

CITY OF RED BOILING SPRINGS, TENNESSEE

Annual Financial Report

For the Year Ended June 30, 2012

CITY OF RED BOILING SPRINGS, TENNESSEE

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INTRODUCTORY SECTION

CITY OF RED BOILING SPRINGS, TENNESSEE

Officials of the City of Red Boiling Springs, Tennessee

June 30, 2012

<u>Name</u>	<u>Title</u>
Elected Officials:	
Bobby Ethridge	Mayor
Willie Brown	Vice Mayor
Terry Newberry	Council member
George McCrary	Council member
Tom Fultz	Council member
Joe Hill	Council member
Billy Joe Carver	Council member
Management:	
Coby Knight	City Recorder

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 Council of the
City of Red Boiling Springs, Tennessee
Red Boiling Springs, Tennessee

I have audited the accompanying financial statements of the governmental activities, the business type activities, and each major fund of the City of Red Boiling Springs, Tennessee as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Red Boiling Springs' 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 City of Red Boiling Springs, 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 and the Drug 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 City of Red Boiling Springs' 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.

Jah R Pool, CPA

September 30, 2012

CITY OF RED BOILING SPRINGS, TENNESSEE

Management's Discussion and Analysis

As management of the City of Red Boiling Springs, Tennessee (the City) 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, 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 City. Management's Discussion and Analysis (MD&A) focuses on current year activities and resulting changes.

Financial Highlights:

The assets of the City of Red Boiling Springs exceeded its liabilities at the close of the most recent fiscal year by \$8,904,674. Of this amount, \$551,962 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

The City's total net assets decreased by \$143,420, primarily as a result of lower revenues as compared to the prior year. User charges were \$110,569 less due to lower natural gas rates and grant revenues decreased in the current year. Expenses were higher as a result of higher than expected repair and maintenance costs in the current year. The City made capital asset purchases of \$344,668 and paid off \$139,441 (net) of debt.

As of the close of the current fiscal year, the City's governmental funds reported ending fund balances of \$239,560 a decrease of \$159,444 in comparison to the prior year. The decrease relates to higher expenditures in the current year and the purchase of a new City Hall facility. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$160,156 or 25% of the total general fund expenditures.

The City's business -like activities total net assets decreased by \$62,691 due to lower revenues in the current year.

Overview of the Financial Statements:

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

The Statement of Net Assets presents information on all 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.

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 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 of Red Boiling Springs 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 City of Red Boiling Springs, 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 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 governmental-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 City 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 City of Red Boiling Springs 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 28-36 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 City of Red Boiling Springs, assets exceeded liabilities by \$ 8,904,674 at the close of the most recent fiscal year.

By far the largest portion of the City'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 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.

Financial Analysis of the Financial Statements --City of Red Boiling Springs' Net Assets-2012

	Governmental <u>Activities</u>	Business -Type <u>Activities</u>
Current and other assets	\$ 408,910	459,704
Capital assets	<u>895,187</u>	<u>8,140,442</u>
Total assets	1,304,097	8,600,146
Long-term liabilities outstanding	52,495	676,443
Other liabilities	<u>169,350</u>	<u>101,231</u>
Total liabilities	221,845	777,674
Net assets:		
Invested in capital assets, net of related debt	842,692	7,463,999
Restricted	46,071	0
Unrestricted	<u>193,489</u>	<u>358,473</u>
Total net assets	\$1,082,252	7,822,472

Financial Analysis of the Financial Statements --City of Red Boiling Springs' Net Assets-2011

	Governmental <u>Activities</u>	Business -Type <u>Activities</u>
Current and other assets	\$ 571,819	528,353
Capital assets	<u>802,084</u>	<u>8,245,897</u>
Total assets	1,373,903	8,774,250
Long-term liabilities outstanding	38,107	830,272
Other liabilities	<u>172,815</u>	<u>58,815</u>
Total liabilities	210,922	889,087
Net assets:		
Invested in capital assets, net of related debt	763,977	7,415,625
Restricted	9,199	0
Unrestricted	<u>389,805</u>	<u>469,538</u>
Total net assets	\$1,162,981	7,885,163

At the end to the current fiscal year, the City is able to report positive balances in all categories of net assets, both for the government as a whole, as well as for its separate governmental funds. The same situation held true for the prior year.

Comparison of revenues and expenses 2012 and 2011

	<u>2012</u>	<u>2011</u>	<u>Change Between Years</u>
Revenues:			
Program revenues:			
Charges for services	1,584,622	1,695,191	(110,569)
Operating grants and contributions	33,398	137,387	(103,989)
Capital grants and contributions	0	0	0
General revenues:			
Property taxes	160,678	201,749	(41,071)
Sales taxes	198,312	194,352	3,960
Other local taxes	51,518	53,864	(2,346)
Other state shared taxes	2,180	2,356	(176)
Other	14,821	4,992	9,829
Total revenues	<u>\$2,045,529</u>	<u>\$2,289,891</u>	<u>(\$244,362)</u>
Expenses:			
General government	152,566	107,317	45,249
Police department	302,271	295,059	7,212
Fire department	17,779	10,034	7,745
Cemetery	2,837	1,772	1,065
Parks and recreations	77,885	90,476	(12,591)
Sanitation	128,457	99,835	28,622
Highway and streets	26,308	33,561	(7,253)
Natural gas	313,971	311,413	2,558
Water and Sewer	1,166,875	1,160,508	6,367
Total expenses	<u>\$2,188,949</u>	<u>\$2,109,975</u>	<u>\$78,974</u>
Increases in net assets	<u>(143,420)</u>	<u>179,916</u>	<u>(323,336)</u>

The assets of the City of Red Boiling Springs exceeded its liabilities at the close of the most recent fiscal year by \$8,904,674. Of this amount, \$551,962 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors. The City's total net assets decreased by \$143,420, primarily as a result of lower revenues as compared to the prior year. User charges were \$110,569 less due to lower natural gas rates and grant revenues decreased in the current year. Expenses were higher as a result of higher than expected repair and maintenance costs in the current year. The City made capital asset purchases of \$344,668 and paid off \$139,441 (net) of debt.

Financial Analysis of the Financial Statements

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 of Red Boiling Springs' 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, 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.

The general fund is the chief operating fund of the City's. At the end of the current fiscal year, unassigned fund balance of the general fund was \$160,156. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 25% of total general fund expenditures.

Business- Type Activities

The City's business -like activities total net assets decreased by \$62,691 due to lower revenues in the current year.

Governmental Budgetary Highlights

The City exceeded some of its departmental budgets during the year. See pages 21-26 for an analysis of the City's budget.

Capital Asset and Debt Administration

Capital Assets

The City of Red Boiling Springs' investment in capital assets from its governmental activities at June 30, 2012, amounts to \$895,187 (net or accumulated depreciation) and its business-type activities amounts to \$8,140,442. This investment in capital assets is in land, buildings, improvements, machinery and equipment. The total increase in the City's investment in capital assets for the current fiscal year was \$344,668.

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

- * Addition to the City's Utility plant of \$185,581.

City of Red Boiling Springs' Capital Assets- 2012

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>
Land, buildings and improvement	\$ 1,870,620	\$11,825,811
Equipment	<u>479,894</u>	<u>213,362</u>
Less accumulated depreciation	(1,455,327)	(3,898,731)
Net Capital Assets	<u>\$ 895,187</u>	<u>\$ 8,140,442</u>

City of Red Boiling Springs' Capital Assets- 2011

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>
Land, buildings and improvement	\$ 1,755,726	\$11,640,230
Equipment	<u>465,653</u>	<u>213,362</u>
Less accumulated depreciation	(1,419,295)	(3,607,695)
Net Capital Assets	<u>\$ 802,084</u>	<u>\$ 8,245,897</u>

Additional information on the City of Red Boiling Springs' capital assets can be found in the notes to the financial statements section of this report.

Long-term Debt

The City has \$52,495 in general debt and water and sewer fund debt of \$676,443. All loans are being paid as scheduled. Additional information on the City of Red Boiling Springs' long-term debt can be found in the notes to the financial statements section of this report.

Economic Factors and Next Year's Budget and Rates

In the 2012-2013 budget, General fund revenues and user charges are budgeted to increase from the 2011-2012 budget year primarily due to increases in the local revenues and increased service revenues. The City's budget should benefit by an expanding commercial and retail base producing increased local sales tax receipts. All of these factors were considered in preparing the City's budget for the 2012-2013 fiscal year.

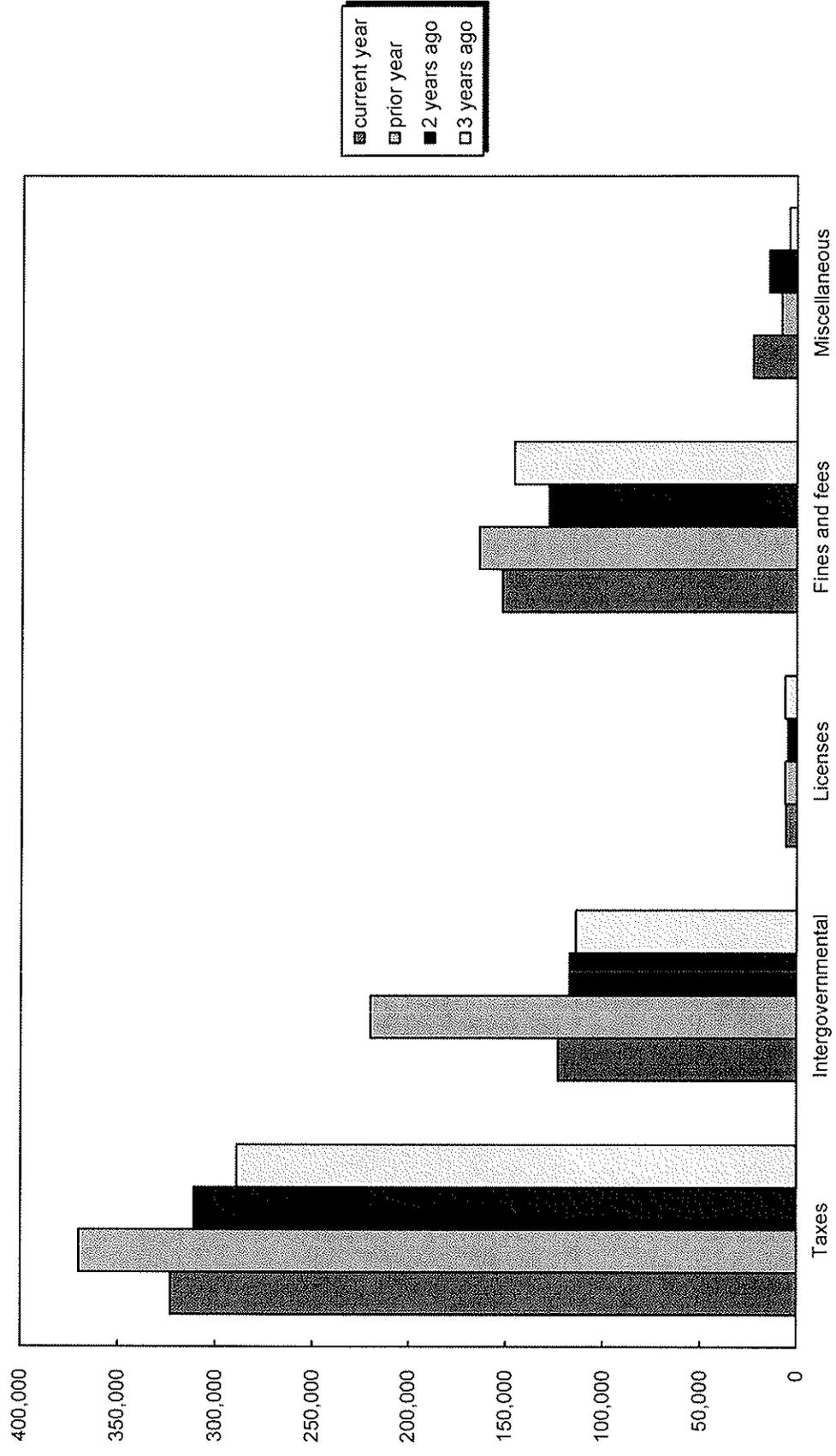
Requests for Information

This financial report is designed to provide a general overview of the City of Red Boiling Springs, Tennessee'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:

Coby Knight
City of Red Boiling Springs

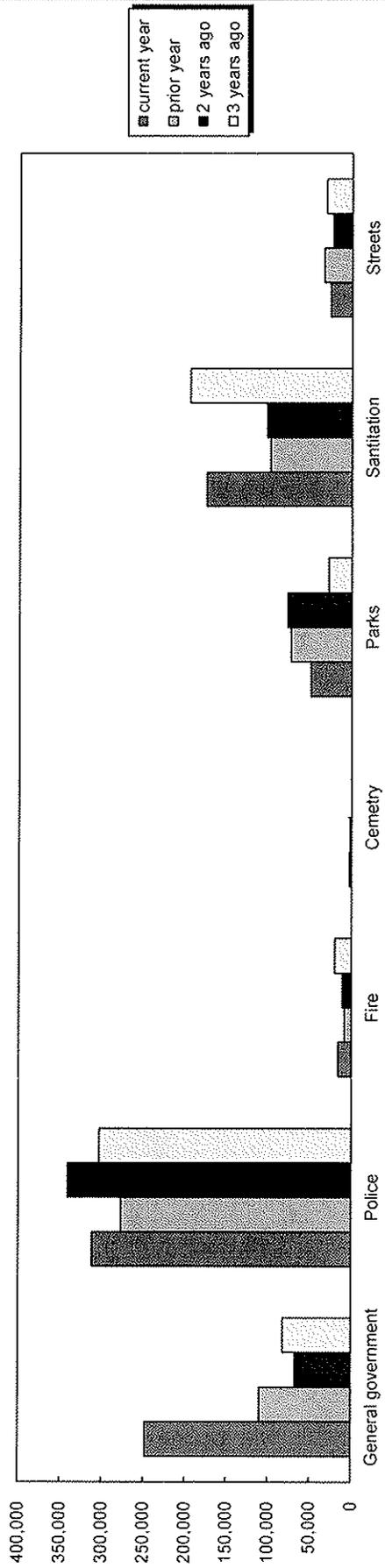
CITY OF RED BOILING SPRINGS, TENNESSEE

GOVERNMENTAL FUND REVENUES



CITY OF RED BOILING SPRINGS, TENNESSEE

GOVERNMENTAL FUND EXPENDITURES



BASIC FINANCIAL STATEMENTS

CITY OF RED BOILING SPRINGS, TENNESSEE

Statement of Net Assets

June 30, 2012

<u>Assets</u>	<u>Governmental Activities</u>	<u>Business Activities</u>	<u>Total</u>
Cash and cash equivalents	183,592	299,659	483,251
Certificate of deposit	0	14,501	14,501
Receivables:	191,985	113,711	305,696
Prepaid assets	33,333	31,833	65,166
Capital assets not being depreciated	75,000	145,449	220,449
Capital assets, net of accumulated depreciation	820,187	7,994,993	8,815,180
Total Assets	<u>1,304,097</u>	<u>8,600,146</u>	<u>9,904,243</u>
Liabilities			
Accounts payable	12,122	89,807	101,929
Deferred revenue	157,228	0	157,228
Customer deposits	0	11,424	11,424
Long-term liabilities:			
Due within one year	20,497	151,573	172,070
Due in more than one year	31,998	524,870	556,868
Total Liabilities	<u>221,845</u>	<u>777,674</u>	<u>999,519</u>
Net assets:			
Investments in capital assets, net of related debt	842,692	7,463,999	8,306,691
Restricted - State street aid	6,504	0	6,504
Restricted - Sanitation	35,861	0	35,861
Restricted - Drug fund	3,706	0	3,706
Unrestricted	193,489	358,473	551,962
Total Net Assets	<u>1,082,252</u>	<u>7,822,472</u>	<u>8,904,724</u>

See accompanying notes to financial statements.

CITY OF RED BOILING SPRINGS, TENNESSEE

Statement of Activities

For the Year Ended June 30, 2012

Function/Programs	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Government Activities:						
General government	152,566	5,757	0	0	(146,809)	0
Police department	302,271	20,246	2,400	0	(279,625)	0
Fire department	17,779	7,180	0	0	(10,599)	0
Cemetery	2,837	1,630	0	0	(1,207)	0
Parks and recreations	77,885	0	0	0	(77,885)	0
Sanitation	128,457	131,980	0	0	3,523	0
Highway and Streets	26,308	0	30,998	0	4,690	0
Total Governmental Activities	708,103	166,793	33,398	0	(507,912)	0
Business - type Activities:						
Natural Gas	313,971	365,056	0	0	0	51,085
Water and Sewer	1,166,875	1,052,773	0	0	0	(114,102)
Total Business Type Activities	1,480,846	1,417,829	0	0	0	(63,017)
Total	2,188,949	1,584,622	33,398	0	(507,912)	(63,017)
General Revenues:						
Property taxes					135,680	0
Public utility taxes					24,998	0
Sales taxes					198,132	0
Beer taxes					51,518	0
State income tax					2,180	0
Interest income					897	326
Other					13,778	0
Total general revenues					427,183	326
Changes in net assets					(80,729)	(62,691)
Net assets - beginning of year					1,162,981	7,885,163
Net assets - ending of year					1,082,252	7,822,472

See accompanying notes to financial statements.

FUND FINANCIAL STATEMENTS

CITY OF RED BOILING SPRINGS, TENNESSEE

Balance Sheet

Governmental Funds

June 30, 2012

<u>Assets</u>	<u>General Fund</u>	<u>Sanitation Fund</u>	<u>Drug Fund</u>	<u>State Street Aid Fund</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents	\$147,944	\$28,161	\$3,706	\$3,781	\$183,592
Accounts receivable:					
Other governments	28,713	0	0	5,078	33,791
Customer accounts	0	11,386	0	0	11,386
Taxes receivable	146,808	0	0	0	146,808
	<u>175,521</u>	<u>11,386</u>	<u>0</u>	<u>5,078</u>	<u>191,985</u>
Prepaid assets	<u>33,333</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>33,333</u>
Total Assets	<u>\$356,798</u>	<u>\$39,547</u>	<u>\$3,706</u>	<u>\$8,859</u>	<u>\$408,910</u>
<u>Liabilities and Fund Equity</u>					
Liabilities:					
Accounts payable	\$8,436	\$3,686	\$0	\$0	\$12,122
Deferred revenue	<u>154,873</u>	<u>0</u>	<u>0</u>	<u>2,355</u>	<u>157,228</u>
Total Liabilities	<u>163,309</u>	<u>3,686</u>	<u>0</u>	<u>2,355</u>	<u>169,350</u>
Fund Equity:					
Fund balance:					
Unassigned	160,156	0	0	0	160,156
Non-spendable	33,333	0	0	0	33,333
Restricted	0	35,861	3,706	6,504	46,071
Total Fund Balance	<u>193,489</u>	<u>35,861</u>	<u>3,706</u>	<u>6,504</u>	<u>239,560</u>
Total Liabilities and Fund Equity	<u>\$356,798</u>	<u>\$39,547</u>	<u>\$3,706</u>	<u>\$8,859</u>	<u>\$408,910</u>

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

CITY OF RED BOILING SPRINGS, TENNESSEE

**Reconciliation of the Balance Sheet to the Statement of Net Assets
of Government Activities**

June 30, 2012

Amounts reported for fund balance - total governmental funds	\$ 239,560
Amounts reported for governmental activities in the statement of net assets are different because:	
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not recorded in the funds	(52,495)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds	<u>895,187</u>
Net assets of governmental activities	\$ <u>1,082,252</u>

CITY OF RED BOILING SPRINGS, TENNESSEE

**Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2012**

	<u>General Fund</u>	<u>Sanitation Fund</u>	<u>Drug Fund</u>	<u>State Street Aid Fund</u>	Total Governmental Funds
Revenues:					
Taxes	322,842	0	0	0	322,842
Intergovernmental	94,341	0	0	28,723	123,064
Licenses and permits	5,757	0	0	0	5,757
Fines and fees	20,246	131,980	0	0	152,226
Miscellaneous	23,485	0	0	0	23,485
Total Revenues	<u>\$466,671</u>	<u>\$131,980</u>	<u>\$0</u>	<u>\$28,723</u>	<u>\$627,374</u>
Expenditures:					
Current:					
General government	138,496	0	0	0	138,496
Police department	299,081	0	1,404	0	300,485
Fire department	16,196	0	0	0	16,196
Cemetery	2,837	0	0	0	2,837
Parks and recreation	48,811	0	0	0	48,811
Sanitation	0	106,527	0	0	106,527
Highway and streets	0	0	0	26,308	26,308
Capital outlay					
General government	109,894	0	0	0	109,894
Sanitation	0	49,193	0	0	49,193
Debt service					
Principal	11,724	18,081	0	0	29,805
Interest	1,598	861	0	0	2,459
Total Expenditures	<u>\$628,637</u>	<u>\$174,662</u>	<u>\$1,404</u>	<u>\$26,308</u>	<u>\$831,011</u>
Excess (deficiency) of revenues over expenditures	<u>(161,966)</u>	<u>(42,682)</u>	<u>(1,404)</u>	<u>2,415</u>	<u>(203,637)</u>
Other financing sources: loan proceeds	0	44,193			44,193
Net change in fund balance	<u>(161,966)</u>	<u>1,511</u>	<u>(1,404)</u>	<u>2,415</u>	<u>(159,444)</u>
Fund Balance, Beginning of year	355,455	34,350	5,110	4,089	399,004
Fund Balance, End of year	<u>\$193,489</u>	<u>\$35,861</u>	<u>\$3,706</u>	<u>\$6,504</u>	<u>\$239,560</u>

See accompanying notes to the financial statements.

CITY OF RED BOILING SPRINGS, 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:	\$	(159,444)
Amounts reported for governmental activities in the statement of net assets are different because:		
Expenses reported in the governmental funds that reduce long-term liabilities		
Repayment of principal balances of long-term debt		29,805
Revenues reported in the governmental funds that increase long-term liabilities		
Loan proceeds		(44,193)
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		159,087
Depreciation expense		<u>(65,984)</u>
Change in net assets of governmental activities	\$	<u>(80,729)</u>

CITY OF RED BOILING SPRINGS, TENNESSEE

Statement of Net Assets

Enterprise (Utility) Funds

June 30, 2012

<u>Assets</u>	<u>Water and Sewer Fund</u>	<u>Natural Gas</u>	<u>Total</u>
Current Assets:			
Cash and cash equivalents	\$57,536	\$242,123	\$299,659
Certificate of deposits	14,501	0	14,501
Customer accounts receivable, net of allowance	98,807	14,904	113,711
Due from other funds	34,701	0	34,701
Prepaid assets	23,496	8,337	31,833
Total Current Assets	229,041	265,364	494,405
Property, Plant and Equipment:			
Utility plant in service	11,606,573	432,600	12,039,173
Less accumulated depreciation	(3,790,002)	(108,729)	(3,898,731)
Total Property, Plant and Equipment, Net	7,816,571	323,871	8,140,442
Total Assets	\$8,045,612	\$589,235	\$8,634,847
 <u>Liabilities</u>			
Current Liabilities			
Accounts payable	57,083	32,724	89,807
Due to other funds	0	34,701	34,701
Current portion of long-term debt	151,573	0	151,573
Total Current Liabilities	208,656	67,425	276,081
Other Liabilities			
Meter deposits	11,424	0	11,424
Total Other Liabilities	11,424	0	11,424
Long-term debt	524,870	0	524,870
Total Liabilities	\$744,950	\$67,425	\$812,375
Net Assets:			
Invested in capital assets, net of related debt	7,140,128	323,871	7,463,999
Unrestricted	160,534	197,939	358,473
Total Net Assets	\$7,300,662	\$521,810	\$7,822,472

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

CITY OF RED BOILING SPRINGS, TENNESSEE

**Statement of Revenues, Expenses
and Changes in Net Assets**

Enterprise (Utility) Funds

For the Year Ended June 30, 2012

	<u>Water and Sewer Fund</u>	<u>Natural Gas</u>	<u>Total</u>
Operating Revenues:			
Metered sales	\$1,029,360	\$358,813	\$1,388,173
Installation and tap fees	23,413	6,243	29,656
Total Operating Revenues	<u>1,052,773</u>	<u>365,056</u>	<u>1,417,829</u>
Operating Expenses:			
Salaries	308,303	60,649	368,952
Employee benefits	24,708	4,630	29,338
Materials and supplies	96,664	44,737	141,401
Repair and maintenance	78,387	14,248	92,635
Water purchases	37,161	0	37,161
Natural gas purchases	0	141,506	141,506
Vehicle expenses	38,833	0	38,833
Office expense	16,392	228	16,620
Utilities	165,619	0	165,619
Contract labor	16,216	11,187	27,403
Depreciation	269,603	21,432	291,035
Insurance	92,562	15,158	107,720
Miscellaneous	0	196	196
Total Operating Expenses	<u>1,144,448</u>	<u>313,971</u>	<u>1,458,419</u>
Operating income (loss)	<u>(91,675)</u>	<u>51,085</u>	<u>(40,590)</u>
Nonoperating Revenues (Expenses):			
Interest expense	(22,427)	0	(22,427)
Interest income	326	0	326
Total Nonoperating Revenues (Expenses)	<u>(22,101)</u>	<u>0</u>	<u>(22,101)</u>
Net change in net assets	(113,776)	51,085	(62,691)
Net Assets, July 1, 2011	<u>7,414,438</u>	<u>470,725</u>	<u>7,885,163</u>
Net Assets, June 30, 2012	<u>\$7,300,662</u>	<u>\$521,810</u>	<u>\$7,822,472</u>

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

CITY OF RED BOILING SPRINGS, TENNESSEE

Statement of Cash Flows

Proprietary Fund Types

For the Year Ended June 30, 2012

	<u>Water and Sewer</u>	<u>Natural Gas</u>	<u>Total</u>
Cash Flows from Operating Activities:			
Cash received from customers	1,057,363	373,610	1,430,973
Cash paid to suppliers	(508,936)	(197,960)	(706,896)
Cash paid to employees	(333,011)	(65,279)	(398,290)
Net Cash Provided by Operating Activities	<u>215,416</u>	<u>110,371</u>	<u>325,787</u>
Cash Flows from Capital and Related Financing Activities:			
Acquisition of plant and equipment	(55,000)	(130,581)	(185,581)
Interest paid	(22,427)	0	(22,427)
Repayment of debt	(153,829)	0	(153,829)
Net Cash Used by Capital and Related Financing Activities	<u>(231,256)</u>	<u>(130,581)</u>	<u>(361,837)</u>
Cash Flows from Investing Activities:			
Redemption (purchase) of certificate of deposit	6,347	0	6,347
Interest received	276	0	276
Net Cash Flows from Investing Activities	<u>6,623</u>	<u>0</u>	<u>6,623</u>
 Net Increase in Cash	 (9,217)	 (20,210)	 (29,427)
Cash and Cash Equivalents, July 1, 2011	<u>66,753</u>	<u>262,333</u>	<u>329,086</u>
Cash and Cash Equivalents, June 30, 2012	<u>57,536</u>	<u>242,123</u>	<u>299,659</u>
 Reconciliation of Operating Income to Net Cash provided by operating activities:			
Operating income (loss)	(91,675)	51,085	(40,590)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	269,603	21,432	291,035
Change in assets (increase) decrease:			
Accounts receivable	4,590	8,554	13,144
Prepaid assets	19,731	0	19,731
Change in liabilities increase (decrease):			
Accounts payable	22,129	21,338	43,467
Due to/from other funds	(8,962)	7,962	(1,000)
 Net Cash Provided by Operating Activities	 <u>215,416</u>	 <u>110,371</u>	 <u>325,787</u>

See accompanying notes to financial statements.

CITY OF RED BOILING SPRINGS, TENNESSEE

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

General Fund

For the Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Budget</u>
Revenues:				
Taxes:				
Property taxes	\$128,260	\$125,750	\$134,445	8,695
Public utility tax	9,000	9,000	12,150	3,150
Local sales tax	111,500	75,000	80,941	5,941
Local sales tax - park improvement	40,000	36,000	36,059	59
Local beer tax	59,250	59,250	50,972	(8,278)
Franchise tax	7,000	7,000	7,040	40
Penalty and interest	750	0	1,235	1,235
Total Taxes	<u>355,760</u>	<u>312,000</u>	<u>322,842</u>	<u>10,842</u>
Intergovernmental:				
In lieu of taxes	10,000	10,000	12,848	2,848
State sales tax	64,150	64,150	74,092	9,942
State income tax	4,000	4,000	2,180	(1,820)
Grants	0	84,475	0	(84,475)
State police supplement	3,000	3,000	2,400	(600)
State beer tax	550	550	546	(4)
State special petroleum tax	7,000	7,000	2,275	(4,725)
Total Intergovernmental Revenue	<u>88,700</u>	<u>173,175</u>	<u>94,341</u>	<u>(78,834)</u>
Licenses:	<u>7,375</u>	<u>7,375</u>	<u>5,757</u>	<u>(1,618)</u>
Fines and Fees:	<u>45,400</u>	<u>45,000</u>	<u>20,246</u>	<u>(24,754)</u>
Miscellaneous:				
Interest income	3,150	3,050	897	(2,153)
Insurance proceeds	0	0	12,790	12,790
Cemetery lots	2,000	2,000	1,630	(370)
Fire revenue	8,800	8,800	7,180	(1,620)
Miscellaneous	74,638	35,898	988	(34,910)
Total Miscellaneous	<u>88,588</u>	<u>49,748</u>	<u>23,485</u>	<u>(26,263)</u>
Total Revenues	<u>585,823</u>	<u>587,298</u>	<u>466,671</u>	<u>(120,627)</u>

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

CITY OF RED BOILING SPRINGS, 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

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Budget</u>
Expenditures:				
General Government:				
Current:				
Mayor and City Council	7,900	7,900	9,428	1,528
Office expenses	5,500	5,500	10,838	5,338
Donations	2,600	7,600	7,400	(200)
Dues	6,000	6,000	4,725	(1,275)
Professional services	10,600	10,600	10,263	(337)
Maintenance and supplies	9,000	30,816	35,908	5,092
Utilities	9,200	9,200	7,773	(1,427)
Insurance	60,000	60,000	52,161	(7,839)
Other	6,500	6,500	0	(6,500)
	<u>117,300</u>	<u>144,116</u>	<u>138,496</u>	<u>(5,620)</u>
Capital outlay	0	224,894	109,894	(115,000)
Total General Government	<u>117,300</u>	<u>369,010</u>	<u>248,390</u>	<u>(120,620)</u>
Expenditures:				
Police department:				
Current:				
Salaries	236,250	236,250	226,443	(9,807)
Employee benefits	17,000	17,000	17,058	58
Training	1,000	1,000	411	(589)
Vehicle costs	25,800	25,800	27,475	1,675
Prisoner expense	2,600	2,600	6,143	3,543
Uniforms	2,000	2,000	2,847	847
Animal control	13,250	13,250	11,658	(1,592)
Maintenance and supplies	6,200	6,200	6,696	496
Other	3,000	3,000	350	(2,650)
	<u>307,100</u>	<u>307,100</u>	<u>299,081</u>	<u>(8,019)</u>
Debt service	20,723	20,723	13,322	(7,401)
Total Police department	<u>327,823</u>	<u>327,823</u>	<u>312,403</u>	<u>(15,420)</u>

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

CITY OF RED BOILING SPRINGS, 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

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Budget</u>
Expenditures:				
Fire department:				
Current:				
Fire calls	6,000	6,000	3,498	(2,502)
Utilities	400	400	587	187
Insurance	1,800	1,800	1,435	(365)
Maintenance and supplies	4,600	4,600	10,676	6,076
Other	1,000	1,000	0	(1,000)
	<u>13,800</u>	<u>13,800</u>	<u>16,196</u>	<u>2,396</u>
Capital outlay	0	0	0	0
Total Fire department	<u>13,800</u>	<u>13,800</u>	<u>16,196</u>	<u>2,396</u>
Cemetery:				
Current:				
Maintenance and supplies	500	500	1,132	632
Other	300	300	1,705	1,405
	<u>800</u>	<u>800</u>	<u>2,837</u>	<u>2,037</u>
Capital outlay	0	0	0	0
Total Cemetery	<u>800</u>	<u>800</u>	<u>2,837</u>	<u>2,037</u>
Park and recreation:				
Current:				
Salaries	12,500	12,500	11,566	(934)
Utilities	3,000	3,000	3,087	87
Insurance	10,000	10,000	10,000	0
Maintenance and supplies	26,500	29,000	24,158	(4,842)
Other	2,000	2,000	0	(2,000)
	<u>54,000</u>	<u>56,500</u>	<u>48,811</u>	<u>(7,689)</u>
Capital outlay	25,000	25,000	0	(25,000)
Total Park and recreation	<u>79,000</u>	<u>81,500</u>	<u>48,811</u>	<u>(32,689)</u>
Total Expenditures	<u>538,723</u>	<u>792,933</u>	<u>628,637</u>	<u>(164,296)</u>
Excess (deficiency) of Revenues over Expenditures	<u>47,100</u>	<u>(205,635)</u>	<u>(161,966)</u>	<u>43,669</u>
Net change in fund balance	<u>47,100</u>	<u>(205,635)</u>	<u>(161,966)</u>	<u>43,669</u>
Fund Balance, July 1, 2011	355,455	355,455	355,455	0
Fund Balance, June 30, 2012	<u>\$402,555</u>	<u>\$149,820</u>	<u>\$193,489</u>	<u>\$43,669</u>

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

CITY OF RED BOILING SPRINGS, TENNESSEE

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

Sanitation Fund

For the Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Budget</u>
Revenues:				
User fees	<u>120,000</u>	<u>135,000</u>	<u>131,980</u>	<u>(3,020)</u>
Total Revenues	<u>120,000</u>	<u>135,000</u>	<u>131,980</u>	<u>(3,020)</u>
Expenditures:				
Salaries	40,000	40,000	34,473	5,527
Employee benefits	3,500	3,500	2,618	882
Repair and maintenance	15,000	15,000	24,951	(9,951)
Landfill	34,500	34,500	28,910	5,590
Insurance	15,000	15,000	15,404	(404)
Supplies	1,500	1,500	171	1,329
Debt service	10,500	20,500	18,942	1,558
Capital outlay	<u>0</u>	<u>44,193</u>	<u>49,193</u>	<u>(5,000)</u>
Total Expenditures	<u>120,000</u>	<u>174,193</u>	<u>174,662</u>	<u>(469)</u>
Excess (deficiency) of revenues over expenditures	0	(39,193)	(42,682)	3,489
Net change in fund balance	<u>0</u>	<u>(39,193)</u>	<u>(42,682)</u>	<u>(3,489)</u>
Proceeds from loan	0	44,193	44,193	0
Fund Balance, July 1, 2011	<u>34,350</u>	<u>34,350</u>	<u>34,350</u>	<u>-</u>
Fund Balance, June 30, 2012	<u><u>\$34,350</u></u>	<u><u>\$39,350</u></u>	<u><u>\$35,861</u></u>	<u><u>(\$3,489)</u></u>

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

CITY OF RED BOILING SPRINGS, TENNESSEE

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

Drug Fund

For the Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Budget</u>
Revenues:				
Miscellaneous:				
Fines	\$0	\$0	0	0
Miscellaneous:				
Interest	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Revenues	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Expenditures:				
Program expenses	<u>0</u>	<u>1,404</u>	<u>1,404</u>	<u>0</u>
Total Expenditures	<u>0</u>	<u>1,404</u>	<u>1,404</u>	<u>0</u>
Excess (deficiency) of revenues over expenditures	0	(1,404)	(1,404)	0
Fund Balance, July 1, 2011	<u>5,110</u>	<u>5,110</u>	<u>5,110</u>	<u>-</u>
Fund Balance, June 30, 2012	<u><u>\$5,110</u></u>	<u><u>\$3,706</u></u>	<u><u>3,706</u></u>	<u><u>0</u></u>

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

CITY OF RED BOILING SPRINGS, TENNESSEE

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

State Street Aid Fund

For the Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Budget</u>
Revenues:				
Intergovernmental:				
Gasoline .03 tax	6,000	6,000	5,891	(109)
Gasoline 1989 tax	3,000	3,000	3,174	174
Gasoline and motor fuel	20,000	20,000	19,658	(342)
Miscellaneous:				
Interest	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Revenues	<u>29,000</u>	<u>29,000</u>	<u>28,723</u>	<u>(277)</u>
Expenditures:				
Streets:				
Street lights	30,000	30,000	26,308	(3,692)
Maintenance and supplies	<u>4,700</u>	<u>4,700</u>	<u>0</u>	<u>(4,700)</u>
Total Expenditures	<u>34,700</u>	<u>34,700</u>	<u>26,308</u>	<u>(8,392)</u>
Excess (deficiency) of revenues over expenditures	(5,700)	(5,700)	2,415	(8,115)
Fund Balance, July 1, 2011	<u>4,089</u>	<u>4,089</u>	<u>4,089</u>	<u>-</u>
Fund Balance, June 30, 2012	<u><u>(\$1,611)</u></u>	<u><u>(\$1,611)</u></u>	<u><u>6,504</u></u>	<u><u>8,115</u></u>

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

NOTES TO THE FINANCIAL
STATEMENTS

CITY OF RED BOILING SPRINGS, TENNESSEE

Notes to Financial Statements

June 30, 2012

(1) Summary of Significant Accounting Policies

The City of Red Boiling Springs, Tennessee, was incorporated under the Private Act of the Tennessee General Assembly. The City provides the following services, as authorized by its charter and duly passed ordinances: public safety (police and fire), water and sewerage, natural gas, streets, recreations, public improvements, and general administrative services. The accounting policies of the City of Red Boiling Springs, 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 City's general purpose 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 City 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 City. 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. The government-wide financial statements present the City's programs between business-type and governmental activities.

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.

CITY OF RED BOILING SPRINGS, TENNESSEE

Notes to Financial Statements

June 30, 2012

(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 year 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 City. It is used to account for all financial resources of the general government except those required to be accounted for in another fund.

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

Sanitation Fund - To account for the operations of the Solid Waste removal.

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

The government reports the following major proprietary funds:

The Water and Sewer Fund and the Natural Gas Fund is used to account for water and sewer and natural gas 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 City has adopted GASB Statement No.20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting. The City 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 City has elected not to apply FASB Statements and interpretations issued after November 30, 1989.

CITY OF RED BOILING SPRINGS, TENNESSEE

Notes to Financial Statements

(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 City's policy to use restricted resources first, then unrestricted resources as they are needed. When unrestricted funds are used the City 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 City'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 City's legal boundaries. All City 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 \$1.1609 per \$100 of assessed valuation for the fiscal year ended June 30, 2012.

Payments may be made during the period from October 1 through February 28th. Current tax collections of \$128,718 for the fiscal year ended June 30, 2012 were approximately 94 percent of the tax levy.

Delinquent taxes are turned over for collection as required by the City Municipal Code.

CITY OF RED BOILING SPRINGS, TENNESSEE

Notes to Financial Statements

June 30, 2012

(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 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

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.

Compensated Absences

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

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 a specific purpose.

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 City to significant concentrations of credit risk consist principally of cash and accounts receivable. The City 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.

CITY OF RED BOILING SPRINGS, TENNESSEE

Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

Budgets and Budgetary Accounting

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

During the year the City exceeded the following departmental budgets:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Cemetery department	\$ 800	2,837	2,037
Fire department	13,800	16,196	2,396

Fund Balance

The City 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 and Certificates of Deposit

The City 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 City invested funds that were not immediately needed in certificates of deposits and savings accounts. The City 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 City 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 City's deposits with financial institutions are fully insured or collateralized by securities held in the City's name.

CITY OF RED BOILING SPRINGS, TENNESSEE

Notes to Financial Statements, Continued

(3) Accounts Receivable

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

<u>Fund</u>	<u>Other Government</u>	<u>Property Taxes</u>	<u>Customer Accounts</u>	<u>Total</u>
General Fund	\$ 28,713	146,808	-	175,521
Special Revenue Fund	5,078	-	11,386	16,464
Enterprise Fund	-	-	126,727	126,727
Less allowance for doubtful accounts	-	-	(13,016)	(13,016)
Total	<u>\$ 33,791</u>	<u>146,808</u>	<u>125,097</u>	<u>305,696</u>

(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:

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2012</u>
Land and buildings	\$ 454,465	114,894	-	569,359
Improvements	1,301,261	-	-	1,301,261
Equipment	465,653	44,193	29,952	479,894
Total	<u>\$ 2,221,379</u>	<u>159,087</u>	<u>29,952</u>	<u>2,350,514</u>
Accumulated depreciation	(1,419,295)			(1,455,327)
Capital Assets, net	<u>802,084</u>			<u>895,187</u>

All assets except land with a cost of \$75,000 are being depreciated. Depreciation expense was charged to functions/programs of the primary government as follows:

General Fund:	
General government administration	\$ 14,070
Police department	188
Fire department	1,583
Park department	29,074
Sanitation Fund	<u>21,069</u>
Total	<u>65,984</u>

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

	<u>Balance June 30, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2012</u>
Land and building	\$ 256,873	55,000	-	311,873
Utility plant	11,133,280	-	-	11,133,280
Equipment	161,420	-	-	161,420
	<u>11,551,573</u>	<u>55,000</u>	<u>-</u>	<u>11,606,573</u>
Less accumulated depreciation	<u>(3,520,399)</u>			<u>(3,790,002)</u>
Net plant in service	<u>\$ 8,031,174</u>			<u>7,816,571</u>

Depreciation expense was \$269,603 in 2012. All assets except land of \$145,449 are being depreciated.

CITY OF RED BOILING SPRINGS, TENNESSEE

Notes to Financial Statements, Continued

(4) Capital Assets, Continued

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

	<u>Balance</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2012</u>
Equipment System	51,942	-	-	51,942
	<u>250,077</u>	<u>130,581</u>	-	<u>380,658</u>
	302,019	<u>130,581</u>	-	432,600
Less accumulated depreciation	(87,296)			(108,729)
Net plant in service	<u>214,723</u>			<u>323,871</u>

Depreciation expense was \$21,432 in 2012. All assets are being depreciated.

(5) Long-Term Debt

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

	<u>Balance</u> <u>July 1,</u> <u>2011</u>	<u>Addi-</u> <u>tions</u>	<u>Retire-</u> <u>ments</u>	<u>Balance</u> <u>June 30,</u> <u>2012</u>
Debt Payable:				
Bonds Payable	316,936	-	146,256	170,680
Rural Development Loans	<u>513,336</u>	-	<u>7,573</u>	<u>505,763</u>
Totals	<u>830,272</u>	-	<u>153,829</u>	<u>676,443</u>

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

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>
2013	151,573	30,135
2014	34,546	22,789
2015	8,214	21,030
2016	8,564	20,680
2017	8,928	20,316
2018-2022	50,664	95,556
2023-2027	63,383	82,837
2028-2032	79,482	66,738
2033-2037	98,607	47,613
2038-2042	121,430	24,790
2043-2044	51,052	7,436
Total	<u>676,443</u>	<u>439,920</u>

The water plant of the Utility is pledged as collateral on the bonded indebtedness to the Rural Economic Development Council of the United States Department of Agriculture.

CITY OF RED BOILING SPRINGS, TENNESSEE

Notes to Financial Statements, Continued

(5) Long-Term Debt, Continued

The following schedule reflects the changes in general long-term debt during fiscal year 2012.

	Balance July 1, <u>2011</u>	Addi- tions	Retire- ments	Balance June 30, <u>2012</u>
Debt Payable:				
Capital outlay note – police car	24,221	-	11,724	12,497
Capital outlay note – sanitation truck	-	44,193	4,195	39,998
Capital outlay note – sanitation truck	<u>13,886</u>	<u>-</u>	<u>13,886</u>	<u>-</u>
Total	38,107	44,193	29,805	52,495

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

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>
2013	20,497	825
2014	8,000	1,248
2015	8,000	936
2016	8,000	640
2017	<u>7,998</u>	<u>320</u>
Total	<u>52,495</u>	<u>5,529</u>

(6) Risk Management

The City of Red Boiling Springs is exposed to various risks to general liability and property and casualty losses. The City has decided it is more economically feasible to be in a public entity risk pool as opposed to purchasing commercial insurance for general liability and property and casualty coverage. The City participates in the TML Insurance Pool which is a public entity risk pool established by the Tennessee Municipal League, and association of member municipalities. The City pays an annual premium to the TML for its general liability and property and casualty insurance coverage. The pool reinsures through commercial insurance companies. The City has not had claims in excess of insurance coverage during the last three years.

(7) Commitments and Contingencies

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.

Litigation:

There are pending lawsuits in which the City is involved. The City attorney estimates that potential claims against the City resulting from such litigation will not materially affect the financial statements of the City at yearend.

CITY OF RED BOILING SPRINGS, TENNESSEE

Notes to Financial Statements

June 30, 2012

(8) Due To/From

As of yearend the Water and Sewer Fund has a Due from balance of \$34,701 from the Natural gas fund related to customers balances remitted. This amount will be repaid in the next fiscal year.

FINANCIAL SCHEDULES

CITY OF RED BOILING SPRINGS, TENNESSEE

Capital Assets Used in the Operation of the Governmental Funds

Schedule of Changes in Capital Assets - By Type

June 30, 2012

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Land and buildings	454,465	114,894	0	569,359
Improvements and Infrastructure	1,301,261	0	0	1,301,261
Equipment	<u>465,653</u>	<u>44,193</u>	<u>29,952</u>	<u>479,894</u>
Total capital assets	<u>2,221,379</u>	<u>159,087</u>	<u>29,952</u>	<u>2,350,514</u>

CITY OF RED BOILING SPRINGS, TENNESSEE

Capital Assets Used in the Operation of the Governmental Funds

Schedule of Capital Assets - By Function and Activity

June 30, 2012

<u>Description</u>	<u>Land and Buildings</u>	<u>Improvements</u>	<u>Equipment</u>	<u>Total</u>
General government	569,359	112,080	0	681,439
Fire department	0	1,139,496	177,500	1,316,996
Police department	0	0	104,991	104,991
Sanitation	0	0	147,475	147,475
Street and highways	<u>0</u>	<u>49,685</u>	<u>49,928</u>	<u>99,613</u>
Total capital assets	<u><u>569,359</u></u>	<u><u>1,301,261</u></u>	<u><u>479,894</u></u>	<u><u>2,350,514</u></u>

CITY OF RED BOILING SPRINGS, TENNESSEE

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

June 30, 2012

	<u>Carrying Value</u>
General Fund:	
Demand deposits	\$147,944
Total General Fund	<u>147,944</u>
State Street Aid Fund:	
Demand deposits	3,781
Total State Street Aid Fund	<u>3,781</u>
Sanitation Fund:	
Demand deposits	28,161
Total Solid Waste Fund	<u>28,161</u>
Drug Fund:	
Demand deposits	3,706
Total Drug Fund	<u>3,706</u>
Natural Gas Fund:	
Demand deposits	\$242,123
Total Natural Gas Fund	<u>242,123</u>
Water and Sewer Fund:	
Demand deposits	57,536
Certificates of deposit	14,501
Total Water and Sewer Fund	<u>72,037</u>
Total - All funds	<u><u>\$497,752</u></u>

CITY OF RED BOILING SPRINGS, TENNESSEE

Schedule of Changes in Property Taxes Receivable

For the Year Ended June 30, 2012

<u>Tax Year</u>	<u>Balance July 1, 2011</u>	<u>Levy</u>	<u>Collections and Changes in Assessment</u>	<u>Balance June 30, 2012</u>
2012	\$ -	130,000	0	130,000
2011	130,000	7,490	128,718	8,772
2010	10,270	0	6,833	3,437
2009	5,066	0	1,303	3,763
2008	633	0	0	633
2007	337	0	134	203
2006	166	0	166	0
2005	166	0	166	0
	<u>\$146,638</u>	<u>137,490</u>	<u>137,320</u>	<u>146,808</u>

<u>Tax Year</u>	<u>Tax Rate</u>	<u>Tax Levy</u>	<u>Tax Adjustment and Collections</u>	<u>Outstanding Delinquent Taxes</u>
2012	\$ 1.1609	\$ 130,000	\$ 0	\$ 130,000
2011	1.1609	137,490	128,718	8,772
2010	1.1609	208,837	205,400	3,437
2009	1.40	138,253	134,490	3,763
2008	1.40	138,252	137,619	633
2007	1.40	133,596	133,393	203
2006	1.40	135,269	135,269	0
2005	1.40	128,186	128,186	0
2004	1.40	128,192	128,192	0
2003	1.32	112,942	112,942	0
2002	1.32	112,942	112,942	0

All years except 2011, 2010, 2009, 2008 and 2007 have been turned over to the Clerk and Master.

CITY OF RED BOILING SPRINGS, TENNESSEE

Schedule of Debt Service Requirements-
Water and Sewer Fund

June 30, 2012

Year	RURAL DEVELOPMENT		NOTE PAYABLE STATE		TOTAL Principal	TOTAL Interest	TOTAL Payments
	RD 91-12 Principal	RD 91-12 Interest	TOTAL Principal	TOTAL Interest			
2013	7,559	21,685	144,014	8,450	151,573	30,135	181,708
2014	7,880	21,364	26,666	1,425	34,546	22,789	57,335
2015	8,214	21,030	-	-	8,214	21,030	29,244
2016	8,564	20,680	-	-	8,564	20,680	29,244
2017	8,928	20,316	-	-	8,928	20,316	29,244
2018	9,308	19,936	-	-	9,308	19,936	29,244
2019	9,703	19,541	-	-	9,703	19,541	29,244
2020	10,115	19,129	-	-	10,115	19,129	29,244
2021	10,545	18,699	-	-	10,545	18,699	29,244
2022	10,993	18,251	-	-	10,993	18,251	29,244
2023	11,460	17,784	-	-	11,460	17,784	29,244
2024	11,947	17,297	-	-	11,947	17,297	29,244
2025	12,455	16,789	-	-	12,455	16,789	29,244
2026	13,985	15,259	-	-	13,985	15,259	29,244
2027	13,536	15,708	-	-	13,536	15,708	29,244
2028	14,112	15,132	-	-	14,112	15,132	29,244
2029	15,337	13,907	-	-	15,337	13,907	29,244
2030	15,989	13,255	-	-	15,989	13,255	29,244
2031	16,668	12,576	-	-	16,668	12,576	29,244
2032	17,376	11,868	-	-	17,376	11,868	29,244
2033	18,115	11,129	-	-	18,115	11,129	29,244
2034	18,885	10,359	-	-	18,885	10,359	29,244
2035	19,687	9,557	-	-	19,687	9,557	29,244
2036	20,524	8,720	-	-	20,524	8,720	29,244
2037	21,396	7,848	-	-	21,396	7,848	29,244
2038	22,306	6,938	-	-	22,306	6,938	29,244
2039	23,254	5,990	-	-	23,254	5,990	29,244
2040	24,242	5,002	-	-	24,242	5,002	29,244
2041	25,272	3,972	-	-	25,272	3,972	29,244
2042	26,356	2,888	-	-	26,356	2,888	29,244
2043	27,466	1,778	-	-	27,466	1,778	29,244
2044	23,586	5,658	-	-	23,586	5,658	29,244
	<u>505,763</u>	<u>430,045</u>	<u>170,680</u>	<u>9,875</u>	<u>676,443</u>	<u>439,920</u>	<u>1,116,363</u>

CITY OF RED BOILING SPRINGS, TENNESSEE

Schedule of Debt Service Requirements - General Obligation Long - Term Debt

June 30, 2012

<u>Year</u>	CAPITAL OUTLAY NOTE SANITATION TRUCK		CAPITAL OUTLAY NOTE POLICE CAR		TOTALS	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	8,000	1,560	12,497	825	20,497	2,385
2014	8,000	1,248			8,000	1,248
2015	8,000	936			8,000	936
2016	8,000	640			8,000	640
2017	7,998	320			7,998	320
	<u>\$ 39,998</u>	<u>4,704</u>	<u>12,497</u>	<u>825</u>	<u>52,495</u>	<u>5,529</u>

CITY OF RED BOILING SPRINGS, TENNESSEE

Schedule of Insurance Coverage

June 30, 2012

Type of Coverage	Detail Coverage	
General liability:	Per person bodily or personal injury	130,000
	Per occurrence or personal injury	350,000
	Per occurrence property damage	350,000
	Per occurrence each other loss	350,000
	Errors and Omissions liability	500,000
	Employee honesty	10,000
Automobiles	Per person bodily or personal injury	130,000
	Per occurrence or personal injury	350,000
Workers Compensation	Per person bodily or personal injury	Statutory
	Excess workers compensation	610,000
Property	Various	Various

CITY OF RED BOILING SPRINGS, TENNESSEE

Schedule of Bonds - Principal Officials

June 30, 2012

<u>Official</u>	<u>Title</u>	<u>Bond</u>
Bobby Etheridge	Mayor	10,000
Willie Brown	Vice - Mayor	10,000
Terry Newberry	Council member	10,000
George McCrary	Council member	10,000
Tom Fultz	Council member	10,000
Joe Hill	Council member	10,000
Billy Joe Carver	Council member	10,000
Coby Knight	City Recorder	10,000

CITY OF RED BOILING SPRINGS, TENNESSEE

Schedule of Utility Rates and Information

June 30, 2012

	Inside <u>City</u>	Outside <u>City</u>
<u>Water rates</u>		
First 2,000 gallons	9.88	13.57
Over 2,000 gallons - cost per thousand gallons	4.17	6.26
<u>Sewer rates</u>		
First 2,000 gallons	11.50	17.25
Over 2,000 gallons - cost per thousand gallons	5.75	8.63

At yearend, the water system services approximately 1,715 customers and the sewer system services approximately 215 customers. The Natural gas system has approximately 225 customers.

CITY OF RED BOILING SPRINGS, TENNESSEE

Schedule of Unaccounted For Water

For the year ended June 30, 2012

Water Treated and Purchased	(all amounts in gallons)
Water Pumped	38,629,000
Water Purchased	1,990,000
Total Water Treated and Purchased	<u>40,619,000</u>
Water sold	28,142,000
Metered for consumption	0
Fire department usage	0
Flushing	600,000
Tank Cleaning	0
Street Cleaning	0
Bulk sales	0
Water Bill adjustments	200,000
Total accounted for water	<u>28,942,000</u>
Unaccounted for water	11,677,000
Percent Unaccounted for water	29%
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 AUDITOR'S 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 Councilmen
City of Red Boiling Springs, Tennessee
Red Boiling Springs, Tennessee

I have audited the financial statements of the governmental activities, the business type activities and each major fund information of the City of Red Boiling Springs 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 City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing the audit, I considered the City of Red Boiling Springs' 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 City of Red Boiling Springs' internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City'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 (1999-01 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 (1999-01) to be a material weakness.

The material weakness is as follows:

1999-01 Separation of Duties

Due to the limited number of personnel employed by the City, several functions, which ideally should be performed by different individuals, are regularly performed by one or two persons. I recommend that the City 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 City of Red Boiling Springs' 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City of Red Boiling Springs' 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 City of Red Boiling Springs 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