

TOWN OF TENNESSEE RIDGE, TENNESSEE
FINANCIAL STATEMENTS
AND
REPORT OF CERTIFIED PUBLIC ACCOUNTANTS
YEAR ENDED JUNE 30, 2011

TOWN OF TENNESSEE RIDGE, TENNESSEE
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TOWN OF TENNESSEE RIDGE, TENNESSEE
GENERAL INFORMATION
JUNE 30, 2011

A. General

Tennessee Ridge is an incorporated municipality located approximately 70 miles west of Nashville on Highway 147. Tennessee Ridge is located within Houston County.

B. Population

The population of Tennessee Ridge is approximately 1,368 according to the latest estimate by Town officials.

C. Roster of Elected Public Officials

		<u>Expiration Of Term</u>
Stony Odom	Mayor	9-12
Ann Dew	Vice Mayor	9-12
Tim Alsobrooks	Commissioner	9-14
Ray Bradley	Commissioner	9-12
Garrett Parker	Commissioner	9-12

D. Roster of Management Employees

Jerry Bryant	Water Superintendent
Nancy Cobb	Town Treasurer
Kenneth Dunavant	Town Manager
Woodrow Adams	Town Recorder
Leslie Rucker	Water Bill Account Clerk



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INDEPENDENT AUDITOR'S REPORT

Mayor and Board of Alderman
Town of Tennessee Ridge
1435 Main Street
Tennessee Ridge, 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 Tennessee Ridge, Tennessee (the Town), as of and for the year ended June 30, 2011, 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 an opinion 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, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the requirements prescribed by the Comptroller of the Treasury, State of Tennessee, as detailed in the Audit Manual. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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 as of June 30, 2011, and the respective changes in financial position, and cash flows, where applicable, and the respective budgetary comparison for General Fund and State Street Aid Fund, thereof 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 October 21, 2011, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension plan information on pages 5 through 9 and on page 33 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 an opinion on the financial statements that collectively comprise the Town's financial statements as a whole. The introductory section, budgetary comparison schedule for debt service fund and other supplementary information, are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional

analysis as per requirements prescribed by the Comptroller of the Treasury, State of Tennessee, as detailed in the Audit Manual, and is also not a required part of the financial statements. The budgetary comparison schedule for debt service fund and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and other supplementary information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Thurman Campbell Group, PLC

October 21, 2011

TOWN OF TENNESSEE RIDGE, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2011

As management of the Town of Tennessee Ridge, 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, 2011. We encourage readers to consider the information presented here in conjunction with the Town's financial statements, which follow this section.

Financial Highlights

The assets of the Town of Tennessee Ridge exceeded its liabilities at June 30, 2011 by \$3,753,764 (net assets). Of this amount, \$833,445 (unrestricted net assets) may be used to meet the town's ongoing obligations to citizens or creditors.

The government's total net assets increased by \$315,592.

As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$915,509, an increase of \$29,042 in comparison with the prior year. Of this total amount, \$663,396 is available for spending at the government's discretion (unassigned fund balance).

The Town's total debt decreased by \$85,008 during the current fiscal year; but we did increase it by \$59,782 from TMBF; so therefore it decreased in the amount of \$25,226.

Overview of the Financial Statements

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

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

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

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government wide financial statements distinguish functions of the Town of Tennessee Ridge that are principally supported by taxes and intergovernmental revenues (governmental activities) and from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Town of Tennessee Ridge include general government, public safety, and city streets and debt service. The business-type activities of the Town of Tennessee Ridge include water and sewer operations.

The government-wide financial statements include not only the Town itself (known as the primary government), but also the Tennessee Ridge Volunteer Fire Department.

The government-wide financial statements can be found on pages 10-11 of this report.

Fund financial statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Tennessee Ridge like any other state and local government uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town of Tennessee Ridge can be divided into two categories: governmental funds and proprietary funds.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town of Tennessee Ridge maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and state street aid fund, and are considered to be major funds. Data from the other governmental fund is combined into a single, aggregated presentation.

The Town of Tennessee Ridge adopts an annual appropriated budget for its general fund and its special revenue funds. Budgetary comparison schedules for the general fund and special revenue funds have been provided in the financial statements on pages 19-20 to demonstrate compliance with those budgets. The Town of Tennessee Ridge had no other major funds that required budget comparison schedules.

The basic governmental fund financial statements can be found on pages 12-15 of this report.

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

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer operations. The water and sewer fund is considered to be a major fund of the Town of Tennessee Ridge.

The basic proprietary fund financial statement can be found on pages 16-18 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 21-32 of this report.

Other information: In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to budgetary comparison schedules for certain governmental funds referred to earlier and to the pension plan. Required supplementary information can be found on pages 19-20 and 33 of this report.

Government –Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town of Tennessee Ridge, assets exceeded liabilities by \$3,753,764 at the close of the most recent fiscal year.

The largest portion of the Town of Tennessee Ridge's net assets (63 percent) reflects its investment in capital assets (e.g. land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Town of Tennessee Ridge uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in 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.

TOWN OF TENNESSEE RIDGE, TENNESSEE
CONDENSED STATEMENT OF NET ASSETS
JUNE 30, 2011

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current & Other Assets	\$ 1,018,859	\$ 989,816	\$ 496,035	\$ 457,431	\$ 1,514,894	\$ 1,447,247
Capital Assets	<u>162,367</u>	<u>162,934</u>	<u>3,164,671</u>	<u>3,174,501</u>	<u>3,327,038</u>	<u>3,337,435</u>
Total Assets	<u>1,181,226</u>	<u>1,152,750</u>	<u>3,660,706</u>	<u>3,631,932</u>	<u>4,841,932</u>	<u>4,784,682</u>
Long Term Liabilities	55,778	-	805,829	815,704	861,607	815,704
Other Liabilities	<u>111,889</u>	<u>195,556</u>	<u>114,672</u>	<u>117,891</u>	<u>226,561</u>	<u>313,447</u>
Total Liabilities	<u>167,667</u>	<u>195,556</u>	<u>920,501</u>	<u>933,595</u>	<u>1,088,168</u>	<u>1,129,151</u>
Net Assets Invested in Capital Assets, Net of Related Debt	78,700	51,378	2,300,584	2,313,077	2,379,284	2,364,455
Restricted	252,113	247,246	288,922	288,199	541,035	535,445
Unrestricted	<u>682,746</u>	<u>658,570</u>	<u>150,699</u>	<u>97,061</u>	<u>833,445</u>	<u>755,631</u>
Total Net Assets	<u>\$ 1,013,559</u>	<u>\$ 957,194</u>	<u>\$ 2,740,205</u>	<u>\$ 2,698,337</u>	<u>\$ 3,753,764</u>	<u>\$ 3,655,531</u>

\$541,035 of the Town of Tennessee Ridge's net assets are restricted. The remaining balance of unrestricted net assets (approximately 22 percent or \$833,445) may be used to meet the government's ongoing obligations to citizens and creditors.

At June 30, 2011, The Town of Tennessee is able to report positive balances in all three categories of net assets. The government's net assets increased by \$98,233 during the current fiscal year.

Governmental activities: Governmental activities increased the Town of Tennessee Ridge's net assets by \$56,365 which accounts for 57 percent of the increase in the net assets of \$98,233.

Business-Type activities: Business-type activities increased the Town's net assets by \$41,868 accounting for 43 percent of the total increase in the government's net assets for the current year.

TOWN OF TENNESSEE RIDGE, TENNESSEE
CONDENSED STATEMENT OF NET ASSETS
JUNE 30, 2011

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
REVENUES						
Program Revenue:						
Charges for Services	\$ -	\$ -	\$ 451,556	\$ 426,568	\$ 451,556	\$ 426,568
Operating Grants and Contributions	36,465	36,695	-	-	36,465	36,695
Capital Grants and Contributions	-	-	111,319	265,115	111,319	265,115
General Revenue:						
Property Tax	94,429	91,483	-	-	94,429	91,483
Local Tax	98,543	86,224	-	-	98,543	86,224
Sales Tax	88,275	84,914	-	-	88,275	84,914
In Lieu of Tax	15,013	14,675	-	-	15,013	14,675
Interest	3,411	4,051	786	1,188	4,197	5,239
Other	30,661	7,819	6,423	4,197	37,084	12,016
Total Revenue	<u>366,797</u>	<u>325,861</u>	<u>570,084</u>	<u>697,068</u>	<u>936,881</u>	<u>1,022,929</u>
EXPENSES						
General Government	236,011	222,986	-	-	236,011	222,986
Highways & Streets	15,029	14,997	-	-	15,029	14,997
Fire Department	54,059	51,377	-	-	54,059	51,377
Debt Service	5,333	6,673	-	-	5,333	6,673
Water & Sewer	-	-	528,216	509,538	528,216	509,538
Total Expenses	<u>310,432</u>	<u>296,033</u>	<u>528,216</u>	<u>509,538</u>	<u>838,648</u>	<u>805,571</u>
Change in Net Assets	56,365	29,828	41,868	187,530	98,233	217,358
Net Assets-Beginning	<u>957,194</u>	<u>927,366</u>	<u>2,698,337</u>	<u>2,510,807</u>	<u>3,655,531</u>	<u>3,438,173</u>
Net Assets-Ending	<u>\$ 1,013,559</u>	<u>\$ 957,194</u>	<u>\$ 2,740,205</u>	<u>\$ 2,698,337</u>	<u>\$ 3,753,764</u>	<u>\$ 3,655,531</u>

Financial Analysis of the Government's Funds

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

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, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year.

As of June 30, 2011, the Town's governmental funds reported combined ending balances of \$915,509 an increase of \$29,042 in comparison with the prior year. Approximately 72 percent of this total amount (\$663,396) constitutes unassigned fund balance, which is available for spending at the government's discretion.

The general fund is the chief operating fund of the Town of Tennessee Ridge. At the end of June 30, 2011, unassigned fund balance of the general fund was \$663,396, while total fund balance was \$915,509. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total expenditures. Unassigned fund balance represents 194 percent of total general fund expenditures.

The fund balance of the Town of Tennessee Ridge's general fund increased by \$27,581 during the current fiscal year.

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

Unrestricted net assets of the water & sewer fund at the end of the year amounted to \$150,699. The water & sewer fund had an increase in net assets for the year of \$41,868. Other factors concerning the finances of this fund have already been addressed in the discussion of the Town's business type activities.

General Fund Budgetary Highlights

Differences between the original and final amended budgets were relatively minor.

Capital Asset and Debt Administration

Capital Assets: The Town's investment in capital assets for its governmental and business type activities as of June 30, 2011 amounted to \$3,327,038 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment. The total decrease in the Town's investment in capital assets for the current fiscal year was 1 percent.

There were no major capital asset events during the current fiscal year. Additional information on the Town's capital assets can be found in Note 7 on page 30 of this report.

Long-term debt: At the end of the current fiscal year, the Town of Tennessee Ridge had total debt outstanding of \$947,754. Of this amount, \$83,667 comprises debt backed by the full faith and credit of the government. The remainder of the Town's debt represents bonds secured solely by specified revenues.

The Town of Tennessee Ridge's total debt decreased by \$85,008 during the current fiscal year. There was an additional debt incurred in the amount of \$59,782 from Tennessee Municipal Bond Fund making it a decrease in debt of \$25,226.

State statute does not limit the amount of general obligation debt a governmental entity may issue. Other short-term debt must be approved by the state. Additional information on the Town's long-term debt can be found in Note 5 on pages 27-29 of this report.

Economic Factors and Next Year's Budget and Rates

The following factors were considered in preparing the Town of Tennessee Ridge's budget for the 2011-2012 fiscal year:

The Town's property tax is \$0.67 cents per \$100 assessed value. The Town did not see the need to raise the property tax.

The Town does not expect its tax base to vary significantly from the current year.

Inflationary trends in the region compare favorably to national cities.

State tax revenue shortfalls continue to significantly impact local governments

The Town raised the water bill by a dollar (\$1.00) on the minimum bill and by a dollar (\$1.00) on the minimum for sewer. No use of fund balance is projected for this fiscal year.

Request for information

This financial report is designed to provide a general overview of the Town of Tennessee Ridge's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town Treasurer, 1435 North Main Street, Tennessee Ridge, TN 37178.

TOWN OF TENNESSEE RIDGE, TENNESSEE
STATEMENT OF NET ASSETS
JUNE 30, 2011

<u>ASSETS</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Cash and Cash Equivalents - Unrestricted	\$ 648,846	\$ 148,046	\$ 796,892
Receivables, Net			
Property Taxes	84,000	-	84,000
Accounts Receivable	-	693	693
Tax Allocations Receivable	37,000	-	37,000
Grant Receivables	-	4,806	4,806
Due From Other Governments	-	45,041	45,041
Inventory	-	7,232	7,232
Bond Issue Costs	-	1,295	1,295
Cash and Cash Equivalents - Restricted	249,013	288,922	537,935
Capital Assets Not Being Depreciated	38,237	-	38,237
Capital Assets (Net of Accumulated Depreciation)	<u>124,130</u>	<u>3,164,671</u>	<u>3,288,801</u>
 Total Assets	 <u>1,181,226</u>	 <u>3,660,706</u>	 <u>4,841,932</u>
 <u>LIABILITIES</u>			
Accounts Payable	-	8,440	8,440
Bonds Payable - Current Portion	27,889	58,258	86,147
Deferred Property Tax	84,000	-	84,000
Customer Deposits	-	47,974	47,974
Bonds Payable - Noncurrent Portion	<u>55,778</u>	<u>805,829</u>	<u>861,607</u>
 Total Liabilities	 <u>167,667</u>	 <u>920,501</u>	 <u>1,088,168</u>
 <u>NET ASSETS</u>			
Investment in Capital Assets, Net of Related Debt	78,700	2,300,584	2,379,284
Restricted for:			
Debt Service	60,890	288,922	349,812
State Street Aid	191,223	-	191,223
Unrestricted	<u>682,746</u>	<u>150,699</u>	<u>833,445</u>
 Total Net Assets	 <u>\$ 1,013,559</u>	 <u>\$ 2,740,205</u>	 <u>\$ 3,753,764</u>

SEE ACCOMPANYING NOTES AND AUDITOR'S REPORT.

TOWN OF TENNESSEE RIDGE, TENNESSEE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

Functions/Programs	Program Revenues				Net Revenue (Expense) and Changes in Net Assets Primary Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<u>Government Activities:</u>							
General Government	\$ 236,011	\$ -	\$ -	\$ -	\$ (236,011)	\$ -	\$ (236,011)
Highways and Streets	15,029	-	36,465	-	21,436	-	21,436
Fire Department	54,059	-	-	-	(54,059)	-	(54,059)
Interest on Long-Term Debt	5,333	-	-	-	(5,333)	-	(5,333)
Total Government Activities	310,432	-	36,465	-	(273,967)	-	(273,967)
<u>Business-Type Activities:</u>							
Water and Sewer	528,216	451,556	-	111,319	-	34,659	34,659
Total Functions/Programs	\$ 838,648	\$ 451,556	\$ 36,465	\$ 111,319	(273,967)	34,659	(239,308)
<u>General Revenues</u>							
Taxes:							
Property Taxes					94,429	-	94,429
Local Option Sales Tax					98,543	-	98,543
Intergovernmental:							
In Lieu of Tax					15,013	-	15,013
State Sales Tax					88,275	-	88,275
State Income Tax					1,081	-	1,081
State Beer Tax					696	-	696
Telecommunications Tax					108	-	108
Petroleum Special Tax					2,863	-	2,863
Interest					3,411	786	4,197
Other					25,913	6,423	32,336
Total General Revenues					330,332	7,209	337,541
Change in Net Assets					56,365	41,868	98,233
Net Assets - Beginning					957,194	2,698,337	3,655,531
Net Assets - Ending					\$ 1,013,559	\$ 2,740,205	\$ 3,753,764

SEE ACCOMPANYING NOTES AND AUDITOR'S REPORT.

TOWN OF TENNESSEE RIDGE, TENNESSEE
 GOVERNMENTAL FUNDS
 BALANCE SHEET
 JUNE 30, 2011

	<u>General Fund</u>	<u>State Street</u>	<u>Other Governmental - Debt Service</u>	<u>Total Governmental Funds</u>
Assets:				
Cash and Cash Equivalents-Unrestricted	\$ 648,846	\$ -	\$ -	\$ 648,846
Property Tax Receivable, Net	84,000	-	-	84,000
Tax Allocations Receivable	30,800	6,200	-	37,000
Cash and Cash Equivalents - Restricted	<u>-</u>	<u>188,123</u>	<u>60,890</u>	<u>249,013</u>
Total Assets	<u>\$ 763,646</u>	<u>\$ 194,323</u>	<u>\$ 60,890</u>	<u>\$ 1,018,859</u>
Liabilities:				
Deferred Income	<u>\$ 100,250</u>	<u>\$ 3,100</u>	<u>\$ -</u>	<u>\$ 103,350</u>
Total Liabilities	<u>100,250</u>	<u>3,100</u>	<u>-</u>	<u>103,350</u>
Fund Balances:				
Restricted	-	191,223	60,890	252,113
Unassigned	<u>663,396</u>	<u>-</u>	<u>-</u>	<u>663,396</u>
Total Fund Balances	<u>663,396</u>	<u>191,223</u>	<u>60,890</u>	<u>915,509</u>
Total Liabilities and Fund Balances	<u>\$ 763,646</u>	<u>\$ 194,323</u>	<u>\$ 60,890</u>	<u>\$ 1,018,859</u>

SEE ACCOMPANYING NOTES AND AUDITOR'S REPORT.

TOWN OF TENNESSEE RIDGE, TENNESSEE
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011

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

Total fund balances - total governmental funds	\$ 915,509
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	162,367
Other revenues are not available to pay for current period expenditures and therefore are reported as deferred revenue in the funds	19,350
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(83,667)</u>
Net assets of governmental activities	<u><u>\$ 1,013,559</u></u>

SEE ACCOMPANYING NOTES AND AUDITOR'S REPORT.

TOWN OF TENNESSEE RIDGE, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES- GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2011

	General Fund	State Street	Other Governmental - Debt Service	Total Governmental Funds
Revenues:				
Taxes				
Property	\$ 94,429	\$ -	\$ -	\$ 94,429
Local Option Sales Tax	98,543	-	-	98,543
Intergovernmental				
In Lieu of Tax	15,013	-	-	15,013
State Sales Tax	88,275	-	-	88,275
State Income Tax	1,081	-	-	1,081
State Beer Tax	696	-	-	696
Gas 3 Cent Tax	-	7,495	-	7,495
Gasoline and Motor Fuel Tax	-	24,932	-	24,932
Gas 1989 Tax	-	4,038	-	4,038
Telecommunications Tax	108	-	-	108
Petroleum Special	2,863	-	-	2,863
Interest Income	2,987	304	120	3,411
Other Income	25,590	323	-	25,913
Total Revenues	<u>329,585</u>	<u>37,092</u>	<u>120</u>	<u>366,797</u>
Expenditures:				
Current				
General Government	221,708	-	-	221,708
Fire Department	38,321	-	-	38,321
Highways and Streets	-	15,029	-	15,029
Debt Service				
Principal	-	27,889	-	27,889
Interest	-	5,333	-	5,333
Capital Outlay	33,340	-	-	33,340
Total Expenditures	<u>293,369</u>	<u>48,251</u>	<u>-</u>	<u>341,620</u>
Revenues Over (Under) Expenditures	<u>36,216</u>	<u>(11,159)</u>	<u>120</u>	<u>25,177</u>
Other Financing Sources (Uses):				
Sale of Capital Assets	3,865	-	-	3,865
Operating Transfer In (Out)	<u>(12,500)</u>	<u>12,500</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(8,635)</u>	<u>12,500</u>	<u>-</u>	<u>3,865</u>
Net Change in Fund Balances	27,581	1,341	120	29,042
Fund Balances, Beginning	<u>635,815</u>	<u>189,882</u>	<u>60,770</u>	<u>886,467</u>
Fund Balances, Ending	<u>\$ 663,396</u>	<u>\$ 191,223</u>	<u>\$ 60,890</u>	<u>\$ 915,509</u>

SEE ACCOMPANYING NOTES AND AUDITOR'S REPORT.

TOWN OF TENNESSEE RIDGE, TENNESSEE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

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

Net change in fund balances - total governmental funds	\$	29,042
<p>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. This is the amount by which capital outlays exceeded depreciation in the current period.</p>		
		3,299
(Gain) Loss on disposal of capital assets		(3,865)
Net decrease (increase) in debt		<u>27,889</u>
Change in net assets of governmental activities	\$	<u><u>56,365</u></u>

SEE ACCOMPANYING NOTES AND AUDITOR'S REPORT.

TOWN OF TENNESSEE RIDGE, TENNESSEE
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2011

	Water and Sewer
<u>ASSETS</u>	
Current Assets:	
Cash and Cash Equivalents - Unrestricted	\$ 148,046
Accounts Receivable, Net	693
Grant Receivables	4,806
Due From Other Governments	45,041
Inventory	7,232
Total Current Assets	205,818
Noncurrent Assets:	
Cash and Cash Equivalents - Restricted	288,922
Bond Issue Costs	1,295
Capital Assets (Net of Accumulated Depreciation)	3,164,671
Total Noncurrent Assets	3,454,888
Total Assets	3,660,706
<u>LIABILITIES</u>	
Current Liabilities:	
Accounts Payable	8,440
Bonds Payable - Current Portion	58,258
Customer Deposits	47,974
Total Current Liabilities	114,672
Long-Term Liabilities	
Bonds Payable - Non-Current Portion	805,829
Total Liabilities	920,501
<u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	2,300,584
Restricted	288,922
Unrestricted	150,699
Total Net Assets	\$ 2,740,205

SEE ACCOMPANYING NOTES AND AUDITOR'S REPORT.

TOWN OF TENNESSEE RIDGE, TENNESSEE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET ASSETS- PROPRIETARY FUND
YEAR ENDED JUNE 30, 2011

	Water and Sewer
Operating Revenues:	
Charges for Service	\$ 451,556
Operating Expenses:	
Amortization	651
Chemicals and Lab	11,896
Depreciation	163,783
Engineering	4,061
Gas and Oil	3,616
Insurance - Employee	23,002
Insurance - Other	16,224
Labor and Related Taxes	133,276
Legal and Accounting	5,000
Office Supplies	3,112
Other Expenses	5,375
Postage	4,500
Purchased Water	27,040
Repair and Maintenance	7,821
Retirement	4,263
State Fees	3,122
Sewer Treatment	13,788
Supplies	30,499
Travel	2,495
Utilities	42,530
Total Operating Expenses	506,054
Operating Income (Loss)	(54,498)
Non-Operating Revenues (Expenses):	
Interest Income	786
Other Income	3,423
Tap Fees	3,000
Interest Expense	(22,162)
Total Non-Operating Revenues (Expenses)	(14,953)
Income Before Contributions and Transfers	(69,451)
Capital Contributions	111,319
Change in Net Assets	41,868
Net Assets, Beginning	2,698,337
Net Assets, Ending	\$ 2,740,205

SEE ACCOMPANYING NOTES AND AUDITOR'S REPORT.

TOWN OF TENNESSEE RIDGE, TENNESSEE
STATEMENT OF CASH FLOWS-PROPRIETARY FUND
YEAR ENDED JUNE 30, 2011

	Water and Sewer Fund
Cash Flows from Operating Activities:	
Cash Received from Customers	\$ 451,588
Cash Payments to Suppliers	(198,244)
Cash Payments to Personnel	(160,541)
Net Cash Provided (Used) By Operating Activities	92,803
Cash Flows from Non-Capital Financing Activities:	
Other Income	6,423
Net Cash Provided (Used) By Non-Capital Financing Activities	6,423
Cash Flows from Capital and Related Financing Activities:	
Grants Received	16,825
Purchase of Capital Assets	(64,265)
Proceeds from Bond Payable	14,741
Principal Paid on Long-Term Debt	(57,119)
Interest Paid on Long-Term Debt	(22,162)
Net Cash Provided (Used) By Capital and Related Financing Activities	(111,980)
Cash Flows from Investing Activities:	
Interest on Investments	786
Net Cash Provided (Used) By Investing Activities	786
Net Increase (Decrease) in Cash	(11,968)
Cash and Cash Equivalents, Beginning	448,936
Cash and Cash Equivalents, Ending	\$ 436,968
Reconciliation of Operating Income (Loss)	
To Net Cash Provided (Used) By Operating Activities:	
Operating Income (Loss)	\$ (54,498)
Adjustments to Reconcile Operating Income (Loss) to	
Net Cash Provided (Used) By Operating Activities:	
Depreciation	163,783
Change in Assets and Liabilities:	
(Increase) Decrease in Accounts Receivable	32
(Increase) Decrease in Inventory	(1,408)
(Increase) Decrease in Bond Issue Costs	651
Increase (Decrease) in Accounts Payable	(17,372)
Increase (Decrease) in Customer Deposits	1,615
Net Cash Provided (Used) By Operating Activities	\$ 92,803
<u>Noncash Capital and Related Financing Activities</u>	
Capital Contributed	\$ 89,688

SEE ACCOMPANYING NOTES AND AUDITOR'S REPORT.

TOWN OF TENNESSEE RIDGE, TENNESSEE
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2011

1) GENERAL FUND

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		Favorable (Unfavorable)
REVENUES				
Taxes	\$ 169,056	\$ 169,056	\$ 192,972	\$ 23,916
Intergovernmental	110,835	110,835	108,036	(2,799)
Interest	2,709	2,709	2,987	278
Other	<u>6,269</u>	<u>21,269</u>	<u>25,590</u>	<u>4,321</u>
Total Revenues	<u>288,869</u>	<u>303,869</u>	<u>329,585</u>	<u>25,716</u>
EXPENDITURES				
<u>General Government</u>				
Accounting	5,250	5,250	6,000	(750)
Advertising	750	750	356	394
Board and Committee	5,100	5,100	3,435	1,665
Capital Outlay	10,000	18,385	18,340	45
Christmas Decorations	1,500	998	133	865
Computer Support	2,804	2,804	2,804	-
Election	4,000	500	175	325
Engineer Fees	1,000	1,000	500	500
Gas and Oil	3,500	3,500	3,089	411
Grants	13,300	13,300	9,707	3,593
Insurance - Employee	19,593	19,593	19,098	495
Insurance - Other	13,500	13,500	9,357	4,143
Labor and Related Taxes	101,403	103,419	101,444	1,975
Legal	4,000	4,000	3,840	160
Repair and Maintenance	14,750	15,752	7,210	8,542
Memberships	1,200	1,200	960	240
Miscellaneous	19,647	19,147	11,387	7,760
Office	3,500	3,500	3,127	373
Postage	2,140	2,140	1,140	1,000
Publication	1,450	1,450	551	899
Retirement	5,912	5,912	4,424	1,488
TOSHA	2,500	2,500	1,942	558
Travel	3,000	3,000	1,639	1,361
Uniforms	2,800	3,800	3,227	573
Utilities	<u>24,419</u>	<u>26,919</u>	<u>26,163</u>	<u>756</u>
Total General Government	<u>\$ 267,018</u>	<u>\$ 277,419</u>	<u>\$ 240,048</u>	<u>\$ 37,371</u>

SEE ACCOMPANYING NOTES AND AUDITOR'S REPORT.

TOWN OF TENNESSEE RIDGE, TENNESSEE
BUDGETARY COMPARISON SCHEDULE (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		Favorable (Unfavorable)
<u>Fire Department</u>				
Capital Outlay	\$ -	\$ 15,000	\$ 15,000	\$ -
Education/Training	3,800	3,800	2,317	1,483
Fire Prevention	500	500	493	7
Gas and Oil	4,000	4,000	3,066	934
Insurance	5,800	5,800	5,800	-
Miscellaneous	5,600	5,600	5,018	582
Repair and Maintenance	15,300	15,300	13,831	1,469
Utilities	10,500	10,500	7,796	2,704
Total Fire Department	45,500	60,500	53,321	7,179
Total Expenditures	312,518	337,919	293,369	44,550
Revenues Over (Under) Expenditures	(23,649)	(34,050)	36,216	70,266
Other Financing Sources (Uses):				
Sale of Capital Assets	-	-	3,865	3,865
Operating Transfer In (Out)	(12,500)	(12,500)	(12,500)	-
Net Change in Fund Balances	<u>\$ (36,149)</u>	<u>\$ (46,550)</u>	27,581	<u>\$ 74,131</u>
Fund Balance, Beginning			635,815	
Fund Balance, Ending			<u>\$ 663,396</u>	

2) STATE STREET AID FUND

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		Favorable (Unfavorable)
<u>REVENUES</u>				
Intergovernmental	\$ 35,467	\$ 35,467	\$ 36,465	\$ 998
Miscellaneous	297	297	627	330
Total Revenues	35,764	35,764	37,092	1,328
<u>EXPENDITURES</u>				
Highways and Streets:				
Salaries	11,546	11,546	11,546	-
Payroll Taxes	1,218	1,218	1,218	-
Repairs and Maintenance	300	300	300	-
Gravel	1,500	1,500	1,475	25
Signs, Parts & Supplies	800	800	-	800
Mowing Equipment	400	400	210	190
Other	400	400	280	120
Total Highways and Streets	16,164	16,164	15,029	1,135
Debt Service	33,232	33,232	33,222	10
Total Expenditures	49,396	49,396	48,251	1,145
Revenues Over (Under) Expenditures	(13,632)	(13,632)	(11,159)	2,473
Other Financing Sources (Uses)				
Operating Transfer In (Out)	12,500	12,500	12,500	-
Net Change in Fund Balances	<u>\$ (1,132)</u>	<u>\$ (1,132)</u>	1,341	<u>\$ 2,473</u>
Fund Balance, Beginning			189,882	
Fund Balance, Ending			<u>\$ 191,223</u>	

SEE ACCOMPANYING NOTES AND AUDITOR'S REPORT.

TOWN OF TENNESSEE RIDGE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Tennessee Ridge, Tennessee (the "Town") was incorporated under the laws of the State of Tennessee. The Town operates under a Manager, Mayor - Commission form of government and provides the following services as authorized by its charter: public safety, streets, general administrative services, and water and sewer utility operations.

The accounting and reporting policies of the Town conform to generally accepted accounting principles applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Government Accounting Standards Board (GASB), and by the Financial Accounting Standards Board (when applicable).

A. Financial Reporting Entity

Generally accepted accounting principles require that financial statements present the accounts and operations of the government and its component units, entities for which the government is considered to be financially accountable. The basic criterion for including a governmental department, agency, institution, commission, public authority, or other governmental organization in a governmental unit's financial report is the financial accountability over such organization by the governmental unit's elected officials. The manifestations of such financial accountability are financial benefactor or burden, ability to impose its will, and fiscal dependence. As of June 30, 2011 and for the fiscal year then ended, the Town had no component units which were required to be included in these financial statements.

B. Government-Wide Financial Statements

The government-wide financial statements include a statement of net assets and a statement of activities. These statements present summaries of governmental and business-type activities for the Town accompanied by a total column.

These statements are presented on an economic resources measurement focus and the accrual basis of accounting. Accordingly, all of the Town's assets and liabilities, including capital assets, infrastructure assets, and long-term liabilities, are included in the accompanying statement of net assets.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Town's activities. Direct expenses are those that are specifically associated with a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that have been obtained to meet the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each function of the Town is self-financed or draws from general revenues.

C. Fund Financial Statements and Measurement Focus

Fund financial statement reports detail information about the Town. The focus of the fund financial statements is on major funds rather than fund type. Each major fund is presented in a separate column and all non-major funds are aggregated and presented in a single column.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which report on sources and uses of current financial resources.

Proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. This reporting focuses on the determination of operating income, and changes in net assets, financial position and cash flows. The financial statement requirements are a statement of net assets, statement of revenue, expenses and changes in fund net assets and a statement of cash flows.

D. Basis of Presentation and Measurement Focus

The Town uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are two categories of funds: governmental and proprietary. The emphasis of fund financial statements is on major governmental and proprietary funds each displayed in a separate column. All remaining governmental and proprietary funds are separately aggregated and reported as non-major funds.

Governmental Fund Types

Governmental fund types are used to account for the Town's general government activities. Governmental fund types include the following:

General Fund

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

Special Revenue Funds

Special revenue funds are used to account for the proceeds of specific revenue sources legally restricted to expenditures for specified purposes (not including major capital projects). The State Street Aid fund is considered a major governmental special revenue fund.

State Street Aid

The State Street Aid fund receives funds from the State of Tennessee monthly allocations. The gas portion of State of Tennessee's monthly allocations is deposited into the street fund. The fund activities are restricted to street expenditures like paving projects and things of that nature.

Proprietary Fund Types

Proprietary funds are used to account for 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 (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. Proprietary fund types include the following:

Water and Sewer Fund

The Water and Sewer Fund accounts for the fiscal activity of all water and sewer used throughout the Town and certain surrounding portions of Houston County.

E. Capital Assets

All property, plant and equipment are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributions from others towards the construction of an asset are charged to the applicable capital asset accounts. Donated capital assets are reported at the estimated fair value at the time of acquisition. Capital assets are valued for impairment or abandonment when necessary.

Government capital asset values, reported under GASB 34, are based on historical costs. Since the Town is a Phase 3 municipality, valuation of infrastructure is for that added after June 30, 2004, and retroactive reporting has not been elected.

Town policy has set a \$10,000 capitalization amount for infrastructure; \$10,000 for buildings; \$5,000 for other improvements; and \$2,500 for equipment.

Depreciation is computed on governmental capital assets using the straight-line method over the following estimated useful lives:

<u>Infrastructure</u>	
Roadways	50 years
Bridges	50 years
<u>Other Capital Assets</u>	
Land Improvements	50 years
Machinery and Equipment	4-10 years
Buildings	25-50 years
Vehicles	5-10 years

Depreciation on business-type capital assets, excluding land, is calculated using the straight-line method over the following estimated useful lives:

Utility Plant	30-50 years
Land Improvements	25-50 years
Equipment	5-10 years

F. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental fund types utilize the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Town considers revenues to be available if they are collected within thirty days of the end of the fiscal year. All major revenues are susceptible to accrual and include property taxes, state-shared allocations, local option sales taxes and others.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred.

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and are due and payable at that time. All unpaid taxes levied October 1 become delinquent March 1st of the following year. Property tax revenues are recognized when they become available. Available includes those property tax receivables expected to be collected within thirty days after year-end. Delinquent taxes are considered non-collectible and therefore a reserve for uncollectible taxes is provided. In accordance with GASB 33, 2011 property taxes have been recorded as a receivable and deferred revenue at the financial statement date.

Proprietary funds utilize the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when incurred.

G. Inventory

Proprietary fund inventory of material, supplies and replacement parts is valued at cost as determined by the most recent invoice price, which approximates market value. A perpetual inventory is maintained by the Town with a physical inventory taken annually.

H. Unbilled Revenue

As is the general practice of the utility industry, unbilled service revenue (proprietary fund) and the related unbilled cost from the date of the most recent meter reading to the balance sheet date is not recorded. However, the effect is considered immaterial.

I. Use of Estimates

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

J. Receivables

Accounts receivable are presented net of any allowance for uncollectible accounts. The allowance for bad debt accounts was \$16,940 for the year ended June 30, 2011. Bad debts are charged to expense using the allowance-for-bad-debt method. Town's policy, for proprietary funds, is to reserve accounts 60 or more days past due and for governmental funds (property taxes), is to reserve accounts one or more years past due. The bad debt expense for the year ended June 30, 2011 was \$1,168.

K. Advertising Costs

Advertising costs are expensed as incurred.

L. Bond Issue Costs

Bond issue costs are amortized on a straight-line basis over the term of the related bond issue.

M. Accrued Compensated Absences

Annual leave accrued is paid upon termination but accrued sick leave is not. Compensated absences are not accrued since it is Town's policy to recognize these costs when paid.

N. Interfund Receivables and Payables

Interfund accounts are used to account for transfers between funds that are to be repaid. The balances are not eliminated at the audit date on the fund statements but are eliminated in the statement of net assets. There were no interfund balances as of June 30, 2011.

O. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Town considers cash deposits and all highly liquid instruments (including restricted assets) with a maturity of three months or less when purchased and local government investment pool to be cash and cash equivalents.

P. Operating and Non-Operating Revenue

Operating revenues and expenses reported in proprietary fund financial statements are those that result from providing services and producing and delivering goods and/or services in connection with the Town's ongoing operations. The principal operating revenues of the Town are charges for providing water and sewer services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Q. FASB Statements

The Town has elected for its proprietary fund to apply all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

R. Interest Capitalization

Interest costs are capitalized as part of the historical cost of acquiring certain assets. To qualify for interest capitalization, assets must require a period of time before they are ready for their intended purpose. Total interest incurred and expensed for the year ended June 30, 2011, was \$27,496. No interest was capitalized.

S. Restricted and Unrestricted Resources

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

T. Other Significant Accounting Policies

Other significant accounting policies are described throughout the notes section of this audit report or are disclosed in the statement formats.

U. Fund Balance Classification

Beginning with fiscal year 2010-2011, the Town implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. Beginning fund balances for the Town's governmental funds have been restated to reflect the above classifications.

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Town is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- I. Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The Town did not have any nonspendable resources as of June 30, 2011.
- II. Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The Town has classified State Street Aid as being restricted because their use is restricted by State Statute for street expenditures. Debt service resources are to be used for future servicing of the debt and are restricted through debt covenants.
- III. Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Town Council. Town Council is the highest level of decision-making authority for the Town. These amounts cannot be used for any other purpose unless the Town Council removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The Town did not have any committed resources as of June 30, 2011.
- IV. Assigned: This classification includes amounts that are constrained by the Town's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Town Council or through the Town Council delegating this responsibility to the Town manager through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The Town did not have any assigned resources as of June 30, 2011.
- V. Unassigned: This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Town considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Town considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Town Council has provided otherwise in its commitment or assignment actions.

The Town has not adopted a minimum fund balance policy for the General Fund.

2. RESTRICTED ASSETS

Restricted assets in the Water and Sewer Fund are restricted by revenue bond covenants. Restricted assets in the Special Revenue Funds are restricted by the nature of the funds.

<u>Water and Sewer Fund</u>	<u>Amount</u>	<u>Restriction</u>
Cash in Bank	\$ 5,061	Restricted for Debt Service Requirements
LGIP	<u>283,861</u>	Restricted for Debt Service Requirements
Sub-Total	<u>288,922</u>	
<u>Special Revenue Funds</u>		
Cash in Bank - Debt Service	3,406	Restricted for Debt Service Requirements
LGIP - Debt Service	57,484	Restricted for Debt Service Requirements
Cash in Bank - State Street	50,136	Restricted for State Street Aid use
LGIP - State Street	<u>137,987</u>	Restricted for State Street Aid use
Sub-Total	<u>249,013</u>	
Total	<u>\$ 537,935</u>	

3. CASH DEPOSITS AND INVESTMENTS

Statement No. 40, "Deposit and Investment Risk Disclosures", of the Governmental Accounting Standards Board, states "If a government has no deposit or investment policy that addresses a specific type of risk that it is exposed to, the disclosure should indicate that fact." The Town does not have an official deposit and investment policy. Although there is no official deposit and investment policy for the Town, in order to provide a safe temporary medium for investment of the Town's idle funds, the Town invest those idle funds under the provisions of Tennessee Code Annotated 6-56-106. State statutes authorize the Town to invest in: (1) U.S. government securities and obligations guaranteed by the U.S. government, (2) deposit accounts at state and federally chartered banks and savings and loan associations, and (3) the Local Government Investment Pool of the State of Tennessee.

GASB 40 is designed to inform financial statement users about the deposit and investment risks that could affect a government's ability to provide services and meet its obligations as they become due. The Town recognize its deposits and investments may have one or more of the following risks:

1. Credit risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits investments in debt securities to the highest rated category by at least two nationally recognized rating agencies. The Town has no investment in debt securities.
2. Concentration of credit risk: A concentration of investments in any one single issuer of debt securities presents a greater risk for loss in the event that the issuer fails on its obligations. The Town place no limit on the amount the Town may invest in any one issuer. One hundred percent of the Town's investments are in Local Government Investment Pool.
3. Interest rate risk: Interest rate risk is the risk that future changes in prevailing market rates of interest will have an adverse effect on the fair value of debt investments. The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Town has no debt investments.
4. Custodial credit risk: Custodial credit risk is defined as the risk that a government will not be able to recover its deposits, investments or collateral from the bank in the event of bank failure.

3. CASH DEPOSITS AND INVESTMENTS (CONT'D)

As of June 30, 2011, the carrying amount of the Town's deposits was \$1,334,827 and the bank balance of \$1,403,022 was categorized as follows:

	<u>Bank Balances</u>
Insured by FDIC	\$ 321,544
Uninsured and collateralized with securities held by the pledging financial institution	215,110
Local Government Investment Pool (LGIP)	<u>866,368</u>
	<u>\$ 1,403,022</u>

4. PENSION PLAN OBLIGATIONS

The Town contributes to the Town of Tennessee Ridge Money Purchase Pension Plan and Trust, which is a defined contribution plan administered by the Town. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate in the plan from the date of employment. On November 9, 1998, the Town's Board of Commissioners mandated that the Town contribute an amount equal to 5% of the employee's base salary each month. Employee contributions are voluntary. The Town's contributions for each employee are fully vested after 5 years of continuous service. An employee who leaves the employment of the Town is entitled to his or her contributions, and the Town's contributions if vesting requirements are satisfied, plus interest.

During the year ended June 30, 2011, the Town's required and actual contributions amounted to \$8,687, which was 5% of the Town's covered payroll of \$173,735. Employee voluntary contributions were \$9,540. No pension plan changes occurred during the year that affected the required contribution to be made by the Town or its employees. The Town of Tennessee Ridge Money Purchase Pension Plan and Trust held no securities of the Town or other related parties during the year or as of the close of the fiscal year.

5. LONG-TERM DEBT

(a) Schedule of Changes in Governmental Long-Term Debt

	<u>Balance 7/1/2010</u>	<u>Added</u>	<u>Reduced</u>	<u>Balance 6/30/2011</u>	<u>Due Within One Year</u>
Note Payable - Paving	\$ 111,556	\$ -	\$ 27,889	\$ 83,667	\$ 27,889

Governmental long-term debt at June 30, 2011 consists of the following obligations:

	<u>Balance</u>
\$111,556 Series 2004 Paving Improvements Capital Outlay Note Renewal due in installments of \$27,889 through October 2013 at an interest rate of 3.95%	\$ 83,667
Less: Current Portion	<u>27,889</u>
Net Governmental Long-Term Debt	<u>\$ 55,778</u>

5. LONG-TERM DEBT (CONT'D)

(b) Amortization Schedule of Governmental Long-Term Debt

Fiscal Year Ended June 30	Total Principal	Total Interest	Capital Outlay Note Paving	
			Principal	3.95% Interest
2012	\$ 27,889	\$ 3,305	\$ 27,889	\$ 3,305
2013	27,889	2,209	27,889	2,209
2014	27,889	1,102	27,889	1,102
Total	<u>\$ 83,667</u>	<u>\$ 6,616</u>	<u>\$ 83,667</u>	<u>\$ 6,616</u>

(c) Schedule of Changes in Water and Sewer Long-Term Debt

	Balance 7/1/2010	Added	Reduced	Balance 6/30/2011	Due Within One Year
1995 FHA Variable Bond	\$ 90,000	\$ -	\$ 30,000	\$ 60,000	\$ 30,000
2007 Revenue & Tax Bond	175,589	-	2,104	173,485	2,197
2008 Revenue & Tax Bond	90,870	-	1,015	89,855	1,061
TMBF	504,965	59,782	24,000	540,747	25,000
Total	<u>\$ 861,424</u>	<u>\$ 59,782</u>	<u>\$ 57,119</u>	<u>\$ 864,087</u>	<u>\$ 58,258</u>

Proprietary long-term debt at June 30, 2011 consists of the following obligations:

	Balance
\$375,000 Series 1993 Water and Sewer Revenue and Tax Refunding Bond due in installments of \$30,000 through February 2013 at an interest rate of 6.25%	\$ 60,000
\$180,000 Series 2007 Water and Sewer Revenue and Tax Bond due in monthly installments of \$812 through December 2045 at an interest rate of 4.375%	173,485
\$92,000 Series 2008 Water and Sewer Revenue and Tax Bond due in monthly installments of \$414 through April 2047 at an interest rate of 4.375%	89,855
\$1,000,000 Tennessee Municipal Bond Fund due in annual installments of \$25,000 to \$51,000 through May 2037 at an interest rate of 2.89%	540,747
Total Proprietary Long-Term Debt	864,087
Less: Current Portion	58,258
Net Proprietary Long-Term Debt	<u>\$ 805,829</u>

5. LONG-TERM DEBT (CONT'D)

(d) Amortization Schedule of Water and Sewer Long-Term Debt

Fiscal Year Ended June 30	Total		<u>1993 FHA Bond (1)</u>		<u>2007 Revenue & Tax Bond</u>		<u>TMBF</u>		<u>2008 Revenue & Tax Bond</u>	
	Principal	Interest	Principal	6.25% Interest	Principal	4.375% Interest	Principal	2.89% Interest	Principal	4.375% Interest
2012	\$ 58,258	\$ 29,465	\$ 30,000	\$ 3,780	\$ 2,197	\$ 7,546	\$ 25,000	\$ 15,628	\$ 1,061	\$ 3,910
2013	59,404	27,056	30,000	1,890	2,296	7,448	26,000	14,905	1,108	3,863
2014	30,555	24,628	-	-	2,398	7,346	27,000	14,154	1,157	3,813
2015	30,714	24,073	-	-	2,505	7,239	27,000	13,373	1,209	3,762
2016	31,880	23,499	-	-	2,617	7,127	28,000	12,593	1,263	3,708
2017-2021	176,160	108,188	-	-	14,947	33,773	154,000	11,784	7,213	17,640
2022-2026	202,566	90,657	-	-	18,593	30,127	175,000	7,333	8,973	15,880
2027-2031	113,039	69,949	-	-	23,130	25,590	78,747	2,276	11,162	13,691
2032-2036	42,662	45,458	-	-	28,776	19,944	-	-	13,886	10,967
2037-2041	53,071	21,265	-	-	35,796	12,923	-	-	17,275	7,578
2042-2046	61,721	7,581	-	-	40,230	4,218	-	-	21,491	3,363
2047	4,057	82	-	-	-	-	-	-	4,057	82
Total	\$ 864,087	\$ 471,901	\$ 60,000	\$ 5,670	\$ 173,485	\$ 163,281	\$ 540,747	\$ 92,046	\$ 89,855	\$ 88,257

(1) Currently held by the Bank of New York Trust Company.

(e) Revenue bonds are collateralized by the plant assets and revenues of the water and sewer fund and also require the establishment of a sinking fund to pay for the outstanding principal and interest payments. Capital outlay paving note is paid by the state street aid fund and is secured by the full faith and credit of the Town.

6. EXCESS OF EXPENDITURES OVER BUDGET

	<u>Current Year Expenditures Over Budget</u>	<u>Cumulative (Deficit) Fund Balance</u>
General Fund: General Department - Accounting	\$ 750	\$ 663,396
State Street Aid Fund	N/A	\$ 191,223
Debt Service Fund	N/A	\$ 60,890

7. SCHEDULE OF CHANGES IN CAPITAL ASSETS

<u>Governmental Activities:</u>	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Capital Assets Not Depreciated:				
Land	\$ 38,237	\$ -	\$ -	\$ 38,237
Total Capital Assets Not Depreciated	<u>38,237</u>	<u>-</u>	<u>-</u>	<u>38,237</u>
Capital Assets Depreciated:				
Buildings and Improvements	162,885	-	-	162,885
Infrastructure	15,957	-	-	15,957
Equipment	301,298	33,340	4,000	330,638
Total Capital Assets Depreciated	<u>480,140</u>	<u>33,340</u>	<u>4,000</u>	<u>509,480</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	112,058	9,190	-	121,248
Infrastructure	479	319	-	798
Equipment	242,906	20,532	134	263,304
Total Accumulated Depreciation	<u>355,443</u>	<u>30,041</u>	<u>134</u>	<u>385,350</u>
Total Capital Assets Depreciated, Net	<u>124,697</u>	<u>3,299</u>	<u>3,866</u>	<u>124,130</u>
Governmental Activities Capital Assets, Net	<u>\$ 162,934</u>	<u>\$ 3,299</u>	<u>\$ 3,866</u>	<u>\$ 162,367</u>

Depreciation expense related to governmental activities was charged to the following functions:

General Government	\$ 14,303
Fire Department	<u>15,738</u>
Total Depreciation - Governmental Activities	<u>\$ 30,041</u>

<u>Proprietary Fund</u>	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Capital Assets Not Depreciated:				
Construction In Progress	\$ -	\$ 153,953	\$ 153,953	\$ -
Total Capital Assets Not Depreciated	<u>-</u>	<u>153,953</u>	<u>153,953</u>	<u>-</u>
Capital Assets Depreciated:				
Buildings and Improvements	3,736	-	-	3,736
Water and Sewer	4,987,726	153,953	-	5,141,679
Machinery and Equipment	553,562	-	-	553,562
Office Equipment	1,531	-	-	1,531
Computer Equipment	5,713	-	-	5,713
Total Capital Assets Depreciated	<u>5,552,268</u>	<u>153,953</u>	<u>-</u>	<u>5,706,221</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	3,069	118	-	3,187
Water and Sewer	1,994,366	145,782	-	2,140,148
Machinery and Equipment	373,088	17,883	-	390,971
Office Equipment	1,531	-	-	1,531
Computer Equipment	5,713	-	-	5,713
Total Accumulated Depreciation	<u>2,377,767</u>	<u>163,783</u>	<u>-</u>	<u>2,541,550</u>
Total Capital Assets Depreciated, Net	<u>3,174,501</u>	<u>(9,830)</u>	<u>-</u>	<u>3,164,671</u>
Proprietary Fund Capital Assets, Net	<u>\$ 3,174,501</u>	<u>\$ 144,123</u>	<u>\$ 153,953</u>	<u>\$ 3,164,671</u>

8. RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town has elected to obtain various insurance policies to transfer risk to a commercial insurance company either directly or through the Tennessee Municipal League Pool. Insurance settlements have not been in excess of insurance coverage in any of the prior three years.

The Tennessee Municipal League Risk Management Pool was begun in 1979 when an Interlocal Cooperation Agreement was signed and Tennessee local governmental entities became the owners of their own alternative insurance program. The purpose of this liability pool was to provide affordable, dependable liability coverage for entities such as the Town. The pool is not an insurance company but is a cooperative risk sharing arrangement. Participating members pay a premium, receive coverage, and make claims against coverage. A portion of the premium is used to purchase reinsurance to cover losses that exceed the pool's loss fund. Legally, the members can be assessed for losses exceeding pool loss funds available and reinsurance policy limits but this circumstance is not expected to occur due to the financial management of the pool.

9. INTERFUND ACTIVITY

All interfund transfers were for making debt service payments.

		<u>Major Funds</u>		
		General	State	
<u>Transfers From</u>		Fund	Street Aid	Total
		Fund	Fund	
General Fund		\$ 12,500	\$ -	\$ 12,500
	Total	<u>12,500</u>	<u>-</u>	<u>12,500</u>
<u>Transfers To</u>		<u>\$ -</u>	<u>\$ 12,500</u>	<u>\$ 12,500</u>

10. CONCENTRATIONS

Financial instruments that potentially subject the Town to significant concentrations of credit risk consist principally of cash and accounts receivable. The Town maintains cash with federally insured financial institutions and limit the amount of credit exposure to any one institution by requiring collateral. With respect to accounts receivable, credit risk is dispersed across a large number of customers who are geographically concentrated in Tennessee Ridge, Tennessee service area. The Town performs an initial credit evaluation for new customers or obtains a security deposit where applicable.

11. SCHEDULE OF RECEIVABLES

All receivables are reported net of allowance for doubtful accounts.

<u>State Street Aid</u>		
Tax Allocations Receivable		\$ 6,200
<u>General Fund</u>		
Tax Allocations Receivable		30,800
Property Taxes Receivable		84,000
<u>Water and Sewer Fund</u>		
Utility Receivable		693
Grant Receivables		4,806
Due From Other Governments		<u>45,041</u>
Total		<u>\$ 171,540</u>

12. BUDGETARY INFORMATION

Through the budget, the Board of Mayor and Commissioners sets the direction of the Town, allocates its resources and establishes its priorities. The annual budget assures the efficient and effective use of the Town's economic resources, as well as establishes the highest priority objectives.

The annual budget serves from July 1 to June 30, and is a vehicle that accurately and openly communicates these priorities to the community, businesses, vendors, employees and other public agencies. Additionally, it establishes the foundation for effective financial planning by providing resource planning, performance measures, and controls that permit the evaluation and adjustment of the Town's performance.

The Town follows these procedures in establishing the budgetary data reflected in the basic financial statements:

- a. The Administrator submits to the Mayor and Board of Commissioners a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. The budget is legally enacted through passage of an ordinance.
- d. Any revisions that increase the total budgeted expenditures of any fund must be approved by the Mayor and Board of Commissioners. Expenditures may not legally exceed budgeted appropriations at the Fund level without the Mayor and Board of Commissioners approval.
- e. Formal budgetary integration in the form of legally adopted budgets is employed as a management control device for all funds. Budgets are adopted on a basis consistent with generally accepted accounting principles. Budgeted expenditures reported are as amended, if applicable, by supplemental appropriations of the Mayor and Board of Commissioners.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Town. Unexpended appropriations of these governmental funds automatically lapse at the end of the fiscal year.

In accordance with GASB 34, a budgetary comparison statement is presented for the General Fund and State Street Fund, the major funds of the Town.

TOWN OF TENNESSEE RIDGE, TENNESSEE
REQUIRED SUPPLEMENTARY INFORMATION- PENSION PLAN
JUNE 30, 2011

1. PENSION PLAN

The Town does not belong to the Tennessee Consolidates Retirement System and has no schedule of funding progress. See Note 4 for description of the Town's pension plan.

SEE AUDITOR'S REPORT.

TOWN OF TENNESSEE RIDGE, TENNESSEE
 BUDGETARY COMPARISON SCHEDULE-DEBT SERVICE FUND
 FOR THE YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual Amounts	Variance Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
Revenues				
Interest	<u>\$ 126</u>	<u>\$ 126</u>	<u>\$ 120</u>	<u>\$ (6)</u>
Total Revenues	126	126	120	(6)
Expenditures				
Debt Service	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues Over (Under) Expenditures	<u>\$ 126</u>	<u>\$ 126</u>	120	<u>\$ (6)</u>
Fund Balance, Beginning			<u>60,770</u>	
Fund Balance, Ending			<u>\$ 60,890</u>	

SEE AUDITOR'S REPORT.

TOWN OF TENNESSEE RIDGE, TENNESSEE
OTHER SUPPLEMENTARY INFORMATION (UNAUDITED)
JUNE 30, 2011

1. PROPERTY TAXES

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and are due and payable at that time. All unpaid taxes levied October 1 become delinquent March 1 of the following year. Property tax revenues are recognized when they become available. Available includes those property tax receivables expected to be collected within thirty days after year-end. Delinquent taxes are considered fully non-collectible and therefore a 100% allowance for uncollectible taxes is provided. In accordance with GASB 33, 2011 property taxes have been recorded as accounts receivable and deferred revenue at the audit date.

a. Schedule of Changes in Property Taxes Receivable

Unpaid Taxes,	Total	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
July 1, 2010	\$ 94,538	\$ -	\$ 84,000	\$ 7,854	\$ 818	\$ 833	\$ 259	\$ 206	\$ 135	\$ 135	\$ 131	\$ 167
Add:												
Accrual	-	84,000	(84,000)	-	-	-	-	-	-	-	-	-
Assessed	93,054	-	93,054	-	-	-	-	-	-	-	-	-
Penalty	197	-	197	-	-	-	-	-	-	-	-	-
Accountable	187,789	84,000	93,251	7,854	818	833	259	206	135	135	131	167
Less:												
Collections and Adjustments	95,246	-	85,814	7,151	415	833	259	206	135	135	131	167
Unpaid Taxes, June 30, 2011	\$ 92,543	\$ 84,000	\$ 7,437	\$ 703	\$ 403	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Delinquent property taxes through 2007 have been turned over to an attorney for collection.

b. Pertinent Property Tax Information

Calendar Year	Assessed Valuation	Rate	Tax Assessment	Audit Date	Property Tax Receivable
2010	\$ 13,888,735	.67 per 100	\$ 93,054	6/30/2011	\$ 8,543 *
2009	13,696,692	.67 per 100	91,768	6/30/2010	9,506
2008	13,420,259	.67 per 100	89,285	6/30/2009	8,902
2007	11,070,464	.80 per 100	88,894	6/30/2008	6,552
2006	11,124,682	.80 per 100	89,042	6/30/2007	9,247
2005	11,126,525	.80 per 100	89,012	6/30/2006	10,153
2004	10,330,859	.80 per 100	82,673	6/30/2005	7,949
2003	10,934,570	.80 per 100	87,511	6/30/2004	8,680
2002	10,966,500	.77 per 100	84,442	6/30/2003	11,171
2001	7,641,400	1.00 per 100	76,414	6/30/2002	12,540

* This amount is 100% reserved for uncollectible accounts and does not show on the governmental funds balance sheet. Also, it does not include \$84,000 GASB 33 accrual for 2011 property taxes.

SEE AUDITOR'S REPORT.

TOWN OF TENNESSEE RIDGE, TENNESSEE
 OTHER SUPPLEMENTARY INFORMATION (CONT'D)
 (UNAUDITED)
 JUNE 30, 2011

2. BONDS OF THE PRINCIPAL OFFICIALS OF TENNESSEE RIDGE

<u>Name of Official</u>	<u>Position</u>	<u>Bond</u>
Stony Odom	Current Mayor	25,000
Woodrow Adams	City Recorder	15,000
Jerry Bryant	Utility Superintendent	15,000
Nancy Cobb	City Treasurer	15,000
Leslie Rucker	Clerk	15,000
Kenneth Dunavant	City Manager	15,000

3. WATER RATES STRUCTURE

NON-INDUSTRIAL CUSTOMERS INSIDE CITY LIMITS

First 2,000 gallons	\$15.50 minimum
Additional gallons	\$4.32 per thousand gallons

INDUSTRIAL CUSTOMERS INSIDE CITY LIMITS

First 20,000 gallons	\$36.50 minimum
Additional gallons	\$4.74 per thousand gallons

NON-INDUSTRIAL CUSTOMERS OUTSIDE CITY LIMITS

First 2,000 gallons	\$20.40 minimum
Additional gallons	\$5.40 per thousand gallons

INDUSTRIAL CUSTOMERS OUTSIDE CITY LIMITS

First 20,000 gallons	\$51.70 minimum
Additional gallons	\$6.13 per thousand gallons

4. SEWER RATES

RESIDENTIAL

First 2,000 gallons	\$17.38 minimum
Additional gallons	\$2.85 per thousand gallons

INDUSTRIAL

First 20,000 gallons	\$32.40 minimum
Additional gallons	\$3.30 per thousand gallons

5. NUMBER OF CUSTOMERS

Non-Industrial Customers Inside City Limits	573
Industrial Customers	16
Non-Industrial Customers Outside City Limits	569
Sewer Customers	168

SEE AUDITOR'S REPORT.

TOWN OF TENNESSEE RIDGE, TENNESSEE
 OTHER SUPPLEMENTARY INFORMATION (CONT'D)
 (UNAUDITED)
 JUNE 30, 2011

6. SCHEDULE FOR UNACCOUNTED FOR WATER (ALL AMOUNTS IN GALLONS)

Water Treated and Purchased:		
Water Pumped (potable)	58,378,400	
Water Purchased	14,297,000	
Total Water Treated and Purchased	72,675,400	72,675,400
Accounted for Water:		
Water Sold	53,533,371	
Metered for Consumption (in house usage)	13,940	
Fire Department(s) Usage	58,350	
Flushing	82,080	
Tank Cleaning/Filling	0	
Street Cleaning	0	
Bulk Sales	70,080	
Water Bill Adjustments/ plus or (minus)	0	
Total Accounted for Water	53,757,821	53,757,821
Unaccounted for Water		18,917,579
Percent Unaccounted for Water		26.03%
Other (explain)	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 a line item is not applicable, a "0" is shown.

SEE AUDITOR'S REPORT.

TOWN OF TENNESSEE RIDGE, TENNESSEE
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 JUNE 30, 2011

<u>CFDA Number</u>	<u>State Grant Number</u>	<u>Program Name</u>	<u>Grantor Agency</u>	<u>Balance 6/30/2010 (Receivable)</u>	<u>Cash Receipts</u>	<u>Amount Earned Or Expenditures</u>	<u>Balance 6/30/2011 (Receivable)</u>
10.760	#00-04	Rural Development Grant - Water Line Extension	U.S. Department of Agriculture	\$ -	\$ 16,826	\$ 21,632	\$ (4,806)
			Total Awards	<u>\$ -</u>	<u>\$ 16,826</u>	<u>\$ 21,632</u>	<u>\$ (4,806)</u>

Note A: This report was prepared utilizing the accrual basis of accounting.

SEE AUDITOR'S REPORT.



THURMAN CAMPBELL GROUP, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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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

Mayor and Board of Aldermen
Town of Tennessee Ridge
1435 N. Main Street
Tennessee Ridge, Tennessee 37178

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Tennessee Ridge, Tennessee (the Town), as of and for the year ended June 30, 2011, which collectively comprise the Town's basic financial statements and have issued our report thereon dated October 21, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the requirements prescribed by the Comptroller of the Treasury, State of Tennessee, as detailed in the Audit Manual.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as 2011-1 and 2011-3 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as 2011-2 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 no instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

This report is intended solely for the information and use of management, board of aldermen, others within the entity, and federal or state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Thurman Campbell Group, PLC

October 21, 2011

TOWN OF TENNESSEE RIDGE, TENNESSEE
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2011

2011-1 MANAGEMENT OVERSIGHT OF FINANCIAL REPORTING (REPEAT)

We noted control deficiencies in management oversight of the accounting for capital assets. Adjusting entries were required for the Town's financial statements to be presented in conformity with generally accepted accounting principles.

RECOMMENDATION

The Town has shown progress in strengthening the financial reporting process. However, we recommend that management implement additional procedures to ensure that the financial statements are prepared in conformity with generally accepted accounting principles.

RESPONSE

The Town will continue to improve on its financial reporting process. The Town's Treasurer is attending the Certified Municipal Finance Officer (CMFO) program for further understanding of this process.

2011-2 TRAINING (REPEAT)

Accounting staff should have adequate training and background to issue financial statements and related disclosures in accordance with generally accepted accounting principles (GAAP). We understand that accounting staff resources limit their ability to issue complete GAAP financial statements; however, management and those charged with governance do not have a complete set of relevant financial statements until the annual audit is complete.

RECOMMENDATION

We recommend management, as resources allow, engage in the necessary training to bring the accounting staff current on GAAP requirements.

RESPONSE

As stated above, the Town's Treasurer is attending CMFO program that Municipal Technical Advisory Services (MTAS) is providing to further understand and prepare the relevant financial statements.

2011-3 LACK OF SEGREGATION OF DUTIES

Due to the limited number of personnel employed by the Town, the same individual regularly performs several functions, which ideally should be performed by different individuals. Such functions include issuing checks, handling cash receipts, processing customer accounts receivable, recording transactions and reconciliations.

RECOMMENDATION

It may be impractical, given the present staff level of the Town, to overcome this deficiency. However, management and the board should be aware of the situation and attempt, when possible, to have persons on the board and management involved in the functions of the Town, such as requiring approval of invoices and review of bank reconciliations. This measure, would not in itself correct the situation, but would possibly mitigate, to a certain extent, the potential exposure.

RESPONSE

Management is aware of staff situation but with limited staff, we feel this limits separation of duties. Management will be more active in the daily functions of the Town and make a concentrated effort to start approving all invoices to be paid, bank statements and bank reconciliations.