

Financial Statements

CITY OF WARTBURG, TENNESSEE

Year Ended June 30, 2011

TABLE OF CONTENTS

	<u>Page Nos.</u>
INDEPENDENT ACCOUNTANTS' AUDIT REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-8
BASIC FINANCIAL STATEMENTS	
Government –Wide Financial Statements:	
Statement of Net Assets	9
Statement of Activities	10-11
Fund Financial Statements:	
Balance Sheet – Governmental Funds	12
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	13
Statement of Revenue, Expenditures and Changes in Fund Balances – Governmental Funds	14-15
Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Revenue, Expenditures and Changes in Fund Balance – Actual and Budget – General Fund	17-21
Statement of Revenue, Expenditures and Changes in Fund Balance – Actual and Budget – Drug Fund	22
Statement of Revenue, Expenditures and Changes in Fund Balance – Actual and Budget – State Street Aid Fund	23
Statement of Net Assets – Sewer Fund	24
Statement of Revenue, Expenses and Change in Net Assets – Sewer Fund	25
Statement of Cash Flows – Sewer Fund	26-27
Notes to the Financial Statements	28-41

TABLE OF CONTENTS
(continued)

Page Nos.

OTHER SUPPLEMENTARY INFORMATION

Investments	42
Insurance Coverage	43
Long-Term Debt Requirements	44-50
Expenditures of Federal and State Awards	51
Utility Rates and Metered Customers	52

INTERNAL CONTROL AND COMPLIANCE

Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	53-54
--	-------

INDEPENDENT ACCOUNTANTS' AUDIT REPORT

Board of Mayor and Aldermen
City of Wartburg, Tennessee
Wartburg, Tennessee

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of City of Wartburg, Tennessee as of and for the year ended June 30, 2011, which collectively comprise City of Wartburg, Tennessee's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the organization'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. 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 opinion.

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

Management's discussion and analysis on pages 3 to 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements which collectively comprise City of Wartburg, Tennessee's basic financial statements. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The accompanying other supplementary information listed in the table of contents is presented for purposes of additional analysis and is 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 express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2012 on our consideration of City of Wartburg, Tennessee's internal control over financial reporting and 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 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.

A handwritten signature in black ink that reads "Mitchell Emert & Hill". The signature is written in a cursive, flowing style.

January 9, 2012

CITY OF WARTBURG
Post Office Box 386
WARTBURG, TN 37887
(423) 346-2323

CITY RECORDER
TONI HAMBY
DIRECTOR OF PUBLIC WORKS
SONNY BRIGGS
CHIEF OF POLICE
EARL R. BALES

MAYOR
JOEY WILLIAMS
BOARD OF ALDERMAN
BACEL GUNTER
JONATHON DAGLEY

MANAGEMENT'S DISCUSSION & ANALYSIS

For the Fiscal Year ending June 30, 2011

Introduction

Management's Discussion and Analysis (MD&A) is a supplementary document which is a required addition to a City's annual audit report. The MD&A supplementary document is prepared in compliance with the accounting standards established by the Governmental Accounting Standards Board (GASB-34). The MD&A portion of this audit report has been prepared by management of the City of Wartburg, and presents a narrative overview and analysis of the City's financial performance for the fiscal year ended June 30, 2011.

Overview of the Financial Statements

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

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

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

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event 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).

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

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial 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 City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Proprietary funds. The City of Wartburg maintains one *enterprise fund* that is used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Wartburg uses this enterprise fund to account for its sewer operations.

Proprietary fund financial statements 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 Sewer Fund, which is considered to be a major fund of the City of Wartburg.

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.

Financial Analysis – Government-wide Statements

The City's Net Assets totaled \$7,228,142 at the end of fiscal year 2011, compared to \$7,196,703 at the end of the prior fiscal year. The increase in Net Assets is largely due to increased grants and contributions in the general fund and decreased operating costs in the general fund for repair and maintenance and supplies. A comparative analysis of government-wide data for fiscal years 2011 and 2010 follows:

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Current and Other Assets	\$ 1,399,593	\$ 1,341,849
Capital Assets	<u>7,707,413</u>	<u>7,859,832</u>
Total Assets	<u>\$ 9,107,006</u>	<u>\$ 9,201,681</u>
Long-Term Liabilities	\$ 1,723,094	\$ 1,825,806
Other Liabilities	<u>155,770</u>	<u>179,171</u>
Total Liabilities	<u>\$ 1,878,864</u>	<u>\$ 2,004,977</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	\$ 5,881,607	\$ 5,903,055
Restricted	179,917	174,816
Unrestricted	<u>1,166,617</u>	<u>1,118,833</u>
Total Net Assets	<u>\$ 7,228,142</u>	<u>\$ 7,196,703</u>

The condensed financial statement below reflects how the City's net assets changed between fiscal years 2011 and 2010:

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Program Revenues:		
Fees, Fines and Charges for Services	\$ 623,078	\$ 562,735
Grants and Contributions	54,717	48,278
General Revenues:		
Assessment Revenues	696,958	696,636
Miscellaneous Revenues	3,443	2,506
Total Revenues	<u>\$ 1,378,196</u>	<u>\$ 1,310,155</u>
Expenses:		
Governmental Activities	\$ 776,140	\$ 809,312
Business-Type Activities	570,617	576,487
	<u>\$ 1,346,757</u>	<u>\$ 1,385,799</u>
Change in Net Assets	\$ 31,438	\$ (75,643)
Net Assets - Beginning	<u>7,196,703</u>	<u>7,272,345</u>
Net Assets - Ending	<u>\$ 7,228,142</u>	<u>\$ 7,196,703</u>

Financial Analysis – Governmental Activities

Highlights of the Governmental Activities balance sheet are as follows:

- The balance due from other governments primarily consists of the City's share of local sales tax, state sales tax, income tax, and rental income. The amount due from other governments at June 30, 2011 is \$115,291.
- Capital Assets, Net of Accumulated Depreciation, had a balance of \$948,794 on June 30, 2011.
- Net Assets were \$1,515,364 at June 30, 2011.

General Fund Budgetary Highlights

The City adopts an annual budget for its General Fund, Drug Fund and State Street Aid Fund. A budgetary comparison statement has been provided in the financial statements for these funds to demonstrate compliance with this budget.

Financial Analysis – Proprietary Fund

Enterprise Operation – Total assets of the Sewer Fund at June 30, 2011 were \$7,279,161.

Highlights from the Statement of Revenues and Expenses are as follows:

Sewer Fund:

	Y/E June 30, 2011	Y/E June 30, 2010	Difference
Operating Revenues	\$ 507,065	\$ 497,533	\$ 9,532
Operating Expenses	529,170	540,688	(11,518)
Operating Income	\$ (22,106)	\$ (43,156)	\$ 21,050

Operating revenues increased due to decreased service and connection fees. Expenses decreased due to decreased operating costs for repair and maintenance and supplies.

Debt Administration

As of June 30, 2011 the City had outstanding long-term debt in its governmental funds totaling \$292,601. This is a decrease of \$43,906 from last year. Principal payments on long-term debt for the year ended June 30, 2011 were \$43,906.

As of June 30, 2011, the City had outstanding long-term debt in its proprietary fund totaling \$1,533,205. This is a decrease of \$87,065 from last year. Principal payments on long-term debt for the year were \$87,065.

Capital Assets

The City had net capital additions of \$129,661 during the year ended June 30, 2011. The total additions include \$119,641 in general fixed assets and \$10,020 for sewer expansion.

Economic Issues and Problem Areas

The trend at the state level is toward taking more and more of local government's share of state collected taxes (sales, gas, income, etc.). Many cities have been forced to increase their local property and other taxes in order to make ends meet. The alternative is to cut services. The City of Wartburg does not impose a property tax and has not increased any local taxes or reduced any services to date.

Independent Audit

State statutes require an annual audit by an independent certified public accounting firm. In addition to meeting the requirements set forth in state statutes, the audit is conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States of America. The auditors' report on the basic financial statements and supplementary information is included in the financial section of this report.

Fund Balances

During the year ended June 30, 2011, Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* became effective. This statement establishes standards for fund balance classifications for state and local governments. Additional information on this statement can be found in Note B to the financial statements.

Contacting the City's Financial Management

The financial report is designed to provide a general overview of the City's finances for all those with an interest in this subject. If you have questions about this report or need additional financial information, contact the City of Wartburg, P.O. Box 386, Wartburg, TN 37887. Our phone number is 423-346-2323.

CITY OF WARTBURG, TENNESSEE

STATEMENT OF NET ASSETS

June 30, 2011

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
ASSETS			
Cash	\$ 743,739	\$ 343,472	\$ 1,087,211
Certificate of deposit-debt service	0	100,000	100,000
Accounts receivable	0	59,019	59,019
Due from other governments	56,329	0	56,329
Taxes receivable	58,962	0	58,962
Grants receivable	4,650	11,327	15,977
Prepaid insurance	15,371	0	15,371
Bond issuance cost, net of accumulated amortization	0	6,674	6,674
Utility deposits	0	50	50
Capital assets not being depreciated	135,600	47,679	183,279
Capital assets being depreciated, net of accumulated depreciation	<u>813,194</u>	<u>6,710,940</u>	<u>7,524,134</u>
 TOTAL ASSETS	 <u>\$ 1,827,845</u>	 <u>\$ 7,279,161</u>	 <u>\$ 9,107,006</u>

See the accompanying notes to the financial statements.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
LIABILITIES			
Accounts payable	\$ 13,577	\$ 23,724	\$ 37,300
Accrued salaries	6,173	0	6,173
Payroll taxes payable	130	0	130
Customer meter deposits	0	9,455	9,455
Current portion of long-term debt	34,601	68,111	102,712
Long-term debt, net of current portion	<u>258,000</u>	<u>1,465,094</u>	<u>1,723,094</u>
TOTAL LIABILITIES	312,481	1,566,383	1,878,864
NET ASSETS			
Invested in capital assets, net of related debt	656,193	5,225,414	5,881,607
Restricted:			
Debt service	0	100,000	100,000
Street improvements	62,165	0	62,165
Drug enforcement	17,752	0	17,752
Unrestricted	<u>779,254</u>	<u>387,363</u>	<u>1,166,617</u>
TOTAL NET ASSETS	<u>1,515,364</u>	<u>5,712,777</u>	<u>7,228,142</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,827,845</u>	<u>\$ 7,279,161</u>	<u>\$ 9,107,006</u>

CITY OF WARTBURG, TENNESSEE

STATEMENT OF ACTIVITIES

Year Ended June 30, 2011

	<u>Expenses</u>	<u>Program Revenue</u>		
		<u>Fees, Fines and Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental Activities:				
General government	\$ 120,838	\$ 86,988	\$ 13	\$ 0
Public safety	267,267	29,025	2,400	3,500
Public works	298,143	0	0	0
Public welfare	55,557	0	0	10,589
Streets and highways	34,334	0	26,888	0
	<u>776,140</u>	<u>116,014</u>	<u>29,301</u>	<u>14,089</u>
Total Governmental Activities	776,140	116,014	29,301	14,089
Business-Type Activities:				
Sewer	570,617	507,065	0	11,327
	<u>570,617</u>	<u>507,065</u>	<u>0</u>	<u>11,327</u>
	<u>\$ 1,346,757</u>	<u>\$ 623,078</u>	<u>\$ 29,301</u>	<u>\$ 25,416</u>

Net (Expense)Revenue and
Changes In Net Assets

Governmental Activities	Business-Type Activities	Totals
\$ (33,837)	\$ 0	\$ (33,837)
(232,342)	0	(232,342)
(298,143)	0	(298,143)
(44,968)	0	(44,968)
<u>(7,446)</u>	<u>0</u>	<u>(7,446)</u>
(616,737)	0	(616,737)
<u>0</u>	<u>(52,226)</u>	<u>(52,226)</u>
<u>\$ (616,737)</u>	<u>\$ (52,226)</u>	<u>\$ (668,962)</u>

CITY OF WARTBURG, TENNESSEE

STATEMENT OF ACTIVITIES

(continued)

Year Ended June 30, 2011

NET (EXPENSE) FROM PROGRAM ACTIVITIES

General Revenue:

Taxes:

Local sales tax

Business taxes

Wholesale beer taxes

Intergovernmental

Investment earnings

Miscellaneous

Total General Revenue

CHANGES IN NET ASSETS

NET ASSETS AT THE BEGINNING OF THE YEAR

NET ASSETS AT THE END OF THE YEAR

See the accompanying notes to the financial statements.

Net (Expense)Revenue and
Changes In Net Assets

Governmental Activities	Business-Type Activities	Totals
\$ (616,737)	\$ (52,226)	\$ (668,962)
521,912	0	521,912
4,250	0	4,250
93,045	0	93,045
73,587	0	73,587
2,734	1,429	4,164
3,443	0	3,443
698,972	1,429	700,401
82,235	(50,796)	31,438
1,433,129	5,763,574	7,196,701
\$ 1,515,364	\$ 5,712,777	\$ 7,228,142

CITY OF WARTBURG, TENNESSEE

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2011

	<u>General Fund</u>	<u>Drug Fund</u>
ASSETS		
Cash	\$ 663,918	\$ 17,752
Prepaid insurance	15,371	0
Due from other governments	52,079	0
Grant receivable	4,650	0
Taxes receivable	<u>58,962</u>	<u>0</u>
TOTAL ASSETS	<u>\$ 794,979</u>	<u>\$ 17,752</u>
LIABILITIES		
Accounts payable	\$ 11,479	\$ 0
Accrued salaries	6,173	0
Payroll taxes payable	130	0
Deferred revenue	<u>50,169</u>	<u>0</u>
TOTAL LIABILITIES	67,952	0
FUND BALANCES		
Nonspendable	15,371	0
Restricted	0	17,752
Unassigned	<u>711,656</u>	<u>0</u>
	<u>727,027</u>	<u>17,752</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 794,979</u>	<u>\$ 17,752</u>

See the accompanying notes to the financial statements.

State Street Aid Fund	Totals
\$ 62,070	\$ 743,739
0	15,371
4,251	56,329
0	4,650
0	58,962
<u>66,320</u>	<u>879,051</u>
\$ 2,097	\$ 13,577
0	6,173
0	130
2,058	52,227
<u>4,155</u>	<u>72,107</u>
0	15,371
62,165	79,917
0	711,656
<u>62,165</u>	<u>806,945</u>
<u>\$ 66,320</u>	<u>\$ 879,051</u>

CITY OF WARTBURG, TENNESSEE

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS**

June 30, 2011

Total Fund Balance - Governmental Funds	\$ 806,945
Capital assets used in governmental activities are reported in the statement of net assets; however, they are not current financial resources and therefore are not reported in the governmental funds balance sheet.	948,794
Long-term liabilities are not due in the current period and, therefore, are not reported in the governmental funds balance sheet.	(292,601)
Some of the City's taxes will be collected after year-end, but are not available soon enough to pay for the current year's expenditures; therefore, they are reported as deferred revenue in the governmental funds balance sheet.	<u>52,227</u>
Net Assets of Governmental Activities	<u>\$ 1,515,364</u>

See the accompanying notes to the financial statements.

CITY OF WARTBURG, TENNESSEE

**STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS**

Year Ended June 30, 2011

	<u>General Fund</u>	<u>Drug Fund</u>
REVENUE		
Taxes:		
Local sales tax	\$ 522,642	\$ 0
Cable TV franchise tax	4,250	0
Housing authority	4,504	0
Wholesale beer tax	93,045	0
Intergovernmental	135,095	0
Licenses and permits	4,573	0
Receipts for use of facilities	39,416	0
Housing authority patrol	3,566	0
Fines and forfeitures	0	8,378
Investment earnings	2,657	15
Donations	8,162	0
Miscellaneous	<u>2,818</u>	<u>5,041</u>
TOTAL REVENUE	820,727	13,434
EXPENDITURES		
Current:		
General government	118,245	0
Public safety	233,146	6,584
Public works	298,143	0
Parks and recreation	26,406	0
Streets and highways	0	0
Debt service	60,045	0
Capital outlay	<u>53,817</u>	<u>1,980</u>
TOTAL EXPENDITURES	<u>789,802</u>	<u>8,564</u>

<u>State Street Aid Fund</u>	<u>Totals</u>
\$ 0	\$ 522,642
0	4,250
0	4,504
0	93,045
25,001	160,095
0	4,573
0	39,416
0	3,566
0	8,378
0	2,672
62	8,224
0	7,859
25,063	859,224
0	118,245
0	239,730
0	298,143
0	26,406
24,832	24,832
0	60,045
0	55,797
24,832	823,198

CITY OF WARTBURG, TENNESSEE

STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

(continued)

Year Ended June 30, 2011

	<u>General Fund</u>	<u>Drug Fund</u>
EXCESS OF REVENUE OVER EXPENDITURES	30,925	4,870
FUND BALANCES AT THE BEGINNING OF THE YEAR	<u>696,103</u>	<u>12,882</u>
FUND BALANCES AT THE END OF THE YEAR	<u>\$ 727,027</u>	<u>\$ 17,752</u>

See the accompanying notes to the financial statements.

<u>State Street Aid Fund</u>	<u>Totals</u>
231	36,026
<u>61,934</u>	<u>770,919</u>
<u>\$ 62,165</u>	<u>\$ 806,945</u>

CITY OF WARTBURG, TENNESSEE

**RECONCILIATION OF THE STATEMENT OF REVENUE,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

Year Ended June 30, 2011

Excess of Revenue Over Expenditures - Governmental Funds	\$ 36,026
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.</p>	
Acquisition and construction of capital assets	55,797
Depreciation expense	(52,645)
<p>Repayment of long-term debt is an expenditure in the governmental funds, but reduces long-term liabilities for governmental activities.</p>	43,906
<p>Revenue reported in the statement of activities that does not provide current financial resources is not reported as revenue in the governmental fund financial statements:</p>	
Deferred tax revenue - June 30, 2010	(53,076)
Deferred tax revenue - June 30, 2011	<u>52,227</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 82,235</u></u>

See the accompanying notes to the financial statements.

CITY OF WARTBURG, TENNESSEE

**STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE-ACTUAL AND BUDGET
GENERAL FUND**

Year Ended June 30, 2011

	Budget		Actual	Variance Over (Under)
	Original	Final		
REVENUE				
Taxes:				
Local sales tax	\$ 541,000	\$ 517,807	\$ 522,642	\$ 4,835
Cable TV franchise tax	4,700	4,250	4,250	0
Wholesale beer tax	84,000	91,436	93,045	1,609
Housing authority	4,900	4,504	4,504	0
	<u>634,600</u>	<u>617,997</u>	<u>624,441</u>	<u>6,444</u>
Intergovernmental:				
State income tax	5,200	6,991	3,889	(3,102)
State gas inspection	1,900	1,910	1,910	0
State beer tax	440	464	464	0
State sales tax	58,075	59,601	59,313	(288)
Other state revenue	0	14,817	13	(14,804)
LPRF grant	0	5,939	10,589	4,650
State police supplement	0	2,400	2,400	0
School resource officer	0	43,000	43,000	0
GHSO grant	0	3,500	3,500	0
TVA in-lieu of tax payments	9,100	10,016	10,016	0
	<u>74,715</u>	<u>148,638</u>	<u>135,095</u>	<u>(13,543)</u>
Licenses and permits:				
Permits	600	4,553	4,573	20
Receipts for use of facilities:				
Rental income	38,410	39,341	39,416	75
Other revenue:				
Interest	700	2,662	2,657	(5)
Housing authority patrol	3,887	3,889	3,566	(323)
Donations	4,500	8,506	8,162	(344)

CITY OF WARTBURG, TENNESSEE

**STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE-ACTUAL AND BUDGET
GENERAL FUND**

(continued)

Year Ended June 30, 2011

	<u>Budget</u>		<u>Actual</u>	<u>Variance Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Other revenue (continued):				
Miscellaneous revenue	<u>1,500</u>	<u>3,063</u>	<u>2,818</u>	<u>(245)</u>
	<u>10,587</u>	<u>18,120</u>	<u>17,203</u>	<u>(917)</u>
TOTAL REVENUE	758,912	828,648	820,727	(7,921)
EXPENDITURES				
City Recorder's office:				
Salaries and wages	42,500	39,972	36,660	(3,312)
Payroll taxes	3,000	2,932	2,829	(103)
Health insurance	12,300	12,099	10,228	(1,871)
Workers' compensation	1,200	835	505	(330)
Insurance	1,200	754	754	0
Publications and advertising	4,000	4,000	6,105	2,105
Professional services	9,000	9,225	9,225	0
State planning office	300	0	0	0
Travel	200	593	593	0
City attorney	500	600	600	0
Housing authority	1,200	1,200	1,200	0
Office supplies	600	1,000	926	(74)
Miscellaneous	<u>1,229</u>	<u>6,750</u>	<u>6,896</u>	<u>146</u>
	<u>77,229</u>	<u>79,960</u>	<u>76,522</u>	<u>(3,439)</u>
City buildings:				
Utilities	14,900	16,455	16,455	0
Telephone	4,900	4,184	4,446	261
Insurance	14,200	15,501	15,501	0
Repairs and maintenance	<u>4,500</u>	<u>5,522</u>	<u>5,322</u>	<u>(200)</u>
	<u>38,500</u>	<u>41,662</u>	<u>41,723</u>	<u>61</u>

CITY OF WARTBURG, TENNESSEE

**STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE-ACTUAL AND BUDGET
GENERAL FUND**

(continued)

Year Ended June 30, 2011

	<u>Budget</u>		<u>Actual</u>	<u>Variance Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Public safety:				
Salaries and wages	124,000	136,388	136,388	0
Payroll taxes	9,000	9,130	10,089	959
Health insurance	24,500	28,895	26,716	(2,180)
Workers' compensation	5,400	4,341	4,341	0
Telephone	6,000	6,136	6,318	183
Uniforms and supplies	4,000	5,500	5,307	(193)
Repairs and maintenance	4,000	4,911	4,502	(409)
Gas, oil and grease	15,700	25,600	26,373	773
Public education	300	419	91	(328)
Liability insurance	4,500	3,767	3,767	0
Fire department donation	1,500	1,500	1,500	0
Miscellaneous	2,000	7,471	7,754	283
	<u>200,900</u>	<u>234,058</u>	<u>233,146</u>	<u>(912)</u>
Parks and recreation:				
Liability insurance	460	397	394	(3)
Recreational facilities	15,000	6,110	1,313	(4,797)
Holiday decorations	200	495	495	0
Repairs and maintenance	0	0	1,021	1,021
Supplies	0	0	2,828	2,828
Utilities	15,000	17,099	17,248	149
City beautification	650	234	234	0
Library expenses	2,873	2,873	2,873	0
	<u>34,183</u>	<u>27,208</u>	<u>26,406</u>	<u>(802)</u>
Public works:				
Salaries and wages	190,000	150,450	144,541	(5,909)
Payroll taxes	10,000	6,926	7,084	158
Health insurance	49,000	52,648	48,786	(3,862)
Workers' compensation	10,500	9,002	9,002	0

CITY OF WARTBURG, TENNESSEE

**STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE-ACTUAL AND BUDGET
GENERAL FUND**

(continued)

Year Ended June 30, 2011

	<u>Budget</u>		<u>Actual</u>	<u>Variance Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Public works (continued):				
Utilities	6,000	6,448	6,448	0
Telephone	5,500	5,031	5,130	100
Street maintenance	3,200	10,720	10,652	(68)
Uniforms	6,200	5,935	5,716	(219)
Operating supplies	36,000	36,967	36,718	(249)
Gas, oil and grease	11,000	14,900	14,281	(619)
Liability insurance	2,800	2,484	2,484	0
Waste collection	7,700	6,200	6,239	39
Miscellaneous	1,000	995	1,061	66
	<u>338,900</u>	<u>308,707</u>	<u>298,143</u>	<u>(10,564)</u>
Capital outlay:				
City buildings	300	17,787	17,787	0
Parks and recreation	0	19,890	25,962	6,072
Public works	3,000	6,214	6,094	(120)
Public safety	1,000	3,646	3,974	328
	<u>4,300</u>	<u>47,537</u>	<u>53,817</u>	<u>6,280</u>
Debt service:				
Principal	43,500	41,965	43,906	1,941
Interest	21,400	18,081	16,139	(1,941)
	<u>64,900</u>	<u>60,045</u>	<u>60,045</u>	<u>0</u>
TOTAL EXPENDITURES	<u>758,912</u>	<u>799,178</u>	<u>789,802</u>	<u>(9,376)</u>

CITY OF WARTBURG, TENNESSEE

**STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE-ACTUAL AND BUDGET
GENERAL FUND**

(continued)

Year Ended June 30, 2011

	<u>Budget</u>		<u>Actual</u>	<u>Variance Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
EXCESS OF REVENUE OVER EXPENDITURES	0	29,470	30,925	1,455
FUND BALANCE AT THE BEGINNING OF THE YEAR	<u>0</u>	<u>0</u>	<u>696,103</u>	<u>696,103</u>
FUND BALANCE AT THE END OF THE YEAR	<u>\$ 0</u>	<u>\$ 29,470</u>	<u>\$ 727,028</u>	<u>\$ 697,558</u>

See the accompanying notes to the financial statements.

CITY OF WARTBURG, TENNESSEE

**STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE-ACTUAL AND BUDGET
DRUG FUND**

Year Ended June 30, 2011

	Budget		Actual	Variance Over (Under)
	Original	Final		
REVENUE				
Drug related fines	\$ 5,000	\$ 8,795	\$ 8,378	\$ (417)
Interest	60	15	15	1
Other	100	4,541	5,041	500
TOTAL REVENUE	<u>5,160</u>	<u>13,350</u>	<u>13,434</u>	<u>84</u>
EXPENDITURES				
Drug investigation	3,000	3,500	3,200	(300)
Capital outlay	1,500	1,980	1,980	0
Miscellaneous	660	3,108	3,384	276
TOTAL EXPENDITURES	<u>5,160</u>	<u>8,588</u>	<u>8,564</u>	<u>(24)</u>
EXCESS OF REVENUE OVER EXPENDITURES	0	4,762	4,870	108
FUND BALANCE AT THE BEGINNING OF THE YEAR	<u>0</u>	<u>0</u>	<u>12,882</u>	<u>12,882</u>
FUND BALANCE AT THE END OF THE YEAR	<u>\$ 0</u>	<u>\$ 4,762</u>	<u>\$ 17,752</u>	<u>\$ 12,990</u>

See the accompanying notes to the financial statements.

CITY OF WARTBURG, TENNESSEE

**STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE-ACTUAL AND BUDGET
STATE STREET AID FUND**

Year Ended June 30, 2011

	Budget		Actual	Variance Over (Under)
	Original	Final		
REVENUE				
State gas and motor fuel tax	\$ 23,500	\$ 24,100	\$ 25,001	\$ 901
Interest	<u>60</u>	<u>62</u>	<u>62</u>	<u>0</u>
TOTAL REVENUE	<u>23,560</u>	<u>24,162</u>	<u>25,063</u>	<u>901</u>
EXPENDITURES				
Asphalt and paving supplies	1,000	500	2,097	1,597
Street lighting	21,000	22,615	22,734	119
Miscellaneous	<u>1,560</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL EXPENDITURES	<u>23,560</u>	<u>23,115</u>	<u>24,832</u>	<u>1,716</u>
EXCESS OF REVENUE OVER EXPENDITURES	0	1,047	231	(816)
FUND BALANCE AT THE BEGINNING OF THE YEAR	<u>0</u>	<u>0</u>	<u>61,934</u>	<u>61,934</u>
FUND BALANCE AT THE END OF THE YEAR	<u>\$ 0</u>	<u>\$ 1,047</u>	<u>\$ 62,165</u>	<u>\$ 61,118</u>

See the accompanying notes to the financial statements.

CITY OF WARTBURG, TENNESSEE

STATEMENT OF NET ASSETS
SEWER FUND

June 30, 2011

ASSETS

CURRENT ASSETS

Cash	\$	343,472	
Certificates of deposit-debt service		100,000	
Accounts receivable		59,019	
Grants receivable		11,327	
Utility deposits		50	
Bond issuance cost, net of accumulated amortization			<u>6,674</u>

TOTAL CURRENT ASSETS 520,542

CAPITAL ASSETS

Land	\$	5,709	
Construction in process		12,220	
Equipment		50,975	
Right of way		29,749	
Utility plant		<u>7,951,323</u>	
		8,049,976	
Accumulated depreciation		<u>(1,291,358)</u>	<u>6,758,619</u>

TOTAL ASSETS \$ 7,279,161

See the accompanying notes to the financial statements.

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$	23,724	
Customer meter deposits		9,455	
Current portion of long-term debt		<u>68,111</u>	

TOTAL CURRENT LIABILITIES 101,290

LONG-TERM DEBT,
net of current portion

1,465,094

TOTAL LIABILITIES 1,566,383

NET ASSETS

Invested in capital assets, net of related debt	\$	5,225,414	
Restricted		100,000	
Unrestricted		<u>387,363</u>	<u>5,712,777</u>

TOTAL LIABILITIES AND NET ASSETS \$ 7,279,161

CITY OF WARTBURG, TENNESSEE

STATEMENT OF REVENUE, EXPENSES AND CHANGE IN NET ASSETS
SEWER FUND

Year Ended June 30, 2011

OPERATING REVENUE

Charges for services \$ 507,065

OPERATING EXPENSES

Salaries	\$ 54,296
Payroll taxes	7,288
Workers' compensation	1,752
Insurance	896
Utilities	119,490
License and permits	250
Telephone	1,367
Sludge removal	35,057
Repairs and maintenance	85,127
Operating supplies	36,796
Chemicals	16,233
Depreciation and amortization	<u>170,618</u>

TOTAL OPERATING EXPENSES 529,170

(LOSS) FROM OPERATIONS (22,106)

NONOPERATING REVENUE(EXPENSE)

Interest income	1,429
Interest expense	<u>(41,447)</u>

(LOSS) BEFORE CAPITAL CONTRIBUTIONS (62,123)

CAPITAL CONTRIBUTIONS 11,327

CHANGE IN NET ASSETS (50,796)

NET ASSETS AT THE BEGINNING OF THE YEAR 5,763,574

NET ASSETS AT THE END OF THE YEAR \$ 5,712,777

See the accompanying notes to the financial statements.

CITY OF WARTBURG, TENNESSEE

STATEMENT OF CASH FLOWS
SEWER FUND

Year Ended June 30, 2011

**CASH PROVIDED(USED) BY
OPERATING ACTIVITIES**

Cash received from customers	\$ 504,752
Cash paid to employees	(54,296)
Cash paid to suppliers	<u>(294,368)</u>

**NET CASH PROVIDED
BY OPERATING ACTIVITIES**

156,088

**CASH PROVIDED(USED) BY CAPITAL AND
RELATED FINANCING ACTIVITIES**

Acquisition of capital assets	\$ (14,490)
Principal payments on long-term debt	(87,065)
Interest paid on debt	<u>(41,447)</u>

**NET CASH (USED) BY CAPITAL AND
RELATED FINANCING ACTIVITIES**

(143,002)

**CASH PROVIDED(USED) BY
INVESTING ACTIVITIES**

Interest received	<u>1,429</u>
-------------------	--------------

NET INCREASE IN CASH

14,515

**CASH AND CASH EQUIVALENTS
AT THE BEGINNING OF THE YEAR**

328,956

**CASH AND CASH EQUIVALENTS
AT THE END OF THE YEAR**

\$ 343,472

CITY OF WARTBURG, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

NOTE A - DESCRIPTION OF ORGANIZATION

City of Wartburg, Tennessee (the City) was incorporated under Chapter 41 of the Private Acts of 1917, as amended by Chapter 230 of the Private Acts of 1992. The City operates under a Board of Mayor and Aldermen form of government and provides the following services as authorized by its charter: public safety (police and fire), public works, sewer utilities, public library, culture and recreation, and general administrative services.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The City, for financial reporting purposes, includes all funds relevant to the operations of City of Wartburg, Tennessee. The financial statements presented herein do not include agencies which have been formed under applicable state laws, or separate and distinct units of government apart from the City. As of June 30, 2011 and for the year then ended, the City had no discretely presented component units which were required to be included in these financial statements.

Government-wide and fund financial statements

The government-wide financial statements, which consist of the statement of net assets and the statement of activities, report information on all of the nonfiduciary activities of the City. Governmental activities, which normally are supported by taxes and intergovernmental revenue, 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 is offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 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 revenue are reported instead as general revenue.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

CITY OF WARTBURG, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2011

Measurement Focus, Basis of Accounting and Basis of 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. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flow. Grants and similar items are recognized as revenue as soon as all eligible 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. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenue to be available if it is collected within 30 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, are recorded only when the payment is due.

The City reports the following major governmental funds:

The *general fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *state street aid fund* is used to account for the City's share of motor fuel tax revenue that is legally restricted to the maintenance of streets within the City's boundaries.

The *drug fund* is used to account for costs associated with drug investigation and control and officers' training.

The City reports the following major proprietary fund:

The *sewer fund* accounts for the activities of the sewer department, which operates and maintains a sewer collection system for residents and businesses on a user charge basis.

All activities necessary to provide these services are accounted for in such a manner as to show profit or loss similar to comparable private enterprises.

CITY OF WARTBURG, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2011

The City had no internal service funds or fiduciary funds as of or for the year ended June 30, 2011.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

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

Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments* establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting reporting purposes into the following three net asset groups:

Invested in capital assets, net of related debt

This category includes capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. Invested in capital assets, net of related debt at June 30, 2011 has been calculated as follows:

Governmental activities:

Capital assets	\$ 1,776,108
Accumulated depreciation	(827,314)
Principal balance on long-term debt	<u>(292,601)</u>
	<u>\$ 656,193</u>

CITY OF WARTBURG, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2011

Business-type activities:

Sewer fund:

Capital assets	\$ 8,049,976
Accumulated depreciation	(1,291,358)
Principal balance on long-term debt	<u>(1,533,205)</u>
	<u>\$ 5,225,414</u>

Restricted

This category includes net assets whose use is subject to externally imposed stipulations that can either be fulfilled by actions of the City pursuant to those stipulations or that expire by the passage of time. Net assets of the state street aid fund are classified as restricted net assets because their use is limited to street improvements. Net assets of the drug fund are classified as restricted net assets because their use is limited to drug enforcement. A portion of the net assets of the sewer fund are restricted for debt service payments. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Unrestricted

This category includes net assets that are not subject to externally imposed stipulations and that do not meet the definition of "restricted" or "invested in capital assets, net of related debt". Unrestricted net assets may be designated for specific purposes by action of management or the Board of Mayor and Aldermen or may otherwise be limited by contractual agreements with outside parties.

Fund Balances

Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* establishes standards for fund balance classifications for state and local governments and requires that resources be classified for accounting reporting purposes into the following fund balances:

Nonspendable Fund Balance

Fund balances reported as nonspendable in the accompanying financial statements represent amounts for prepaid expenses or inventory.

CITY OF WARTBURG, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2011

Restricted Fund Balance

Fund balances reported as restricted in the accompanying financial statements represent amounts restricted to specific purposes by externally imposed restrictions or imposed by law through constitutional provisions or enabling legislation.

Committed Fund Balance

Fund balances reported as committed in the accompanying financial statements represent amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. The Board of Mayor and Aldermen commits resources for specific purposes by passing ordinances.

Assigned Fund Balance

Fund balances reported as assigned in the accompanying financial statements represent amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent is expressed by the Board of Mayor and Aldermen through the budgetary process.

Unassigned Fund Balance

In accordance with generally accepted accounting principles, the general fund is the only fund of the City that reports amounts for unassigned fund balance. This classification represents fund balance that is not nonspendable and has not been committed to specific purposes within the general fund.

The City would typically use restricted resources first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

Materials and Supplies

Materials and supplies for the proprietary fund are valued at the lower of cost (determined on a first-in, first-out basis) or market. The cost of materials and supplies in the governmental fund types are recorded as expenditures when purchased.

CITY OF WARTBURG, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2011

Budgets and Budgetary Accounting

Public hearings are conducted by the Board of Mayor and Aldermen to obtain citizen comments on the budget. Prior to June 30, the budget is legally enacted through passage of an ordinance. The annual appropriated budget for the general fund, state street aid fund, and drug fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budget amounts shown are those originally adopted, as well as the final budgets which reflect amendments by the Board of Mayor and Aldermen.

Total expenditures may not exceed the total amount appropriated in the budget ordinance. The Board of Mayor and Aldermen is authorized to transfer budgeted amounts between departments; any revisions that alter the total appropriations must be approved through the passage of an ordinance by the Board of Mayor and Aldermen. All annual appropriations lapse at year end.

Accounts Receivable

Accounts receivable which are deemed uncollectible based upon a periodic review of the accounts are charged to revenue. At June 30, 2011, no allowance for uncollectible accounts was considered necessary.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns on the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of \$100 or more. Such assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at estimated fair value on the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 2 to 50 years.

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized.

CITY OF WARTBURG, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2011

NOTE C - CASH AND INVESTMENTS

Cash represents money on deposit in various banks. Cash and investments are stated at cost which approximates market value. Carrying amounts at June 30, 2011 were as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
Bank deposits (checking and savings)	\$ 743,739	\$ 343,471	\$ 1,087,211
Certificate of deposit	<u>0</u>	<u>100,000</u>	<u>100,000</u>
Total	<u>\$ 743,739</u>	<u>\$ 443,471</u>	<u>\$ 1,187,211</u>
Unrestricted assets	\$ 743,739	\$ 343,471	\$ 1,087,211
Restricted assets	<u>0</u>	<u>100,000</u>	<u>100,000</u>
Total	<u>\$ 743,739</u>	<u>\$ 443,471</u>	<u>\$ 1,187,211</u>

State of Tennessee law authorizes the City to invest in obligations of the United States or its agencies, nonconvertible debt securities of certain federal agencies, other obligations guaranteed as to principal and interest by the United States or any of its agencies, secured certificates of deposit and other evidences of deposit in state and federal banks and savings and loan associations, and the state treasurer's local government investment pool.

All deposits with financial institutions in excess of Federal Deposit Insurance Corporation (FDIC) limits are required to be secured by one of two methods. Excess funds can be deposited with a financial institution that participates in the State of Tennessee Bank Collateral Pool. For deposits with financial institutions that do not participate in the State of Tennessee Bank Collateral Pool, state statutes require that all deposits be collateralized with collateral whose market value is equal to 105 percent of the uninsured amount of the deposits.

All cash and cash equivalent balances at June 30, 2011 were entirely insured by the Federal Deposit Insurance Corporation, the State of Tennessee Bank Collateral Pool, or collateralized with securities held by the City's agent in the City's name.

CITY OF WARTBURG, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2011

NOTE D - CAPITAL ASSETS

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

	<u>Balance 7/1/10</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 6/30/11</u>
Governmental Activities:				
<u>Capital assets not being depreciated</u>				
Land	\$ 135,600	\$ 0	\$ 0	\$ 135,600
Construction in progress	<u>40,822</u>	<u>23,022</u>	<u>(63,844)</u>	<u>0</u>
	176,422	23,022	(63,844)	135,600
<u>Capital assets being depreciated</u>				
Machinery and equipment	535,895	96,619	0	632,514
Buildings	<u>1,007,994</u>	<u>0</u>	<u>0</u>	<u>1,007,994</u>
	1,543,889	96,619	0	1,640,508
<u>Accumulated depreciation</u>				
Machinery and equipment	(366,905)	(32,479)	0	(399,384)
Buildings	<u>(407,765)</u>	<u>(20,166)</u>	<u>0</u>	<u>(427,930)</u>
	<u>(774,670)</u>	<u>(52,645)</u>	<u>0</u>	<u>(827,314)</u>
	<u>\$ 945,642</u>	<u>\$ 66,996</u>	<u>\$ (63,844)</u>	<u>\$ 948,794</u>

Depreciation expense is charged to the various governmental functions as follows:

General government	\$ 2,593
Public safety	11,398
Public welfare	29,151
Streets and highways	<u>9,503</u>
	<u>\$ 52,645</u>

CITY OF WARTBURG, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2011

	<u>Balance</u> <u>7/1/10</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>6/30/11</u>
Business-Type Activities:				
<u>Capital assets not being depreciated</u>				
Land	\$ 5,709	\$ 0	\$ 0	\$ 5,709
Construction in process	0	12,220	0	12,220
Right of ways	<u>29,749</u>	<u>0</u>	<u>0</u>	<u>29,749</u>
	35,459	12,220	0	47,678
<u>Capital assets being depreciated</u>				
Machinery and equipment	48,705	2,270	0	50,975
Utility plant	<u>7,951,323</u>	<u>0</u>	<u>0</u>	<u>7,951,323</u>
	8,000,028	2,270	0	8,002,298
<u>Accumulated depreciation</u>				
Machinery and equipment	(18,386)	(5,086)	0	(23,471)
Utility plant	<u>(1,102,910)</u>	<u>(164,977)</u>	<u>0</u>	<u>(1,267,886)</u>
	<u>(1,121,296)</u>	<u>(170,062)</u>	<u>0</u>	<u>(1,291,358)</u>
	<u>\$ 6,914,190</u>	<u>\$ (155,572)</u>	<u>\$ 0</u>	<u>\$ 6,758,619</u>

NOTE E - COMMITMENTS

The City entered into a contract as of June 30, 2011, with an engineering firm for improvements related to sewer system construction. The total contract amount is \$99,250 of which \$4,470 has been expended as of June 30, 2011.

The City entered into a contract as of June 30, 2011, with a consulting firm for grant administration related to sewer system construction. The total contract amount is \$36,000 of which \$7,750 has been expended as of June 30, 2011.

The City has obtained grant funding for the sewer system construction for a total amount of \$500,000. The City's local match for the project is \$97,000, of which \$893 has been expended as of June 30, 2011.

CITY OF WARTBURG, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2011

NOTE F - LONG-TERM DEBT

Long-term debt at June 30, 2011, consisted of the following:

Governmental Activities:

Capital Outlay Note, Series 2007, interest rate 5.12% due in annual installments of varying amounts including interest through 2019	\$ 284,000
Capital lease, due in monthly installments of \$1,742 including interest at 5.14% through 2011	<u>8,601</u> 292,601
Less current maturities	<u>(34,601)</u>
	<u>\$ 258,000</u>

Business-Type Activities:

Sewer Revenue and Tax Deficiency Bond, Series 1988, due in monthly installments of \$1,033 including interest at 6%	\$ 115,889
Sewer Revenue and Tax Bond, Series 1995, due in monthly installments of \$1,704 including interest at 5.25%	273,241
Sewer Revenue and Tax Bond, Series 1998, due in monthly installments of \$322 including interest at 4.5%	57,834

CITY OF WARTBURG, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2011

Sewer Revenue and Tax Bond, Series 2005, due in monthly installments of \$487, including interest at 4.5%	99,590
State Revolving Fund Loan SRF 05-182, due in monthly installments of \$4,336 including interest at 1.23%	<u>986,651</u>
	1,533,205
Less current maturities	<u>(68,111)</u>
	<u>\$ 1,465,094</u>

Maturities of long-term debt as of June 30, 2011 are as follows:

Governmental Activities:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2012	\$ 34,601	\$ 14,652	\$ 49,253
2013	27,000	13,210	40,210
2014	28,000	11,827	39,827
2015	30,000	10,394	40,394
2016	31,000	8,858	39,858
2017	33,000	7,270	40,270
2018	35,000	5,581	40,581
2019	36,000	3,789	39,789
2020	<u>38,000</u>	<u>1,946</u>	<u>39,946</u>
	<u>\$ 292,601</u>	<u>\$ 77,525</u>	<u>\$ 370,126</u>

CITY OF WARTBURG, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2011

Business-Type Activities:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2012	\$ 68,111	\$ 40,008	\$ 108,119
2013	69,574	38,547	108,121
2014	71,093	37,027	108,120
2015	72,672	35,449	108,121
2016	74,302	33,818	108,120
2017	75,997	32,123	108,120
2018	77,759	30,361	108,120
2019	79,581	28,539	108,120
2020	81,476	26,643	108,120
2021	83,450	24,669	108,120
2022	85,506	22,616	108,120
2023	87,649	20,471	108,120
2024	89,869	18,251	108,120
2025	89,195	15,948	105,143
2026	81,673	14,051	95,724
2027	83,382	12,342	95,724
2028	64,378	10,600	74,978
2029	20,922	9,235	30,157
2030	22,002	8,154	30,156
2031	23,139	7,017	30,156
2032	24,333	5,822	30,156
2033	25,592	4,564	30,156
2034	26,914	3,242	30,156
2035	8,460	2,248	10,708
2036	8,545	2,071	10,616
2037	4,219	1,625	5,844
2038	4,413	1,431	5,844

CITY OF WARTBURG, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2011

Business-Type Activities (continued):

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2039	4,615	1,229	5,844
2040	4,827	1,017	5,844
2041	5,049	795	5,844
2042	5,281	563	5,844
2043	5,524	320	5,844
2044	<u>3,704</u>	<u>67</u>	<u>3,771</u>
	<u>\$ 1,533,205</u>	<u>\$ 490,863</u>	<u>\$ 2,024,068</u>

Changes in long-term debt for the year ended June 30, 2011 were as follows:

	<u>Balance 7/1/10</u>	<u>Proceeds</u>	<u>Payments</u>	<u>Balance 6/30/11</u>	<u>Amounts Due Within One Year</u>
<u>Governmental Activities:</u>					
Capital Note, 2007 Series	\$ 308,000	\$ 0	\$ 24,000	\$ 284,000	\$ 26,000
Capital Lease	<u>28,507</u>	<u>0</u>	<u>19,906</u>	<u>8,601</u>	<u>8,601</u>
	<u>\$ 336,507</u>	<u>\$ 0</u>	<u>\$ 43,906</u>	<u>\$ 292,601</u>	<u>\$ 34,601</u>

CITY OF WARTBURG, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2011

	<u>Balance</u> <u>7/1/10</u>	<u>Proceeds</u>	<u>Payments</u>	<u>Balance</u> <u>6/30/11</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
<u>Business-Type</u> <u>Activities:</u>					
Revenue Bond, 1971 Series	\$ 20,375	\$ 0	\$ 20,375	\$ 0	\$ 0
Revenue Bond, 1988 Series	121,155	0	5,266	115,889	5,480
Revenue Bond, 1996 Series	279,167	0	5,926	273,241	6,245
Revenue Bond, 1998 Series	59,064	0	1,230	57,834	1,287
Revenue Bond, 2005 Series	100,902	0	1,312	99,590	1,373
State Revolving Fund Loan SRF 05-182	<u>1,039,607</u>	<u>0</u>	<u>52,956</u>	<u>986,651</u>	<u>53,616</u>
	<u>\$ 1,620,270</u>	<u>\$ 0</u>	<u>\$ 87,065</u>	<u>\$ 1,533,205</u>	<u>\$ 68,111</u>

NOTE G - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City participates in the Tennessee Municipal League Insurance Risk Pool and pays an annual premium to the pool for its general insurance coverage. The City carries commercial insurance for all other risks of loss, including destruction of property and employee dishonesty bonds. Settled claims resulting from these risks have not exceeded commercial insurance coverage in the past three fiscal years. The pooling agreement allows the pool to make additional assessments or refund surplus revenue to the City. It is not possible to estimate the amount of such additional assessments or refunds, if any.

OTHER SUPPLEMENTARY INFORMATION

CITY OF WARTBURG, TENNESSEE

INVESTMENTS

June 30, 2011

	<u>Interest Rate</u>	<u>Amount</u>
<u>Certificate of Deposit - Sewer Fund</u> Progressive Savings Bank #2282380	1.26%	\$ 100,000

See the accompanying independent accountants' audit report.

CITY OF WARTBURG, TENNESSEE

INSURANCE COVERAGE

June 30, 2011

<u>Description</u>	<u>Amount of Coverage</u>
Property insurance - fire and extended coverage on building and contents	\$ 9,097,110
Automobile coverage	
Collision	Physical damage
Comprehensive	Physical damage
Liability insurance	
General liability	\$ 300,000 / 700,000 / 100,000
Law enforcement	300,000 / 700,000 / 100,000
Automobile	300,000 / 700,000 / 100,000
Errors and omissions	\$ 1,000,000
Employee dishonesty and public official bond	100,000
Workers' compensation	
Employer liability - statutory	700,000

See the accompanying independent accountants' audit report.

CITY OF WARTBURG, TENNESSEE

LONG-TERM DEBT REQUIREMENTS

June 30, 2011

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
<u>Governmental Activities:</u>			
Capital Outlay Note			
Series 2007			
Year ending June 30,			
2012	\$ 26,000	\$ 14,541	\$ 40,541
2013	27,000	13,210	40,210
2014	28,000	11,827	39,827
2015	30,000	10,394	40,394
2016	31,000	8,858	39,858
2017	33,000	7,270	40,270
2018	35,000	5,581	40,581
2019	36,000	3,789	39,789
2020	38,000	1,946	39,946
	<u>\$ 284,000</u>	<u>\$ 77,416</u>	<u>\$ 361,416</u>
Capital Lease			
Year ending June 30,			
2012	<u>\$ 8,601</u>	<u>\$ 111</u>	<u>\$ 8,712</u>

CITY OF WARTBURG, TENNESSEE

LONG-TERM DEBT REQUIREMENTS

(continued)

June 30, 2011

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
<u>Business-Type Activities:</u>			
Sewer Revenue and Tax Deficiency Bond, Series 1988			
Year ending June 30,			
2012	\$ 5,590	\$ 6,806	\$ 12,396
2013	5,935	6,461	12,396
2014	6,301	6,095	12,396
2015	6,690	5,706	12,396
2016	7,103	5,293	12,396
2017	7,541	4,855	12,396
2018	8,006	4,390	12,396
2019	8,500	3,896	12,396
2020	9,024	3,372	12,396
2021	9,580	2,816	12,396
2022	10,171	2,225	12,396
2023	10,799	1,597	12,396
2024	11,465	931	12,396
2025	9,184	233	9,417
	<u>\$ 115,889</u>	<u>\$ 54,676</u>	<u>\$ 170,565</u>

CITY OF WARTBURG, TENNESSEE

LONG-TERM DEBT REQUIREMENTS

(continued)

June 30, 2011

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
Sewer Revenue and Tax Bond, Series 1995			
Year Ended June 30,			
2012	\$ 6,245	\$ 14,203	\$ 20,448
2013	6,581	13,867	20,448
2014	6,934	13,514	20,448
2015	7,307	13,141	20,448
2016	7,700	12,748	20,448
2017	8,115	12,333	20,448
2018	8,551	11,897	20,448
2019	9,011	11,437	20,448
2020	9,495	10,953	20,448
2021	10,006	10,442	20,448
2022	10,544	9,904	20,448
2023	11,111	9,337	20,448
2024	11,709	8,739	20,448
2025	12,339	8,109	20,448
2026	13,002	7,446	20,448
2027	13,702	6,746	20,448
2028	14,439	6,009	20,448
2029	15,216	5,232	20,448
2030	16,033	4,415	20,448
2031	16,896	3,552	20,448
2032	17,804	2,644	20,448
2033	18,762	1,686	20,448
2034	19,771	677	20,448
2035	1,968	23	1,991
	<u>\$ 273,241</u>	<u>\$ 199,054</u>	<u>\$ 472,295</u>

CITY OF WARTBURG, TENNESSEE

LONG-TERM DEBT REQUIREMENTS

(continued)

June 30, 2011

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
Sewer Revenue and Tax Bond, Series 1998			
Year ending June 30,			
2012	\$ 1,287	\$ 2,577	\$ 3,864
2013	1,346	2,519	3,865
2014	1,408	2,456	3,864
2015	1,472	2,392	3,864
2016	1,540	2,324	3,864
2017	1,611	2,253	3,864
2018	1,685	2,179	3,864
2019	1,762	2,102	3,864
2020	1,843	2,021	3,864
2021	1,928	1,936	3,864
2022	2,016	1,848	3,864
2023	2,109	1,755	3,864
2024	2,206	1,658	3,864
2025	2,307	1,557	3,864
2026	2,413	1,451	3,864
2027	2,524	1,340	3,864
2028	2,640	1,224	3,864
2029	2,761	1,103	3,864
2030	2,888	976	3,864
2031	3,021	843	3,864
2032	3,159	704	3,863
2033	3,305	559	3,864
2034	3,456	408	3,864
2035	3,655	249	3,904
2036	3,492	249	3,741
	<u>\$ 57,834</u>	<u>\$ 38,683</u>	<u>\$ 96,517</u>

CITY OF WARTBURG, TENNESSEE

LONG-TERM DEBT REQUIREMENTS

(continued)

June 30, 2011

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
Sewer Revenue and Tax Bond, Series 2005			
Year ending June 30,			
2012	\$ 1,373	\$ 4,471	\$ 5,844
2013	1,436	4,408	5,844
2014	1,502	4,342	5,844
2015	1,571	4,274	5,845
2016	1,643	4,201	5,844
2017	1,718	4,126	5,844
2018	1,797	4,047	5,844
2019	1,880	3,964	5,844
2020	1,966	3,878	5,844
2021	2,056	3,788	5,844
2022	2,151	3,693	5,844
2023	2,250	3,595	5,845
2024	2,353	3,491	5,844
2025	2,461	3,383	5,844
2026	2,574	3,270	5,844
2027	2,692	3,152	5,844
2028	2,816	3,028	5,844
2029	2,945	2,899	5,844
2030	3,081	2,763	5,844
2031	3,222	2,622	5,844
2032	3,370	2,474	5,844
2033	3,525	2,319	5,844
2034	3,687	2,157	5,844
2035	3,856	1,988	5,844
2036	4,033	1,811	5,844
2037	4,219	1,625	5,844
2038	4,413	1,431	5,844
2039	4,615	1,229	5,844

CITY OF WARTBURG, TENNESSEE

LONG-TERM DEBT REQUIREMENTS

(continued)

June 30, 2011

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
Sewer Revenue and Tax Bond, Series 2005 (continued)			
Year ending June 30,			
2040	4,827	1,017	5,844
2041	5,049	795	5,844
2042	5,281	563	5,844
2043	5,524	320	5,844
2044	3,704	67	3,771
	<u>\$ 99,590</u>	<u>\$ 91,191</u>	<u>\$ 190,781</u>
State Revolving Fund Loan SRF 05-182			
Year ending June 30,			
2012	\$ 53,616	\$ 11,952	\$ 65,568
2013	54,276	11,292	65,568
2014	54,948	10,620	65,568
2015	55,632	9,936	65,568
2016	56,316	9,252	65,568
2017	57,012	8,556	65,568
2018	57,720	7,848	65,568
2019	58,428	7,140	65,568
2020	59,148	6,420	65,568
2021	59,880	5,688	65,568
2022	60,624	4,944	65,568
2023	61,380	4,188	65,568
2024	62,136	3,432	65,568

CITY OF WARTBURG, TENNESSEE

LONG-TERM DEBT REQUIREMENTS

(continued)

June 30, 2011

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
State Revolving Fund Loan SRF 05-182 (continued)			
Year ending June 30,			
2025	62,904	2,664	65,568
2026	63,684	1,884	65,568
2027	64,464	1,104	65,568
2028	44,483	339	44,822
	<u> </u>	<u> </u>	<u> </u>
	<u>\$ 986,651</u>	<u>\$ 107,259</u>	<u>\$ 1,093,910</u>

See the accompanying independent accountants' audit report.

CITY OF WARTBURG, TENNESSEE

EXPENDITURES OF FEDERAL AND STATE AWARDS

Year Ended June 30, 2011

<u>CFDA #</u>	<u>Project Number</u>	<u>Program Name</u>	<u>Federal Grantor/ Pass-Through Grantor</u>
N/A	GG-09-26600-00	Local Park and Recreation	Tennessee Department of Environment and Conservation Recreation Educational Services Division
20.601	K8-10-142	High Visibility Law Enforcement	U.S. Department of Transportation/ Tennessee Department of Transportation
14.228	GG-11-37156-00	CDBG Sewer System Construction	U.S. Department of Housing and and Urban Development/ Tennessee Department of Economic and Community Development

See the accompanying independent accountants' audit report.

<u>Receivable 7/1/10</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Receivable 6/30/11</u>
\$ 14,804	\$ 20,743	\$ 10,589	\$ 4,650
0	3,500	3,500	0
<u>0</u>	<u>0</u>	<u>11,327</u>	<u>11,327</u>
<u>\$ 14,804</u>	<u>\$ 24,243</u>	<u>\$ 25,416</u>	<u>\$ 15,977</u>

CITY OF WARTBURG, TENNESSEE

UTILITY RATES AND METERED CUSTOMERS

June 30, 2011

Metered rates:	
First 2,000 gallons (minimum billing)	\$ 17.76
Next 8,000 (per thousand)	4.71
Next 10,000 (per thousand)	4.35
Over 20,000 (per thousand)	3.99
Nonrefundable Service/Transfer Fee	35.00
Number of customers	528

See the accompanying independent accountants' audit report.

INTERNAL CONTROL

AND

COMPLIANCE

INDEPENDENT ACCOUNTANTS' 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*

Board of Mayor and Aldermen
City of Wartburg, Tennessee
Wartburg, Tennessee

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of City of Wartburg, Tennessee as of and for the year ended June 30, 2011, which collectively comprise City of Wartburg, Tennessee's basic financial statements and have issued our report thereon dated January 9, 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 of America.

Internal Control over Financial Reporting

Management of City of Wartburg, Tennessee is responsibility for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered City of Wartburg, Tennessee's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Wartburg, Tennessee's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Wartburg, Tennessee'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of City of Wartburg, Tennessee'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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Wartburg, Tennessee's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we have reported to the management of City of Wartburg, Tennessee in a separate letter dated January 9, 2012.

This report is intended solely for the information and use of management and governmental regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Mitchell Emert & Hill". The signature is written in a cursive, flowing style.

January 9, 2012