

**CITY OF TOWNSEND, TENNESSEE**

**ANNUAL FINANCIAL STATEMENTS**

**For the Fiscal Year Ended June 30, 2010**

**CITY OF TOWNSEND, TENNESSEE**  
**ANNUAL FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2010

**TABLE OF CONTENTS**

	<u>Page</u>
<b>SECTION ONE – INTRODUCTION:</b>	
Letter of Transmittal .....	1 – 3
List of Principal Officials.....	4
 <b>SECTION TWO – FINANCIAL SECTION:</b>	
 <b>Independent Auditors’ Report</b> .....	 5 – 6
 <b>Management’s Discussion and Analysis (required supplementary information)</b> .....	 7 – 11
 <b>Basic Financial Statements:</b>	
<b>Government-wide Financial Statements:</b>	
Statement of Net Assets .....	12
Statement of Activities.....	13
<b>Fund Financial Statements:</b>	
Balance Sheet – Governmental Funds .....	14
Reconciliation of the Balance Sheet to the Statement of Net Assets .....	15
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds .....	16
Reconciliation of Statement of Revenues, Expenditures and Changes In Fund Balance to the Statement of Activities .....	17
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund.....	18 – 20
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Drug Fund .....	21
 <b>Notes to Financial Statements</b> .....	 22 – 30
 <b>Required Supplementary Information</b> .....	 31
 <b>Capital Assets Used In The Operations Of Governmental Funds – Schedule of Changes by Function and Activity</b> .....	 32
 <b>Miscellaneous Schedules</b>	
Schedule of Expenditures of State Awards .....	33
Schedule of Insurance in Force .....	34
Schedule of Capital Outlay Notes and Notes Payable – Principal and Interest Requirements .....	35
 <b>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></b> .....	
	36 – 37
 <b>Disposition of Prior Findings</b> .....	 38

**CITY OF TOWNSEND, TENNESSEE**

SECTION ONE

INTRODUCTORY SECTION

June 30, 2010

# Townsend

Tennessee, 37882



*The Most Scenic Entrance to Great Smoky Mountains*

December 20, 2010

Honorable Mayor  
City Council and City Manager  
City of Townsend, Tennessee  
Townsend, Tennessee

The financial statements of the City of Townsend, Tennessee for the fiscal year ended June 30, 2010, are submitted for your review. Responsibility for the accuracy and completeness of the presented data, including all disclosures, rests with the City. To the best of our knowledge and belief, this report is accurate in all material respects and is presented in a manner designed to fairly set forth the financial position and results of operations of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

This report is presented in three sections: 1) the **Introductory Section** which includes this transmittal letter; 2) the **Financial Section** which includes the independent auditors' report, management's discussion and analysis (MD&A), the basic financial statements, required supplementary information and the fund financial statements; and 3) the **Supplementary Section** which includes schedules and the independent auditors' report on internal control over financial reporting and on compliance and other matters.

These financial statements represent management's report to its governing body, constituents, legislative and oversight bodies, investors and creditors. Copies of this report will be sent to elected officials, City management personnel, bond rating agencies, and other agencies that have expressed an interest in the City of Townsend, Tennessee's financial matters. Copies of this financial report will also be placed in the Townsend Municipal Building for use by the general public.

This report includes all funds (financial activities) of the City. The City provides municipal services such as police protection, street maintenance, street lighting, planning, zoning and recreation.

## **PROFILE OF THE GOVERNMENT**

The City of Townsend was chartered in 1921 by folks who were involved with the Little River Railroad and Lumber Company. Those folks saw the benefit to the citizens with a collective voice representing the needs and desires of the people. The City operates under a charter by which the parameters of its boundaries and codes are defined.

The City of Townsend is governed by a board of 5 commissioners elected to 4 year terms. Seats are staggered so 3 are elected and then two years later 2 are elected. The 5 elected commissioners then elect one of their number to be Mayor. The Mayor serves for two years. In the same manner the elected Commissioners then elect one of their number to serve their City in the capacity of Police Commissioner, Planning Commissioner, Maintenance Commissioner, and Recreation Commissioner. The City of Townsend holds its regular monthly meeting the 3<sup>rd</sup> Tuesday of every month.

The City of Townsend employs a full-time recorder, part-time building inspector and a full-time maintenance person. The Townsend Police Department currently employs four full time officers.

## **FACTORS AFFECTING FINANCIAL CONDITION**

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Townsend operates.

**Local Economy.** The City of Townsend currently enjoys a favorable economic environment and local indicators point to continued stability. Since the mid 1930s, Townsend has been a major portal for visitors to the Great Smoky Mountains National Park. The other main park portals such as Gatlinburg, Pigeon Forge and Cherokee have seen the development of entertainment and “tourist” centers, many totally unrelated to the natural beauty of the Smoky Mountains, which draw crowds of tourists – and the corresponding traffic jams. Unlike these more commercialized portals, the Townsend area has remained primarily an uncluttered, pleasant, scenic destination for those who want to enjoy the natural beauty of the Smokies without undue artificial distractions. Both the City Commission and the Planning Commission are striving to keep this valley the “Peaceful Side of the Smokies”. The City wants to grow reasonably so we will not lose our “charm” and will be able to be the “Peaceful Side of the Smokies” for years to come.

## **FINANCIAL INFORMATION**

The main source of revenue is sales tax. A portion of the local tax is returned to the City that collected the tax. The City of Townsend has no property tax. Some of the other sources of revenue to the City are: in lieu of taxes, franchise taxes, beer taxes, and street taxes.

### **Internal Control**

The management of the City of Townsend is responsible for establishing and maintaining a system of internal control structure designed to ensure that the assets of the City are protected from loss, theft, or misuse and that adequate accounting data are compiled to allow for the preparation of the basic financial statements in conformity with U.S. generally accepted accounting principles (GAAP). The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and the valuation of costs and benefits requires estimates and judgments by management.

### **Budgetary Controls**

The City also maintains budgetary controls which are designed to ensure compliance with budgetary and legal provisions embodied in the annually appropriated operating budget approved by the City Council. Activities of the General Fund, Special Revenue Funds, and Debt Service Fund are included in the annually appropriated operating budget. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is the total operating budget, as adopted by the City Council. However, for budget administrative purposes, the City maintains budgeting controls at department appropriation levels. As demonstrated by the statements and schedules included in the financial section of this report, the City continues to meet its’ responsibility for sound financial management.

## **OTHER INFORMATION**

### **Independent Audit**

The City Charter requires an annual audit by independent certified public accountants. Through a Request for Proposal process, the accounting firm of Ingram, Overholt & Bean, PC has been selected by the City Council. The auditors’ report on the financial statements is included in the financial section of this report.

## **Acknowledgment**

The preparation of this report could not have been accomplished without the dedicated service and the assistance of personnel in the various departments, and the competent service of our independent auditors. To them and to the City Council and Mayor for their support and interest in improving Townsend's fiscal policies and practices, I express my sincere appreciation.

Respectively submitted,

A handwritten signature in cursive script that reads "Shelia Moss".

Shelia Moss  
City Recorder

**CITY OF TOWNSEND, TENNESSEE**  
**LIST OF PRINCIPAL OFFICIALS**  
For the Year Ended June 30, 2010

**Mayor**

Patrick Jenkins

**Commissioners**

Ron Palewski  
Charles Tippitt  
Shannon Skidmore  
David Wietlisbach

The above officials of the City of Townsend, Tennessee, serve for \$30 per month.

**Other Officials**

Shelia Moss – City Recorder

Ronnie Suttles – Police Chief

Christopher Ralls – City Judge

Will Carver – City Attorney

**CITY OF TOWNSEND, TENNESSEE**

**SECTION TWO**

**FINANCIAL SECTION**

**June 30, 2010**



# Ingram Overholt & Bean, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Joe S. Ingram, CPA  
Lonas D. Overholt, CPA  
Robert L. Bean, CPA

428 Marilyn Lane  
Alcoa, Tennessee 37701

Telephone  
865-984-1040  
Facsimile  
865-982-1665

December 20, 2010

## INDEPENDENT AUDITORS' REPORT

Honorable Mayor, Members of  
the Board of Commissioners  
and City Manager  
City of Townsend  
Townsend, Tennessee

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Townsend, Tennessee (the City), as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the financial section of the table of contents. These financial statements are the responsibility of the City'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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements referred to above 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 our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the City of Townsend, Tennessee as of June 30, 2010 and the respective changes in financial position thereof and the respective budgetary comparison for the general and drug fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated December 20, 2010, on our consideration of the City of Townsend, Tennessee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance or other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis, immediately following this letter, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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 the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The introductory section, capital assets used in the operation of governmental funds schedules, required supplementary information, and miscellaneous schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The capital assets used in the operation of governmental funds schedules, required supplementary information, and miscellaneous schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section 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.

*Ingram, Overholt & Bean, PC*

# Townsend

Tennessee, 37882



*The Most Scenic Entrance to Great Smoky Mountains*

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Townsend's (the City) Annual Financial Report presents a narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2010. Readers are encouraged to consider the information presented here in conjunction with additional information that has been furnished in the letter of transmittal.

## FINANCIAL HIGHLIGHTS

- ◆ The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$745,365 (net assets). Of this amount, \$291,589 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- ◆ At June 30, 2010, the City's governmental funds reported combined ending fund balances of \$326,594. Approximately 90% of this total amount (\$305,253) is unreserved fund balance available for spending at the government's discretion.
- ◆ At June 30, 2010, total unreserved undesignated fund balance for the general fund was \$291,589.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: (1) **Government-wide** financial statements, (2) **Fund** financial statements, and (3) **Notes** to the financial statements. This report also contains **other supplementary information** in addition to the basic financial statements themselves.

### **Government-wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the 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 or not 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 current 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 periods, such as revenues pertaining to uncollected taxes and expenses pertaining to earned but unused vacation leave.

Both of the government-wide statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include police, highways and streets, recreation, and general government.

### **Fund Financial Statements**

The fund financial statements are designed to report information about groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds** – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. All of the City's basic services are reported in governmental funds. These statements, however, focus on near term inflows and outflows of spendable resources and spendable resources available at the end of the fiscal year. Such information may be useful in determining what financial resources are available in the near future to finance the City's programs.

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

The City maintains individual governmental funds organized according to their type (special revenue). Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and drug funds (special revenue fund) both of which are considered to be major funds.

The City adopts an annual appropriated budget for the general and special revenue. Budgetary comparison statements have been provided in the basic financial statements for the general and special revenue fund to demonstrate compliance with the budget.

### **Notes to the Financial Statements**

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**GOVERNMENT-WIDE STATEMENTS FINANCIAL ANALYSIS**

	<u>Statement of Net Assets</u>	
	<u>June 30, 2010</u>	<u>June 30, 2009</u>
	<b><u>Assets</u></b>	
	<b><u>Governmental Activities</u></b>	
Current and other assets	\$ 335,992	\$ 305,896
Capital assets, net	<u>635,771</u>	<u>637,169</u>
Total Assets	<u>971,763</u>	<u>943,065</u>
	<b><u>Liabilities</u></b>	
Current liabilities	41,398	46,052
Long-term liabilities	<u>185,000</u>	<u>217,000</u>
Total Liabilities	<u>226,398</u>	<u>263,052</u>
	<b><u>Net Assets</u></b>	
Invested in capital assets, Net of related debt	418,771	390,169
Unrestricted	291,589	253,993
Restricted for State Street Aid	21,341	23,283
Restricted for Drug Fund	<u>13,664</u>	<u>12,568</u>
Total Net Assets	<u>\$ 745,365</u>	<u>\$ 680,013</u>

The City's net assets increased by \$38,321 during the current fiscal year. This increase is explained in the governmental activities presented below:

	<u>Changes in Net Assets</u>	
	<u>June 30, 2010</u>	<u>June 30, 2009</u>
	<b><u>Revenues</u></b>	
	<b><u>Governmental Activities</u></b>	
Program Revenues:		
Charges for services	\$ 71,626	\$ 60,186
Operating grants and contributions	6,457	17,526
General Revenues:		
Sales taxes	340,382	304,746
In lieu of taxes	31,854	31,554
Miscellaneous taxes	105,952	117,102
Unrestricted investment earnings	846	537
Other	<u>22,445</u>	<u>6,405</u>
Total Revenues	<u>579,562</u>	<u>538,056</u>
General government	205,595	240,976
Police	180,742	199,966
Fire	40,000	40,000
Public works and streets	8,399	13,982
Recreation	9,532	20,128
Appropriations	57,367	37,924
Interest on long-term debt	<u>12,575</u>	<u>14,146</u>
Total expenses	<u>514,210</u>	<u>567,122</u>
Change in net assets	65,352	(29,066)
Net assets at beginning of year	<u>680,013</u>	<u>709,079</u>
Net assets at end of year	<u>\$ 745,365</u>	<u>\$ 680,013</u>

## FUND STATEMENTS FINANCIAL ANALYSIS

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

### Governmental funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of governmental funds reported by the City include the General Fund, Special Revenue Funds, and Debt Service Fund.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the unreserved fund balance of the General Fund was \$277,261. Total unreserved, undesignated fund balance represents 39% total general fund expenditures of \$718,334.

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

The City's capital assets for its governmental activities as of June 30, 2010 amount to \$635,771 (net of accumulated depreciation). Capital assets include land, buildings, improvements, and machinery and equipment. The table below reflects the capital assets at the end of the fiscal year:

	<b>Capital Assets, Net of Depreciation</b>	
	<b><u>June 30, 2010</u></b>	<b><u>June 30, 2009</u></b>
	<b><u>Governmental Activities</u></b>	
Non-depreciable:		
Land	\$ 437,438	\$ 437,438
General Government:		
Machinery and equipment	194,142	194,142
Autos and trucks	16,820	16,820
Furniture and fixtures	5,633	5,633
Improvements	59,481	59,481
Building	2,012	2,012
Bike trail lighting	<u>159,699</u>	<u>159,699</u>
Total General Government	<u>437,787</u>	<u>437,787</u>
Police:		
Autos	133,337	111,534
Equipment	<u>26,360</u>	<u>26,360</u>
Total Police	<u>159,697</u>	<u>137,894</u>
Total Capital Assets	1,034,922	1,013,119
Less: Accumulated depreciation	<u>(399,151)</u>	<u>(375,950)</u>
Net Capital Assets	<u>\$ 635,771</u>	<u>\$ 637,169</u>

Major capital asset purchase during the current fiscal year included the purchase of a police cruiser.

## **Capital Assets**

For government-wide financial statement presentation, all depreciable capital assets are depreciated from acquisition date to the end of the current fiscal year. Fund financial statements record capital asset purchases as expenditures. Please refer to the Notes to the Financial Statements for further information regarding capital assets.

## **Debt Administration**

At the end of the current fiscal year, the City had total long-term obligations outstanding of \$217,000.

	<b>Outstanding Long-Term Obligations</b>	
	<b><u>June 30, 2010</u></b>	<b><u>June 30, 2009</u></b>
	<b><u>Governmental Activities</u></b>	
Notes payable	\$ -	\$ -
Capital Outlay Notes	<u>217,000</u>	<u>247,000</u>
Total Debt Payable	<u>\$ 217,000</u>	<u>\$ 247,000</u>

Additional information on the City's long-term debt can be found in the Notes to the Financial Statements.

## **OTHER MATTERS**

The fiscal 2011 budget will provide the excellent services that the citizens of Townsend have grown accustomed to receiving. This level of service is directly attributable to the City's well-trained and dedicated workforce coupled with the support of a progressive City Commission.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide our citizens, taxpayers, city commissioners, customers, investors, and creditors with a general overview of the City's finances. If you have any questions about this report or need additional information, contact:

City of Townsend, Tennessee  
P.O. Box 307  
Townsend, TN 37882  
(865) 448-6886

City Office hours are Monday through Thursday 8:00 a.m. to 4:30 p.m., and Friday 8:30 a.m. to 12 noon.

**CITY OF TOWNSEND, TENNESSEE**

**Government-wide Financial Statements**

**June 30, 2010**



**CITY OF TOWNSEND, TENNESSEE**  
**STATEMENT OF NET ASSETS**  
June 30, 2010

<u>ASSETS</u>	<u>Governmental Activities</u>
Current Assets:	
Cash in bank.....	\$ 151,610
Certificates of Deposit.....	126,522
Prepaid expenses.....	1,997
Due from State of Tennessee.....	<u>55,863</u>
Total Current Assets.....	<u>335,992</u>
Capital Assets:	
Non-depreciable capital assets.....	437,438
Depreciable capital assets, net of accumulated depreciation.....	<u>198,333</u>
Net Capital Assets.....	<u>635,771</u>
Total Assets.....	<u>\$ 971,763</u>
 <u>LIABILITIES AND NET ASSETS</u>  	
Liabilities:	
Current Liabilities:	
Compensated absences.....	\$ 4,637
Accrued payroll and payroll taxes.....	4,761
General long term debt payable.....	<u>32,000</u>
Total Current Liabilities.....	<u>41,398</u>
Long-term Liabilities:	
General long term debt payable.....	<u>185,000</u>
Net Assets:	
Invested in capital assets, net of related debt.....	418,771
Unrestricted.....	291,589
Restricted for State Street Aid.....	21,341
Restricted for Drug Fund.....	<u>13,664</u>
Total Net Assets.....	<u>745,365</u>
Total Liabilities and Net Assets.....	<u>\$ 971,763</u>

See accompanying independent auditors' report and notes.

**CITY OF TOWNSEND, TENNESSEE**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2010

		Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital/ Grants and Contributions		Governmental Activities
Function/Programs						
Governmental Activities:						
General Government	\$ 205,595	\$ 8,120	\$ -	\$ -		\$ 197,475
Police	180,742	63,506	-	-		117,236
Fire	40,000	-	-	-		40,000
Public Works (State Street)	8,399	-	6,457	-		1,942
Recreation	9,532	-	-	-		9,532
Appropriations/ Payments to others	57,367	-	-	-		57,367
Interest on Long-term debt	12,575	-	-	-		12,575
	\$ 514,210	\$ 71,626	\$ 6,457	\$ -		436,127
General Revenues:						
Sales Taxes .....						340,382
Miscellaneous taxes .....						105,952
In lieu of taxes .....						31,854
Interest earned.....						846
Miscellaneous .....						22,445
Total General Revenues .....						501,479
Change in net assets .....						65,352
Net Assets – Beginning .....						680,013
Net Assets – Ending .....						\$ 745,365

See accompanying independent auditors' report and notes

**CITY OF TOWNSEND, TENNESSEE**

**FUND FINANCIAL STATEMENTS**

June 30, 2010

**CITY OF TOWNSEND, TENNESSEE**  
**GOVERNMENTAL FUNDS**  
**BALANCE SHEET**  
June 30, 2010

<u>ASSETS</u>	<u>General</u>	<u>Drug Fund</u>	<u>Total</u>
Cash in bank .....	\$ 139,484	\$ 12,126	\$ 151,610
Certificates of Deposit .....	126,522	-	126,522
Prepaid expenses.....	1,997	-	1,997
Due from State of Tennessee.....	55,863	-	55,863
Due from General Fund .....	<u>-</u>	<u>1,538</u>	<u>1,538</u>
 Total Assets .....	 <u>\$ 323,866</u>	 <u>\$ 13,664</u>	 <u>\$ 337,530</u>
 <u>LIABILITIES AND FUND BALANCE</u>			
Liabilities:			
Due to other funds.....	\$ 1,538	\$ -	\$ 1,538
Compensated absences.....	4,637	-	4,637
Accrued payroll and taxes .....	<u>4,761</u>	<u>-</u>	<u>4,761</u>
 Total Liabilities .....	 <u>10,936</u>	 <u>-</u>	 <u>10,936</u>
Fund Balance:			
Undesignated, unreserved .....	291,589	13,664	305,253
Reserved for State Street Aid .....	<u>21,341</u>	<u>-</u>	<u>21,341</u>
 Total Fund Balance.....	 <u>312,930</u>	 <u>13,664</u>	 <u>326,594</u>
 Total Liabilities and Fund Balance..	 <u>\$ 323,866</u>	 <u>\$ 13,664</u>	 <u>\$ 337,530</u>

See accompanying independent auditors' report and notes.

**CITY OF TOWNSNED, TENNESSEE**  
**RECONCILIATION OF THE BALANCE SHEET**  
**TO THE STATEMENT OF NET ASSETS**  
June 30, 2010

Fund balances – total governmental funds	\$ 326,594
Amounts reported for the 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 funds.	635,771
Long-term liabilities, including bonds payable are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(217,000)</u>
Net assets of governmental activities	<u>\$ 745,365</u>

See accompanying independent auditors' report and notes.

**CITY OF TOWNSEND, TENNESSEE**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE**  
**GOVERNMENT FUNDS**  
For the Fiscal Year Ended June 30, 2010

	<u>General</u>	<u>Drug Fund</u>	<u>Total</u>
Revenues:			
Taxes .....	\$ 352,084	\$ -	\$ 352,084
Licenses and permits .....	8,120	-	8,120
Intergovernmental .....	142,008	-	142,008
Fines and forfeits.....	64,736	4,286	69,022
Interest earned.....	846	2	848
Other revenues .....	7,480	-	7,480
Grants .....	-	-	-
Total Revenues.....	<u>575,274</u>	<u>4,288</u>	<u>579,562</u>
Expenditures:			
General government .....	206,465	-	206,465
Police .....	180,742	3,192	183,934
Fire .....	40,000	-	40,000
Public works(State Street) .....	8,399	-	8,399
Recreation.....	9,532	-	9,532
Library appropriation .....	24,000	-	24,000
Blount County Emergency 911.....	6,104	-	6,104
Capital outlay.....	21,803	-	21,803
Bond/Capital outlay note redemptions .....	30,000	-	30,000
Interest charges .....	<u>12,575</u>	<u>-</u>	<u>12,575</u>
Total Expenditures.....	<u>539,620</u>	<u>3,192</u>	<u>542,812</u>
Excess (Deficiency) of Revenues			
Over Expenditures.....	35,654	1,096	36,750
Fund Balance – July 1 <sup>st</sup> .....	<u>277,276</u>	<u>12,568</u>	<u>289,844</u>
Fund Balance – June 30 <sup>th</sup> .....	<u>\$ 312,930</u>	<u>\$ 13,664</u>	<u>\$ 326,594</u>

See accompanying independent auditors' report and notes.

**CITY OF TOWNSEND, TENNESSEE**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2010

Net change in fund balances – total governmental fund \$ 36,750

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period. (1,398) (1)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This is the amount by which the bond proceeds exceeded retirement in the current period. 30,000

Changes in net assets of governmental activities \$ 65,352

(1) Depreciation	\$	(23,201)	
Capital Outlay		<u>21,803</u>	
		<u>\$ (1,398)</u>	

See accompanying independent auditors' report and notes.

**CITY OF TOWNSEND, TENNESSEE**

GENERAL FUND

June 30, 2010



**CITY OF TOWNSEND, TENNESSEE**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE – BUDGET AND ACTUAL**  
For the Fiscal Year Ended June 30, 2010

	<u>Budget</u>		<u>Actual</u>	Variance Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
Revenues:				
State Funds:				
Local option sales tax.....	\$ 262,000	\$ 262,000	\$ 322,974	\$ 60,974
State sales tax allocation .....	14,500	14,500	17,408	2,908
Income Tax Allocation.....	12,000	12,000	10,169	(1,831)
Streets and transportation .....	500	500	524	24
State Street gas tax.....	7,000	7,000	6,457	(543)
Beer tax .....	1,200	1,200	718	(482)
TVA - In-lieu of tax.....	600	600	1,342	742
Court bonds, fines and costs.....	60,000	60,000	64,736	4,736
Interest earned .....	1,500	1,500	846	(654)
Wholesale beer tax.....	102,000	102,000	91,273	(10,727)
Permits .....	5,150	5,150	8,120	2,970
Sevier County - In-lieu of tax.....	26,000	26,000	31,854	5,854
Cable television franchise fee.....	9,700	9,700	11,674	1,974
Miscellaneous.....	500	500	2,329	1,829
Reimbursements .....	2,400	2,400	2,400	-
Beer License.....	490	490	2,450	1,960
	<u>505,540</u>	<u>505,540</u>	<u>575,274</u>	<u>69,734</u>
Total Revenues.....				

(Continued)

See accompanying independent auditors' report and notes.

**CITY OF TOWNSEND, TENNESSEE**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE – BUDGET AND ACTUAL (Continued)**  
For the Fiscal Year Ended June 30, 2010

	Budget		Actual	Variance
	Original	Final		Favorable (Unfavorable)
Expenditures:				
General Government:				
Commissioners Fee .....	1,800	1,800	1,830	(30)
Salary – Recorder.....	27,400	27,400	27,800	(400)
Employees:				
Payroll taxes.....	12,000	12,000	17,338	(5,338)
Health insurance.....	20,000	20,000	23,991	(3,991)
Retirement .....	20,000	20,000	23,973	(3,973)
City Hall operations .....	7,500	7,500	9,693	(2,193)
Insurance .....	20,400	24,688	25,229	(541)
General expenses .....	4,000	4,000	4,652	(652)
State planning commission .....	5,500	5,500	5,250	250
Audit .....	3,500	3,500	3,600	(100)
City judge and attorney .....	10,500	10,500	7,554	2,946
Repairs and maintenance .....	12,800	2,515	1,622	893
Maintenance wages .....	25,200	25,200	26,200	(1,000)
Building Inspector.....	12,000	12,000	12,350	(350)
Inspector Gas Allowance.....	1,920	1,597	1,247	350
Fire/Rescue Department .....	40,000	40,000	40,000	-
Blount County Emergency 911 .....	6,100	6,100	6,104	(4)
Other .....	5,686	5,686	4,548	1,138
Payments to Mary Tippet Library .....	24,000	24,000	24,000	0
Animal Control .....	1,200	1,200	1,200	0
Longevity pay .....	2,025	2,025	1,950	75
Debt Service .....	42,575	42,575	42,575	-
Litigation tax.....	1,500	1,500	1,406	94
Electric permits.....	185	185	863	(678)
Dues .....	300	300	404	(104)
Townsend Elementary PTO.....	1,080	1,080	2,596	(1,516)
Mnt. Gas .....	1,000	1,000	1,169	(169)
Total General Government .....	310,171	303,851	319,144	(15,293)
Police Department				
Salaries .....	173,000	168,616	156,577	12,039
Uniforms/training.....	2,500	2,500	1,990	510
Insurance expense/bonds .....	400	400	126	274
Gas .....	15,000	15,000	13,982	1,018
General expense.....	3,000	3,000	1,056	1,944
Vehicle expense .....	2,000	2,000	3,108	(1,108)
Telephone/cell phones/pagers.....	2,700	2,700	3,903	(1,203)
Capital Outlay .....	5,000	21,803	21,803	-
Total Police Department.....	203,600	216,019	202,545	13,474

(Continued)

See accompanying independent auditors' report and notes.

**CITY OF TOWNSEND, TENNESSEE**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE – BUDGET AND ACTUAL (Continued)**  
For the Fiscal Year Ended June 30, 2010

	<u>Budget</u>		<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Expenditures (Continued)				
State Street Aid:				
Street repairs.....	<u>15,300</u>	<u>13,280</u>	<u>8,399</u>	<u>4,881</u>
Park and Recreation:				
Christmas parade.....	2,500	2,500	2,509	(9)
Bike Walk Lights.....	-	-	1,724	(1,724)
Fourth of July.....	500	500	766	(266)
City Park.....	150	150	257	(107)
General expenses .....	<u>1,000</u>	<u>3,684</u>	<u>4,276</u>	<u>(592)</u>
Total Park and Recreation .....	<u>4,150</u>	<u>6,834</u>	<u>9,532</u>	<u>(2,698)</u>
Total Expenditures.....	<u>533,221</u>	<u>539,984</u>	<u>539,620</u>	<u>364</u>
Excess (Deficiency) of Revenue Over Expenditures .....	(27,681)	(34,444)	35,654	70,098
Fund Balance – Beginning of Fiscal Year .....	<u>277,276</u>	<u>277,276</u>	<u>277,276</u>	<u>-</u>
Fund Balance – End of Fiscal Year .....	<u>\$ 249,595</u>	<u>\$ 242,832</u>	<u>\$ 312,930</u>	<u>\$ 70,098</u>

See accompanying independent auditors' report and notes.

**CITY OF TOWNSEND, TENNESSEE**

**SPECIAL REVENUE FUND**

June 30, 2010

**CITY OF TOWNSEND, TENNESSEE**  
**DRUG FUND – SPECIAL REVENUE FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE – BUDGET AND ACTUAL**  
For the Fiscal Year Ended June 30, 2010

	<u>Budget</u>		<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Fines.....	\$ 4,286	\$ 4,286	\$ 4,286	\$ -
Interest earned .....	<u>2</u>	<u>2</u>	<u>2</u>	<u>-</u>
Total Revenues .....	<u>4,288</u>	<u>4,288</u>	<u>4,288</u>	<u>-</u>
Expenditures:				
Drug Fund expenses .....	<u>3,192</u>	<u>3,192</u>	<u>3,192</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures .....	1,096	1,096	1,096	-
Fund Balance -				
Beginning of Fiscal Year .....	<u>12,568</u>	<u>12,568</u>	<u>12,568</u>	<u>-</u>
Fund Balance -				
End of Fiscal Year .....	<u>\$ 13,664</u>	<u>\$ 13,664</u>	<u>\$ 13,664</u>	<u>\$ -</u>

See accompanying independent auditors' report and notes.

**CITY OF TOWNSEND, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**

June 30, 2010

**CITY OF TOWNSEND, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2010

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The City of Townsend, Tennessee, chartered in 1941, operates under a Council–Mayor form of government.

The accounting policies of the City of Townsend, Tennessee, conform to accounting principles as applicable to governments, and the financial statements of the City are prepared in accordance with standards prescribed by the Governmental Accounting Standards Board. The following is a summary of the significant policies:

(A) Financial Reporting Entity:

The accompanying financial statements present the City of Townsend (primary government) and all funds, organizations, agencies, and offices that are a part of the primary government. The criteria for determining a primary government consist of the following:

- (1) A separately elected governing body
- (2) Separate legal standing – corporate power with the capacity to have a name; the right to sue and be sued in its own name without recourse to a state or local governmental unit; and, the right to buy, sell, lease, or mortgage property in its own name.
- (3) Fiscal independence of other state and local governments by determining its budget, levying taxes, setting rates or charges, and issuing bonded debt without approval by another government.

Based on applying the criteria set forth in the Governmental Accounting Standards Board (GASB) Statement 14 – “The Financial Reporting Entity”, as amended by GASB 39, there are no potential component units for inclusion in the primary government. The financial reporting entity includes all funds, agencies, offices and departments which are a part of the primary government.

(B) BASIC FINANCIAL STATEMENTS – GASB NO. 34:

The basic financial statements include both government–wide and fund financial statements. The basic financial statements focus on the City as a whole, or major individual funds (within the fund financial statements). Both the government-wide and fund financial statements categorize activities as governmental activities. *Governmental activities* are normally supported by taxes and intergovernmental revenues. All activities are reported in the government-wide financial statements using the economic resources measurement focus and the accrual basis of accounting, which includes long-term assets as well as long-term obligations. The government-wide financial statements focus more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The government-wide Statement of Activities demonstrates the degree to which the direct expenses, including depreciation, on the various departments of the City are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific department. Interest on general long-term debt and depreciation expense on assets shared by multiple departments, are not allocated to the various departments. Program revenues include revenues from fines and forfeitures, licenses and permit fees, special assessment taxes, certain intergovernmental grants, other entities participation and charges for services. Taxes and other items not properly included among program revenues are reported as general revenues.

**CITY OF TOWNSEND**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2010

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

(C) **BASIS OF PRESENTATION:**

The City uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid in the City's financial management by segregating transactions related to certain functions or activities.

The following fund categories are used by the City:

**GOVERNMENTAL FUNDS:** All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Sales taxes are considered "measurable" (susceptible to accrual) when in the hands of intermediary collecting agencies and are recognized as revenues at that time. All other intergovernmental revenues are recorded as revenue when received. Expenditures are recognized when the related fund liability is incurred.

**GENERAL FUND:** The General Fund is established to account for resources devoted to financing the general services that the City performs for its citizens. General tax revenues and other sources of revenue used to finance the fundamental operations of the City are included in this fund. The General Fund is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is always considered a major fund in the basic financial statements.

**SPECIAL REVENUE FUND:** Special Revenue Fund is used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. The special revenue fund is presented as a major fund in the basic financial statements:

Drug Fund: The Drug Fund is used to account for revenues (primarily drug related fines) which must be expended on drug enforcement operations of the City.

(D) **MEASUREMENT FOCUS AND BASIS OF ACCOUNTING:**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to 1) demonstrate legal and covenant compliance, 2) demonstrate the source and use of liquid resources, and 3) demonstrate how the City's actual experience conforms to the budget. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" is defined as collectible within the current



**CITY OF TOWNSEND**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2010

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

(D) **MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Continued):**

period or within 60 days of the end of the current fiscal period. Expenditures, other than interest on long-term debt, are recorded when the related fund liability is incurred, if measurable. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgements, are recorded only when payment is due.

Revenues susceptible to accrual include local sales tax, state-shared sales tax, highway user tax, franchise fees, and interest earned on investments. Licenses and permits, charges for services, fines and forfeitures and miscellaneous revenues are generally recorded as revenues when received in cash because they are not measurable until actually received. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended for a specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to the purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, unrestricted resources are applied first.

The City reports deferred revenues in the governmental funds if the potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also arise when resources are received by the City before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for deferred revenue is removed and revenue is recognized.

Since the governmental fund financial statements are presented on a basis different than the governmental activities column of the government-wide financial statements, a reconciliation is provided immediately following each fund statement. These reconciliations briefly explain the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements.

(E) **COMPENSATED ABSENCES:**

It is the policy of the City of Townsend, Tennessee, to grant one and one-half (1 ½) days of vacation for each month of employment between an employee’s date of hire and year-end, up to a maximum of five (5) days. Thereafter, employees having between two (2) and nine (9) years of employment are entitled to two (2) weeks of vacation. Employees having ten (10) or more years of employment are entitled to three (3) weeks vacation. Employees earn one sick day per month. Upon termination of employment, only vacation days are paid to the employee.

(Continued)

**CITY OF TOWNSEND**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

(E) COMPENSATED ABSENCES (Continued):

Accumulated compensated absences pay is \$4,637 at June 30, 2010.

(F) BUDGETS AND BUDGETARY ACCOUNTING:

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

1. After a public hearing and two (2) readings, beginning with the June City Commission meeting, the budget is legally enacted through passage of an ordinance.
2. Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds.
3. Budgets for the General Fund and Special Revenue Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
4. Budgeted amounts are as originally adopted by the City Commission, with the exception of those amounts subsequently amended by action of the Commission.

Budgetary amounts are as originally adopted, or as amended by the Commission. Individual amendments were not material in relation to the original appropriations. All appropriations lapse at year end.

(G) CASH AND CASH EQUIVALENTS:

The City considers all highly liquid Certificates of Deposit with an original maturity of three months or less, at the date of acquisition, to be cash equivalents.

(H) DUE TO AND DUE FROM OTHER FUNDS, AND INTERFUND TRANSFERS

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

All interfund transactions are accounted for as transfers. Non-recurring or non-routine transfers of equity between funds are considered residual equity transfers, and all other transfers are treated as operating transfers.

**CITY OF TOWNSEND**  
**NOTES TO FINANCIAL STATEMENTS**  
 June 30, 2010

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

(I) **DUE TO AND DUE FROM OTHER FUNDS, AND INTERFUND TRANSFERS (Continued)**

Interfund receivables/payables (due to/from) at June 30, 2010, are as follows:

	<u>Due From</u> <u>General Fund</u>
Due To:	
Drug Fund.....	\$ <u>12,126</u>

The interfund payable/receivable resulted from a time lag in transactions recorded in the accounting system and will be repaid during the next fiscal year.

(J) **CAPITAL ASSETS:**

Infrastructure assets acquired prior to July 1, 2003 have not been capitalized in accordance with provisions in GASB-34. All purchased fixed assets are valued at cost (in excess of \$1,000). Depreciation is recorded using the straight-line method over the estimated useful life of the asset. Repairs that do not extend the life of an asset are expensed as incurred.

**NOTE 2 – CASH AND CERTIFICATES OF DEPOSIT:**

As of June 30, 2010, total cash and certificates of deposit of governmental fund types on deposit in financial institutions and with a carrying value of \$249,540 are either entirely insured or collateralized by with securities held by the Tennessee Investment Collateral Pool.

	<u>General</u> <u>Fund</u>	<u>Special</u> <u>Revenue</u> <u>Fund</u>
Cash in bank .....	\$ 139,484	\$ 12,126
Certificates of deposit .....	126,522	-

Certificates of Deposit bear interest at rates from .10% to 2.10% and mature at various dates ranging from August 2010 to December 2012. Other checking and money market accounts bear interest rates ranging from 1.26% to 1.98%.

**CITY OF TOWNSEND, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2010

**NOTE 3 - CAPITAL ASSETS:**

A summary of capital assets used in governmental activities is as follows:

	Balance <u>7/1/09</u>	<u>Additions</u>	<u>Retirements</u>	Transfers <u>In (Out)</u>	Balance <u>6/30/10</u>
Non-depreciable:					
Land	\$ 437,438	\$ -	\$ -	\$ -	\$ 437,438
General Government:					
Machinery & Equipment .....	194,142	-	-	-	194,142
Autos & Trucks .....	16,820	-	-	-	16,820
Furniture & Fixtures .....	5,633	-	-	-	5,633
Improvements .....	59,481	-	-	-	59,481
Building .....	2,012	-	-	-	2,012
Bike Trail Lighting .....	159,699	-	-	-	159,699
Total General Government .....	<u>437,787</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>437,787</u>
Police:					
Autos .....	111,534	21,803	-	-	133,337
Equipment .....	26,360	-	-	-	26,360
Total Police .....	<u>137,894</u>	<u>21,803</u>	<u>-</u>	<u>-</u>	<u>159,697</u>
Total Capital Assets .....	1,013,119	21,803	-	-	1,034,922
Less: Accumulated depreciation.	<u>(375,950)</u>	<u>(23,201)</u>	<u>-</u>	<u>-</u>	<u>(399,151)</u>
Net: Capital Assets .....	<u>\$ 637,169</u>	<u>\$ (1,398)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 635,771</u>

**NOTE 4 – RISK FINANCING ACTIVITES:**

It is the policy of the City to purchase commercial insurance for the risks of losses to which it is exposed. These risks include property and casualty, workmen’s compensation, and liability claims. Settled claims have not exceeded this commercial coverage in any of the past three (3) fiscal years.

**NOTE 5 – GENERAL LONG -TERM DEBT:**

A summary of changes in the General Long-Term Debt is as follows:

	Balance <u>July 1, 2009</u>	<u>Additions</u>	Retired/ <u>Deletions</u>	Balance <u>June 30, 2010</u>
Capital Outlay Notes	\$ 247,000	\$ -	\$ 30,000	\$ 217,000
\$375,000- Note payable in yearly installments of \$23,000 to \$41,000, due August 2015; interest at 5.42%				<u>\$ 217,000</u>

**CITY OF TOWNSEND, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2010

**NOTE 5 – GENERAL LONG -TERM DEBT (Continued):**

The annual requirements to amortize the Notes outstanding as of June 30, 2010, including interest payments, are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Total Principal/ Interest Requirement</u>	<u>Note</u>	<u>Interest</u>
2011	\$ 42,894	\$ 32,000	\$ 10,894
2012	42,132	33,000	9,132
2013	42,290	35,000	7,290
2014	42,339	37,000	5,339
2015	<u>42,279</u>	<u>39,000</u>	<u>3,279</u>
Subtotal	<u>211,934</u>	<u>176,000</u>	<u>35,934</u>
2016	<u>42,111</u>	<u>41,000</u>	<u>1,111</u>
Totals	<u>\$ 254,045</u>	<u>\$ 217,000</u>	<u>\$ 37,045</u>

**NOTE 6 – EMPLOYEE RETIREMENT:**

*Plan Description*

Employees of the City of Townsend are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as the City of Townsend participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10<sup>th</sup> Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at <http://www.tn.gov/treasury/tcrs/PS/>.

**CITY OF TOWNSEND, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2010

**NOTE 6 – EMPLOYEE RETIREMENT (Continued):**

*Funding Policy*

The City of Townsend requires employees to contribute 5.0 percent of earnable compensation.

The City of Townsend is required to contribute at an actuarially determined rate; the rate for the fiscal year ended June 30, 2010 was 14.18% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the City of Townsend is established and may be amended by the TCRS Board of Trustees.

*Annual Pension Cost*

For the year ended June 30, 2010, the City of Townsend’s annual pension cost of \$23,958 to TCRS was equal to the City of Townsend’s required and actual contributions. The required contribution was determined as part of the July 1, 2007 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5 percent annual increase in the Social Security wage base, and (d) projected post retirement increases of 3.0 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of investments over a five-year period. The City of Townsend’s unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2007 was 15 years. An actuarial valuation was performed as of July 1, 2009, which established contribution rates effective July 1, 2010.

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2010	\$ 23,958	100.00%	\$ 0.00
June 30, 2009	24,365	100.00%	0.00
June 30, 2008	14,602	100.00%	0.00

*Funded Status and Funding Progress*

As of July 1, 2009, the most recent actuarial valuation date, the plan was 55.48% funded. The actuarial accrued liability for benefits was \$0.31 million, and the actuarial value of assets was \$0.17 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.14 million. The covered payroll (annual payroll of active employees covered by the plan) was \$0.17 million, and the ratio of the UAAL to the covered payroll was 79.44%.

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presented multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AAL’s for benefits.

**CITY OF TOWNSEND, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2010

**NOTE 6 – EMPLOYEE RETIREMENT (Continued):**

The annual required contribution (ARC) was calculated using the aggregate actuarial cost method. Since the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose, and this information is intended to serve as a surrogate for the funded status and funding progress of the plan.

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/01/09	\$ 170	\$ 307	\$ 137	55.48%	\$ 172	79.44%
7/01/07	\$ 118	\$ 159	\$ 41	74.21%	\$ 101	40.59%

The Governmental Accounting Standards Board (GASB) requires the plan to prepare the Schedule of Funding Progress using the entry age actuarial cost method. The requirement to present the Schedule of Funding Progress using the Entry Age actuarial cost method went into affect during t6he year of the 2007 actuarial valuation, therefore only the two most recent valuations are presented.

**NOTE 7 – FUNDS CLOSED**

During the current year, a request was made and approved by the Comptroller of the Treasury, as provided by PublicChapter 173 of the Public Acts of 1985, to combine the State Street Aid Fund (previously reported as a major special revenue fund) into the General Fund. The State Street Aid revenue and detailed expenditure accounts are maintained within the general fund, along with the proper reserve of fund equity being recorded. The City has also closed the debt service fund; debt will be paid and budgeted through the City’s General Fund.

**NOTE 8 – SUBSEQUENT EVENTS**

The date to which events occurring after June 30, 2010, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosures is December 20, 2010, which is the date on which the financial statements were issued.

**REQUIRED SUPPLEMENTARY INFORMATION**



**CITY OF TOWNSEND, TENNESSEE**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
June 30, 2010

*Required Supplementary Information*

Schedule of Funding Progress for the City of Townsend:

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) - -Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/01/07	\$ 118	\$ 159	\$ 41	74.21%	\$ 101	40.59%

The Governmental Accounting Standards Board (GASB) requires the plan to prepare the Schedule of Funding Program using the entry age actuarial cost method. The requirement to present the Schedule of Funding Progress using the Entry Age actuarial cost method was a change made during the year and therefore only the most current year is presented.

**CITY OF TOWNSEND, TENNESSEE**

**CAPITAL ASSETS USED IN THE OPERATION OF  
GOVERNMENTAL ACTIVITIES**

June 30, 2010

**CITY OF TOWNSEND, TENNESSEE**  
**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS**  
Schedule of Changes by Function and Activity  
For the Fiscal Year Ended June 30, 2010

<u>Programs</u>	<u>CAPITAL ASSETS</u>				<u>Balance 6/30/10</u>
	<u>Balance 7/1/09</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers In (Out)</u>	
Non-Depreciable:					
Land	\$ 437,438	\$ -	\$ -	\$ -	\$ 437,438
General Government:					
Machinery & Equipment	194,142	-	-	-	194,142
Autos & Trucks	16,820	-	-	-	16,820
Furniture & Fixtures	5,633	-	-	-	5,633
Improvements	59,481	-	-	-	59,481
Building	2,012	-	-	-	2,012
Bike Trail Lights	<u>159,699</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>159,699</u>
Total General Government	<u>437,787</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>437,787</u>
Police:					
Autos	111,534	21,803	-	-	133,337
Equipment	<u>26,360</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,360</u>
Total Police	<u>137,894</u>	<u>21,803</u>	<u>-</u>	<u>-</u>	<u>159,697</u>
Total Capital Assets	<u>\$1,013,119</u>	<u>\$ 21,803</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,034,922</u>

See accompanying independent auditors' report and notes.

ACCUMULATED DEPRECIATION

<u>Balance</u> <u>7/1/09</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u> <u>In (Out)</u>	<u>Balance</u> <u>6/30/10</u>	<u>Net Book</u> <u>Value</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 437,438
192,812	1,330	-	-	194,142	-
4,909	2,071	-	-	6,980	9,840
5,295	163	-	-	5,458	175
39,966	2,906	-	-	42,872	16,609
2,012	-	-	-	2,012	-
<u>19,961</u>	<u>7,984</u>	<u>-</u>	<u>-</u>	<u>27,945</u>	<u>131,754</u>
<u>264,955</u>	<u>14,454</u>	<u>-</u>	<u>-</u>	<u>279,409</u>	<u>158,378</u>
84,635	8,747	-	-	93,382	39,955
<u>26,360</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,360</u>	<u>-</u>
<u>110,995</u>	<u>8,747</u>	<u>-</u>	<u>-</u>	<u>119,742</u>	<u>39,955</u>
<u>\$ 375,950</u>	<u>\$ 23,201</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 399,151</u>	<u>\$ 635,771</u>

**CITY OF TOWNSEND, TENNESSEE**

**MISCELLANEOUS SCHEDULES**

**June 30, 2010**

**CITY OF TOWNSEND, TENNESSEE**  
**SCHEDULE OF EXPENDITURES OF STATE AWARDS**  
For the Fiscal Year Ended June 30, 2010

<u>Program</u>	<u>Grantor</u>	<u>Balance July 1, 2009</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Balance July 1, 2010</u>
Bike Walk/Trail Lights	Tennessee Department of Tourism	<u>\$ -</u>	<u>\$ 1,724</u>	<u>\$ 1,724</u>	<u>\$ -</u>

See accompanying independent auditors' report and notes.

**CITY OF TOWNSEND, TENNESSEE**  
**SCHEDULE OF INSURANCE IN FORCE**  
For the Fiscal Year Ended June 30, 2010

<u>Company</u>	<u>Type</u>	<u>From</u>	<u>Period</u> <u>To</u>	<u>Coverage</u>
TML Risk Management Pool, Inc. TWC-0189-06	Workmen's Compensation	7- 1-09	7- 1-10	Statutory – Employer's Liability - \$100,000
TML Risk Management Pool, Inc. TML-206-06	Municipal Liability Agreement	4- 1-10	4- 1-11	I. General Liability - Bodily injury liability - \$130,000 each occurrence, one person \$350,000 each occurrence, two or more persons Property damage liability - \$50,000 each occurrence II. Automobile Liability - Bodily injury - \$130,000 each occurrence, one person \$350,000 each occurrence, two or more persons Property Damage Liability - \$50,000 each occurrence III. Automobile Physical Damage - As per schedule on policy with deductible for \$500 comprehensive; \$500 deductible for collision IV. Public Officials' Personal Errors and Omissions Liability -300,000 per occurrence each loss or \$1,000,000 per occurrence with \$2,500 deductible
TML Risk Management TMP-1256-06	Equipment Floater	1-25-10	1-25-11	Equipment - \$250,000

See accompanying independent auditors' report and notes.

**CITY OF TOWNSEND, TENNESSEE**  
**SCHEDULE OF CAPITAL OUTLAY NOTES AND NOTES PAYABLE**  
Principal and Interest Requirements by Year June 30, 2010

Fiscal Year Ending June 30,	Total Principal/ Interest Requirement	Capital Outlay Note Series 2003 Tennessee Municipal Bond Fund	
		<u>Note</u>	<u>Interest</u>
2011	\$ 42,894	\$ 32,000	\$ 10,894
2012	42,132	33,000	9,132
2013	42,290	35,000	7,290
2014	42,339	37,000	5,339
2015	<u>42,279</u>	<u>39,000</u>	<u>3,279</u>
Subtotal	<u>211,934</u>	<u>176,000</u>	<u>35,934</u>
2016	<u>42,111</u>	<u>41,000</u>	<u>1,111</u>
Total	<u>\$ 254,045</u>	<u>\$ 217,000</u>	<u>\$ 37,045</u>

See accompanying independent auditors' report and notes.



**CITY OF TOWNSEND, TENNESSEE**

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*

June 30, 2010



Joe S. Ingram, CPA  
Lonas D. Overholt, CPA  
Robert L. Bean, CPA

428 Marilyn Lane  
Alcoa, Tennessee 37701

Telephone  
865-984-1040  
Facsimile  
865-982-1665

December 20, 2010

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

To the Honorable Mayor and  
Members of Board of Commissioners  
City of Townsend  
Townsend, Tennessee

We have audited the financial statements of the governmental activities and each major fund of the City of Townsend, Tennessee, as of and for the year ended June 30, 2010, which collectively comprise the City of Townsend, Tennessee's basic financial statements and have issued our report thereon dated December 20, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affect The City of Townsend, Tennessee's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of The City of Townsend, Tennessee's financial statements that is more than inconsequential will not be prevented or detected by The City of Townsend, Tennessee's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by The City of Townsend, Tennessee's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 the City of Townsend, Tennessee's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters, 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 matter that are required to be reported under *Governmental Auditing Standards*.

This report is intended solely for the information and use of the management of the City of Townsend, Tennessee, federal awarding agencies, pass-through entities, and the State of Tennessee and is not intended to be and should not be used by anyone other than these specified parties.

*Ingram, Overholt & Bean, PC*

**CITY OF TOWNSEND, TENNESSEE**  
**DISPOSITION OF PRIOR FINDINGS**  
June 30, 2010

None.