TOWN OF WARTRACE, TENNESSEE

Annual Financial Report

For the Year Ended June 30, 2012

TOWN OF WARTRACE, TENNESSEE

Table of Contents

	Page Number
INTRODUCTORY SECTION:	
Officials of the Town of Wartrace, Tennessee	I
FINANCIAL SECTION:	
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-10
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements:	
Balance Sheet - Governmental Funds	14
Reconciliation of Balance Sheet to Statement of Net Assets of Governmental Activities	15
Statement of Revenues, Expenditures and Changes in Fund Balance- Governmental Fund	16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance Of Governmental Funds to the Statement of Activities	17
Statement of Net Assets - Proprietary Funds	18
Statement of Revenues, Expenses and Changes in Fund Net Assets- Proprietary Funds	19
Statement of Cash Flows - Proprietary Funds	20
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (GAAP Basis) And Actual -	
General Fund	21-24
State Street Aid Fund	25
Park and Musical Festival Fund	26
Volunteer Fire Department Fund	27
Urban Development Action Grant Fund	28
Cemetery Fund	29
Notes to Financial Statements	31-40

TOWN OF WARTRACE, TENNESSEE

Table of Contents, Continued

Page Number

Financial Schedules

Schedule of Changes in Capital Assets - By Type 42
Schedule of Capital Assets by Function and Activity 43
Schedule of Cash and Cash Equivalents and Certificate of Deposit - All Funds 44
Schedule of Changes in Property Taxes Receivable 45
Schedule of Debt Service Requirements - Water and Sewer Fund 46
Schedule of Insurance Coverage 47
Schedule of Bonds - Principal Officials 48
Schedule of Utility Rates and Information 49
Schedule of Federal and State Financial Assistance 50
Schedule of Unaccounted for Water 51

COMPLIANCE AND INTERNAL CONTROL:

Report on Compliance and Other Matters and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* 53-54

INTRODUCTORY SECTION

TOWN OF WARTRACE, TENNESSEE

Officials of the Town of Wartrace, Tennessee

June 30, 2012

Name	Title
Elected Officials:	
Ron Stacy	Mayor
Patsy Gregory	Alderman
Thomas Hurt	Alderman
Jean Gallagher	Alderman
Roston Floyd	Alderman
Terry Smith	Alderman
Management:	
Laura P. Gentry	Town Recorder

FINANCIAL SECTION

JOHN R. POOLE, CPA
CERTIFIED PUBLIC ACCOUNTANT

134 NORTHLAKE DRIVE
HENDERSONVILLE, TN 37075

(615) 822-4177

Independent Auditor's Report

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

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

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

In my opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business - type activities, and each major fund of the Town of Wartrace, Tennessee as of June 30, 2012, and the respective changes in financial position and the cash flows where applicable, thereof and the respective budgetary comparison for the General Fund, State Street Aid Fund, Park and Musical Festival Fund, Volunteer Fire Department Fund, Urban Development Action Grant Fund, and the Cemetery Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated October 31, 2012 on the consideration of the Town of Wartrace's internal control over financial reporting and the tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of the testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of the audit.

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

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

John R Poole, CPA

October 31, 2012

TOWN OF WARTRACE, TENNESSEE
Management's Discussion and Analysis

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

Financial Highlights:

The assets of the Town of Wartrace exceeded its liabilities at the close of the most recent fiscal year by $4,273,555. Of this amount, $127,015 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors. The government's total net assets increased by $22,655 due to higher revenues of $269,678 primarily due to higher user charges. Expenses were $76,734 less in the current year as the Town looked to reduce expenses in the current year. During the year the Town made improvements to the utility system totaling $299,039.

As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of $612,067 an increase of $73,273 in comparison to the prior year. The increase was due to higher revenues from an improving economy. At the end of the current fiscal year, unassigned fund balance of the General Fund was $63,884 or 29% of the total general fund expenditures.

The Town's business -like activities total net assets decreased by $34,031 due to higher operating costs (water purchases).

Overview of the Financial Statements:

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

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

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

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

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Town of Wartrace include general government, personnel, finance, parks, planning, police, fire, disposal service, streets and public works. The government-wide financial statements can be found on pages 11-12 of this report.

Fund financial statements. A Fund is a grouping of related accounts that is used to maintain control over resources that have been segregated from specific activities or objectives. The Town of Wartrace, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. Governmental Funds are funds used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of 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 government funds with similar information presented for governmental activities in the governmental-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the funds all of which are considered to be major funds. The Town of Wartrace adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget. The basic financial statements can be found on pages 14-20 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 31-40 of this report.

Financial Analysis of the Financial Statements --Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town of Wartrace, assets exceeded liabilities by $4,273,555 at the close of the most recent fiscal year. By far the largest portion of the Town's assets reflect its investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure) less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Town of Wartrace's Net Assets-2012

	Governmental Activities	Business -Type Activities
Current and other assets	$ 722,979	442,232
Capital assets	233,828	4,982,668
Total assets	956,807	5,424,900
Long-term liabilities	10,575	1,813,377
Other liabilities	100,337	183,863
Total liabilities	110,912	1,997,240
Net assets:		
Invested in capital assets, net of related debt	233,828	3,169,291
Restricted	548,183	195,238
Unrestricted	63,884	63,131
Total net assets	$ 845,895	3,427,660

Town of Wartrace's Net Assets-2011

	Governmental Activities	Business -Type Activities
Current and other assets	$ 650,103	506,272
Capital assets	256,756	4,899,093
Total assets	906,859	5,405,365
Long-term liabilities	6,341	1,883,828
Other liabilities	111,309	59,846
Total liabilities	117,650	1,943,674
Net assets:		
Invested in capital assets, net of related debt	250,415	3,025,265
Restricted	468,985	402,746
Unrestricted	69,809	33,680
Total net assets	$ 789,209	3,461,691

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

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

Governmental Funds

The focus of the Town of Wartrace'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 to a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance of the general fund was $63,884. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 29% of total general fund expenditures.

Comparison Between Years 2012 and 2011

	2012	2011	Change Between Years
Program revenues:			
Charges for services	1,026,323	819,728	206,595
Operating grants and contributions	23,830	39,931	(16,101)
Capital grants and contributions	96,223	95,032	1,191
General revenues:			
Property taxes	111,566	97,576	13,990
Sales taxes	64,536	57,440	7,096
Other state shared taxes	1,479	2,465	(986)
Other	75,045	17,152	57,893
Total revenues	1,399,002	1,129,324	269,678
Expenses:			
General government	94,339	74,513	19,826
Police department	42,211	51,485	(9,274)
Fire department	21,240	31,345	(10,105)
Public works	57,974	48,670	9,304
Parks and recreations	33,220	72,767	(39,547)
Cemetery	3,419	7,718	(4,299)
Highways and streets	12,362	27,565	(15,203)
Water and Sewer	1,111,582	1,139,018	(27,436)
Total expenses	1,376,347	1,453,081	(76,734)
Increases in net assets	22,655	(323,757)	346,412

The assets of the Town of Wartrace exceeded its liabilities at the close of the most recent fiscal year by $4,273,555. Of this amount, $127,015 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors. The government's total net assets increased by $22,655 due to higher revenues of $269,678 primarily due to higher user charges. Expenses were $76,734 less in the current year as the Town looked to reduce expenses in the current

year. During the year the Town made improvements to the utility system totaling $299,039.

Governmental Budgetary Highlights

The Town exceeded several of its departmental budgets during the year. See page 21-29 for further information.

Capital Assets

The Town of Wartrace's investment in capital assets from its governmental activities at June 30, 2012, amounts to $233,828 (net or accumulated depreciation) and its business-type activities amounts to $4,982,668. This investment in capital assets is in land, buildings, improvements, machinery and equipment.

Town of Wartrace's Capital Assets - 2012

	Governmental Activities	Business-Type Activities
Land , buildings and improvements	$556,962	7,963,371
Equipment	155,940	225,926
Less accumulated depreciation	(479,074)	(3,206,629)
Net Capital Assets	$233,828	4,982,668

Town of Wartrace's Capital Assets - 2011

	Governmental Activities	Business-Type Activities
Land , buildings and improvements	$556,962	7,664,332
Equipment	155,940	225,926
Less accumulated depreciation	(456,146)	(2,991,165)
Net Capital Assets	$256,756	4,899,093

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

Long-term Debt

The Town has $1,813,377 in utility department long-term debt. The Debt was used to finance improvements to the Town's Utility System. All debts are being paid as scheduled.

Economic Factors and Next Year's Budget and Rates

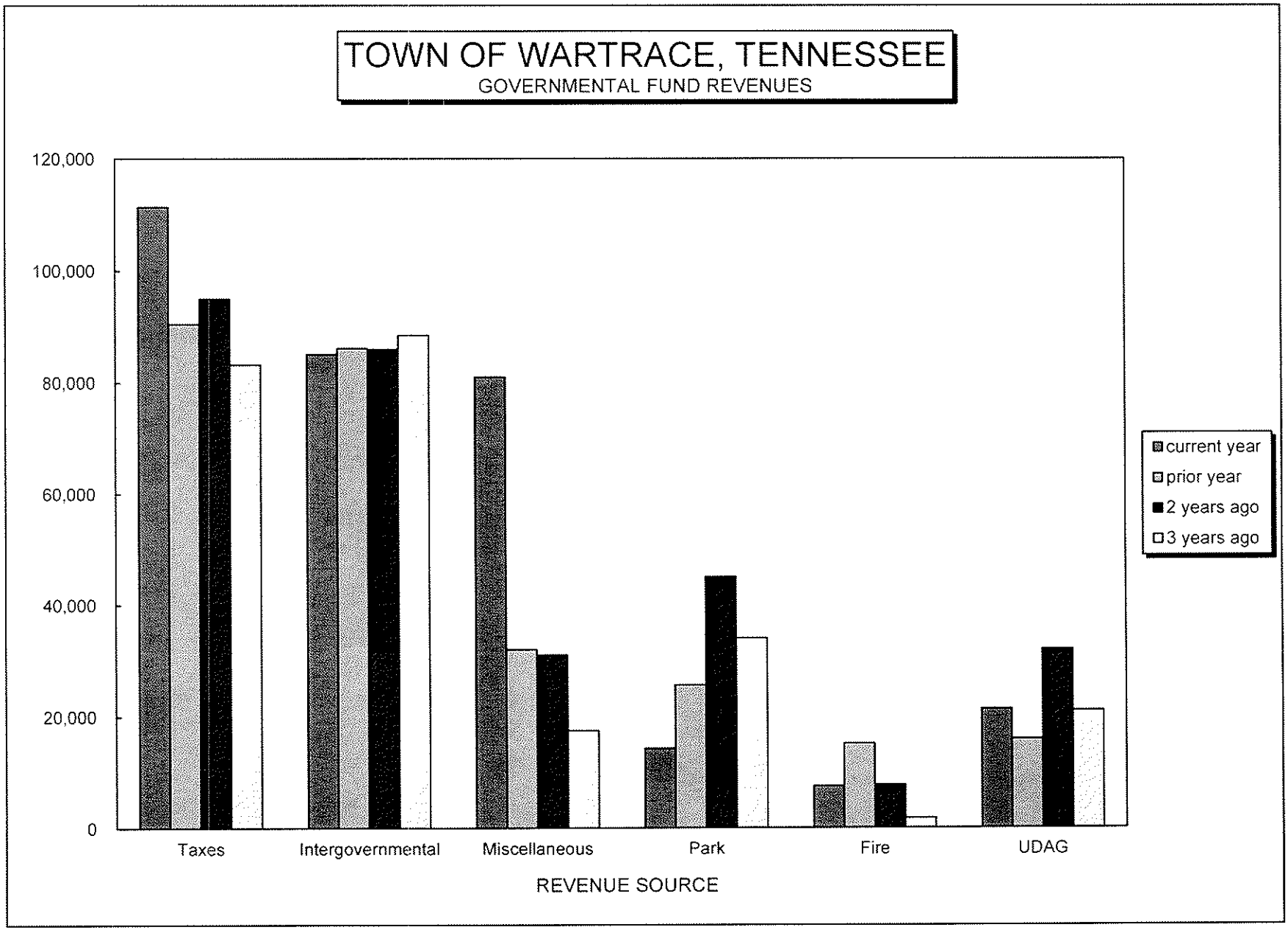
In the 2012-2013 budget, General fund revenues and user revenues are budgeted to increase from the 2011-2012 budget year primarily due to increases in the local revenues. User charges are budgeted to increase as the higher user fees will be in effect for the whole budget year. The Town's budget has benefited by an expanding commercial and retail base producing increased local sales tax receipts.

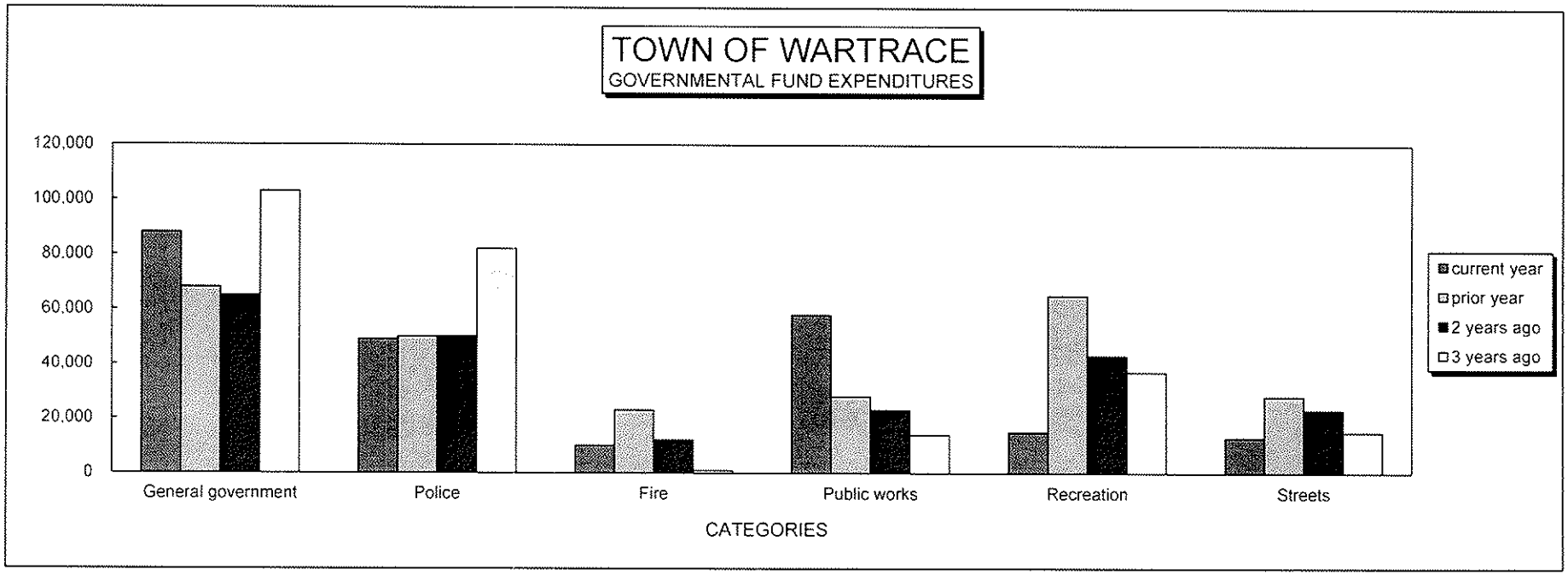
All of these factors were considered in preparing the Town's budget for the 2012-2013 fiscal year.

Requests for Information

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

Laura Gentry
Town of Wartrace


TOWN OF WARTRACE, TENNESSEE
GOVERNMENTAL FUND REVENUES
120,000
100,000
80,000
60,000
40,000
20,000
0
Taxes
Intergovernmental
Miscellaneous
Park
Fire
UDAG
REVENUE SOURCE
current year
prior year
2 years ago
3 years ago


TOWN OF WARTRACE
GOVERNMENTAL FUND EXPENDITURES
120,000
100,000
80,000
60,000
40,000
20,000
0
General government
Police
Fire
Public works
Recreation
Streets
CATEGORIES
current year
prior year
2 years ago
3 years ago

BASIC FINANCIAL STATEMENTS

TOWN OF WARTRACE, TENNESSEE

Statement of Net Assets

June 30, 2012

Assets	Governmental Activities	Business Activities	Total
Cash and cash equivalents	410,814	340,619	751,433
Receivables:	312,165	92,113	404,278
Loan costs	0	9,500	9,500
Capital assets not being depreciated	64,263	74,726	138,989
Capital assets, net of related depreciation	169,565	4,907,942	5,077,507
Total Assets	956,807	5,424,900	6,381,707
Liabilities			
Accounts payable	10,575	171,119	181,694
Deferred revenue	100,337	0	100,337
Customer deposits	0	12,744	12,744
Long-term liabilities:			
Due within one year	0	46,537	46,537
Due in more than one year	0	1,766,840	1,766,840
Total Liabilities	110,912	1,997,240	2,108,152
Net assets:			
Investments in capital assets, net of related debt	233,828	3,169,291	3,403,119
Restricted	0	195,238	195,238
Restricted - State Street Aid	10,225	0	10,225
Restricted - Park and Music Festival	18,744	0	18,744
Restricted - Fire	12,159	0	12,159
Restricted - Urban Development	471,125	0	471,125
Restricted - Cemetery	35,930	0	35,930
Unrestricted	63,884	63,131	127,015
Total Net Assets	845,895	3,427,660	4,273,555

See accompanying notes to financial statements.

TOWN OF WARTRACE, TENNESSEE

Statement of Activities

For the Year Ended June 30, 2012

Function/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expenses) Revenue and Changes in Net Assets: Governmental Activities	Net (Expenses) Revenue and Changes in Net Assets: Business-Type Activities	Total
Government Activities:							
General government	94,339	10,230	5,000	0	(79,109)	0	(79,109)
Police department	42,211	10,245	600	0	(31,366)	0	(31,366)
Fire department	21,240	7,485	0	0	(13,755)	0	(13,755)
Public works	57,974	0	0	0	(57,974)	0	(57,974)
Parks and recreations	33,220	14,284	0	0	(18,936)	0	(18,936)
Cemetery	3,419	2,790	0	0	(629)	0	(629)
Highways and streets	12,362	0	18,230	0	5,868	0	5,868
Total Governmental Activities	264,765	45,034	23,830	0	(195,901)	0	(195,901)
Business - type Activities:							
Water and Sewer	1,111,582	981,289	0	96,223	0	(34,070)	(34,070)
Total Business Type Activities	1,111,582	981,289	0	96,223	0	(34,070)	(34,070)
Total	1,376,347	1,026,323	23,830	96,223	(195,901)	(34,070)	(229,971)
General Revenues:							
Property taxes					97,237	0	97,237
Public utility taxes					14,329	0	14,329
Sales taxes					63,064	0	63,064
Beer taxes					1,472	0	1,472
State income					1,479	0	1,479
Interest income					23,010	39	23,049
Other					51,996	0	51,996
Total general revenues					252,587	39	252,626
Changes in net assets					56,686	(34,031)	22,655
Net assets - beginning of year					789,209	3,461,691	4,250,900
Net assets - ending of year					845,895	3,427,660	4,273,555

See accompanying notes to financial statements.

FUND FINANCIAL STATEMENTS

TOWN OF WARTRACE, TENNESSEE

Balance Sheet

Governmental Funds

June 30, 2012

Assets	General Fund	State Street Aid Fund	Park and Musical Festival Fund	Volunteer Fire Department Fund	Urban Development Action Grant Fund	Cemetery Fund	**Total Governmental Fund**
Cash and cash equivalents	$63,467	$11,230	$18,744	$12,159	$269,284	$35,930	**$410,814**
Accounts receivable:							
Property taxes receivable	95,244	0	0	0	0	0	**95,244**
Other receivable	12,392	2,688	0	0	0	0	**15,080**
	107,636	2,688	0	0	0	0	**110,324**
Loan receivable	0	0	0	0	201,841	0	**201,841**
Total Assets	$171,103	$13,918	$18,744	$12,159	$471,125	$35,930	**$722,979**
Liabilities and Fund Equity							
Liabilities:							
Accounts payable	$8,223	$2,352	$0	$0	$0	$0	**$10,575**
Deferred revenue	98,996	1,341	0	0	0	0	**100,337**
Total Liabilities	107,219	3,693	0	0	0	0	**110,912**
Fund Equity:							
Fund balance:							
Unassigned	63,884	0	0	0	0	0	**63,884**
Restricted	0	10,225	18,744	12,159	471,125	35,930	**548,183**
Total Fund Balance	63,884	10,225	18,744	12,159	471,125	35,930	**612,067**
Total Liabilities and Fund Equity	$171,103	$13,918	$18,744	$12,159	$471,125	$35,930	**$722,979**

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

TOWN OF WARTRACE, TENNESSEE

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

June 30, 2012

Amounts reported for fund balance - total governmental funds	$	612,067
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds		233,828
Net assets of governmental activities	$	845,895

TOWN OF WARTRACE, TENNESSEE

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

June 30, 2012

	General Fund	State Street Aid Fund	Park and Musical Festival Fund	Volunteer Fire Department Fund	Urban Development Action Grant Fund	Cemetery Fund	Total Governmental Funds
Revenues:							
Taxes	111,326	0	0	0	0	0	**111,326**
Intergovernmental	66,855	18,230	0	0	0	0	**85,085**
Miscellaneous	78,812	0	14,284	7,485	21,297	3,162	**125,040**
Total Revenues	256,993	18,230	14,284	7,485	21,297	3,162	**321,451**
Expenditures:							
Current:							
General government	88,359	0	0	0	0	0	**88,359**
Police department	41,600	0	0	0	0	0	**41,600**
Fire department	10,467	0	0	2,169	0	0	**12,636**
Public works	57,974	0	0	0	0	0	**57,974**
Parks and recreation	14,621	0	10,685	0	0	0	**25,306**
Cemetery	0	0	0	0	0	2,989	**2,989**
Highway and streets	0	12,362	0	0	0	0	**12,362**
Debt service							
Principal	6,341	0	0	0	0	0	**6,341**
Interest	611	0	0	0	0	0	**611**
Total Expenditures	219,973	12,362	10,685	2,169	0	2,989	**248,178**
Excess (deficiency) of revenues over expenditures	37,020	5,868	3,599	5,316	21,297	173	**73,273**
Operating transfer: in(out)	14,800	0	0	0	(14,800)	0	**0**
Net change in fund balance	51,820	5,868	3,599	5,316	6,497	173	**73,273**
Fund Balance, Beginning of year	12,064	4,357	15,145	6,843	464,628	35,757	**538,794**
Fund Balance, End of Year	63,884	10,225	18,744	12,159	471,125	35,930	**612,067**

See accompanying notes to financial statements.

TOWN OF WARTRACE, TENNESSEE

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

For the Year Ended June 30, 2012

Net change in fund balances - total governmental funds:	$	73,273
Amounts reported for governmental activities in the statement of net assets are different because:		
Expenses reported in the governmental funds that reduce long-term debt in the statement of net assets		
Principal payments		6,341
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Acquisition of capital assets		0
Depreciation expense		(22,928)
Change in net assets of governmental activities	$	56,686

TOWN OF WARTRACE, TENNESSEE

Statement of Net Assets

Enterprise (Water and Sewer) Fund

June 30, 2012

Assets	
Current Assets:	
Cash and cash equivalents	$145,381
Customer accounts receivable, net of allowance of $2,318	92,113
Total Current Assets	237,494
Restricted Assets:	
Cash and cash equivalents	195,238
Total Restricted Assets	195,238
Property, Plant and Equipment:	
Utility plant in service	8,189,297
Less accumulated depreciation	(3,206,629)
Total Property, Plant and Equipment, Net	4,982,668
Loan costs	9,500
Total Assets	$5,424,900
Liabilities and Fund Equity	
Current Liabilities	
Accounts payable	$171,119
Current maturities - long-term debt	46,537
Total Current Liabilities	217,656
Other Liabilities:	
Customer deposits	12,744
Total Other Liabilities	12,744
Long-Term Debt	1,766,840
Total Liabilities	$1,997,240
Net Assets:	
Invested in capital assets, net of related debt	3,169,291
Restricted	195,238
Unrestricted	63,131
Total Net Assets	$3,427,660

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

TOWN OF WARTRACE, TENNESSEE

Statement of Revenues, Expenses and Changes in Net Assets

Enterprise (Water and Sewer) Fund

For the Year Ended June 30, 2012

Operating Revenues:	
Metered sales	$950,448
Installation and tap fees	26,340
Other revenue	4,501
Total Operating Revenues	981,289
Operating Expenses:	
Salaries	141,850
Employee benefits	30,949
Contractual services	10,693
Repairs and maintenance	79,747
Vehicle expense	14,475
Office expense	9,258
Insurance	22,301
Water purchases	391,258
Utilities	28,273
Supplies	83,298
Fees	4,341
Rent	7,200
Professional services	4,000
Miscellaneous	1,314
Amortization	500
Depreciation	215,465
Total Operating Expenses	1,044,922
Operating income (loss)	(63,633)
Nonoperating Revenues (Expenses):	
Interest income	39
Interest expense	(66,660)
Total Nonoperating Revenues (Expenses)	(66,621)
Capital contributions	96,223
Net change in net assets	(34,031)
Net assets, July 1, 2011	3,461,691
Net assets, June 30, 2012	$3,427,660

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

TOWN OF WARTRACE, TENNESSEE

Statement of Cash Flows

Proprietary Fund Type

Water and Sewer Fund

For the Year Ended June 30, 2012

Cash Flows from Operating Activities:	
Cash received from customers	978,693
Cash paid to suppliers	(532,142)
Cash paid to employees	(172,799)
Net Cash Provided by Operating Activities	273,752
Cash Flows from Capital and Related Financing Activities:	
Acquisition of plant and equipment	(299,039)
Capital contributions	96,223
Interest paid	(66,660)
Repayment of debt	(70,451)
Net Cash Used by Capital and Related Financing Activities	(339,927)
Cash Flows from Investing Activities:	
Interest received	39
Net Cash Flows from Investing Activities:	39
Net Increase in Cash	(66,136)
Cash and Cash Equivalents, July 1, 2011	406,755
Cash and Cash Equivalents, June 30, 2012	340,619
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income (loss)	(63,633)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	215,965
Change in assets (increase) decrease:	
Accounts receivable	(2,596)
Change in liabilities increase (decrease):	
Accounts payable	123,991
Customer deposits	25
Net Cash Provided by Operating Activities	273,752

See accompanying notes to financial statements.

TOWN OF WARTRACE, TENNESSEE

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

General Fund

For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Revenues:				
Taxes:				
Property taxes	$109,748	$109,748	$95,132	(14,616)
Public utility taxes	12,000	12,000	6,808	(5,192)
Wholsale beer tax	0	0	1,152	1,152
Cable franchise fees	6,015	6,015	6,129	114
Penalty and interest	1,401	1,401	2,105	704
Total Taxes	129,164	129,164	111,326	(17,838)
Intergovernmental:				
TVA in lieu	7,090	7,090	7,521	431
Local sales tax	15,700	15,700	13,314	(2,386)
State sales tax	41,740	41,740	43,621	1,881
State income tax	2,150	2,150	1,479	(671)
State supplement	600	600	600	0
State beer tax	350	350	320	(30)
Total Intergovernmental Revenue	67,630	67,630	66,855	(775)
Miscellaneous:				
Building permits	1,950	1,950	470	(1,480)
Interest income	0	0	1,341	1,341
Insurance proceeds	0	0	43,742	43,742
Court fines	9,000	9,000	10,245	1,245
Rent	10,735	10,735	9,760	(975)
Donations	0	0	5,000	5,000
Miscellaneous	1,040	1,040	8,254	7,214
Total Miscellaneous	22,725	22,725	78,812	56,087
Total Revenues	219,519	219,519	256,993	37,474

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

TOWN OF WARTRACE, TENNESSEE

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

General Fund

For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Expenditures:				
General Government:				
Current:				
Salaries	28,276	28,276	24,771	(3,505)
Employee benefits	1,558	1,558	4,233	2,675
Utilities	7,286	7,286	7,327	41
Professional services	9,260	9,260	13,290	4,030
Maintenance and supplies	3,200	3,200	3,694	494
Office expense	2,750	2,750	1,553	(1,197)
Travel	2,500	2,500	2,424	(76)
Insurance	1,595	1,595	7,210	5,615
Codes	2,110	2,110	1,241	(869)
Dues and subscriptions	630	630	1,716	1,086
Miscellaneous	4,264	4,264	20,900	16,636
	63,429	63,429	88,359	24,930
Capital outlay	0	0	0	0
Total General Government	63,429	63,429	88,359	24,930
Public Safety:				
Police department:				
Current:				
Salaries	30,596	30,596	26,563	(4,033)
Employee benefits	6,889	6,889	3,507	(3,382)
Contractual	450	450	220	(230)
Utilities	3,900	3,900	1,952	(1,948)
Vehicles expenses	2,750	2,750	3,608	858
Maintenance and supplies	1,200	1,200	1,719	519
Animal control	100	100	28	(72)
Insurance	2,029	2,029	1,249	(780)
Court costs	2,125	2,125	1,450	(675)
Miscellaneous	1,000	1,000	1,304	304
	51,039	51,039	41,600	(9,439)
Debt service	6,959	6,959	6,952	(7)
Capital outlay	1,800	1,800	0	(1,800)
Total Police department	59,798	59,798	48,552	(11,246)

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

TOWN OF WARTRACE, TENNESSEE

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

General Fund

For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Expenditures:				
Fire department				
Current:				
Fire hydrant rental	1,313	1,313	2,200	887
Utilities	4,350	4,350	3,233	(1,117)
Vehicle expense	300	300	166	(134)
Maintenance and supplies	450	450	1,445	995
Contract labor	275	275	220	(55)
Insurance	1,256	1,256	312	(944)
Other	280	280	2,891	2,611
	8,224	8,224	10,467	2,243
Capital outlay	0	0	0	0
Total Fire department	8,224	8,224	10,467	2,243
Total Public Safety	68,022	68,022	59,019	(9,003)
Public works department:				
Current:				
Personnel costs	17,926	17,926	16,123	(1,803)
Contractual services	34,028	34,028	33,378	(650)
Vehicle expenses	2,100	2,100	2,117	17
Maintenance and supplies	5,450	5,450	3,851	(1,599)
Insurance	918	918	21	(897)
Other	3,068	3,068	2,484	(584)
	63,490	63,490	57,974	(5,516)
Capital outlay	0	0	0	0
Total Public works department	63,490	63,490	57,974	(5,516)
Recreation department:				
Current:				
Utility	13,544	13,544	10,557	(2,987)
Contractual services	2,700	2,700	2,554	(146)
Insurance	3,865	3,865	0	(3,865)
Maintenance and supplies	3,075	3,075	1,510	(1,565)
Other	200	200	0	(200)
	23,384	23,384	14,621	(8,763)
Capital outlay	0	0	0	0
Total Recreation department	23,384	23,384	14,621	(8,763)

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

TOWN OF WARTRACE, TENNESSEE

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

General Fund

For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Total Expenditures	$218,325	$218,325	219,973	1,648
Excess (deficiency) of Revenues over Expenditures	1,194	1,194	37,020	35,826
Other Financing Uses (Sources)				
Operating transfers (in) out	(2,500)	(2,500)	(14,800)	12,300
Net change in fund balance	3,694	3,694	51,820	23,526
Fund Balance, July 1, 2011	12,064	12,064	12,064	-
Fund Balance, June 30, 2012	$15,758	15,758	63,884	48,126

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

TOWN OF WARTRACE, TENNESSEE

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

State Street Aid Fund

For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Revenues:				
Intergovernmental:				
Gasoline .03 tax	$3,500	$3,500	3,465	(35)
Gasoline 1989 tax	2,000	2,000	1,867	(133)
Gasoline and motor fuel	12,000	12,000	11,560	(440)
Special petrolum tax	1,100	1,100	1,338	238
Total Revenues	18,600	18,600	18,230	(370)
Expenditures:				
Streets:				
Lighting	12,700	12,700	12,110	(590)
Maintenance and repair	7,500	7,500	252	(7,248)
Total Expenditures	20,200	20,200	12,362	(7,838)
Excess (deficiency) of revenues over expenditures	(1,600)	(1,600)	5,868	(7,468)
Fund Balance, July 1, 2011	4,357	4,357	4,357	-
Fund Balance, June 30, 2012	$2,757	$2,757	10,225	7,468

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

TOWN OF WARTRACE, TENNESSEE

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

Park and Music Festival Fund

For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Revenues:				
Miscellaneous:				
Special events	29,035	29,035	14,284	(14,751)
Total Revenues	29,035	29,035	14,284	(14,751)
Expenditures:				
Park and Recreation:				
Supplies	24,589	24,589	10,685	(13,904)
Capital Outlay	4,000	4,000	0	(4,000)
Total Expenditures	28,589	28,589	10,685	(17,904)
Excess (deficiency) of revenues over expenditures	446	446	3,599	(3,153)
Fund Balance, July 1, 2011	15,145	15,145	15,145	-
Fund Balance, June 30, 2012	$15,591	$15,591	$18,744	3,153

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

TOWN OF WARTRACE, TENNESSEE

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

Volunteer Fire Department Fund

For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Revenues:				
Contributions and donations	$9,344	$9,344	7,485	(1,859)
Miscellaneous:				
Interest	0	0	0	0
Total Revenues	9,344	9,344	7,485	(1,859)
Expenditures:				
Fire department:				
Maintenance and repair	1,900	1,900	0	1,900
Supplies	1,054	1,054	2,169	(1,115)
Capital outlay	0	0	0	0
Total Expenditures	2,954	2,954	2,169	(785)
Excess (deficiency) of revenues over expenditures	6,390	6,390	5,316	1,074
Fund Balance, July 1, 2011	6,843	6,843	6,843	-
Fund Balance, June 30, 2012	$13,233	$13,233	12,159	(1,074)

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

TOWN OF WARTRACE, TENNESSEE

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

Urban Development Action Grant Fund

For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Revenues:				
Interest income	$11,062	$11,062	21,297	10,235
Miscellaneous:	0	0	0	0
Total Revenues	11,062	11,062	21,297	10,235
Expenditures:				
Supplies	52,966	52,966	0	(52,966)
Capital outlay	10,860	10,860	0	(10,860)
Total Expenditures	63,826	63,826	0	(63,826)
Excess (deficiency) of revenues over expenditures	(52,764)	(52,764)	21,297	(74,061)
Operating transfer: In/(out)	(2,500)	(2,500)	(14,800)	(12,300)
Fund Balance, July 1, 2011	646,628	646,628	464,628	-
Fund Balance, June 30, 2012	$591,364	$591,364	471,125	(86,361)

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

TOWN OF WARTRACE, TENNESSEE

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

Cemetery Fund

For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Revenues:				
Contributions and donations	$7,000	$7,000	$2,790	(4,210)
Miscellaneous:				
Interest	500	500	372	(128)
Total Revenues	7,500	7,500	3,162	(4,338)
Expenditures:				
Maintenance and repair	4,500	4,500	2,989	(1,511)
Capital Outlay	0	0	0	0
Total Expenditures	4,500	4,500	2,989	(1,511)
Excess (deficiency) of revenues over expenditures	3,000	3,000	173	2,827
Fund Balance, July 1, 2011	35,757	35,757	35,757	-
Fund Balance, June 30, 2012	$38,757	$38,757	35,930	(2,827)

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

NOTES TO THE FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

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

Reporting Entity:

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

Accounting Pronouncements:

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

Government -Wide and Fund Financial Statements

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

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

(1) Summary of Significant Accounting Policies, Continued

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.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund revenues are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they become both measurable and collectable within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers property taxes and governmental shared revenues as available if received within 60 days of years end. Expenditures generally when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

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

The government reports the following major funds:

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

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

Volunteer Fire Department Fund - To account for the activities of the volunteer fire department.

Urban Development Action Grant Fund - To account for the activities of the Urban Development Action Grant.

Park and Musical Festival Fund - To account for activities of the Park and Musical Festival.

Cemetery Fund - To account for the activities of the Cemetery.

The government reports the following major proprietary fund:

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

(1) **Summary of Significant Accounting Policies, Continued**

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

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments- in-lieu taxes and other charges between the government's utilities and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. Amounts reported as program revenues include (i) charges to customers or applicants for goods, services, or privileges provided, (ii) operating grants and contributions, and (iii) capital grants and contributions. General revenues include all taxes and internally dedicated resources.

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

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

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of savings accounts, certificates of deposit with original maturities three months or less.

Fund Balance

The Town implemented GASB 54 which addresses issues related to how fund balances are reported. Fund balances are now reported in the following manner: Nonspendable fund balances – amounts that are not in a spendable form, Restricted fund balance – amounts constrained to specific purposes by their providers, provisions, or by enabling legislation, Committed fund balance – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint, Assigned fund balance – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority, Unassigned fund balance – amounts that are available for any purpose; these amounts are reported only in the general fund.

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

Restricted Assets

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

Compensated Absences

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

(1) Summary of Significant Accounting Policies, Continued

Receivables and Payables

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

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

Property Tax

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

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

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

Taxes were levied at a rate of $1.15 per $100 of assessed valuation for the year ended June 30, 2012. Payments may be made during the period from November 1 through March 31. Current tax collections of $90,625 for the fiscal year ended June 30, 2012 were approximately 91 percent of the tax levy. Delinquent taxes are turned over for collection as required by the Town's Municipal Code.

Capital Assets

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

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

The estimated useful lives are as follows:

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

Inventory

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

Estimates

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

(1) Summary of Significant Accounting Policies, Continued

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

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

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

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

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

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

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

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

During the year the Town exceeded the following departmental budgets:

	Budget	Actual	Variance
General government	$63,429	88,359	24,930
Fire department	8,224	10,467	2,243

(2) Cash and Cash Equivalents

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

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

(3) Accounts Receivable

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

Fund	Other Government	Property Taxes	Customer Accounts	Total
General Fund	$12,392	95,244	-	107,636
Special Revenue Fund	2,688	-	201,841	204,529
Enterprise Fund	-	-	94,431	94,431
Less allowance for doubtful accounts	-	-	(2,318)	(2,318)
Total	$ 15,080	95,244	293,954	404,278

(4) Capital Assets

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

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
Land, Building and improvements	$ 556,962	-	-	556,962
Equipment	155,940	-	-	155,940
Total	$ 712,902	-	-	712,902
Less Accumulated depreciation	(456,146)			(479,074)
Net capital assets in service	$ 256,756			233,828

The Town is depreciating all assets except land of $64,263.

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

General Fund:		
General government administration	$	5,980
Cemetery		430
Fire department		8,604
Parks department		7,914
	Total	22,928

(4) Capital Assets, Continued

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

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
Utility plant	$ 7,589,606	299,039	-	7,888,645
Equipment	225,926	-	-	225,926
Land and land rights	74,726	-	-	74,726
	7,890,258	299,039	-	8,189,297
Less accumulated depreciation	(2,991,165)			(3,206,629)
Net plant in service	$ 4,899,093			4,982,668

The Town is depreciating all assets except land of $74,726. Depreciation expense was $215,465 in 2012.

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

The following schedule reflects the changes in long-term debt, as shown in the Proprietary Fund for the fiscal year ending June 30, 2012.

	Balance July 1, 2011	Addi-tions	Retire-ments	Balance June 30, 2012
Bonds and Loan Payable:				
Tennessee Municipal Bond Fund	1,000,000	-	(50,030)	949,970
Car loan	8,558	-	(8,558)	-
Rural Development	285,166	-	(3,818)	281,348
Rural Development	590,104	-	(8,045)	582,059
Total	1,883,828	-	(70,451)	1,813,377

The repayment of principal and interest on these bonds is secured equally and ratably by the revenue of the Waterworks and Sewer fund, and in the event such revenue is insufficient therefore, the bonds shall be payable from ad valorem taxes to be levied on all taxable property within the corporate limit of the municipality without limitations as to time rate or amount.

Under provisions of the bond agreement the System is required to maintain four separate bank accounts as follows:

Revenue Fund
All revenues are to be deposited in this fund and shall be disbursed for the payment of current expenses and the establishment of other required funds.

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

Water and Sewer System Operation and Maintenance Fund
The first money transferred from the Revenue fund is to be deposited to this fund on or before the fifteenth day of each month. Disbursements are to be made for payment of current expenses. The maximum balance of this fund shall not exceed one-forth of the amount budgeted for current expenses for the fiscal year.

Water and Sewer Bond and Interest Sinking Fund
The next monies available in the Revenue Fund are to be deposited to this fund on or before the fifteenth day of each month. The minimum amount deposited in any such month shall be one-sixth of the interest coming due on the next succeeding interest payment date plus one-twelfth of the principal of the bond installment due next December 1. Money in this fund is to be used solely and is expressly and exclusively pledged for the purpose of paying principal and interest on the bonds. The next money available in the Revenue Fund is to be used to create and maintain within the Bond and Interest Sinking Fund a Debt Service Reserve account of at least $28,700.

There shall be deposited into the Debt Service Reserve account on or before the fifteenth day of each month an amount equal to fifty percent of the monies remaining in the Revenue Fund after required payments to the Operations and Maintenance Fund and the Bond and Interest Sinking Fund. This money shall be used solely for the purpose of paying principal or interest on the bonds for which no other money is available in the Bond and Interest Sinking Fund. This money shall, at the request of the system, be invested by the depository in direct obligations of, or obligations on which the principal and interest are guaranteed by, the United States Government.

Repairs and Extension Fund
All the next available money shall be deposited monthly on or before the fifteenth day of each month until there shall be on deposit in such fund the sum of $20,000. This money shall be used for the payment of principal of and interest on the bond when sufficient money is not available in the Sinking fund or for extraordinary maintenance, repairs, renewals or replacement to the System which will either enhance its revenue-produce capacity or provide a higher degree of service.

At June 30, 2012, the Town has complied with these provisions.

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

Year Ending	Principal	Interest
2013	46,537	78,924
2014	48,583	76,868
2015	50,743	74,722
2016	52,977	72,480
2017	55,327	70,138
2018-2022	315,509	311,795
2023-2027	391,655	235,650
2028-2032	370,280	143,646
2033-2037	157,704	91,666
2038-2042	194,989	54,381
2043-2046	129,073	11,502
Total	1,813,377	1,221,772

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

The following schedule reflects the changes in general obligation long-term debt for the fiscal year ending June 30, 2012.

	Balance July 1, 2011	Additions	Retirements	Balance June 30, 2012
Loan Payable:				
Car loan	6,341	-	(6,341)	-

(6) Contributed Capital - Enterprise Fund

In accordance with GASB No. 33 the Town no longer records contributed capital from customer tap fees and grants from other governments. The Town has moved these amounts to the net asset section of the statement of net assets.

(7) Risk Management

The Town of Wartrace is exposed to various risks to general liability and property and casualty losses. The Town has decided to purchase commercial insurance for the risk of losses to which it is exposed. The risks include general liability, business auto, errors and omissions injury, fire and extended coverage, workmen's compensation, employer's liability, weapon's bond and employee fidelity bonds. The Town has not had any claims in excess of insurance coverage during the last three years.

(8) Joint Venture

Bedford Railroad Authority (the Authority) was created by Bedford County, the City of Shelbyville, and the Town of Wartrace, Tennessee to provide for the continuation of rail service on a section of existing rail spur line located within Bedford County between the City of Shelbyville and the Town of Wartrace. The Authority is governed by a board of directors consisting of the County Executive, the Mayor of Shelbyville, the Mayor of Wartrace and one member selected by the governing bodies of each county, city and town who are members of the Authority. For the year ended, the Town of Wartrace contributed no funds to the authority. Complete financial statements of Bedford Railroad Authority can be obtained from its administration office at 100 West Side Square, Shelbyville, TN. 37160.

(9) Commitments and Contingencies

Litigation:

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

Grants:

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

(10) Transfers

During the year, the following operating transfer was made:

The Urban Development Action Grant Fund transferred $14,800 to assist the Town with certain expenditures.

FINANCIAL SCHEDULES

TOWN OF WARTRACE, TENNESSEE

Capital Assets Used in the Operation of the Governmental Funds

Schedule of Changes in Capital Assets - By Type

June 30, 2012

Capital Assets:	Beginning Balance	Additions	Retirements	Ending Balance
Land	64,263	0	0	64,263
Infrastructure	8,202	0	0	8,202
Buildings and improvements	484,497	0	0	484,497
Equipment	155,940	0	0	155,940
Total capital assets	$712,902	$0	$0	$712,902

TOWN OF WARTRACE, TENNESSEE

Capital Assets Used in the Operation of the Governmental Funds

Schedule of Capital Assets - By Function and Activity

June 30, 2012

	Infrastructure and Land	Improvements and Buildings	Equipment	Total
Function and activity:				
General government	72,465	269,755	0	342,220
Parks and recreation	0	156,571	41,259	197,830
Cemetery	0	6,456	0	6,456
Public safety	0	51,715	114,681	166,396
Total capital assets	72,465	484,497	155,940	712,902

TOWN OF WARTRACE, TENNESSEE

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

June 30, 2012

	Carrying Value
General Fund:	
Demand deposits	$63,467
Total General Fund	63,467
State Street Aid Fund:	
Demand deposits	11,230
Total State Street Aid Fund	11,230
Volunteer Fire Department Fund:	
Demand deposits	12,159
Total Volunteer Fire Department Fund	12,159
Urban Development Action Grant Fund:	
Demand deposits	269,284
Total Urban Development Action Grant Fund	269,284
Park and Musical Festival Fund:	
Demand deposits	18,744
Total Park and Musical Festival Fund	18,744
Cemetery Fund:	
Demand deposits	5,930
Certificates of deposit	30,000
Total Cemetery Fund	35,930
Water and Sewer Fund:	
Demand deposits	311,919
Certificates of deposit	28,700
Total Water and Sewer Fund	340,619
Total - All funds	$751,433

TOWN OF WARTRACE, TENNESSEE

Schedule of Changes in Property Taxes Receivable

For the Year Ended June 30, 2012

Tax Year	Balance July 1, 2011	Levy	Collections and Changes in Assessment	Balance June 30, 2012
2012	0	80,000	0	80,000
2011	80,000	19,186	90,625	8,561
2010	6,621	0	1,183	5,438
2009	4,929	0	4,299	630
2008	4,532	0	4,036	496
2007	628	0	509	119
	$96,710	99,186	100,652	95,244

Tax Year	Tax Rate	Tax Levy	Tax Adjustment and Collections	Outstanding Deliquent Taxes
2012	1.15	80,000	0	80,000
2011	1.15	99,186	90,625	8,561
2010	1.00	86,438	79,817	5,438
2009	1.00	87,463	80,599	630
2008	1.00	88,020	87,524	496
2007	1.00	87,037	86,918	119
2006	1.00	84,307	84,307	0
2005	1.00	65,303	65,303	0
2004	1.00	60,207	60,207	0
2003	1.00	59,541	59,541	0

All deliquent property taxes (except tax year 2011) have been turned over for collection.

TOWN OF WARTRACE, TENNESSEE

Schedule of Debt Service Requirements - Water and Sewer Fund

June 30, 2012

Year	RURAL DEVELOPMENT		RURAL DEVELOPMENT		TENNESSEE MUNICIPAL BOND FUND		TOTALS	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013 $	3,980	11,968	8,397	25,529	34,160	41,427	46,537	78,924
2014	4,149	11,799	8,764	25,162	35,670	39,907	48,583	76,868
2015	4,325	11,623	9,148	24,778	37,270	38,321	50,743	74,722
2016	4,509	11,439	9,548	24,378	38,920	36,663	52,977	72,480
2017	4,701	11,247	9,966	23,960	40,660	34,931	55,327	70,138
2018	4,900	11,048	10,402	23,524	42,460	33,122	57,762	67,694
2019	5,109	10,839	10,857	23,069	44,360	31,234	60,326	65,142
2020	5,326	10,622	11,332	22,594	46,330	29,260	62,988	62,476
2021	5,552	10,396	11,828	22,098	48,390	27,200	65,770	59,694
2022	5,788	10,160	12,345	21,581	50,530	25,048	68,663	56,789
2023	6,034	9,914	12,886	21,040	52,790	22,799	71,710	53,753
2024	6,291	9,657	13,449	20,477	55,140	20,451	74,880	50,585
2025	6,558	9,390	14,038	19,888	57,590	17,998	78,186	47,276
2026	6,837	9,111	14,652	19,274	60,150	15,436	81,639	43,821
2027	7,127	8,821	15,293	18,633	62,820	12,761	85,240	40,215
2028	7,430	8,518	15,962	17,964	65,630	9,966	89,022	36,448
2029	7,746	8,202	16,660	17,266	68,530	7,047	92,936	32,515
2030	8,075	7,873	17,389	16,537	71,590	3,999	97,054	28,409
2031	8,418	7,530	18,150	15,776	36,980	814	63,548	24,120
2032	8,776	7,172	18,944	14,982			27,720	22,154
2033	9,149	6,799	19,773	14,153			28,922	20,952
2034	9,538	6,410	20,638	13,288			30,176	19,698
2035	9,943	6,005	21,541	12,385			31,484	18,390
2036	10,366	5,582	22,483	11,443			32,849	17,025
2037	10,806	5,142	23,467	10,459			34,273	15,601
2038	11,266	4,682	24,494	9,432			35,760	14,114
2039	11,745	4,203	25,565	8,361			37,310	12,564
2040	12,244	3,704	26,684	7,242			38,928	10,946
2041	12,764	3,184	27,851	6,075			40,615	9,259
2042	13,306	2,642	29,070	4,856			42,376	7,498
2043	13,872	2,076	30,341	3,585			44,213	5,661
2044	14,462	1,486	31,669	2,257			46,131	3,743
2045	15,076	872	18,473	985			33,549	1,857
2046	5,180	241	-	-	-	-	5,180	241
$	281,348	250,357	582,059	523,031	949,970	448,384	1,813,377	1,221,772

TOWN OF WARTRACE, TENNESSEE

Schedule of Insurance Coverage

June 30, 2012

Type of Coverage	Detail Coverage	
General liability		$1,000,000
Law enforcement liability		1,000,000
Boiler and machinery liability		50,000,000
Business auto:		
	Liability	1,000,000
	Uninsured motorists	60,000
	Comprehensive and collision ($250 and $500 deductible)	Actual value
Error or Omissions Injury		1,000,000
Fire and extended coverage - 90% co-insurance		
	Property	various
	Contents	various
Valuable papers		100,000
Mobile equipment		100,000
Accounts receivable		100,000
Fine Arts		50,000
EDP equipment		250,000
Miscellaneous		100,000
Workers' compensation		Statutory
Employer's liability		250,000
		/1,000,000
Fidelity Bonds		
Town Recorder		35,000
Town Clerk		5,000
Public Entity Employee Benefit		100,000

TOWN OF WARTRACE, TENNESSEE

Schedule of Bonds - Principal Officials

June 30, 2012

Official	Title	Bond
Ron Stacy	Mayor	$100,000 Blanket
Patsy Gregory	Alderman	100,000 Blanket
Thomas Hurt	Alderman	100,000 Blanket
Jean Gallagher	Alderman	100,000 Blanket
Roston Floyd	Alderman	100,000 Blanket
Terry Smith	Alderman	100,000 Blanket
Laura Gentry	Town Recorder	35,000

TOWN OF WARTRACE, TENNESSEE

Schedule of Utility Rates and Information

Water and Sewer Fund

June 30, 2012

Inside Routes:	Water	Sewer
First 2,000 gallons	$25.50 minimum charge	$15.00 minimum charge
Over 2,000 gallons	$6.70 per 1,000 gallons	$6.70 per 1,000 gallons

Outside Routes:	
First 2,000 gallons	$30.50 minimum charge
Over 2,000 gallons	$7.00 per 1,000 gallons

Number of customers at year end:

Water	approximately	830
Sewer	approximately	325

There was a new rate structure that went into effective in the fall of 2012.

TOWN OF WARTRACE, TENNESSEE

Schedule of Federal and State Financial Assistance

For the Year Ended June 30, 2012

CFDA Number	State Grant Number	Program Name	Grantor Agency	Receivable (Deferred) Balance June 30, 2011	Grant Receipts	Other Receipts	Grant Expenditures	Receivable (Deferred) Balance June 30, 2012
State Programs:								
N/A	N/A	State relocation project	State of Tennessee - Department of Transportation	$0	96,223	0	96,223	0

TOWN OF WARTRACE, TENNESSEE

Schedule of Unaccounted For Water

For the year ended June 30, 2012

Water Treated and Purchased	(in amounts in gallons)
Water Pumped	0
Water Purchased	192,130,350
Total Water Treated and Purchased	192,130,350
Water sold	103,400,200
Metered for consumption	0
Fire department usage	0
Flushing	0
Tank Cleaning	0
Street Cleaning	0
Bulk sales	0
Water Bill adjustments	0
Total accounted for water	103,400,200
Unaccounted for water	88,730,150
Percent Unaccounted for water	46%
Other	0

All amounts included in this schedule are supported by documentation on file at the water system. If no support is on file for a line item or if the line item is not applicable, a '0' is shown.

COMPLIANCE AND INTERNAL CONTROL

JOHN R. POOLE, CPA
CERTIFIED PUBLIC ACCOUNTANT

134 NORTHLAKE DRIVE
HENDERSONVILLE, TN 37075

(615) 822-4177

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

Mayor and Board of Aldermen
Town of Wartrace, Tennessee
Wartrace, Tennessee

I have audited the financial statements of the governmental activities, the business type activities and each major fund information of the Town of Wartrace as of and for the year ended June 30, 2012, and have issued a report thereon dated October 31, 2012. I conducted the audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

My consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, I identified a deficiency in internal control over financial reporting that I consider to be a material weakness (1999-1 Lack of segregation of Duties).

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. I consider the deficiency described below (1999-1) to be a material weakness.

The material weakness is as follows:

Prior Year Comments:

1999-1 Separation of Duties

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

Management Response:

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

Compliance and Other Matters

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

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

I noted certain matters that I reported to management of the Town of Wartrace in a separate letter dated October 31, 2012.

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

Jodi R Poole, CPA

October 31, 2012