

TOWN OF SHARON, TENNESSEE

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

June 30, 2012

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TOWN OF SHARON, TENNESSEE
SCHEDULE OF OFFICIALS
June 30, 2012

Monroe Ary, Mayor

Tommy Jones, Alderman

Jimmy Harris, Alderman

Martin Hamlin, Alderman

Gerald Freeman, Alderman

Donna Stricklin, City Recorder

FINANCIAL SECTION



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Independent Auditor's Report

To the Mayor and Board of Aldermen
Town of Sharon
Sharon, Tennessee

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Sharon, 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's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Sharon, Tennessee, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof, and the budgetary comparison for the General Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2012, on our consideration of the Town of Sharon's internal control over financial reporting and on our 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 our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Sharon's financial statements. The Combining and Individual Nonmajor Fund Statements and Schedules, Schedule of Expenditures of Federal Awards, Schedule of Property Taxes, Schedule of Official Bonds of Principal Officials, and Schedule of Utility Rates and Customers are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining and Individual Nonmajor Fund Statements and Schedules, Schedule of Expenditures of Federal Awards, Schedule of Property Taxes, Schedule of Official Bonds of Principal Officials, and Schedule of Utility Rates and Customers are fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Sharon's basic financial statements. The introductory section and Schedule of Unaccounted-for Water are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Alexander Thompson Arnold PLLC

Martin, Tennessee
December 17, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Sharon, Tennessee, 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.

FINANCIAL HIGHLIGHTS

- The assets of the Town of Sharon exceeded its liabilities at the close of the most recent fiscal year by \$2.2 million (*net assets*). Of this amount, \$641 thousand (*unrestricted net assets*) may be used to meet the Town's ongoing obligations to citizens and creditors.
- The Town's total net assets increased \$58 thousand from the prior year to the current year.
- As of the close of the current fiscal year, the Town of Sharon's general fund reported an ending fund balance of \$297 thousand, an increase of \$70 thousand from the prior year. The amount available for spending at the Town's discretion (*unassigned fund balance*) is \$267 thousand, while the remaining \$30 thousand is restricted or assigned to solid waste operations.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements are comprised of the following components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the financial statements

This report also contains supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

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

- The Statement of Net Assets presents information on all of 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 Town's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes, compensated absences, etc.).

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 include general government, public safety, public works, and health, welfare, and recreation. The business-type activities of the Town consist of a water and sewer system.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, 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 can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

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

Because the focus of governmental funds is narrower than that of 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 Town's near-term financing decisions. Both the Balance Sheet – Governmental Funds and the Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, which is considered to be a major fund. In accordance with GASB 54, the Solid Waste Fund has been combined with the General Fund in the governmental fund statements. However, separate budgetary statements are presented for these two funds, since the Town budgets and records these activities in separate funds. The governmental funds statements present combined information for the two nonmajor funds, the State Street Aid Fund and the Drug Fund. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements presented immediately following the Notes.

The Town adopts an annual appropriated budget for each governmental fund it maintains. Budgetary comparison statements have been provided in this report to demonstrate compliance with these budgets.

Proprietary funds – Proprietary funds are used to account for the business-type activities of the Town. The measurement focus is the same as for the government-wide financial statements. The Town has one proprietary fund, the Water and Sewer Fund.

Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The Town has one fiduciary fund, the John Dew Trust Fund.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Other Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information concerning the Town of Sharon's activities. The combining statements referred to earlier in connection with nonmajor governmental funds are included in this section.

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 Sharon, assets exceeded liabilities by \$2.18 million at the close of the most recent fiscal year.

By far the largest portion of the Town's net assets (69%) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

An additional portion of the Town's net assets (1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (30%) may be used to meet the Town's ongoing obligations to citizens and creditors.

At the end of both the current and prior fiscal year, the Town is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 510,768	\$ 489,528	\$ 344,294	\$ 306,877	\$ 855,062	\$ 796,405
Capital assets	645,936	669,768	881,989	935,352	1,527,925	1,605,120
Total assets	<u>1,156,704</u>	<u>1,159,296</u>	<u>1,226,283</u>	<u>1,242,229</u>	<u>2,382,987</u>	<u>2,401,525</u>
Current liabilities	188,097	244,633	8,430	9,592	196,527	254,225
Other liabilities	4,832	23,405	-	-	4,832	23,405
Total liabilities	<u>192,929</u>	<u>268,038</u>	<u>8,430</u>	<u>9,592</u>	<u>201,359</u>	<u>277,630</u>
Net assets:						
Invested in capital assets, net of related debt	630,013	653,845	881,989	935,352	1,512,002	1,589,197
Restricted	28,348	21,644	-	-	28,348	21,644
Unrestricted	305,414	215,769	335,864	297,285	641,278	513,054
Total net assets	<u>\$ 963,775</u>	<u>\$ 891,258</u>	<u>\$ 1,217,853</u>	<u>\$ 1,232,637</u>	<u>\$ 2,181,628</u>	<u>\$ 2,123,895</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Condensed Statement of Activities

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$ 196,537	\$ 190,987	\$ 205,396	\$ 202,711	\$ 401,933	\$ 393,698
Grants and contributions:						
Operating	75,347	51,866	-	-	75,347	51,866
Capital	-	-	-	-	-	-
General revenues:						
Taxes	388,221	329,217	-	-	388,221	329,217
Other sources	1,576	3,141	641	788	2,217	3,929
Total revenues	661,681	575,211	206,037	203,499	867,718	778,710
Expenses:						
General government	169,806	161,859	-	-	169,806	161,859
Public safety	164,173	162,933	-	-	164,173	162,933
Streets	101,590	84,272	-	-	101,590	84,272
Culture and recreation	45,939	48,398	-	-	45,939	48,398
Sanitation	117,503	109,309	-	-	117,503	109,309
Water and sewer	-	-	210,974	266,537	210,974	266,537
Total expenses	599,011	566,771	210,974	266,537	809,985	833,308
Transfers	9,847	10,056	(9,847)	(10,056)	-	-
Change in net assets	72,517	18,496	(14,784)	(73,094)	57,733	(54,598)
Net assets - beginning	891,258	872,762	1,232,637	1,305,731	2,123,895	2,178,493
Net assets - ending	\$ 963,775	\$ 891,258	\$ 1,217,853	\$ 1,232,637	\$ 2,181,628	\$ 2,123,895

The most significant change in governmental activities was the increase in revenue attributable to the increase in tax revenues received. The Town received a large amount of delinquent property taxes after a building was sold at a county tax auction. County-wide wholesale beer taxes were also significantly higher than last year. In addition, grant revenue was received during the current year for FEMA expenditures. For business-type activities, there was a large decrease in expenses from the previous year due to unusual repairs required for damage to water pipes caused by the weather in the prior year.

FUND FINANCIAL STATEMENTS ANALYSIS

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

The general fund accounts for 96% of governmental fund revenues. Accordingly, this discussion will focus on the general fund. General fund balance was \$297 thousand at the end of the current fiscal year. Approximately \$267 thousand is available to meet the day-to-day needs of the Town, while \$30 thousand is assigned or restricted to solid waste activity.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Revenues in the general fund were \$88 thousand more than last year. The majority of this increase was due to increases in delinquent property taxes, local sales tax and wholesale beer taxes received. Expenditures remained relatively steady, with the exception of the Street Department, which had FEMA expenditures for weather damage clean-up offset by grant money. A budget comparison statement has been provided to demonstrate compliance with the budget.

Proprietary funds – The Town of Sharon has one proprietary fund, the Water and Sewer Fund. Operating revenues had no significant variances from the prior year. Repair and maintenance expenses decreased by \$48 thousand due to significant weather damage to water pipes during the previous year.

Fiduciary funds – The Town of Sharon has one fiduciary fund, the John Dew Trust Fund, which was established by the John Dew Trust and is a private purpose trust fund. The Town was designated as trustee and manages the assets of the trust.

Budgetary highlights – Actual revenues for the General Fund exceeded budgeted revenues by \$92 thousand. Expenditures were \$37 thousand less than appropriations. Significant variances were as follows:

- The Town received \$23 thousand more in delinquent property tax collections than budgeted.
- Local taxes and licenses were \$29 thousand more than budgeted.
- A federal disaster grant was budgeted for \$6,000 but actual revenue was \$21,562.
- City court fines received were approximately \$8,000 more than budgeted.
- Contribution revenues were approximately \$10,000 more than budgeted.
- All departments' salaries expense was under budgeted amounts.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets – As of June 30, 2012, the Town had invested \$1.5 million, net of accumulated depreciation, in a variety of capital assets. As allowed by GASB Statement No. 34, the Town chose not to report original infrastructure (streets, sidewalks, bridges, etc.). Additional information on the Town's capital assets can be found in the notes to the financial statements in this report.

Long-term debt – At the end of the current fiscal year, the Town of Sharon had retired all of its debt outstanding at the beginning of the year. The only remaining noncurrent liability consists of approximately \$4 thousand in compensated absences. The Town's share of the landfill closure and postclosure liability was reduced to zero during the current year, due to a revised estimate from the State of the total amount required to fund these activities. Additional information on the Town of Sharon's long-term debt activity can be found in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Town anticipates receiving a grant for a new water tank in the coming year for approximately \$500,000. The Town's matching portion should be \$160,000.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town of Sharon's finances for citizens, taxpayers, customers, investors, creditors and all others with an interest in the Town of Sharon's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town Recorder, Town of Sharon, P.O. Box 235, Sharon, TN 38255.

TOWN OF SHARON, TENNESSEE
STATEMENT OF NET ASSETS
June 30, 2012

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets			
Cash in bank and on hand	\$ 268,340	\$ 253,952	\$ 522,292
Cash in restricted account - landfill	3,126	-	3,126
Taxes receivable (net)	212,543	-	212,543
Other receivables	26,759	47,754	74,513
Inventory	-	42,588	42,588
Total current assets	510,768	344,294	855,062
Noncurrent assets			
Capital assets (net of accumulated depreciation):			
Land and improvements	127,995	-	127,995
Buildings	215,863	-	215,863
Water plant in operation	-	544,709	544,709
Sewer plant in operation	-	335,828	335,828
Vehicles and equipment	302,078	1,452	303,530
Total capital assets	645,936	881,989	1,527,925
Total assets	1,156,704	1,226,283	2,382,987
LIABILITIES			
Current liabilities			
Accounts payable	878	615	1,493
Accrued payroll taxes	1,160	-	1,160
Accrued expenses	-	1,953	1,953
Other accrued liabilities	-	1,498	1,498
Customer deposits	-	4,364	4,364
Deferred revenue - property tax	186,059	-	186,059
Total current liabilities	188,097	8,430	196,527
Noncurrent liabilities			
Compensated absences	4,832	-	4,832
Total liabilities	192,929	8,430	201,359
NET ASSETS			
Invested in capital assets	645,936	881,989	1,527,925
Restricted for:			
Tri-City Landfill	3,126	-	3,126
State street aid fund	21,566	-	21,566
Drug fund	3,656	-	3,656
Unrestricted	289,491	335,864	625,355
Total net assets	\$ 963,775	\$ 1,217,853	\$ 2,181,628

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

TOWN OF SHARON, TENNESSEE
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses)/Revenues and Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Governmental Activities:							
General government	\$ 104,789	\$ 43,856	\$ 21,947	\$ -	\$ (38,986)	\$ -	\$ (38,986)
Financial administration	65,017	-	-	-	(65,017)	-	(65,017)
Police department	103,560	15,977	5,223	-	(82,360)	-	(82,360)
Fire department	60,613	23,155	-	-	(37,458)	-	(37,458)
Street department	101,590	440	48,177	-	(52,973)	-	(52,973)
Senior Citizens	4,571	-	-	-	(4,571)	-	(4,571)
Recreation	19,699	-	-	-	(19,699)	-	(19,699)
Library	21,669	2,115	-	-	(19,554)	-	(19,554)
Sanitation	117,503	110,994	-	-	(6,509)	-	(6,509)
Total governmental activities	599,011	196,537	75,347	-	(327,127)	-	(327,127)
Business-Type Activities:							
Water and sewer	210,974	205,396	-	-	-	(5,578)	(5,578)
Total	\$ 809,985	\$ 401,933	\$ 75,347	\$ -	(327,127)	(5,578)	(332,705)
General Revenues:							
					201,716	-	201,716
					14,460	-	14,460
					115,683	-	115,683
					34,167	-	34,167
					8,408	-	8,408
					9,470	-	9,470
					4,258	-	4,258
					59	-	59
					507	641	1,148
					1,069	-	1,069
					9,847	(9,847)	-
					399,644	(9,206)	390,438
					72,517	(14,784)	57,733
					891,258	1,232,637	2,123,895
					\$ 963,775	\$ 1,217,853	\$ 2,181,628

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

TOWN OF SHARON, TENNESSEE
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash in banks and on hand	\$ 247,605	\$ 20,735	\$ 268,340
Cash in restricted account - landfill	3,126	-	3,126
Taxes receivable (net)	212,543	-	212,543
Other receivables	<u>22,272</u>	<u>4,487</u>	<u>26,759</u>
Total assets	<u>\$ 485,546</u>	<u>\$ 25,222</u>	<u>\$ 510,768</u>
 LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$ 878	\$ -	\$ 878
Accrued payroll taxes	1,160	-	1,160
Deferred revenue	<u>186,059</u>	<u>-</u>	<u>186,059</u>
Total liabilities	188,097	-	188,097
Fund balance			
Restricted	3,126	25,222	28,348
Assigned	27,358	-	27,358
Unassigned	<u>266,965</u>	<u>-</u>	<u>266,965</u>
Total fund balance	<u>297,449</u>	<u>25,222</u>	<u>322,671</u>
Total liabilities and fund balance	<u>\$ 485,546</u>	<u>\$ 25,222</u>	<u>\$ 510,768</u>

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

TOWN OF SHARON, TENNESSEE
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2012

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

Total fund balance of governmental funds	\$ 322,671
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	645,936
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(4,832)</u>
Net assets of governmental activities	<u>\$ 963,775</u>

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

TOWN OF SHARON, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2012

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues			
Local taxes	\$ 216,176	\$ -	\$ 216,176
Local revenues	116,960	-	116,960
Intergovernmental revenues	97,538	24,678	122,216
Charges for services	155,115	-	155,115
Fines and forfeitures	14,049	238	14,287
Miscellaneous income	24,706	-	24,706
Interest	498	9	507
Rent	11,714	-	11,714
Total revenues	636,756	24,925	661,681
Expenditures			
Current:			
General government	103,326	-	103,326
Financial administration	65,068	-	65,068
Police department	98,906	-	98,906
Fire department	33,443	-	33,443
Street department	79,487	21,346	100,833
Senior citizen center	3,611	-	3,611
Recreation	19,474	-	19,474
Library	20,836	-	20,836
Sanitation	120,689	-	120,689
Debt service:			
Principal	15,923	-	15,923
Interest	592	-	592
Capital outlay:			
Street department	9,195	-	9,195
Recreation	5,996	-	5,996
Total expenditures	576,546	21,346	597,892
Revenues over expenditures	60,210	3,579	63,789
Other financing sources (uses)			
Transfer - In-lieu-of-tax payment	9,847	-	9,847
Net change in fund balance	70,057	3,579	73,636
Fund balance - July 1, 2011	227,392	21,643	249,035
Fund balance - June 30, 2012	\$ 297,449	\$ 25,222	\$ 322,671

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

TOWN OF SHARON, 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

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

Net change in fund balance of governmental funds	\$ 73,636
<p>Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. Amounts for the current year are:</p>	
Capital outlay	15,191
Depreciation	(39,023)
<p>Expenses reported in the statement of activities for compensated absences do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>	
	(692)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal on long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.</p>	
Principal payments	15,923
<p>The change in the estimated liability for the landfill postclosure obligation is included in the statement of activities, but does not affect current financial resources of governmental funds.</p>	
	<u>7,482</u>
Change in net assets of governmental activities	<u>\$ 72,517</u>

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

TOWN OF SHARON, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Revenues				
Local taxes				
Property taxes	\$ 140,000	\$ 140,000	\$ 143,742	\$ 3,742
Public utility tax	16,480	16,480	14,460	(2,020)
Payments in lieu of tax	18,900	18,900	14,394	(4,506)
Property taxes - delinquent	16,000	16,000	39,337	23,337
Interest and penalties	2,500	2,500	4,243	1,743
Total local taxes	<u>193,880</u>	<u>193,880</u>	<u>216,176</u>	<u>22,296</u>
Local revenues				
Local county sales tax	45,000	45,000	51,647	6,647
Wholesale beer tax	24,000	24,000	33,704	9,704
Franchise tax	4,500	4,500	9,470	4,970
Automobile registration	10,280	10,280	13,306	3,026
Business tax	3,800	3,800	8,408	4,608
Building permits	100	100	125	25
Beer licenses	500	500	300	(200)
Total local revenues	<u>88,180</u>	<u>88,180</u>	<u>116,960</u>	<u>28,780</u>
Intergovernmental revenues				
State sales tax	63,000	63,000	64,036	1,036
State income tax	2,370	2,370	4,258	1,888
Petroleum special tax	2,100	2,100	1,937	(163)
Federal disaster grant	6,000	6,000	21,562	15,562
State law enforcement education grant	5,000	5,000	5,223	223
State beer tax	500	500	463	(37)
State telecommunications tax	100	100	59	(41)
Total intergovernmental revenues	<u>79,070</u>	<u>79,070</u>	<u>97,538</u>	<u>18,468</u>
Charges for services				
Other charges for services	15,700	15,700	16,125	425
Special fire protection fees	19,400	19,400	23,155	3,755
General government charges	2,200	2,200	2,177	(23)
Library charges	2,168	2,168	2,115	(53)
Public works	400	400	440	40
Duplicating charges	100	100	109	9
Total charges for services	<u>39,968</u>	<u>39,968</u>	<u>44,121</u>	<u>4,153</u>
Fines and forfeitures				
City court fines	6,200	6,200	14,049	7,849

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

TOWN OF SHARON, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Other revenues				
Rent income	12,800	12,800	11,714	(1,086)
Sale of property and supplies	740	740	1,690	950
Interest income	400	400	461	61
Insurance recoveries	-	-	200	200
Miscellaneous refunds	400	400	869	469
Contributions from private sources	12,000	12,000	21,947	9,947
Total other revenues	<u>26,340</u>	<u>26,340</u>	<u>36,881</u>	<u>10,541</u>
Total revenues	<u>433,638</u>	<u>433,638</u>	<u>525,725</u>	<u>92,087</u>
Expenditures				
General government				
Salaries	3,600	3,600	3,600	-
Social security	17,280	17,280	16,652	(628)
Other benefits	360	927	926	(1)
Election officials	200	200	-	(200)
Postage, etc.	350	350	249	(101)
Printing, duplicating, etc.	300	300	277	(23)
Publicity, subscriptions, etc.	8,000	8,000	8,375	375
Legal fees	400	400	590	190
Professional/technical services	200	-	-	-
County assessment costs	-	-	1,506	1,506
Travel	50	50	-	(50)
Office supplies	300	-	43	43
Operating supplies	700	633	13,266	12,633
Repairs and maintenance supplies	800	800	-	(800)
Insurance	32,300	32,300	26,735	(5,565)
Hospitalization	36,000	36,000	30,117	(5,883)
Miscellaneous	1,510	1,510	(10)	(1,520)
Donations	1,000	1,000	1,000	-
Total general government	<u>103,350</u>	<u>103,350</u>	<u>103,326</u>	<u>(24)</u>
Financial administration				
Salaries	49,000	49,000	46,607	(2,393)
Postage, etc.	300	300	234	(66)
Printing, duplicating, etc.	300	535	532	(3)
Publicity, subscriptions, etc.	1,250	803	610	(193)
Utilities	5,400	5,400	4,958	(442)
Professional/technical services	2,800	3,313	2,916	(397)
Data processing	800	800	683	(117)
Repairs and maintenance services	1,400	900	729	(171)
Travel	1,400	1,400	1,048	(352)
Miscellaneous	200	200	142	(58)

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

TOWN OF SHARON, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Operating supplies	300	300	262	(38)
Repairs and maintenance supplies	300	300	50	(250)
Machinery and equipment	7,000	7,000	4,465	(2,535)
Office supplies	1,600	1,800	1,832	32
Total financial administration	<u>72,050</u>	<u>72,051</u>	<u>65,068</u>	<u>(6,983)</u>
Police department				
Salaries	75,000	75,000	73,065	(1,935)
Town judge	1,200	1,200	1,200	-
Communication and transportation	1,300	1,350	1,452	102
Postage, etc.	75	25	3	(22)
Printing, duplicating, etc.	200	200	199	(1)
Publicity, subscriptions, etc.	3,800	3,880	4,002	122
Professional/technical services	1,600	1,520	1,398	(122)
Repairs and maintenance services	1,580	1,580	479	(1,101)
Travel	800	800	614	(186)
Jail fees	260	260	-	(260)
Miscellaneous	250	250	132	(118)
Office supplies	800	800	340	(460)
Operating supplies	1,900	1,132	664	(468)
Repairs and maintenance supplies	1,700	1,700	1,154	(546)
Fuel	6,100	6,868	7,453	585
Capital outlay	11,500	11,500	11,208	(292)
Total police department	<u>108,065</u>	<u>108,065</u>	<u>103,363</u>	<u>(4,702)</u>
Fire department				
Salaries	3,625	3,625	3,625	-
Volunteer firemen	14,800	14,800	12,270	(2,530)
Postage, etc.	300	300	102	(198)
Publicity, subscriptions, etc.	1,600	1,600	1,160	(440)
Communications	600	600	600	-
Repairs and maintenance supplies	1,500	1,600	1,523	(77)
Repairs and maintenance services	2,000	2,200	2,101	(99)
Fuel	1,000	1,000	941	(59)
Office supplies	200	200	205	5
Utilities	3,500	3,500	2,324	(1,176)
Operating supplies	2,500	2,500	1,918	(582)
Travel	100	-	-	-
Professional/technical services	4,000	3,800	1,411	(2,389)
Miscellaneous	200	200	142	(58)
Capital outlay	9,500	9,500	5,121	(4,379)
Total fire department	<u>45,425</u>	<u>45,425</u>	<u>33,443</u>	<u>(11,982)</u>

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

TOWN OF SHARON, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Street Department				
Salaries	60,215	60,215	52,195	(8,020)
Printing, duplicating, etc.	800	800	508	(292)
Publicity, subscriptions, etc.	50	50	18	(32)
Utilities	6,200	6,150	6,144	(6)
Professional/technical services	100	150	117	(33)
Repairs and maintenance supplies	3,000	3,000	3,196	196
Repairs and maintenance services	900	1,800	3,100	1,300
Raw materials	500	500	806	306
Fuel	1,600	2,200	2,193	(7)
Building materials	200	400	375	(25)
Operating supplies	2,200	2,200	5,830	3,630
Office supplies	150	150	-	(150)
Miscellaneous	25	25	5	(20)
Capital outlay	8,200	14,300	14,195	(105)
Total street department	<u>84,140</u>	<u>91,940</u>	<u>88,682</u>	<u>(3,258)</u>
Senior Citizen Center				
Operating supplies	100	100	-	(100)
Utilities	1,900	1,900	1,663	(237)
Fuel	450	800	838	38
Repairs and maintenance services	600	250	-	(250)
Repairs and maintenance supplies	700	700	423	(277)
Other per diem	600	600	315	(285)
Professional/technical services	300	300	372	72
Total senior citizen center	<u>4,650</u>	<u>4,650</u>	<u>3,611</u>	<u>(1,039)</u>
Recreation				
Salaries	9,800	9,800	9,557	(243)
Building materials	600	600	107	(493)
Repairs and maintenance supplies	1,800	1,100	1,039	(61)
Repairs and maintenance services	300	800	746	(54)
Utilities	2,500	2,000	1,644	(356)
Operating supplies	600	2,500	7,306	4,806
Raw materials	300	300	-	(300)
Miscellaneous	880	880	(925)	(1,805)
Capital outlay	8,000	6,800	5,996	(804)
Total recreation	<u>24,780</u>	<u>24,780</u>	<u>25,470</u>	<u>690</u>
Library				
Salaries	15,976	15,976	15,840	(136)
Professional/technical services	700	700	690	(10)
Dues	200	200	55	(145)

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

TOWN OF SHARON, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance Over (Under)
Repairs and maintenance supplies	150	150	19	(131)
Repairs and maintenance services	1,600	1,350	1,059	(291)
Operating supplies	5,000	5,000	(178)	(5,178)
Miscellaneous	200	200	176	(24)
Travel	200	200	47	(153)
Utilities	2,800	3,050	3,128	78
Total library	26,826	26,826	20,836	(5,990)
Debt service				
Principal	15,000	15,000	11,471	(3,529)
Interest	500	500	587	87
Total debt service	15,500	15,500	12,058	(3,442)
 Total expenditures	 484,786	 492,587	 455,857	 (36,730)
 Revenues over (under) expenditures	 (51,148)	 (58,949)	 69,868	 128,817
Other financing sources (uses)				
Transfer for in-lieu-of-tax payment	10,000	10,000	9,847	(153)
Transfers from other funds	15,000	15,000	-	(15,000)
Total other financing sources (uses)	25,000	25,000	9,847	(15,153)
 Net change in fund balance	 (26,148)	 (33,949)	 79,715	 113,664
Fund balance - July 1, 2011	187,250	187,250	187,250	-
Fund balance - June 30, 2012	\$ 161,102	\$ 153,301	\$ 266,965	\$ 113,664

Reconciliation to governmental fund financial statements:

Net change in fund balance - budget statement (above)	\$ 79,715
Revenues and expenditures not included in budget statement:	
Solid waste revenues	111,031
Solid waste expenditures	(120,689)
Net change in fund balance - governmental statement of revenues, expenditures and change in fund balance (page 12)	\$ 70,057
General fund balance - budget statement (above)	\$ 266,965
Assets related to solid waste operations	30,484
Liabilities related to solid waste operations	-
General fund balance - governmental balance sheet (page 10)	\$ 297,449

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

TOWN OF SHARON, TENNESSEE
STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2012

ASSETS

Current assets	
Cash in bank	\$ 253,952
Accounts receivable	47,754
Inventory	<u>42,588</u>
Total current assets	<u>344,294</u>
Capital assets (net of accumulated depreciation)	
Water plant in operation	544,709
Sewer plant in operation	335,828
Vehicles and equipment	<u>1,452</u>
Total capital assets	<u>881,989</u>
Total assets	<u>1,226,283</u>

LIABILITIES

Current liabilities	
Accounts payable	615
Accrued expenses	1,953
Accrued other liabilities	1,498
Customer deposits	<u>4,364</u>
Total liabilities	<u>8,430</u>

NET ASSETS

Invested in capital assets	881,989
Unrestricted net assets	<u>335,864</u>
Total net assets	<u>\$ 1,217,853</u>

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

TOWN OF SHARON, TENNESSEE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
NET ASSETS - PROPRIETARY FUND

For the Year Ended June 30, 2012

Operating revenues	
Metered water sales	\$ 90,223
Forfeits and service charges	4,014
Customer installations	4,650
Sewer service charges	105,576
Sewer tap fees	600
Miscellaneous	333
Total operating revenues	<u>205,396</u>
 Operating expenses	
Salaries	22,882
Health insurance	4,834
Payroll taxes	1,825
Postage, etc.	2,562
Printing, duplicating, etc.	364
Publicity, subscriptions, etc.	3,274
Utilities	29,940
Audit services	2,000
Other professional services	28,347
Repairs and maintenance services	5,472
Travel	59
Miscellaneous	47
Office supplies	723
Operating supplies	14,699
Repairs and maintenance supplies	8,117
Fuel	22,122
Insurance	7,211
Building materials	701
Machinery and equipment rental	151
Machinery and equipment	282
Capital outlay	2,000
Depreciation	53,362
Total operating expenses	<u>210,974</u>
 Operating income (loss)	 (5,578)
 Non-operating revenues (expenses)	
Interest income	<u>641</u>
 Net income (loss) before transfers	 (4,937)
 In-lieu-of-tax transfer	 <u>(9,847)</u>
 Change in net assets	 (14,784)
 Net assets - July 1, 2011	 <u>1,232,637</u>
 Net assets - June 30, 2012	 <u>\$ 1,217,853</u>

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

TOWN OF SHARON, TENNESSEE
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2012

Cash flows from operating activities

Cash received from customers	\$ 202,900
Cash payments to suppliers	(131,671)
Cash payments to employees for services	(29,104)
Cash payments for customer deposit refunds	(23)
Cash provided by operating activities	42,102

Cash flows from non-capital financing activities

Transfer out - in-lieu-of-tax payment	(9,847)
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Cash flows from investing activities

Interest received	641
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Increase in cash **32,896**

Cash - July 1, 2011	221,056
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Cash - June 30, 2012	\$ 253,952
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Cash flows from operating activities

Operating income (loss)	\$ (5,578)
Adjustments to reconcile operating income (loss) to cash used by operating activities:	
Depreciation	53,362
Increase in accounts receivable	(2,496)
Increase in inventories	(2,025)
Decrease in accounts payable	(1,575)
Increase in accrued expenses	437
Decrease in customer deposits	(23)
Total adjustments	47,680
Cash provided by operating activities	\$ 42,102

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

TOWN OF SHARON, TENNESSEE
STATEMENT OF NET ASSETS
FIDUCIARY FUND
June 30, 2012

	<u>Private Purpose Trust</u> <u>John Dew Trust Fund</u>
ASSETS	
Cash in bank	\$ 36,013
Building improvements, net of accumulated depreciation	<u>47,004</u>
Total assets	83,017
LIABILITIES	
Customer deposits	<u>11,493</u>
NET ASSETS	
Assets held in trust for other purposes	<u><u>\$ 71,524</u></u>

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

TOWN OF SHARON, TENNESSEE
STATEMENT OF CHANGES IN NET ASSETS
FIDUCIARY FUND
For the Year Ended June 30, 2012

	Private Purpose Trust
	John Dew Trust Fund
Additions	
Rent	\$ 105,999
Miscellaneous	616
Interest income	5,465
Total additions	112,080
Deductions	
Contract labor	20,775
Postage, etc.	195
Utilities	1,159
Professional services	3,145
Repair and maintenance service	13,418
Collection fees	16,125
Miscellaneous	1,647
Operating supplies	267
Repair and maintenance supplies	6,801
Office supplies	177
Insurance	5,207
Fixed charges	15,706
Depreciation expense	1,377
Small equipment purchases	12,029
Total deductions	98,028
Net increase in fiduciary net assets	14,052
Net assets - July 1, 2011	57,472
Net assets - June 30, 2012	\$ 71,524

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

TOWN OF SHARON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Sharon, Tennessee, operates under a Mayor-Aldermen form of government and provides the following services as authorized by its charter: public safety (police and fire), highways and streets, sanitation, health and social services, public improvements, planning and zoning, and general administrative services.

The financial statements of the Town have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the Town are described below.

A. Reporting Entity

The Town includes, for financial reporting purposes, all funds, agencies, boards, commissions and authorities that are controlled by or dependent on the Town. Control by or dependence on the Town has been determined on the basis of budget adoption, taxing authority, guarantee of debt, general obligations of the Town, ownership of assets, or the Town's obligation to fund any deficits that may occur. Based on these criteria, there were no component units applicable for inclusion in the basic financial statements.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

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

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flow. Property taxes are recognized as revenues in

TOWN OF SHARON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The Town reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The Town accounts for its solid waste activities in a separate fund that manages the Town's residential and commercial garbage collection services. Customer collections are the major source of solid waste revenue. Garbage collections are contracted services and are the major expense for solid waste expenditures. In accordance with GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the Solid Waste Fund has been incorporated into the General Fund and its portion of the general fund balance assigned to solid waste activities.

Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

The Town reports the following major proprietary fund:

The Water and Sewer Fund, an enterprise fund, is used to account for operations that are financed and operated in a manner similar to a business enterprise, where costs of providing services are financed through user charges.

The Town reports the following fiduciary fund:

John Dew Trust Fund is a private purpose trust fund created for the purpose of providing homes for the aged. The City manages the apartments owned by the John Dew Trust. The primary income is rent and the primary expenses are upkeep of the apartment units. The John Dew Trust Fund is financially independent of the Town.

The Town's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements

TOWN OF SHARON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Town's reporting entity does not apply FASB pronouncements issued after November 30, 1989.

As a general rule, the effect of interfund activity is eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Town's water and sewer division 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: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principle ongoing operations. The principle operating revenues of the Town's enterprise fund are charges to customers for sales and services. The water and sewer fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the systems. The water and sewer fund recognizes income based on cycle billings. This results in recognizing as income the water usage through each respective cycle each month, which may not coincide with the last day of the fiscal year. Non-recognition of income from water sales as a result of cycle billing is a common industry practice. Operating expenses for the water and sewer fund 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. The cost of purchased water is accrued based on the final meter reading of the fiscal year. This may result in unrecognized expenses for the period between the final billing and the end of the fiscal year. This practice is consistent with industry guidelines and does not differ significantly from generally accepted accounting principles.

D. Assets, Liabilities and Fund Balance

Deposits and Investments

The Town's cash is considered to be all deposits with financial institutions, including restricted deposits, and highly liquid investments with original maturities of three months or less. State statutes authorize the City to invest in bonds, notes or treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations and federally chartered banks and savings and loan associations, repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities, the state pooled investment fund, and mutual funds. At June 30, 2012, all investments consisted of certificates of deposits purchased from a local financial institution.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Property taxes are levied in October of each year and attach as an enforceable lien on property and

TOWN OF SHARON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

accrue penalties as of February 28th or 29th. The Town is permitted by the Municipal Finance Law of the State to levy taxes up to \$2.40 per \$100 of assessed valuation for general government services. The Town's property tax rate is \$1.63. The Town bills and collects its own property taxes, and tax revenues are recognized when levied to the extent that they result in current receivables. The Town reports its property taxes receivable net of an allowance for doubtful accounts, which estimates uncollectible taxes.

Inventories

Inventory records are not maintained on a perpetual basis. The Town takes a physical inventory at fiscal year-end, which is recorded at cost using the first-in/first-out (FIFO) method.

Capital Assets

Capital assets, including property, plant, vehicles, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) and construction in progress are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of more than \$5,000 for equipment and for infrastructure. As a phase three entity of GASB Statement No. 34, the Town has chosen not to retroactively report infrastructure fixed assets. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. For the year under examination, there were no interest costs capitalized.

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

Buildings	25 – 50 years
Vehicles and equipment	3 – 10 years
Furniture and fixtures	3 – 10 years
Infrastructure	20 – 50 years

Compensated Absences

The Town provides paid vacation annually for employees with at least one year of service. Employees can accrue a maximum of 15 days vacation. Upon separation, employees are entitled to be reimbursed for any unused vacation up to the maximum accrual. The Town's sick leave policy states that employees may be paid for sick leave accumulated over 24 days. Only one half of any accrued sick leave may be converted to cash and may be done only in June of each year or upon their termination due to retirement or medical disability.

Long-term Obligations

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

TOWN OF SHARON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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

Fund Balance/Net Assets

In the governmental fund financial statements, fund balances are classified as follows:

- Nonspendable – amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.
- Restricted – amounts that can be spent only for specific purposes because of limitations imposed by creditors, grantors, or contributors or by enabling legislation or constitutional provisions.
- Committed – amounts that can be used only for specific purposes determined by a formal action of the Board of Aldermen by ordinance.
- Assigned – amounts that are designated by the Board for a particular purpose but are not spendable until there is a majority vote approval by the Board.
- Unassigned – all amounts in the general fund not included in other spendable classifications.

As of June 30, 2012, the Town had restricted fund balance of \$3,126 for restricted cash held in a Tri-Cities Landfill account, \$21,566 for state street aid funds and \$3,656 for drug funds. The general fund had assigned fund balance of \$27,358 for solid waste activities.

Net assets in the government-wide statements are categorized as follows:

- Invested in capital assets – consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any payables that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net assets – net assets that have third party limitations on their use.
- Unrestricted net assets – all net assets that are not included in the categories identified above.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net assets), the Town's policy is to first apply the expense toward restricted resources and then toward unrestricted resources. In governmental funds, the Town's policy is to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications – committed and then assigned fund balances before using unassigned fund balances.

Use of Estimates

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

TOWN OF SHARON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Prior to July 1, the Town Recorder submits to the Mayor and Board of Aldermen a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them. Public hearings are conducted to obtain taxpayer comments. Prior to July 1, the budget is legally enacted through passage of a resolution.

Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds. Budgets for the General Fund and special revenue funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) for governmental funds. The Town Recorder is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any Town fund must be approved by the Board of Aldermen.

Under TCA 68-211-874, the Town is required to account for its solid waste collection activities in a separate fund. However, the Solid Waste Fund does not qualify as a special revenue fund under GAAP. Accordingly, this fund has been included as part of the General Fund for fund reporting, yet remains separate for budgetary reporting. Page 18 includes a reconciliation of the General Fund budgetary reporting to its GAAP reporting on pages 10 and 12.

For the year ended June 30, 2012, the Solid Waste Fund had \$15,761 in expenditures over budget.

NOTE 3 – DETAILED NOTES ON ALL FUNDS

A. Deposits and Invested Funds

Custodial credit risk of deposits is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. Interest-bearing deposits are covered by federal depository insurance up to \$250,000, and non-interest bearing accounts are covered by an additional \$250,000. State statute requires that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the value of uninsured deposits. The deposits must be collateralized by federal depository insurance or the Tennessee Bank Collateral Pool, by eligible collateral held by the Town's agent in the Town's name, or by the Federal Reserve Banks acting as third party agents. Eligible collateral means bonds or obligations guaranteed by the United States or any of its agencies or by various entities in Tennessee. Such collateral shall not include state or municipal bonds from other states or from municipalities in other states. As of June 30, 2012, all deposits over the insured amounts were in banks which are part of the Tennessee Bank Collateral Pool.

B. Receivables

Receivables as of June 30, 2012, for the Town's individual major funds and nonmajor funds in the aggregate, including the applicable allowance for uncollectible accounts, are as follows:

TOWN OF SHARON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

	<u>General</u>	<u>Water and Sewer</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Receivables:				
Property taxes receivable	\$ 206,474	\$ -	\$ -	\$ 206,474
Other taxes receivable	22,370	-	-	22,370
Less allowance	<u>(16,301)</u>	<u>-</u>	<u>-</u>	<u>(16,301)</u>
Net taxes receivable	212,543	-	-	212,543
Accounts receivable	<u>22,272</u>	<u>47,754</u>	<u>4,487</u>	<u>74,513</u>
Net receivables	<u>\$ 234,815</u>	<u>\$ 47,754</u>	<u>\$ 4,487</u>	<u>\$ 287,056</u>

C. Capital Assets

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, not being depreciated				
Land	\$ 127,995	\$ -	\$ -	\$ 127,995
Capital assets, being depreciated				
Buildings	508,000	5,996	-	513,996
Vehicles and equipment	<u>720,510</u>	<u>9,195</u>	<u>-</u>	<u>729,705</u>
Total capital assets, being depreciated	<u>1,228,510</u>	<u>15,191</u>	<u>-</u>	<u>1,243,701</u>
Less accumulated depreciation for:				
Buildings	290,732	7,401	-	298,133
Vehicles and equipment	<u>396,005</u>	<u>31,622</u>	<u>-</u>	<u>427,627</u>
Total accumulated depreciation	<u>686,737</u>	<u>39,023</u>	<u>-</u>	<u>725,760</u>
Total capital assets being depreciated, net	<u>541,773</u>	<u>(23,832)</u>	<u>-</u>	<u>517,941</u>
Governmental activities capital assets, net	<u>\$ 669,768</u>	<u>\$ (23,832)</u>	<u>\$ -</u>	<u>\$ 645,936</u>

TOWN OF SHARON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type Activities:				
Capital assets being depreciated				
Water plant buildings and system	\$ 1,643,399	\$ -	\$ -	\$ 1,643,399
Vehicles and equipment	64,840	-	-	64,840
Sewer plant buildings and system	<u>1,161,881</u>	<u>-</u>	<u>-</u>	<u>1,161,881</u>
Total capital assets being depreciated	<u>2,870,120</u>	<u>-</u>	<u>-</u>	<u>2,870,120</u>
Less accumulated depreciation for:				
Water plant buildings and system	1,070,676	28,014	-	1,098,690
Vehicles and equipment	60,520	2,868	-	63,388
Sewer plant buildings and system	<u>803,572</u>	<u>22,481</u>	<u>-</u>	<u>826,053</u>
Total accumulated depreciation	<u>1,934,768</u>	<u>53,363</u>	<u>-</u>	<u>1,988,131</u>
Total capital assets being depreciated, net	<u>935,352</u>	<u>(53,363)</u>	<u>-</u>	<u>881,989</u>
Business-type activities capital assets, net	<u>\$ 935,352</u>	<u>\$ (53,363)</u>	<u>\$ -</u>	<u>\$ 881,989</u>

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

Governmental activities:	
Fire Department	\$ 27,170
Police	4,648
Sanitation	4,296
Street Department	613
Senior Citizen Center	960
Parks	225
General	871
Library	240
Total depreciation expense - governmental activities	<u>\$ 39,023</u>
Business-type activities:	
Water and Sewer	<u>\$ 53,363</u>

D. Long-Term Debt

Governmental Activities: The General Fund had a note payable to First State Bank that was used to purchase a fire truck. Payments were due annually on November 1 with interest at 5.21% through November 1, 2011. The note was paid in full during the current year.

A capital lease with Ford Motor Credit was also paid in full during the current year. The lease had an interest rate is 6.55%, matured January 31, 2012, and was secured by a patrol car.

The Town is obligated by the State to provide a portion (21%) of the closure and post-closure costs on the Tri-City Landfill. In April 2012, the State notified the Town that the obligation had been reduced. This liability was being amortized over the remaining term of the obligation. However, accumulated amortization as of July 1, 2011, had exceeded the revised liability. As a result, the remaining unamortized liability of \$7,482 was reduced to zero during the current year.

TOWN OF SHARON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2012, was as follows:

Governmental Activities:	Beginning Balance	Additions	Reductions	Ending Balance
Notes payable	\$ 11,466	\$ -	\$ 11,466	\$ -
Lease payable	4,457	-	4,457	-
Compensated absences	4,140	692	-	4,832
Tri-City Landfill	7,482	-	7,482	-
Totals	\$ 27,545	\$ 692	\$ 23,405	\$ 4,832

NOTE 4 – OTHER INFORMATION

A. Landfill Closure

The landfill was closed in July 1992. State and federal laws and regulations require the Town to perform certain maintenance and monitoring functions at the landfill site for 30 years after closure. Under EPA guidelines issued October 9, 1991, "Solid Waste Disposal Facility Criteria," the closure and post closure requirements were computed by the State and Town of Sharon's engineering firm to be \$534,597 based upon capacity used to date. These costs are subject to change and may be affected by inflation and changes in technology and regulations. These estimated maintenance costs were reported as general long-term debt of the Town and were being amortized over the remaining term of the Town's financial obligation. During 2012, an adjustment was made to reduce the landfill closure expenses required by the State. The new cost was calculated to be \$343,998, of which the Town's responsibility is 21%, or \$72,240. The reduction in liability exceeded the accumulated amortization already taken by the Town. Therefore, the liability was reduced to zero during the current year.

B. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Town is covered by commercial insurance policies. Workers' compensation is also carried through insurance policies. There were no significant reductions in insurance coverage from the previous year. Insurance premiums are paid out annually for its general liability, auto liability, real and personal property damage, workman's compensation and errors and omissions policies. Settled claims from losses have not exceeded commercial insurance coverage in any of the past three fiscal years.

OTHER SUPPLEMENTARY INFORMATION SECTION

TOWN OF SHARON, TENNESSEE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2012

	<u>Special Revenue Funds</u>		
	<u>State Street Aid Fund</u>	<u>Drug Fund</u>	<u>Totals</u>
ASSETS			
Cash in bank	\$ 17,079	\$ 3,656	\$ 20,735
Accounts receivable	4,487	-	4,487
	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 21,566</u>	<u>\$ 3,656</u>	<u>\$ 25,222</u>
 LIABILITIES AND FUND BALANCE			
Liabilities	\$ -	\$ -	\$ -
Fund balance			
Restricted	<hr/> 21,566	<hr/> 3,656	<hr/> 25,222
	<hr/>	<hr/>	<hr/>
Total liabilities and fund balance	<u>\$ 21,566</u>	<u>\$ 3,656</u>	<u>\$ 25,222</u>

See independent auditor's report

TOWN OF SHARON, TENNESSEE
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2012

	<u>Special Revenue Funds</u>		
	<u>State Street Aid Fund</u>	<u>Drug Fund</u>	<u>Totals</u>
Revenues			
1989 gas tax	\$ 2,728	\$ -	\$ 2,728
3 cent gas tax	5,063	-	5,063
Gasoline and motor fuel tax	16,887	-	16,887
Drug fines	-	238	238
Interest income	-	9	9
	<u> </u>	<u> </u>	<u> </u>
Total revenues	<u>24,678</u>	<u>247</u>	<u>24,925</u>
Expenditures			
Utilities	18,965	-	18,965
Building materials	2,381	-	2,381
	<u> </u>	<u> </u>	<u> </u>
Total expenditures	<u>21,346</u>	<u>-</u>	<u>21,346</u>
Revenues over expenditures	3,332	247	3,579
Fund balance - July 1, 2011	<u>18,234</u>	<u>3,409</u>	<u>21,643</u>
Fund balance - June 30, 2012	<u><u>\$ 21,566</u></u>	<u><u>\$ 3,656</u></u>	<u><u>\$ 25,222</u></u>

See independent auditor's report

TOWN OF SHARON, TENNESSEE
SCHEDULE 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>Variance Over (Under)</u>
Revenues				
1989 gas tax	\$ -	\$ -	\$ 2,728	\$ 2,728
3 cent gas tax	5,580	5,580	5,063	(517)
Gasoline and motor fuel tax	<u>21,300</u>	<u>21,300</u>	<u>16,887</u>	<u>(4,413)</u>
Total revenues	<u>26,880</u>	<u>26,880</u>	<u>24,678</u>	<u>(2,202)</u>
Expenditures				
Utilities	22,300	22,300	18,965	(3,335)
Office supplies	25	25	-	(25)
Building materials	-	-	2,381	2,381
Raw materials	<u>4,000</u>	<u>4,000</u>	<u>-</u>	<u>(4,000)</u>
Total expenditures	<u>26,325</u>	<u>26,325</u>	<u>21,346</u>	<u>(4,979)</u>
Revenues over expenditures	555	555	3,332	2,777
Fund balance - July 1, 2011	<u>18,234</u>	<u>18,234</u>	<u>18,234</u>	<u>-</u>
Fund balance - June 30, 2012	<u>\$ 18,789</u>	<u>\$ 18,789</u>	<u>\$ 21,566</u>	<u>\$ 2,777</u>

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TOWN OF SHARON, TENNESSEE
SCHEDULE OF REVENUES, EXPENDITURES AND 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>Variance Over (Under)</u>
Revenues				
Drug fines	\$ 1,900	\$ 1,900	\$ 238	\$ (1,662)
Interest income	20	20	9	(11)
Donations	<u>500</u>	<u>500</u>	<u>-</u>	<u>(500)</u>
 Total revenues	 2,420	 2,420	 247	 (2,173)
Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Revenues over expenditures	 2,420	 2,420	 247	 (2,173)
Other financing sources (uses)				
Transfer in	100	100	-	(100)
Transfers to other funds	<u>(2,000)</u>	<u>(2,000)</u>	<u>-</u>	<u>2,000</u>
Total other financing sources (uses)	<u>(1,900)</u>	<u>(1,900)</u>	<u>-</u>	<u>1,900</u>
 Net change in fund balance	 520	 520	 247	 (273)
 Fund balance - July 1, 2011	 <u>3,409</u>	 <u>3,409</u>	 <u>3,409</u>	 <u>-</u>
 Fund balance - June 30, 2012	 <u>\$ 3,929</u>	 <u>\$ 3,929</u>	 <u>\$ 3,656</u>	 <u>\$ (273)</u>

See independent auditor's report

TOWN OF SHARON, TENNESSEE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
SOLID WASTE FUND

For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance Over (Under)
Revenues				
Refuse collection charges	\$ 106,600	\$ 106,600	\$ 110,994	\$ 4,394
Penalties	25	25	-	(25)
Interest income	130	130	37	(93)
Total revenues	106,755	106,755	111,031	4,276
Expenditures				
Dues and subscriptions	600	685	683	(2)
Professional fees	1,400	2,313	2,313	-
Landfill services	101,700	101,700	117,633	15,933
Miscellaneous	180	180	20	(160)
Office supplies	50	50	40	(10)
Total expenditures	103,930	104,928	120,689	15,761
Revenues over (under) expenditures	2,825	1,827	(9,658)	(11,485)
Fund balance - July 1, 2011	40,142	40,142	40,142	-
Fund balance - June 30, 2012	\$ 42,967	\$ 41,969	\$ 30,484	\$ (11,485)

See independent auditor's report

TOWN OF SHARON, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE ASSISTANCE

For the Year Ended June 30, 2012

<u>Grantor Agency/ Pass-through Entity/ Program Name</u>	<u>CFDA Number</u>	<u>Contract/ Pass-through Agency Number</u>	<u>Balance July 1, 2011</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance June 30, 2012</u>
FEDERAL AWARDS						
Department of Homeland Security						
Disaster Grants - Public Assistance	97.036	FEMA-1974-DR-TN	\$ -	\$ 19,144	\$ 19,144	\$ -
Department of Transportation						
High Visibility Law Enforcement Campaigns	20.607		-	4,623	4,623	-
Total federal awards			<u>\$ -</u>	<u>\$ 23,767</u>	<u>\$ 23,767</u>	<u>\$ -</u>
STATE ASSISTANCE						
Tennessee Department of Homeland Security						
Disaster Grants - Public Assistance	97.036	FEMA-1974-DR-TN	-	3,191	3,191	-
Total state assistance			<u>\$ -</u>	<u>\$ 3,191</u>	<u>\$ 3,191</u>	<u>\$ -</u>

NOTE: The accompanying schedule is prepared on the modified accrual basis of accounting.

See independent auditor's report

**TOWN OF SHARON, TENNESSEE
SCHEDULE OF PROPERTY TAXES**

June 30, 2012

<u>Year of Levy</u>	<u>Balance July 1, 2011</u>	<u>Assessments/ Adjustments</u>	<u>Collections</u>	<u>Balance June 30, 2012</u>
2011	\$ -	\$ 174,365	\$ 166,960	\$ 7,405
2010	14,729	(12)	12,090	2,627
2009	8,675	(7)	5,416	3,252
2008	17,522	(9,528)	5,924	2,070
2007	17,083	(13,522)	1,177	2,384
2006	13,516	(13,505)	-	11
2005	21,946	(17,977)	886	3,083
2004	20,297	(16,317)	-	3,980
2003	22,751	(19,565)	-	3,186
2002	4,773	-	1,022	3,751
Total	<u>\$ 141,292</u>	<u>\$ 83,932</u>	<u>\$ 193,475</u>	31,749

Estimated 2012 levy due October 1, 2012

considered as deferred revenue

174,725

Allowance for uncollectible accounts

(16,301)

Total taxes receivable

\$ 190,173

<u>Year of Levy</u>	<u>Tax Rate Per \$100</u>	<u>Assessments</u>
2012	\$1.63	\$9,832,197
2011	\$1.63	\$9,811,613
2010	\$1.63	\$9,825,134
2009	\$1.63	\$10,653,106
2008	\$1.63	\$10,655,400
2007	\$1.87	\$9,094,087
2006	\$1.87	\$8,913,215
2005	\$1.87	\$9,190,091
2004	\$1.77	\$9,351,882
2003	\$1.77	\$9,617,283

Delinquent Property Taxes

In May 2012, the 2010 delinquent property taxes were turned over to Chancery Court.

See independent auditor's report

TOWN OF SHARON, TENNESSEE
SCHEDULE OF OFFICIAL BONDS OF PRINCIPAL OFFICIALS
For the Year Ended June 30, 2012

<u>Name</u>	<u>Title</u>	<u>Bond Amount</u>
Monroe Ary	mayor	see note below
Donna Stricklin	city recorder, CMFOA	\$5,000

Mayor is covered by Errors and Omissions policy only - \$100,000 for each occurrence.
Coverage reads "for non-monetary defense costs."

See independent auditor's report

TOWN OF SHARON, TENNESSEE
SCHEDULE OF UNACCOUNTED FOR WATER - UNAUDITED

June 30, 2012

(All amounts in gallons)

A	Water Treated and Purchased:		
B	Water Pumped (potable)	53,399,000	
C	Water Purchased	0	
D	Total Water Treated and Purchased		53,399,000
		(Sum Lines B and C)	
E	Accounted for Water:		
F	Water Sold	26,484,302	
G	Metered for Consumption (in house usage)	20,140	
H	Fire Department Usage	12,250	
I	Flushing	1,269,050	
J	Tank Cleaning/Filling	0	
K	Street Cleaning	0	
L	Bulk Sales	11,330	
M	Water Bill Adjustments/plus or (minus)	475,419	
N	Total Accounted for Water		<u>28,272,491</u>
		(Sum Lines F thru M)	
O	Unaccounted for Water		25,126,509
		(Line D minus Line N)	
P	Percent Unaccounted for Water		47.1%
		(Line O divided by Line D times 100)	

Q Other (explain) See below

Explain Other:

We found and fixed 3 leaks - Leak 1, an estimated 40,000 loss; Leak 2, an estimated 25,000 loss; and Leak 3, an estimated 35,000 loss.

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.

See independent auditor's report

TOWN OF SHARON, TENNESSEE
SCHEDULE OF UTILITY RATES AND CUSTOMERS
 June 30, 2012

<u>Water Rates</u>	Residential
Minimum charge	\$10.08
Additional charges:	
2,000 – 3,000 gallons	\$0.255 per hundred
3,000 – 20,000 gallons	\$0.174 per hundred
Over 20,000 gallons	\$0.139 per hundred
<u>Sewer Rates</u>	Residential
Minimum charge	\$14.38
Additional charges:	
Over 2,000 gallons	\$0.174 per hundred
<u>Solid Waste Rates</u>	Residential
Monthly Charge	\$14.45
	Commercial
Monthly Charge	\$27.96

Number of Customers

At June 30, 2012, there were 544 water customers, 497 sewer customers and 495 solid waste customers.

INTERNAL CONTROL AND COMPLIANCE SECTION



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**Report on Internal Control over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

To the Mayor and Board of Aldermen
Town of Sharon, Tennessee

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information for the Town of Sharon, Tennessee, as of and for the year ended June 30, 2012, which collectively comprise the Town of Sharon's basic financial statements and have issued our report thereon dated December 17, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings as Items 03-1, 06-1 and 08-3, that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

To the Mayor and Board of Aldermen
Town of Sharon, Tennessee

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings as Item 06-1.

The Town of Sharon's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Town's responses and accordingly, we express no opinion on them.

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

Alexander Thompson Arnold PLLC

Martin, Tennessee
December 17, 2012

TOWN OF SHARON, TENNESSEE
SCHEDULE OF FINDINGS
June 30, 2012

03-1 Segregation of Duties

Condition: The Town of Sharon has a Town recorder and a clerk who work together in performing the accounting duties for the Town. At present, the Town recorder writes and signs checks for all disbursements of the Town while also having cash receipts and recordkeeping duties.

Criteria: Generally accepted accounting principles require that accounting functions be adequately segregated to ensure that the internal accounting controls are effective.

Effect: The risk of errors and irregularities occurring and not being detected in a timely manner increases when accounting functions are not adequately segregated.

Recommendation: We realize that the staff size will not allow the Town to completely segregate the duties to the optimum level desired. However, the accounting functions should be segregated as much as possible. Management needs to be aware that a weakness does exist in the system of internal accounting controls.

Response: *We concur. Due to the size of our office personnel, this situation cannot be changed.*

06-1 Expenditures in Excess of Appropriations

Condition: The Town of Sharon had total expenditures in excess of appropriations of \$15,761 in the Solid Waste Fund for the year ended June 30, 2012.

Criteria: TCA 6-56-203 states “notwithstanding any other provision of law, no municipality may expend any monies regardless of their source, including moneys derived from bond and long-term note proceeds, federal, state or private grants or loans, or special assessments, except in accordance with a budget ordinance adopted under this section or through a proprietary type fund or a fiduciary type fund properly excluded from the budget ordinance.”

Effect: The Town has made expenditures that were not legally appropriated by the Board.

Recommendation: We recommend the Town carefully monitor its budget each month and make amendments as appropriate in order to authorize all expenditures.

Response: *We concur.*

08-3 Excessive Unaccounted-for Water

Condition: The Town of Sharon reported unaccounted-for water of 47.1% for the year ended June 30, 2012. However, large water leaks were discovered and fixed in April 2012. As a result, unaccounted-for water percentages for May and June 2012 were 29% and 25%, respectively.

TOWN OF SHARON, TENNESSEE
SCHEDULE OF FINDINGS
June 30, 2012

Criteria: Utility Management Review Board of the State of Tennessee requires reasonable rates of unaccounted-for water. Any unreasonable losses require identification and repairs of the loss sources.

Effect: Excessive water losses could lead to unnecessary expenditures and wasted natural resources.

Recommendation: The Town should continue its efforts to identify and repair water leaks in a timely manner.

Response: *We concur.*