presents information on all the Town's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating. The Statement of Activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected tax). Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Town of Monterey include general government, personnel, finance, parks, planning, police, fire, disposal service, streets and public works. The government-wide financial statements can be found on pages 11-12 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 from specific activities or objectives. The Town of Monterey, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town are governmental funds.

Governmental Funds. Governmental Funds are funds 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 resources, as well as on balances of resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town maintains several 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 funds all of which are considered to be major funds.

The Town of Monterey adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic financial statements can be found on pages 14-20 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 29-38 of this report.

Financial Analysis of the Financial Statements--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 Town of Monterey, assets exceeded liabilities by $12,199,979 at the close of the most recent fiscal year. By far the largest portion of the Town's assets reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure) less any related debt use to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Financial Analysis of the Financial Statements --Town of Monterey's Net Assets- 2012

	Governmental Activities	Business -Type Activities
Current and other assets	$ 276,836	1,198,812
Capital assets	1,932,242	11,393,890
Total assets	2,209,078	12,592,702
Long-term liabilities outstanding	288,822	1,746,265
Other liabilities	480,743	85,971
Total liabilities	769,565	1,832,236
Net assets:		
Invested in capital assets, net of related debt	1,643,420	9,700,726
Restricted	40,246	566,911
Unrestricted	(244,153)	492,829
Total net assets	$ 1,439,513	10,760,466

Financial Analysis of the Financial Statements --Town of Monterey's Net Assets- 2011

	Governmental Activities	Business -Type Activities
Current and other assets	$ 482,671	1,329,885
Capital assets	1,430,695	11,514,518
Total assets	1,913,366	12,844,403
Long-term liabilities outstanding	212,667	1,872,364
Other liabilities	467,448	104,363
Total liabilities	680,115	1,976,727
Net assets:		
Invested in capital assets, net of related debt	1,218,028	9,760,660
Restricted	42,136	500,538
Unrestricted	(26,913)	606,478
Total net assets	$ 1,233,251	10,867,676

Financial Analysis of the Financial Statements

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

Governmental Funds

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

Comparison of Revenues and Expenses 2012 - 2011

	2012 Governmental Activities	2011 Governmental Activities	Change Between Years	2012 Business-type Activities	2011 Business-type Activities	Change Between Years
Revenues:						
Program revenues:						
Charges for services	594,391	483,159	111,232	1,498,967	1,599,426	(100,459)
Operating grants and contributions	97,744	135,339	(37,595)	0	0	0
Capital grants and contributions	399,903	0	399,903	21,300	0	21,300
General revenues:						
Property taxes	364,075	402,269	(38,194)	0	0	0
Sales taxes	498,751	473,274	25,477	0	0	0
Other local taxes	32,039	24,545	7,494	0	0	0
Other state shared taxes	33,432	34,129	(697)	0	0	0
Other	6,281	164,848	(158,567)	1,216	2,471	(1,255)
Total revenues	$2,026,616	$1,717,563	$309,053	$1,521,483	$1,601,897	($80,414)
Expenses:						
General government	340,223	321,198	19,025	0	0	0
Police department	773,146	612,126	161,020	0	0	0
Fire department	74,287	97,313	(23,026)	0	0	0
City garage	14,633	19,547	(4,914)	0	0	0
Animal control	0	3,710	(3,710)	0	0	0
Highways and streets	97,083	96,048	1,035	0	0	0
Sanitation	224,368	181,547	42,821	0	0	0
Health care fund	17,822	44,192	(26,370)	0	0	0
Public works	214,085	295,748	(81,663)	0	0	0
Cultural	62,900	0	62,900	0	0	0
Cemetery	1,807	6,825	(5,018)	0	0	0
Water and Sewer	0	0	0	1,628,693	1,631,164	(2,471)
Total expenses	$1,820,354	$1,678,254	$142,100	$1,628,693	$1,631,164	($2,471)
Increases in net assets	206,262	39,309	166,953	(107,210)	(29,267)	(77,943)

Governmental Budgetary Highlights

The Town exceeded some of its departmental budgets during the year. See pages 21-28 for an analysis of the budget during the year.

Capital Assets

The Town of Monterey's investment in capital assets from its governmental activities at June 30, 2012, amounts to $1,932,242 (net or accumulated depreciation) and its business-type activities amounts to $11,393,890. This investment in capital assets is in land, buildings, improvements, machinery and equipment. The total increase in the Town's investment in governmental capital assets for the current fiscal year was $628,458. Major capital asset events during the current fiscal year included the following:

- Building and land purchases and donation of equipment.

Town of Monterey's Capital Assets -2012

	Governmental Activities	Business-Type Activities
Land and buildings	$1,736,262	465,480
Infrastructure	511,720	0
Equipment	972,287	18,365,849
Less accumulated depreciation	(1,288,027)	(7,437,439)
Net Capital Assets	$1,932,242	11,393,890

Town of Monterey's Capital Assets -2011

	Governmental Activities	Business-Type Activities
Land and buildings	$1,242,956	444,680
Infrastructure	511,720	0
Equipment	894,325	18,163,760
Less accumulated depreciation	(1,218,306)	(7,030,930)
Net Capital Assets	$1,430,695	11,577,510

Additional information on the Town of Monterey's capital assets can be found in the notes to the financial statements section of this report.

Debt

The Town has debt totaling $2,035,087, $1,746,265 for the Utility System and $288,822 for facilities, equipment and a street lighting project. All debts are being paid as scheduled.

Economic Factors and Next Year's Budget and Rates

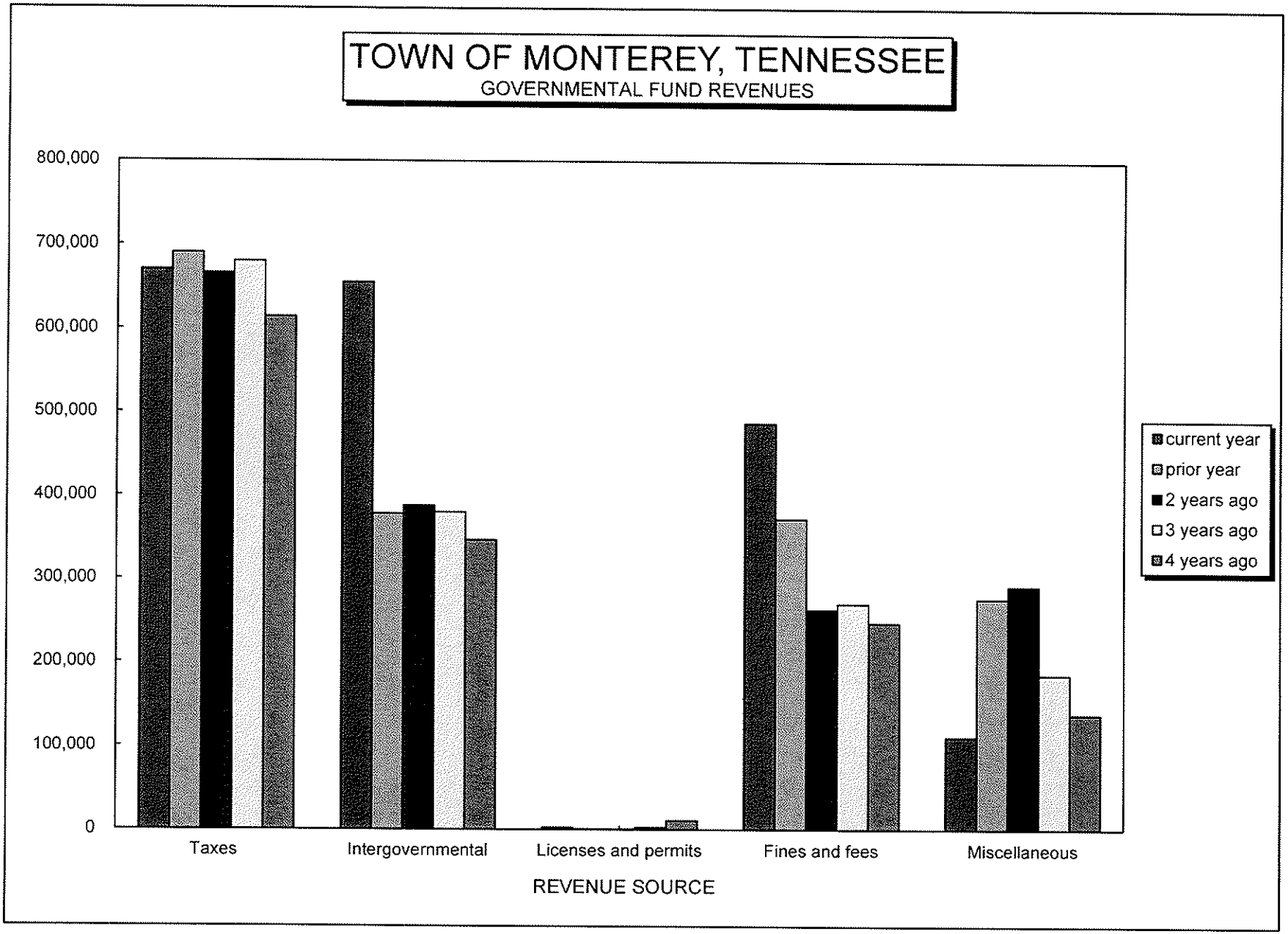
In the 2012-2013 budget, General fund revenues are budgeted to be stable when compared to the 2011-2012 budget year primarily due to increases in local revenues offset by decreases in state shared revenues. The Town's budget has benefited by an expanding commercial and retail base producing increased local sales tax receipts, but is being offset by a slowing economic environment.

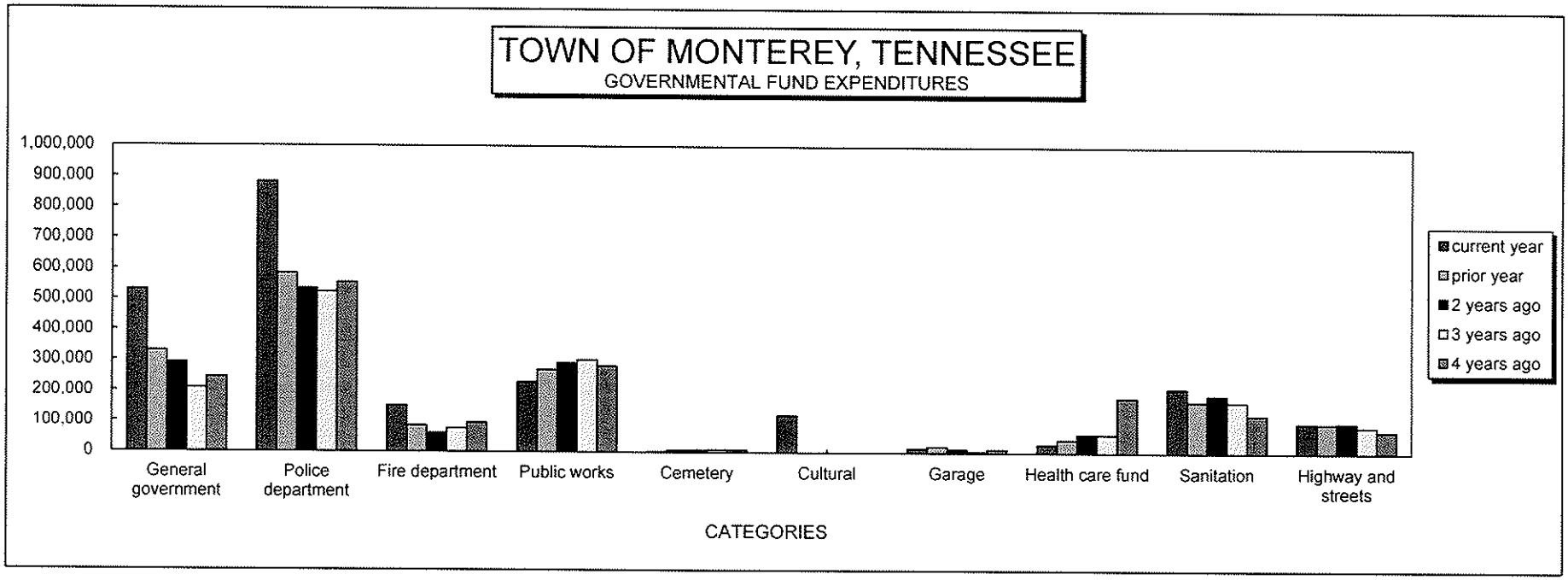
All of these factors were considered in preparing the Town's budget for the 2012-2013 fiscal year.

Requests for Information

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

Ella Dishman
Town of Monterey


TOWN OF MONTEREY, TENNESSEE
GOVERNMENTAL FUND REVENUES
800,000
700,000
600,000
500,000
400,000
300,000
200,000
100,000
0
Taxes
Intergovernmental
Licenses and permits
Fines and fees
Miscellaneous
REVENUE SOURCE
current year
prior year
2 years ago
3 years ago
4 years ago


TOWN OF MONTEREY, TENNESSEE
GOVERNMENTAL FUND EXPENDITURES
1,000,000
900,000
800,000
700,000
600,000
500,000
400,000
300,000
200,000
100,000
0
General government
Police department
Fire department
Public works
Cemetery
Cultural
Garage
Health care fund
Sanitation
Highway and streets
CATEGORIES
current year
prior year
2 years ago
3 years ago
4 years ago

BASIC FINANCIAL STATEMENTS

TOWN OF MONTEREY, TENNESSEE

Statement of Net Assets

June 30, 2012

Assets	Governmental Activities	Business-type Activities	Total
Cash and cash equivalents	105,056	32,063	137,119
Cash and cash equivalents - restricted	0	566,911	566,911
Certificates of deposit	112,622	0	112,622
Receivables:	463,017	142,878	605,895
Other assets	0	53,101	53,101
Capital assets not being depreciated	188,663	465,480	654,143
Capital assets, net of depreciation	1,743,579	10,928,410	12,671,989
Internal balances	(403,859)	403,859	0
Total Assets	2,209,078	12,592,702	14,801,780
Liabilities			
Accounts payable	33,354	53,729	87,083
Accrued expenses	17,726	12,625	30,351
Deferred revenue	429,663	0	429,663
Customer deposits	0	19,617	19,617
Long-term liabilities:			
Due within one year	55,488	133,315	188,803
Due in more than one year	233,334	1,612,950	1,846,284
Total Liabilities	769,565	1,832,236	2,601,801
Net assets:			
Investments in capital assets, net of related debt	1,643,420	9,700,726	11,344,146
Restricted	-	566,911	566,911
Restricted - Sanitation	3,035	-	3,035
Restricted - Health Care	612	0	612
Restricted - Drug fund	36,599	0	36,599
Unrestricted	(244,153)	492,829	248,676
Total Net Assets	1,439,513	10,760,466	12,199,979

See accompanying notes to financial statements.

TOWN OF MONTEREY, TENNESSEE

Statement of Activities

For the Year Ended June 30, 2012

Function/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expenses) Revenue and Changes in Net Assets: Governmental Activities	Net (Expenses) Revenue and Changes in Net Assets: Business-Type Activities	Total
Government Activities:							
General government	340,223	103,446	0	299,903	63,126	0	63,126
Police department	773,146	167,771	19,732	100,000	(485,643)	0	(485,643)
Fire department	74,287	0	0	0	(74,287)	0	(74,287)
City Garage	14,633	0	0	0	(14,633)	0	(14,633)
Highways and streets	97,083	0	78,012	0	(19,071)	0	(19,071)
Sanitation	224,368	202,372	0	0	(21,996)	0	(21,996)
Health Care Fund	17,822	117,002	0	0	99,180	0	99,180
Public works	214,085	0	0	0	(214,085)	0	(214,085)
Cultural	62,900	0	0	0	(62,900)	0	(62,900)
Cemetery	1,807	3,800	0	0	1,993	0	1,993
Total Governmental Activities	1,820,354	594,391	97,744	399,903	(728,316)	0	(728,316)
Business - type Activities:							
Water and Sewer	1,628,693	1,498,967	0	21,300	0	(108,426)	(108,426)
Total Business Type Activities	1,628,693	1,498,967	0	21,300	0	(108,426)	(108,426)
Total	3,449,047	2,093,358	97,744	421,203	(728,316)	(108,426)	(836,742)
General Revenues:							
Property taxes					319,429	0	319,429
Public utility taxes					44,646	0	44,646
Sales taxes					498,751	0	498,751
Business taxes					15,829	0	15,829
Franchise taxes					16,210	0	16,210
State income, excise and beer taxes					33,432	0	33,432
Interest earnings					1,128	1,216	2,344
Other					5,153	0	5,153
Total general revenues					934,578	1,216	935,794
Changes in net assets					206,262	(107,210)	99,052
Net assets - beginning of year					1,233,251	10,867,676	12,100,927
Net assets - ending of year					1,439,513	10,760,466	12,199,979

See accompanying notes to financial statements.

FUND FINANCIAL STATEMENTS

TOWN OF MONTEREY, TENNESSEE

Balance Sheet

Governmental Funds

June 30, 2012

Assets	General Fund	State Street Aid Fund	Sanitation Fund	Drug Fund	Health Care Fund	Total Governmental Funds
Cash and cash equivalents	$24,328	$3,692	$4,542	$31,882	$40,612	$105,056
Certificates of deposit	112,622	0	0	0	0	112,622
Accounts receivable:						
Other receivables	83,730	11,917	1,389	0	0	97,036
Taxes receivable	365,981	0	0	0	0	365,981
	449,711	11,917	1,389	0	0	463,017
Due from other funds		0	0	5,100	0	5,100
Total Assets	$586,661	$15,609	$5,931	$36,982	$40,612	$685,795
Liabilities and Fund Equity						
Liabilities:						
Accounts payable	$15,515	$14,943	$2,896	$0	$0	$33,354
Due to other funds	408,959	0	0	0	0	408,959
Deferred revenue	383,698	5,965	0	0	40,000	429,663
Accrued expenses	17,343	0	0	383	0	17,726
Total Liabilities	825,515	20,908	2,896	383	40,000	889,702
Fund Equity:						
Fund balance:						
Restricted	0	0	3,035	36,599	612	40,246
Assigned- Cemetery	121,012	0	0	0	0	121,012
Unassigned	(359,866)	(5,299)	0	0	0	(365,165)
Total Fund Balance	(238,854)	(5,299)	3,035	36,599	612	(203,907)
Total Liabilities and Fund Equity	$586,661	$15,609	$5,931	$36,982	$40,612	$685,795

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

TOWN OF MONTEREY, TENNESSEE

Reconciliation of the Balance Sheet to the Statement of Net Assets of Governmental Activities

June 30, 2012

Amounts reported for fund balance - total governmental funds	$	(203,907)
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds		1,932,242
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not recorded in the funds		
Long-term debt payable		(288,822)
Net assets of governmental activities	$	1,439,513

TOWN OF MONTEREY, TENNESSEE

Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances

For the Year Ended June 30, 2012

	General Fund	State Street Aid Fund	Sanitation Fund	Drug Fund	Health Care Fund	**Total Governmental Fund**
Revenues:						
Taxes	670,318	0	0	0	0	**670,318**
Intergovernmental	583,462	72,164	0	0	0	**655,626**
Licenses and permits	2,621	0	0	0	0	**2,621**
Fines and fees	99,357	0	202,372	68,414	117,002	**487,145**
Miscellaneous	110,894	4	8	0	0	**110,906**
Total Revenues	$1,466,652	72,168	202,380	68,414	117,002	**1,926,616**
Expenditures:						
Current:						
General government	262,762	0	0	0	0	**262,762**
Police department	659,636	0	0	73,951	0	**733,587**
Fire department	62,081	0	0	0	0	**62,081**
Public works	220,148	0	0	0	0	**220,148**
City garage	14,633	0	0	0	0	**14,633**
Cemetery	1,807	0	0	0	0	**1,807**
Cultural	62,900	0	0	0	0	**62,900**
Health Care Fund	0	0	0	0	17,264	**17,264**
Sanitation	0	0	210,920	0	0	**210,920**
Highway and streets	0	97,083	0	0	0	**97,083**
Capital outlay						
General government	226,488	0	0	0	0	**226,488**
Police department	146,450	0	0	0	0	**146,450**
Fire department	88,663	0	0	0	0	**88,663**
Public works	8,702	0	0	0	0	**8,702**
Cultural	58,155	0	0	0	0	**58,155**
Debt service						
Principal	33,333	0	0	0	10,512	**43,845**
Interest	9,700	0	0	0	558	**10,258**
Total Expenditures	$1,855,458	97,083	210,920	73,951	28,334	**2,265,746**
Excess (deficiency) of revenues over expenditures	(388,806)	(24,915)	(8,540)	(5,537)	88,668	**(339,130)**
Other financing sources:						
Operating transfers	83,566	20,000		0	(103,566)	**0**
Loan proceeds	120,000	0	0	0	0	**120,000**
Net change in fund balance	(185,240)	(4,915)	(8,540)	(5,537)	(14,898)	**(219,130)**
Fund Balance, Beginning of year	(53,614)	(384)	11,575	42,136	15,510	**15,223**
Fund Balance, End of Year	($238,854)	($5,299)	$3,035	$36,599	$612	**(203,907)**

See accompanying notes to financial statements.

TOWN OF MONTEREY, TENNESSEE

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities

For the Year Ended June 30, 2012

Net change in fund balances - total governmental funds:	$	(219,130)
Amounts reported for governmental activities in the statement of net assets are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Acquisition of capital assets		628,458
Depreciation expense		(126,911)
Revenues reported in the statement of activities that reduce (increase) long-term liabilitie		
Loan proceeds		(120,000)
Expenses reported in the statement of activities that reduce (increase) long-term liabilities		
Repayment of loan principal		43,845
Change in net assets of governmental activities	$	206,262

TOWN OF MONTEREY, TENNESSEE

Statement of Net Assets

Enterprise Fund

June 30, 2012

Assets	
Current Assets:	
Cash and cash equivalents	$32,063
Customer accounts receivable, net of allowance of $25,292	142,878
Due from other funds	403,859
Total Current Assets	578,800
Restricted Assets:	
Cash and cash equivalents	566,911
Total Restricted Assets	566,911
Capital Assets	
Utility plant in service	18,831,329
Less accumulated depreciation	(7,437,439)
Total Capital Assets, Net	11,393,890
Other Assets:	
Bond issue costs	53,101
Total Assets	$12,592,702
Liabilities	
Current Liabilities (payable from current assets):	
Accounts payable	$53,729
Accrued expenses	12,625
Current maturities - long-term debt	133,315
Total Current Liabilities (payable from current assets)	199,669
Other Liabilities:	
Customer deposits	19,617
Total Other Liabilities	19,617
Long-Term Debt	1,612,950
Total Liabilities	$1,832,236
Net Assets:	
Invested in capital assets, net of related debt	9,700,726
Restricted	566,911
Unrestricted	492,829
Total Net Assets	$10,760,466

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

TOWN OF MONTEREY, TENNESSEE

Statement of Revenues, Expenses and Changes in Net Assets

Enterprise Fund

For the Year Ended June 30, 2012

Operating Revenues:	
Metered sales	$1,471,864
Tap and service fees	27,103
Total Operating Revenues	1,498,967
Operating Expenses:	
Salaries	369,179
Payroll taxes	23,962
Employee benefits	108,665
Utilities	204,719
Repair and maintenance	90,597
Supplies	239,192
Office expense	18,884
Gas and oil	29,907
Insurance	45,060
Depreciation	406,510
Amortization	2,413
Miscellaneous	470
Total Operating Expenses	1,539,558
Operating income (loss)	(40,591)
Nonoperating Revenues (Expenses):	
Interest expense	(89,135)
Interest income	1,216
Total Nonoperating Revenues (Expenses)	(87,919)
Capital contributions	21,300
Net change in net assets	(107,210)
Net Assets, July 1, 2011	10,867,676
Net Assets, June 30, 2012	$10,760,466

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

TOWN OF MONTEREY, TENNESSEE

Statement of Cash Flows

Water and Sewer

For the Year Ended June 30, 2012

Cash Flows from Operating Activities:	
Cash received from customers	1,516,559
Cash paid to suppliers	(664,162)
Cash paid to employees	(501,806)
Net Cash Provided by Operating Activities	350,591
Cash Flows from Capital and Related Financing Activities:	
Acquisition of plant and equipment	(222,889)
Capital contribution	21,300
Interest paid	(89,135)
Repayment of debt	(126,099)
Net Cash Used by Capital and Related Financing Activities	(416,823)
Cash Flows from Investing Activities:	
Interest received	1,216
Net Cash Flows from Investing Activities	1,216
Net Increase in Cash	(65,016)
Cash and Cash Equivalents, July 1, 2011	663,990
Cash and Cash Equivalents, June 30, 2012	598,974
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income (loss)	(40,591)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	408,923
Change in assets (increase) decrease:	
Accounts receivable	17,592
Due to other funds	(22,171)
Prepaid expenses	5,231
Change in liabilities increase (decrease):	
Accounts payable	11,744
Accrued expenses	7,452
Customer deposits	(37,589)
Net Cash Provided by Operating Activities	350,591

See accompanying notes to financial statements.

TOWN OF MONTEREY, TENNESSEE

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (GAAP Basis) and Actual

General Fund

For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Revenues:				
Taxes:				
Property taxes	$348,500	$348,500	$316,857	(31,643)
Public utility tax	17,000	17,000	11,650	(5,350)
Penalty and interest	4,400	4,400	2,572	(1,828)
Local sales tax	252,800	252,800	307,200	54,400
Business taxes	12,000	12,000	15,829	3,829
Franchise tax	16,000	16,000	16,210	210
Total Taxes	650,700	650,700	670,318	19,618
Intergovernmental:				
TVA in lieu	33,000	33,000	32,996	(4)
State sales tax	200,300	200,300	191,551	(8,749)
State income tax	75,000	75,000	28,455	(46,545)
Grant income	0	0	315,435	315,435
State beer tax	1,000	1,000	1,399	399
State special petroleum taxes	9,200	9,200	5,848	(3,352)
State supplement	4,800	4,800	4,200	(600)
Corporate excise tax	5,800	5,800	3,578	(2,222)
Total Intergovernmental Revenue	329,100	329,100	583,462	254,362
Licenses and Permits:				
Permits	700	700	2,621	1,921
Total Licenses and Permits	700	700	2,621	1,921
Fines and Fees				
Court fines and fees	70,230	70,230	99,357	29,127
Miscellaneous:				
Miscellaneous income	75,000	75,000	5,153	(69,847)
Rental income	109,500	109,500	100,825	(8,675)
Cemetery lot sales	8,475	8,475	3,800	(4,675)
Interest income	200	200	1,116	916
Total Miscellaneous Revenue	193,175	193,175	110,894	(82,281)
Total Revenues	1,243,905	1,243,905	1,466,652	222,747

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

TOWN OF MONTEREY, TENNESSEE

Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget (GAAP Basis) and Actual, Continued

General Fund

For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Expenditures:				
Financial Administration:				
Current:				
Salaries	38,450	38,450	39,084	634
Employee benefits	20,000	20,000	38,074	18,074
Dues	4,200	4,200	6,309	2,109
Utility	11,300	11,300	11,953	653
Professional services	21,850	21,850	20,286	(1,564)
Depot expenses	0	0	11,603	11,603
Supplies	15,250	15,250	28,448	13,198
Training and travel	1,700	1,700	1,159	(541)
Insurance	17,200	17,200	24,325	7,125
Donations	18,650	18,650	33,908	15,258
Senior citizens project	7,700	7,700	7,367	(333)
Library	35,214	35,214	34,480	(734)
Miscellaneous	1,400	1,400	1,266	(134)
	192,914	192,914	258,262	65,348
Debt service	43,333	43,333	41,233	(2,100)
Capital outlay	0	0	226,488	226,488
Total Financial Administration	236,247	236,247	525,983	289,736
Legislative:				
Personnel costs	4,500	4,500	4,500	0
	4,500	4,500	4,500	0
Capital outlay	0	0	0	0
Total Legislative	4,500	4,500	4,500	0
Total General Government	240,747	240,747	530,483	289,736

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

TOWN OF MONTEREY, TENNESSEE

Statement of Revenues, Expenditures

and Changes in Fund Balance - Budget (GAAP Basis) and Actual, Continued

General Fund

For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Public Safety:				
Police Department:				
Current:				
Salaries	335,690	335,690	339,670	3,980
Payroll taxes	23,221	23,221	19,539	(3,682)
Employee benefits	112,011	112,011	94,086	(17,925)
Employee training	4,500	4,500	4,288	(212)
Utilities	16,500	16,500	25,404	8,904
Supplies	32,000	32,000	91,783	59,783
Contractual services	2,000	2,000	2,322	322
Clothing and uniforms	5,500	5,500	4,960	(540)
Vehicle expenses	34,000	34,000	51,221	17,221
Insurance	25,000	25,000	26,261	1,261
Miscellaneous	500	500	102	(398)
	590,922	590,922	659,636	68,714
Debt service	0	0	1,800	1,800
Capital Outlay	0	0	146,450	146,450
Total Police Department	590,922	590,922	807,886	216,964
Fire Department:				
Current:				
Volunteer firemen	14,091	14,091	14,091	0
Training	3,000	3,000	1,501	(1,499)
Supplies	8,250	8,250	10,373	2,123
Utilities	15,300	15,300	7,391	(7,909)
Repair and maintenance	10,000	10,000	6,271	(3,729)
Vehicle expense	11,000	11,000	12,368	1,368
Insurance	10,200	10,200	9,621	(579)
Miscellaneous	800	800	465	(335)
	72,641	72,641	62,081	(10,560)
Capital outlay	0	120,000	88,663	(31,337)
Total Fire Department	72,641	192,641	150,744	(41,897)
Total Public Safety	663,563	783,563	958,630	175,067

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

TOWN OF MONTEREY, TENNESSEE

Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget (GAAP Basis) and Actual, Continued

General Fund

For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Expenditures, Continued:				
Public Works:				
Current:				
Salaries	$93,600	$93,600	$65,943	(27,657)
Payroll taxes	7,350	7,350	3,881	(3,469)
Employee benefits	57,770	57,770	46,201	(11,569)
Supplies	80,250	80,250	56,667	(23,583)
Vehicle expense	37,000	37,000	32,326	(4,674)
Rails with trails	26,000	26,000	7,244	(18,756)
Insurance	5,800	5,800	7,037	1,237
Miscellaneous	0	0	849	849
	307,770	307,770	220,148	(87,622)
Capital outlay	0	0	8,702	8,702
Total Public Works Department	307,770	307,770	228,850	(78,920)
City Garage:				
Current:				
Utility	9,900	9,900	6,623	(3,277)
Supplies	2,750	2,750	8,010	5,260
Capital outlay	0	0	0	0
Total City Garage	12,650	12,650	14,633	1,983
Cultural:				
Current:				
Salaries	$38,550	$38,550	$29,190	(9,360)
Employee benefits	6,600	6,600	5,262	(1,338)
Supplies	7,400	7,400	25,232	17,832
Utilities	4,400	4,400	2,022	(2,378)
Miscellaneous	4,150	4,150	1,194	(2,956)
	61,100	61,100	62,900	1,800
Capital outlay	0	0	58,155	58,155
Total Cultural Department	61,100	61,100	121,055	59,955
Cemetery	8,475	8,475	1,807	(6,668)
Total Expenditures	1,294,305	1,414,305	1,855,458	441,153
Excess (deficiency) of Revenues over Expenditures	(50,400)	(170,400)	(388,806)	(218,406)
Other financing sources: Operating transfers	(10,700)	(10,700)	(83,566)	(72,866)
Other financing sources: Loan proceeds	0	120,000	120,000	0
Net change in fund balance	(39,700)	(159,700)	(185,240)	(25,540)
Fund Balance, July 1, 2011	(53,614)	(53,614)	(53,614)	0
Fund Balance, June 30, 2012	($93,314)	($213,314)	($238,854)	($25,540)

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

TOWN OF MONTEREY, TENNESSEE

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

State Street Aid Fund

For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Revenues:				
Intergovernmental:				
Gasoline .03 tax	15,000	15,000	15,148	148
Gasoline 1989 tax	7,000	7,000	8,161	1,161
Gasoline and motor fuel	48,000	48,000	48,855	855
Miscellaneous:				
Interest	200	200	4	(196)
Total Revenues	70,200	70,200	72,168	1,968
Expenditures:				
Streets:				
Maintenance and repair	3,516	3,516	0	3,516
Street lighting	98,000	98,000	97,083	917
Total Expenditures	101,516	101,516	97,083	(4,433)
Excess (deficiency) of revenues over expenditures	(31,316)	(31,316)	(24,915)	(6,401)
Other financing sources: transfer	31,700	31,700	20,000	(11,700)
Fund Balance, July 1, 2011	(384)	(384)	(384)	-
Fund Balance, June 30, 2012	$0	$0	($5,299)	(5,299)

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

TOWN OF MONTEREY, TENNESSEE

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

Sanitation Fund

For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Revenues:				
Charges for services:				
Refuse collection charges	$206,700	$206,700	$202,372	(4,328)
Miscellaneous:				
Interest	200	200	8	(192)
Total Revenues	206,900	206,900	202,380	(4,520)
Expenditures:				
Sanitation:				
Current:				
Personnel costs	66,800	66,800	90,765	23,965
Employee benefits	30,800	30,800	32,130	1,330
Landfill costs	54,000	54,000	43,037	(10,963)
Vehicle costs	12,400	12,400	10,686	(1,714)
Professional services	5,000	5,000	5,568	568
Insurance	10,900	10,900	10,335	(565)
Supplies	3,800	3,800	18,399	14,599
Miscellaneous	23,200	23,200	0	(23,200)
	206,900	206,900	210,920	4,020
Capital outlay	0	0	0	0
Total Expenditures	206,900	206,900	210,920	4,020
Excess (deficiency) of revenues over expenditures	0	0	(8,540)	(8,540)
Fund Balance, July 1, 2011	11,575	11,575	11,575	0
Fund Balance, June 30, 2012	$11,575	$11,575	$3,035	($8,540)

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

TOWN OF MONTEREY, TENNESSEE

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

Drug Fund

For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Revenues:				
Fines	$40,000	$40,000	68,414	28,414
Miscellaneous:				
Interest	0	0	0	0
Total Revenues	40,000	40,000	68,414	28,414
Expenditures:				
Salaries	0	0	34,063	(34,063)
Payroll taxes	0	0	2,065	(2,065)
Employee benefits	0	0	1,706	(1,706)
Supplies	40,000	40,000	36,117	3,883
	40,000	40,000	73,951	(33,951)
Excess (deficiency) of revenues over expenditures	0	0	(5,537)	62,365
Fund Balance, July 1, 2011	42,136	42,136	42,136	0
Fund Balance, June 30, 2012	$42,136	$42,136	36,599	62,365

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

TOWN OF MONTEREY, TENNESSEE

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

Health Care Fund

For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Revenues:				
Charges for services:				
Rent	$109,500	$109,500	$117,002	7,502
Miscellaneous:				
Interest	200	200	0	(200)
Total Revenues	109,700	109,700	117,002	7,302
Expenditures:				
Current:				
Utilities	4,150	4,150	7,296	3,146
Repair and maintenance	8,000	8,000	5,846	(2,154)
Supplies	20,000	20,000	4,072	(15,928)
Professional services	250	250	50	(200)
Miscellaneous	10,230	10,230	0	(10,230)
	42,630	42,630	17,264	(25,366)
Debt service - medical equipment	11,070	11,070	11,070	0
Capital outlay	0	0	0	0
Total Expenditures	53,700	53,700	28,334	(25,366)
Excess (deficiency) of revenues over expenditures	56,000	56,000	88,668	32,668
Operating transfer:	(56,000)	(56,000)	(103,566)	(47,566)
Net change in fund balance	0	0	(14,898)	(14,898)
Fund Balance, July 1, 2011	15,510	15,510	15,510	0
Fund Balance, June 30, 2012	$15,510	$15,510	$612	($14,898)

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

(1) Summary of Significant Accounting Policies

The Town of Monterey, Tennessee, was incorporated in 1901. The Town provides the following services, as authorized by its charter and duly passed ordinances: public safety (Police and Fire), water and sewerage, streets, sanitation, recreations, public improvements, planning and zoning, and general administrative services. The accounting policies of the Town of Monterey, Tennessee conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

Reporting Entity:

Governmental Accounting Standards Board (GASB) Statement Number 14, "The Financial Reporting Entity" requires that financial statements present the reporting entity which consists of the primary government and any "Component Unit" organizations for which the primary government is financially accountable and any other "Component Unit" organizations for which the nature and significance of their relationship with the primary government are such that exclusion, could cause the Town's financial statements to be misleading. There were no component units requiring blended or discrete presentation under the requirements of GASB Statement Number 14.

Accounting Pronouncements:

Effective July 1, 2003 the Town adopted GASB Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis for State and Local Governments: Omnibus, an amendment of GASB Statements No. 21 and 34, Statement No. 38, Certain Financial Statement Note Disclosures and Interpretation No. 6, Recognition and measurement of Certain Liabilities and Expenditures in Government Fund Financial Statements. The requirements of these statements represent a significant change in the financial reporting model used by the Town. The financial statements now include government-wide financial statements prepared on the accrual basis of accounting and the economic measurement focus for all funds. The fund financial statements present information for individual major funds rather than by fund type. Nonmajor funds are presented in one column. Other significant changes include the reporting of capital assets, infrastructure and depreciation, the elimination of account groups, and the inclusion of management's discussion and analysis.

Government -Wide and Fund Financial Statements

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

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

(1) Summary of Significant Accounting Policies, Continued

Separate financial statements are provided for governmental funds and proprietary 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.

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

Governmental fund revenues are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they become both measurable and collectable within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers property taxes and most governmental revenues as available if received within 45 days of years end. Expenditures are recorded generally when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

Property taxes, state shared revenues, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period using the criteria specified in the paragraph above. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major funds:

General Fund - The General Fund is the general operating fund of the Town. It is used to account for all financial resources of the general government except those required to be accounted for in another fund.

State Street Aid Fund - To account for the receipt and usage of the Town's share of State gasoline taxes. State law requires these gasoline taxes to be used to maintain streets.

Drug Fund - To account for drug fines received and usage of those monies to further drug investigations.

Sanitation Fund - To account for the revenues and expenditures of the Town's Sanitation Department.

Health Care Fund - To account for the rental of a health care facility.

The government reports the following major proprietary fund:

The Utility Fund is used to account for water and sewer operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The Town has adopted GASB Statement No.20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting. The Town applies all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) Opinions; issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The Town has elected not to apply FASB Statements and interpretations issued after November 30, 1989.

(1) Summary of Significant Accounting Policies, Continued

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

Amounts reported as program revenues include (i) charges to customers or applicants for goods, services, or privileges provided, (ii) operating grants and contributions, and (iii) capital grants and contributions. General revenues include all taxes and internally dedicated resources.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the various utility funds are charges to customers for sales and services. The Utility Fund also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non operating revenues and expenses.

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

Cash and Cash Equivalents
Cash and cash equivalents consist primarily of savings accounts, certificates of deposit with original maturities three months or less and amounts held by the State Local Government Investment Pool.

Receivables and Payables
Activity between funds that are representative of lending/ borrowing arrangements outstanding at the end of the fiscal year are referred to as either due from/ due to other funds (i.e. the current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available resources. All trade receivables are shown net of an allowance for uncollectible, if applicable.

Property Tax
The Town's property tax is levied each November 1 on the assessed value listed as of the prior January 1 for all real and personal property located in the Town's legal boundaries. All Town taxes on real estate are declared to be a lien on such realty from January 1 of the year assessments are made.

Assessed values are established by the State of Tennessee at the following rates of appraised market value:

Public Utility Property	55%
Industrial and Commercial Property	
- Real	40%
- Personal	30%
Farm and Residential Property	25%

Taxes were levied at a rate of $0.9387 per $100 of assessed valuation for the fiscal year ended June 30, 2012.

Payments may be made during the period from November 1 through March 31. Current tax collections of $305,187 for the fiscal year ended June 30, 2012 were approximately 93 percent of the tax levy.

Delinquent taxes are turned over to the Town Attorney for collection as required by the Town's Municipal Code.

(1) Summary of Significant Accounting Policies, Continued

Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets consisting of certain improvements other than buildings, including roads, bridges, streets and sidewalks, and drainage systems are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an individual cost of $5,000 and an estimated useful life in excess of three years. All fixed assets are valued at historical cost or estimated useful life in excess of three years. All fixed assets are valued at historical cost or estimated historical cost, if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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.

Depreciation is provided over the estimated useful lives using the straight line method.

The estimated useful lives are as follows:

Infrastructure	40-50 years
Buildings	10-50 years
Utility Plant in Service	10-50 years
Furniture and Equipment	5-10 years

Inventory

Inventory of the Utility Fund is valued at cost, using the first in first out method. Inventory of all the governmental funds consists of expendable supplies held for consumption and are recorded at cost under the consumption method.

Restricted Assets

Certain proceeds of the Enterprise Fund bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on their respective balance sheets because they are maintained in separate bank accounts and their use is either limited by applicable bond covenants or represent proceeds from bond issues that are restricted for use in construction.

Bond Issue Costs

Bond Issue Costs are amortized over the period of the related bond issue and presented as other assets in the accompanying financial statements.

Compensated Absences

The Town has accrued a liability for unused sick and vacation pay which is earned but not taken by Town employees.

Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds and are presented in the accompanying financial statements as other assets.

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 while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

(1) Summary of Significant Accounting Policies, Continued

Fund Equity
In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use for specific purposes.

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

Financial instruments that potentially subject the Town to significant concentrations of credit risk consist principally of cash and accounts receivable. The Town places its cash with federally-insured financial institutions, institutions participating in the State collateral pool. With respect to accounts receivable, credit risk is dispersed across a large number of customers concentrated within one area of service.

Budgets and Budgetary Accounting
The Town follows these procedures in establishing the budgetary data reflected in the financial statements:

a. Formal budgets are adopted and approved by Council vote on an annual basis for the General and Special Revenue Funds. These budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

b. The Town Council approves, by ordinance, total budget appropriations by department only. The Mayor is authorized to transfer budget amounts between line items within each department; however, any revisions that alter the total appropriations of any fund must be approved by the Town Council.

c. The budget amounts shown in the financial statements are the final authorized amounts as amended during the year.

During the year the Town exceeded the following departmental budgets:

	Budget	Actual	Variance
General government	$240,747	530,483	289,736
Police department	590,922	807,886	216,964
Garage	12,650	14,633	1,983
Cultural	61,100	121,055	59,955
Sanitation Fund	206,900	210,920	4,020
Drug Fund	40,000	73,951	33,951

Fund Balance
The Town implemented GASB 54 which addresses issues related to how fund balances are reported. Fund balances are now reported in the following manner:

Nonspendable fund balances – amounts that are not in a spendable form, Restricted fund balance – amounts constrained to specific purposes by their providers, provisions, or by enabling legislation, Committed fund balance – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint, Assigned fund balance – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority, Unassigned fund balance – amounts that are available for any purpose; these amounts are reported only in the general fund.

Only by Board approval (via ordinance) can fund balance amounts be classified as committed or assigned. Board approval (via ordinance) is required to establish, modify or rescind a fund balance requirement.

(2) Cash and Cash Equivalents

The Town is authorized to invest funds in Federal treasury bills and notes, State of Tennessee Local Government Investment Pool and financial institution demand deposit accounts and certificates of deposit. During the year, the Town invested funds that were not immediately needed in certificates of deposits, savings accounts and investments in the State of Tennessee Local Government Investment Pool. The Town has deposit policies to minimize custodial credit risks. Deposits in financial institutions are required by State Statute to be secured and collateralized by the institutions.

The collateral must meet certain requirements and be deposited in an escrow account in a second bank for the benefit of the Town and must total a minimum 105% of the value of the deposits placed in the institutions less the amount protected by federal depository insurance. The Town's deposits are categorized to give an indication of the level of risk assumed by the Town at year end. The Town's deposits with financial institutions are fully insured or collateralized by securities held in the Town's name.

(3) Accounts Receivable

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

Fund	Other Government	Property Taxes	Customer Accounts	Total
General Fund	$ 83,730	365,981	-	449,711
Special Revenue Fund	11,917	-	1,389	13,306
Enterprise Fund	-	-	168,170	168,170
Less allowance for doubtful accounts	-	-	(25,292)	(25,292)
Total	$95,647	365,981	144,267	605,895

(4) Capital Assets

A summary of changes in capital assets as presented in the governmental activities column of the government- wide financial statements is as follows:

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
Land and buildings	$ 1,242,956	493,306	-	1,736,262
Infrastructure	511,720	-	-	511,720
Equipment and vehicles	894,325	135,152	57,190	972,287
Total	$ 2,649,001	628,458	57,190	3,220,269
Less Accumulated depreciation	(1,218,306)			(1,288,027)
Net capital assets in service	$ 1,430,695			1,932,242

All assets except land of $188,663 are being depreciated.

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

General Fund:	
General government administration	$ 36,228
Police department	37,759
Fire department	12,206
Public Works	27,270
Sanitation	13,448
Total	$ 126,911

(4) Capital Assets, Continued

A summary of changes in Enterprise Fund property, plant and equipment and related accumulated depreciation follows:

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
Assets not being depreciated				
Land and land rights	$ 444,680	20,800	-	465,480
Assets being depreciated				
Utility plant	16,012,229	202,089	-	16,214,318
Equipment	139,419	-	-	139,419
Dams and reservoir	2,012,112	-	-	2,012,112
	18,608,440	222,889	-	18,831,329
Less accumulated depreciation	(7,030,930)			(7,437,439)
Net plant in service	$ 11,577,510			11,393,890

All assets except for land and land rights of $465,480 are being depreciated.

Depreciation expense was $406,510 in 2012.

(5) Long-Term Debt and Other Obligations Payable

The following schedule reflects the changes General Obligation debt during fiscal year 2012.

	Balance July 1, 2011	Additions	Retirements	Balance June 30, 2012
Capital Lease – Medical Equipment	12,667	-	10,512	2,155
Capital Outlay Note – Fire	-	120,000	-	120,000
Capital Outlay Note – Street Lights	200,000	-	33,333	166,667
	212,667	120,000	43,845	288,822

The following schedule reflects the changes in long-term debt, as shown in the Enterprise Water and Sewer) Fund during the fiscal year 2012.

	Balance July 1, 2011	Additions	Retirements	Balance June 30, 2012
Bonds Payable:				
1998 Issue	41,497	-	(1,006)	40,491
1998 Issue	263,341	-	(6,240)	257,101
2001 Issue	86,470	-	(1,265)	85,205
2003 Issue	211,056	-	(2,588)	208,468
2004 Issue	1,270,000	-	(115,000)	1,155,000
	1,872,364	-	(126,099)	1,746,265

(5) Long-Term Debt Payable and Other Obligations Payable, Continued

Principal and interest requirements to maturity on all outstanding bonds, loans and obligations as of June 30, 2012, are as follows:

	General Long-Term Debt		Enterprise Fund	
Year Ending June 30,	Principal	Interest	Principal	Interest
2013	55,488	10,361	133,315	82,625
2014	53,333	8,500	49,037	77,903
2015	53,334	6,200	54,757	71,183
2016	53,333	3,900	55,477	65,463
2017	53,334	2,350	56,201	58,239
2018-2022	20,000	800	332,036	234,164
2023-2027	-	-	386,276	163,424
2028-2032	-	-	407,436	93,264
2033-2037	-	-	246,354	36,346
2038	-	-	25,376	8,951
Total	$288,822	32,111	1,746,265	891,562

(6) Pension Plan

Plan Description:

Employees of the Town of Monterey are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with 5 (Five) years of service or at any age with 30 years of service. A reduced retirement benefits 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 5 (Five) years of service and members joining prior to July 1, 1979 were vested after 4 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 Monterey 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, Tennessee 37243-0230 or can be accessed at http://www.tn.gov/treasury/tcrs/PS/.

Funding Policy:
The Town of Monterey requires employees to contribute 5.0% percent of earnable compensation. Monterey is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2012 was 6.00% of annual covered payroll. The contribution requirements of plan members are set by state statute. Contribution requirements for Monterey are established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ending June 30, 2012, Monterey's annual pension cost of $55,941 to TCRS was equal to Monterey's required and actual contributions.

(6) Pension Plan, Continued

The required contribution was determined as part of the July 1, 2011 actuarial valuation using 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% per year compounded annually, (b) projected 3.0 percent annual rate of inflation (c) projected salary increases of 4.75% annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5% annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5% annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of investments over a ten-year period. Monterey'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 20 years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

Trend Information Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2012	$ 55,941	100.00%	$ 0.00
6/30/2011	$ 35,487	100.00%	$ 0.00
6/30/2010	$ 51,428	100.00%	$ 0.00

Funded Status and Funding Progress:

As of July 1, 2011, the most recent actuarial valuation date, the plan was 80.14% funded. The actuarial accrued liability for benefits was $0.59 million, and the actuarial value of assets was $0.47 million, resulting in an unfunded actuarial accrued liability (UAAL) of $0.12 million. The covered payroll (annual payroll of active employees covered by the plan) was $0.77 million, and the ratio of the UAAL to the covered payroll was 15.14% 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.

(7) Contributed Capital - Enterprise Fund

In accordance with GASB No. 33 the Town no longer records contributed capital from customer tap fees and grants from other governments. The Town has reclassed all of its contributed capital to the net assets section.

(8) Commitments and Contingencies

Litigation:
There are no pending lawsuits in which the Town is involved that would be material to the financial statements.

Grants:
Amounts received from Grantor agencies are subject to audit and adjustment by Grantor agencies, principally the Federal government. Any disallowed claims including amounts already collected, could become a liability of the applicable fund.

(9) Risk Management

The Town of Monterey is exposed to various risks to general liability and property and casualty losses. The Town has decided it was more economically feasible to join a public entity risk pool as opposed to purchasing commercial insurance for general liability and property and casualty coverage. The Town joined TML Insurance Pool which is a public entity risk pool established by the Tennessee Municipal League, an association of member cities. The Town pays an annual premium to the TML for its general liability and property and casualty insurance coverage. The creation of the pool provides for it to be self-sustaining through member premiums. The pool reinsures through commercial insurance companies for claims in excess of $130,000 for each insured event. The Town has not had claims in excess of insurance coverage during the last three years.

(10) Due to Other Funds

As of June 30, 2012 the Enterprise Fund has recorded a Due From the General Fund in the amount of $403,859. These funds were advanced to pay for Town projects, for which the Town did not want to borrow from outside sources. The Town will start making payments to reduce this balance in the current year. Additionally, the General Fund has recorded a Due to the Drug fund for costs paid to move equipment for the police department. This amount ($5,100) will be repaid in the next fiscal year.

(11) Operating Transfers

During the year the Health Care Fund transferred $103,566, ($83,566) to the General Fund and ($20,000) to the State Street Fund.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF MONTEREY, TENNESSEE

Required Supplementary Information

June 30, 2012

(1) Pension Plan

Required Supplementary Information

Schedule of Funding Progress for the Town of Monterey:

Actuarial Valuation Date	(000's) Actuarial Value of Assets (A)	(000's) Actuarial Accrued Liability (B)	Unfunded AALL (UAAL) (B) - (A)	Funded Ratio (A/B)	(000's) Covered Payroll 8	UAAL as a % Of Covered Payroll ((B-A)/C)
7/01/11	$ 473	$ 591	117	80.14%	775	15.14%
7/01/09	$ 244	$ 397	154	61.31%	751	20.48%
7/01/07	$ 97	$ 192	95	50.52%	613	15.50%

FINANCIAL SCHEDULES

TOWN OF MONTEREY, TENNESSEE

Capital Assets Used in the Operation of the Governmental Funds

Schedule of Changes in Capital Assets - By Type

June 30, 2012

Description	Balance July 1, 2011	Additions	Disposals	Balance June 30, 2012
Land and Buildings	$1,242,956	493,306	0	1,736,262
Infrastructure	$511,720	0	0	511,720
Machinery and equipment*	894,325	135,152	57,190	972,287
Total Capital Assets	$2,649,001	628,458	57,190	3,220,269

City received donated assets with a estimated value of $100,000

TOWN OF MONTEREY, TENNESSEE

Capital Assets Used in the Operation of the Governmental Funds

Schedule of Capital Assets - By Function and Activity

June 30, 2012

Description	Land and Buildings	Machinery and Equipment	Infrastructure	Total
General Government	$1,057,816	0	0	1,057,816
Streets	$42,548	157,702	511,720	711,970
Health Care Fund	$499,635		0	499,635
Sanitation	$0	268,952	0	268,952
Fire department	$136,263	322,440	0	458,703
Police department	0	223,193	0	223,193
Total Assets	$1,736,262	972,287	511,720	3,220,269

TOWN OF MONTEREY, TENNESSEE

Schedule of Cash and Cash Equivalents and Certificate of Deposits
All Funds

June 30, 2012

	Carrying Value
General Fund:	
Demand deposits	$24,328
Certificate of deposit	112,622
Total General Fund	136,950
Special Revenue Funds:	
State Street Aid Fund- Demand deposits	3,692
Drug Fund - Demand deposits	31,882
Sanitation Fund - Demand deposits	4,542
Health Care Fund - Demand deposits	40,612
Total Special Revenue Funds	80,728
ProprietaryFund:	
Demand deposits	32,063
Demand deposits - restricted funds	566,911
Total Water and Sewer Fund	598,974
Total Cash and Cash Equivalents - All Funds	$816,652

TOWN OF MONTEREY, TENNESSEE

Schedule of Changes in Property Taxes Receivable

For the Year Ended June 30, 2012

Tax Year	Balance July 1, 2011	Levy	Collections and Changes in Assessment	Balance June 30, 2012
2012	$ -	325,000	0	325,000
2011	325,000	3,528	305,187	23,341
2010	19,634	0	15,762	3,872
2009	7,213	0	1,796	5,417
2008	4,190	0	1,752	2,438
2007	2,256	0	619	1,637
2006	3,392	0	201	3,191
2005	1,305	0	873	432
2004	622	0	190	432
2003	363	0	142	221
2002	313	0	313	0
2001	207	0	207	0
2000	145	0	145	0
	$364,640	328,528	327,187	365,981

Tax Year	Tax Rate	Tax Levy	Tax Adjustments and Collections	Outstanding Deliquent Taxes
2012	$ 0.9387	$ 325,000	$ 0	$ 325,000
2011	0.9387	328,528	305,187	23,341
2010	0.9387	325,657	321,785	3,872
2009	0.9387	345,440	340,023	5,417
2008	0.9387	323,678	313,136	2,438
2007	0.9387	344,449	342,812	1,637
2006	0.9387	344,057	340,866	3,191
2005	1.02	301,037	300,605	432
2004	1.02	292,847	292,415	432
2003	1.02	282,733	282,512	221
2002	0.97	269,774	269,774	0

All deliquent taxes except for the 2011 tax year have been turned over to the County for collection.

TOWN OF MONTEREY, TENNESSEE

Schedule of Debt Service Requirements-
General Obligation Debt

June 30, 2012

Year	CAPITAL OUTLAY NOTE - FIRE		CAPITAL OUTLAY NOTE - STREET LIGHTS		CAPITAL LEASE MEDICAL EQUIPMENT		TOTAL	TOTAL
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013	20,000	4,800	33,333	5,250	2,155	311	55,488	10,361
2014	20,000	4,000	33,333	4,500			53,333	8,500
2015	20,000	3,200	33,334	3,000			53,334	6,200
2016	20,000	2,400	33,333	1,500			53,333	3,900
2017	20,000	1,600	33,334	750			53,334	2,350
2018	20,000	800					20,000	800
	120,000	16,800	166,667	15,000	2,155	311	288,822	32,111

TOWN OF MONTEREY, TENNESSEE

Schedule of Debt Service Requirements-
Water and Sewer Fund

June 30, 2012

	1998 SERIES		1998 SERIES		2003 SERIES		2001 SERIES		2004 SERIES		TOTAL	TOTAL
Year	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013	5,481	11,967	863	1,897	4,950	8,226	2,021	2,535	120,000	58,000	133,315	82,625
2014	5,732	11,716	903	1,857	5,314	7,862	2,088	2,468	35,000	54,000	49,037	77,903
2015	5,995	11,453	944	1,816	5,661	7,515	2,157	2,399	40,000	48,000	54,757	71,183
2016	6,269	11,179	987	1,773	5,993	7,183	2,228	2,328	40,000	43,000	55,477	65,463
2017	6,556	10,892	1,033	1,727	6,311	6,865	2,301	2,255	40,000	36,500	56,201	58,239
2018	6,856	10,592	1,080	1,680	6,614	6,562	2,377	2,179	45,000	32,000	61,927	53,013
2019	7,171	10,277	1,130	1,630	6,904	6,272	2,456	2,100	45,000	29,500	62,661	49,779
2020	7,499	9,949	1,182	1,578	7,182	5,994	2,537	2,019	50,000	27,000	68,400	46,540
2021	7,843	9,605	1,236	1,524	7,447	5,729	2,620	1,936	50,000	25,000	69,146	43,794
2022	8,202	9,246	1,293	1,467	7,700	5,476	2,707	1,849	50,000	23,000	69,902	41,038
2023	8,578	8,870	1,352	1,408	7,942	5,234	2,796	1,760	55,000	21,000	75,668	38,272
2024	8,971	8,477	1,414	1,346	8,173	5,003	2,888	1,668	55,000	19,000	76,446	35,494
2025	9,383	8,065	1,479	1,281	8,395	4,781	2,984	1,572	55,000	17,000	77,241	32,699
2026	9,813	7,635	1,547	1,213	8,606	4,570	3,082	1,474	55,000	15,000	78,048	29,892
2027	10,263	7,185	1,618	1,142	8,808	4,368	3,184	1,372	55,000	13,000	78,873	27,067
2028	10,733	6,715	1,692	1,068	9,001	4,175	3,289	1,267	60,000	11,000	84,715	24,225
2029	11,225	6,223	1,771	989	9,186	3,990	3,397	1,159	60,000	9,000	85,579	21,361
2030	11,740	5,708	1,852	908	9,362	3,814	3,509	1,047	65,000	8,000	91,463	19,477
2031	12,279	5,169	1,937	823	9,531	3,645	3,629	927	50,000	5,000	77,376	15,564
2032	12,842	4,606	2,026	734	9,692	3,484	3,744	812	40,000	3,000	68,304	12,636
2033	13,431	4,017	2,119	641	9,846	3,330	3,859	697	45,000	2,000	74,255	10,685
2034	14,047	3,401	2,216	544	9,993	3,183	3,977	579	45,000	1,000	75,233	8,707
2035	14,692	2,756	2,318	442	10,134	3,042	4,098	458	-	-	31,242	6,698
2036	15,366	2,082	2,425	335	10,268	2,908	4,221	335	-	-	32,280	5,660
2037	16,071	1,377	2,536	224	10,397	2,779	4,341	215	-	-	33,345	4,595
2038	10,063	7,385	1,538	1,222	5,060	105	4,369	187	-	-	21,030	8,899
2039	-	-	-	-	-	-	4,346	52	-	-	4,346	52
	$257,101	196,547	40,491	31,269	208,468	126,097	85,205	37,649	1,155,000	500,000	1,746,265	891,562

TOWN OF MONTEREY, TENNESSEE

Schedule of Federal and State Financial Assistance

For the Year Ended June 30, 2012

CFDA Number	State Grant Number	Program Name	Grantor Agency	Receivable (Deferred) Balance June 30, 2011	Grant Receipts	Other Receipts	Grant Expenditures	Receivable (Deferred) Balance June 30, 2012
Federal Programs:								
10.769	N/A	Farmers Market	U.S. D. A. thru Rural Development	$0	7,349	0	7,349	0
State Programs:								
N/A	GG-10-31405-00	Utility Improveemnts	State of Tennessee Department of Economic Development		21,300	0	21,300	0
N/A	STP-EN-7100(50)	Depot	Tennessee Department of Transportation		292,554	0	292,554	0
N/A	GG-1120483	Highway Safety	State of Tennessee Department of Transportation	$0	15,532	0	15,532	0
		Totals		0	336,735	0	336,735	0

Additionally, the City received donated equipment from the Department of the Military with an estimated value of $100,000.

TOWN OF MONTEREY, TENNESSEE

Schedule of Insurance Coverage

June 30, 2012

Type of Coverage		Amounts
Commercial Property	Property	Various
Auto Liability	Per occurrence	350,000
	Personal injury	130,000
	Property	50,000
Public officials	Errors and omission	25,000
General liability		1,000,000
Worker's compensation		Statutory

TOWN OF MONTEREY, TENNESSEE

Schedule of Bonds - Principal Officials

June 30, 2012

Official	Title	Bond
Elected Officials:		
Jeff Hicks	Mayor and Town Recorder	$350,000
Dale Welch	Vice Mayor	$25,000 Blanket
Mark Farley	Alderman	$25,000 Blanket
Hershel Bohannon	Alderman	$25,000 Blanket
Jeff Murphy	Alderman	$25,000 Blanket
Rebecca Iaquinto	Alderman	$25,000 Blanket
Peggy Matheney	Alderman	$25,000 Blanket
Claire Weist	Alderman	$25,000 Blanket
Billy Whalen	Alderman	$25,000 Blanket
Management:		
Ella Dishman	Office Manager	$350,000

TOWN OF MONTEREY, TENNESSEE

Schedule of Utility Information

June 30, 2012

Water Rates	Inside City	Outside City
Up to 2,000 gallons	$12.22 Minimum charge	$23.17 Minimum charge
Over 2,000 gallons	$3.53/1,000 Gallons	$8.18/1,000 Gallons

There were approximately 1,830 water customers at yearend.

Sewer Rates

At year-end the sewer department had approximately 1,070 customers. The rate is calculated at 100% of monthly water bill and $7.50 per month if not using water services.

TOWN OF MONTEREY, TENNESSEE

Schedule of Unaccounted For Water

For the year ended June 30, 2012

Water Treated and Purchased	(all amounts in gallons)
Water Pumped	241,653,000
Water Purchased	0
Total Water Treated and Purchased	241,653,000
Water sold	168,434,000
Metered for consumption	0
Fire department usage	0
Flushing	0
Tank Cleaning	0
Street Cleaning	0
Bulk sales	0
Water Bill adjustments	0
Total accounted for water	168,434,000
Unaccounted for water	73,219,000
Percent Unaccounted for water	30%
Other	0

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.

COMPLIANCE AND INTERNAL CONTROL

JOHN R. POOLE, CPA
CERTIFIED PUBLIC ACCOUNTANT

134 NORTHLAKE DRIVE
HENDERSONVILLE, TN 37075

(615) 822-4177

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

Mayor and Board of Aldermen
Town of Monterey
Monterey, Tennessee

I have audited the financial statements of the governmental activities, the business type activities and each major fund information of the Town of Monterey as of and for the year ended June 30, 2012, and have issued a report thereon dated September 30, 2012. I conducted the audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting
Management of the Town is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing the audit, I considered the Town of Monterey's internal control over financial reporting as a basis for designing the auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Monterey's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

My consideration of the 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 discussed below, I identified a deficiency in internal control over financial reporting that I consider to be a material weakness (2001-01 Lack of segregation of Duties).

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. I consider the deficiency described below (2001-01) to be a material weakness.

The material weakness is as follows:

2001-01 Separation of Duties

Due to the limited number of personnel employed by the Town, several functions, which ideally should be performed by different individuals, are regularly performed by one or two persons. I recommend that the Town strengthen its internal control in cash receipts, cash disbursements, and reconciliation of cash.

Management Response:

Due to the size of the office, a complete separation of duties is not possible. However we are continuing to monitor office responsibilities and segregate duties as needed.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Town of Monterey's financial statements are free of material misstatement, I 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 the financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of the audit and, accordingly, I do not express such an opinion. The results of the tests disclosed one instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

2012-1 Deficit Fund Balances – Governmental Funds

As of June 30, 2012, the General Fund had a deficit fund balance of ($238,854) and the State Street Aid Fund had a deficit balance of ($5,299). The City has made significant capital improvements in the City during the last few years creating these deficit balances. Additionally, the City has exceeded many of its budget appropriations during the last few years.

Recommendation: The City must work to reduce these deficits. These deficits can be reduced by finding additional sources of revenues or look to decrease its operating costs. Additionally, the City must seek to make a feasible annual budget and adhere to those budgeted amounts.

Management Response: We are working to reduce these deficit amounts and pay special attention to the budget throughout the year.

The Town of Monterey's response to the finding identified in the audit is described above. I did not audit the Management Response and, accordingly, I express no opinion on it.

I noted certain matters that I reported to management of the Town of Monterey in a separate letter dated September 30, 2012.

This report is intended solely for the information and use of the audit committee, management, and State Comptrollers Office and is not intended to be and should not be used by anyone other than these specified parties.

John R Poole, CPA

September 30, 2012