

TOWN OF ERWIN, TENNESSEE
Financial Statements and Supplementary Information
Year Ended June 30, 2012

TOWN OF ERWIN, TENNESSEE
Financial Statements and Supplementary Information
Year Ended June 30, 2012

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TOWN OF ERWIN, TENNESSEE
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Year Ended June 30, 2012

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TOWN OF ERWIN, TENNESSEE
Roster of Officials and Board Members
Year Ended June 30, 2012

Town of Erwin

Officials

Mr. Randy Trivette Town Recorder

Board Members

Mr. William Don Lewis Mayor

Mr. James Glenn Tilson Vice-Mayor

Mr. Lester Bailey Jr. Alderman

Mr. Robbie Sullins Jr. Alderman

Mr. Gary Edwards Alderman

Mr. Mark Lafever Alderman

Erwin Utilities

Officials

Mr. Lee Brown General Manager

Mrs. Andie Talbert Accounting Manager

Board Members

Mr. Darrell Woods Board Member

Mr. Richard Booth Board Chairman

Mr. Kevin Horton Board Member

Mr. Scott Charles Board Member

Mr. Gary Edwards Board Member



Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the general fund, each major fund, and the aggregate remaining fund information of the Town of Erwin, Tennessee (the "Town"), as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2013 on our consideration of the Town of Erwin, Tennessee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Erwin, Tennessee's financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Roderick Messer & Co, PLLC

Greeneville, Tennessee
February 6, 2013

TOWN OF ERWIN, TENNESSEE
Management's Discussion and Analysis (Unaudited)
June 30, 2012

As management of the Town of Erwin, Tennessee (the "Town") we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town of Erwin for the fiscal year ended June 30, 2012.

Financial Highlights

- At June 30, 2012, the assets of the Town of Erwin exceeded its liabilities by \$36,865,123. Of this amount, \$9,198,621 may be used to meet the Town's ongoing obligations to citizens and creditors.
- The Town Erwin issued \$800,000 in new debt during the fiscal year for capital projects. The town's total debt had a net increase of \$633,143.
- At the end of the current fiscal year, unassigned fund balance for the Town of Erwin was \$9,198,621, a 11.4% decrease from the previous fiscal year.
- Significant capital asset purchases for the year were for infrastructure.

Overview of the Financial Statements

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

Government-Wide Financial Statements

The Government-Wide Financial Statements are designed to provide readers with a broad overview of the Town of Erwin's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the Town of Erwin'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 of Erwin is improving or deteriorating.

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

Both of the Government-Wide Financial Statements distinguish functions of the Town of Erwin 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 Erwin include general government, public safety, public works, recreation, health and welfare. The business-type activities include Erwin Utilities electric, water and wastewater systems. The government-wide financial statements can be found on pages 8 and 9 of this report.

Fund Financial Statements

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

TOWN OF ERWIN, TENNESSEE
Management's Discussion and Analysis (Unaudited) (Continued)

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflow 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. The basic governmental fund financial statements can be found on pages 10 through 14.

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.

Proprietary Funds

The Town of Erwin maintains one proprietary fund which is an enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The enterprise fund's financial statements provide separate information for Erwin Utilities electric, water and wastewater operations. The basic proprietary fund financial statements can be found on pages 15 through 18 of this report.

Budgetary Information

The Town of Erwin approves budgets for the General and Special Revenue Funds. Changes in the General Fund original and final budget exist mostly due to the change in amount of grants expected to receive and expend.

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 19 through 35 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Town of Erwin's progress in funding its obligation to provide retirement benefits to its employees. Required supplementary information can be found on pages 36 of this report.

TOWN OF ERWIN, TENNESSEE
Management's Discussion and Analysis (Unaudited) (Continued)

Government-Wide Financial Analysis

The following table provides a summary of the Town's net assets at June 30, 2012 and 2011:

	June 30, 2012	June 30, 2011	Increase/ (Decrease)	% Change
Current Assets	\$ 17,459,783	\$ 17,367,825	\$ 91,958	0.53%
Other assets	<u>40,014,685</u>	<u>36,542,184</u>	<u>3,472,501</u>	9.50%
Total assets	<u>\$ 57,474,468</u>	<u>\$ 53,910,009</u>	<u>\$ 3,564,459</u>	6.61%
Current liabilities	\$ 6,657,532	\$ 6,118,094	\$ 539,438	8.82%
Long-term liabilities	13,951,813	13,219,744	732,069	5.54%
Net assets	<u>36,865,123</u>	<u>34,572,171</u>	<u>2,292,952</u>	6.63%
Total liabilities and net assets	<u>\$ 57,474,468</u>	<u>\$ 53,910,009</u>	<u>\$ 3,564,459</u>	6.61%

The following table provides a summary of the Town's changes in net assets for the years ended June 30, 2012 and 2011:

	June 30, 2012	June 30, 2011	Increase/ (Decrease)	% Change
Revenues				
Governmental	\$ 550,598	\$ 3,244,503	\$ (2,693,905)	-83.03%
Business-type activities	25,112,306	25,445,268	(332,962)	-1.31%
General revenues	<u>2,989,446</u>	<u>3,658,894</u>	<u>(669,448)</u>	-18.30%
Total revenues	<u>28,652,350</u>	<u>32,348,665</u>	<u>(3,696,315)</u>	-11.43%
Expenses				
Governmental	4,172,692	8,498,098	(4,325,406)	-50.90%
Business-type activities	23,059,985	23,932,128	(872,143)	-3.64%
Transfers				
Governmental	(374,039)	(340,027)	(34,012)	10.00%
Business-type activities	<u>479,148</u>	<u>435,261</u>	<u>43,887</u>	10.08%
Total expenses and transfers	<u>27,337,786</u>	<u>32,525,460</u>	<u>(5,187,674)</u>	-15.95%
Change in net assets	<u>\$ 1,314,564</u>	<u>\$ (176,795)</u>	<u>\$ 1,491,359</u>	-843.55%

The General Fund is the primary operating fund of the Town of Erwin. On June 30, 2012, unassigned fund balance was \$2,251,225 while total fund balance was \$3,465,956. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and the total fund balance to total fund expenditures.

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 Erwin, total assets exceeded liabilities by \$36,865,123 at the close of this fiscal year.

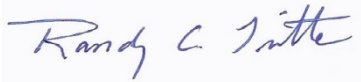
TOWN OF ERWIN, TENNESSEE
Management's Discussion and Analysis (Unaudited) (Continued)

The largest portion of the Town of Erwin's net assets (37%) reflects its investments in capital assets (e.g., land, buildings, machinery, and equipment), less any debt used to acquire those assets that is still outstanding. The Town of Erwin uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending.

The Town currently has no plans that would significantly affect the financial position or results of operations.

Requests for Information

This financial report is designed to provide a general overview of the Town of Erwin's finances. Requests for additional information should be addressed to the Town of Erwin, P.O. Box 59, Erwin, Tennessee 37650.



Randy Trivette, CMC, CMFO
City Recorder
Town of Erwin
P.O. Box 59
Erwin, TN 37650
Ph. 423-743-6231
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TOWN OF ERWIN, TENNESSEE
Statement of Net Assets
June 30, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 2,486,313	\$ 4,964,028	\$ 7,450,341
Certificates of deposit	1,000,000	3,665,079	4,665,079
Property taxes receivable, net of allowance of \$8,995	1,243,661	-	1,243,661
Receivables	927,981	2,124,023	3,052,004
Accrued unbilled revenue	-	321,794	321,794
Inventories	-	434,043	434,043
Prepaid and other assets	14,731	256,188	270,919
Total current assets	<u>5,672,686</u>	<u>11,765,155</u>	<u>17,437,841</u>
Other Assets			
Energy conservation program notes receivable	-	669,434	669,434
Other assets	800,000	107,321	907,321
Capital assets			
Land	1,395,347	-	1,395,347
Other capital assets, net	<u>2,527,320</u>	<u>34,515,263</u>	<u>37,042,583</u>
Total other assets	<u>4,722,667</u>	<u>35,292,018</u>	<u>40,014,685</u>
Total assets	<u>\$ 10,395,353</u>	<u>\$ 47,057,173</u>	<u>\$ 57,452,526</u>
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 12,851	\$ 3,869,655	\$ 3,882,506
Current portion of long-term debt	203,857	465,443	669,300
Customer deposits	-	794,277	794,277
Accrued compensated absences	262,029	746,815	1,008,844
Other	-	302,605	302,605
Total current liabilities	<u>478,737</u>	<u>6,178,795</u>	<u>6,657,532</u>
Long-Term Liabilities			
Long-term debt	2,484,572	8,705,921	11,190,493
Conservation loans	-	726,720	726,720
Other post employment benefits	-	70,593	70,593
Deferred revenue	<u>1,964,007</u>	<u>-</u>	<u>1,964,007</u>
Total long-term liabilities	<u>4,448,579</u>	<u>9,503,234</u>	<u>13,951,813</u>
Total liabilities	<u>4,927,316</u>	<u>15,682,029</u>	<u>20,609,345</u>
NET ASSETS			
Investment in capital assets, net of related debt	2,034,238	25,343,899	27,378,137
Restricted			
Capital projects	121,912	-	121,912
Drug fund	10,158	-	10,158
State Street Aid	151,703	-	151,703
Library fund	4,592	-	4,592
Unrestricted	<u>3,145,434</u>	<u>6,031,245</u>	<u>9,176,679</u>
Total net assets	<u>5,468,037</u>	<u>31,375,144</u>	<u>36,843,181</u>
Total liabilities and net assets	<u>\$ 10,395,353</u>	<u>\$ 47,057,173</u>	<u>\$ 57,452,526</u>

See notes to financial statements.

TOWN OF ERWIN, TENNESSEE
Statement of Activities
Year Ended June 30, 2012

Function/Programs	Program Revenues			Net Revenue (Expense) and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		Total
				Governmental Activities	Business-Type Activities	
Primary Government						
Governmental activities						
General government	\$ 756,154	\$ 239,960	\$ 16,991	\$ (499,203)	\$ -	\$ (499,203)
Public safety	1,658,335	43,565	-	(1,614,770)	-	(1,614,770)
Public works	799,196	61,790	162,232	(575,174)	-	(575,174)
Recreation	318,670	26,060	-	(292,610)	-	(292,610)
Health and welfare	388,201	-	-	(388,201)	-	(388,201)
Sanitation	182,582	-	-	(182,582)	-	(182,582)
Interest on long-term debt	69,554	-	-	(69,554)	-	(69,554)
Total governmental activities	<u>4,172,692</u>	<u>371,375</u>	<u>179,223</u>	<u>(3,622,094)</u>	<u>-</u>	<u>(3,622,094)</u>
Business-type activities						
Electric	20,645,371	21,447,381	-	-	802,010	802,010
Water	1,415,709	1,802,896	246,449	-	633,636	633,636
Wastewater	998,905	1,277,716	337,864	-	616,675	616,675
Total business-type activities	<u>23,059,985</u>	<u>24,527,993</u>	<u>584,313</u>	<u>-</u>	<u>2,052,321</u>	<u>2,052,321</u>
Total primary government	<u>\$ 27,232,677</u>	<u>\$ 24,899,368</u>	<u>\$ 763,536</u>	<u>(3,622,094)</u>	<u>2,052,321</u>	<u>(1,569,773)</u>
General Revenues						
Local taxes				2,298,355	-	2,298,355
Intergovernmental revenues				576,743	-	576,743
Unrestricted investment earnings				26,619	44,715	71,334
Other revenues				21,072	-	21,072
Total general revenues				2,922,789	44,715	2,967,504
Transfers				374,039	(479,148)	(105,109)
Change in net assets				(325,266)	1,617,888	1,292,622
Net assets at the beginning of the year, restated				5,793,303	29,757,256	35,550,559
Net assets at the end of the year				<u>\$ 5,468,037</u>	<u>\$ 31,375,144</u>	<u>\$ 36,843,181</u>

See notes to financial statements.

TOWN OF ERWIN, TENNESSEE
Governmental Funds
Balance Sheet
June 30, 2012

	General	Capital Project Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 3,330,146	\$ -	\$ 156,167	\$ 3,486,313
Receivables, net	1,478,248	669,612	23,783	2,171,643
Prepaid expenses	14,731	-	-	14,731
Due from other funds	88,033	209,946	-	297,979
Total assets	\$ 4,911,158	\$ 879,558	\$ 179,950	\$ 5,970,666
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 12,854	\$ -	\$ -	\$ 12,854
Due to other funds	196,447	88,034	13,497	297,978
Deferred revenue	1,235,901	669,612	-	1,905,513
Total liabilities	1,445,202	757,646	13,497	2,216,345
Fund balances				
Non-spendable				
Prepaid	14,731	-	-	14,731
Restricted				
Library	-	-	4,592	4,592
State Street Aid	-	-	151,703	151,703
Drug fund	-	-	10,158	10,158
Assigned				
Capital projects funds	-	121,912	-	121,912
Subsequent years' budget	1,200,000	-	-	1,200,000
Unassigned	2,251,225	-	-	2,251,225
Total fund balances	3,465,956	121,912	166,453	3,754,321
Total liabilities and fund balances	\$ 4,911,158	\$ 879,558	\$ 179,950	\$ 5,970,666

Total fund balance shown above 3,754,321

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 funds.	3,922,667
Some assets are not receivable in the current period and therefore are not reported in the funds.	800,000
Deferred revenues are not available to pay current-period expenditures and therefore are not included in the funds.	(58,493)
Some liabilities are not due and payable in the current period and therefore are not reported in the funds.	(2,950,458)
Net assets of governmental activities	\$ 5,468,037

TOWN OF ERWIN, TENNESSEE
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balance
Year Ended June 30, 2012

	General	Capital Project Fund Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Local taxes	\$ 2,298,356	\$ -	\$ -	\$ 2,298,356
Intergovernmental revenues	531,752	-	251,042	782,794
Licenses and permits	40,541	-	-	40,541
Fines, fees, and costs	38,269	-	15,908	54,177
Department of recreation	26,060	-	-	26,060
Investment earnings	26,599	-	22	26,621
Grants	16,991	-	-	16,991
Other revenues	227,847	-	-	227,847
Total revenues	<u>3,206,415</u>	<u>-</u>	<u>266,972</u>	<u>3,473,387</u>
Expenditures				
Current				
General government	633,871	354,128	4,468	992,467
Public safety	1,545,342	-	-	1,545,342
Public works	939,408	-	161,125	1,100,533
Recreation	318,671	-	-	318,671
Health and welfare	199,046	-	-	199,046
Animal welfare board	70,400	-	-	70,400
Debt service				
Principal	166,857	-	-	166,857
Interest	69,554	-	-	69,554
Total expenditures	<u>3,943,149</u>	<u>354,128</u>	<u>165,593</u>	<u>4,462,870</u>
Excess of revenues over expenditures	<u>(736,734)</u>	<u>(354,128)</u>	<u>101,379</u>	<u>(989,483)</u>
Other Financing Sources				
Transfers, in lieu of taxes	374,039	-	-	374,039
Loan proceeds	800,000	-	-	800,000
Loan	(800,000)	-	-	(800,000)
Transfers	(354,128)	354,128	-	-
Total other financing sources	<u>19,911</u>	<u>354,128</u>	<u>-</u>	<u>374,039</u>
Net change in fund balance	<u>(716,823)</u>	<u>-</u>	<u>101,379</u>	<u>(615,444)</u>
Fund balance at the beginning of the year	<u>4,182,779</u>	<u>121,912</u>	<u>65,074</u>	<u>4,369,765</u>
Fund balance at the end of the year	<u>\$ 3,465,956</u>	<u>\$ 121,912</u>	<u>\$ 166,453</u>	<u>\$ 3,754,321</u>

TOWN OF ERWIN, TENNESSEE
 Governmental Funds
 Reconciliation of the Statement of Revenues,
 Expenditures, and Changes in Fund Balance to the Statement of Activities
 Year Ended June 30, 2012

Net change in fund balances - total governmental funds	\$	(615,444)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays(340,438) in the current period</p>		
		136,550
<p>Loans made are considered expenditures in governmental funds but this increases assets in the statement of net assets.</p>		
		800,000
<p>Loan proceeds is considered revenue in governmental funds, but this increases liabilities in the statement of net assets.</p>		
		(800,000)
<p>Other long-term liabilities are expenditures in the governmental funds, but increases liabilities in the statement of net assets.</p>		
		(13,229)
<p>Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of principal repayments.</p>		
		<u>166,857</u>
Change in net assets of governmental activities	\$	<u><u>(325,266)</u></u>

TOWN OF ERWIN, TENNESSEE
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget - Favorable (Unfavorable)
	Original	Final		
Fund balance	\$ 4,182,779	\$ 4,182,779	\$ 4,182,779	\$ -
Revenues				
Local taxes				
Property taxes	1,235,488	1,210,290	1,210,290	-
Local sales tax	779,000	816,096	816,096	-
Wholesale beer tax	169,200	175,755	175,755	-
Business taxes	60,000	59,019	59,018	(1)
Cable TV franchise	35,400	35,383	35,383	-
Mixed drink tax	2,300	1,814	1,814	-
Intergovernmental revenues				
Tax equivalent - Housing Authority	7,800	9,189	9,189	-
Tax equivalent - TVA	65,565	70,466	70,466	-
State sales tax	394,171	409,419	409,419	-
Hall income tax	30,000	25,929	25,929	-
State beer tax	3,109	2,993	2,993	-
Corporate excise tax	4,500	1,246	1,246	-
State gasoline inspection fee	12,499	12,510	12,510	-
License and Permits				
Privilege tax - Beer	1,500	1,525	1,525	-
Building and plumbing permits	34,000	38,796	38,796	-
Vendors license	300	220	220	-
Fines and Fees				
City Court	62,000	38,269	38,269	-
Department of Recreation				
Pool admittance fees	18,000	17,052	17,052	-
Pool rentals	3,000	2,495	2,495	-
Pool concessions	6,000	6,513	6,513	-
Investment earnings				
Interest income	55,000	26,597	26,599	2
Grants	474,000	16,991	16,991	-
Other revenues				
Rental income	146,861	146,161	146,161	-
Chamber of Commerce (Energy Loan)	3,858	3,857	3,857	-
Highway maintenance contract	61,861	61,790	61,790	-
Miscellaneous income	23,600	16,039	16,039	-
Total revenues	<u>3,689,012</u>	<u>3,206,414</u>	<u>3,206,415</u>	<u>1</u>

TOWN OF ERWIN, TENNESSEE

General Fund

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

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget - Favorable (Unfavorable)
Expenditures				
Current				
General government				
Legislative	30,470	30,470	30,185	285
City attorney and judge	33,900	32,886	32,886	-
Central staff agencies	333,653	323,622	323,622	-
City hall buildings	150,259	140,797	140,797	-
Other government expenses	113,094	106,381	106,381	-
Public safety				
Planning and zoning	61,390	59,105	59,105	-
Police department	895,952	871,237	876,928	(5,691)
Fire department	652,013	597,927	609,309	(11,382)
Animal control	71,420	70,400	70,400	-
Public works				
Street department	750,550	756,826	756,826	-
Sanitation	178,000	176,116	176,116	-
Pest control	7,500	6,466	6,466	-
Recreation				
Swimming pools	47,435	60,668	60,668	-
Parks and recreation	262,197	258,002	258,003	(1)
Health and welfare				
Welfare and social services	216,328	199,046	199,046	-
Debt service				
Principal	166,858	166,857	166,857	-
Interest	103,273	69,537	69,554	(17)
Total expenditures	4,074,292	3,926,343	3,943,149	(16,806)
Transfers, in lieu of taxes	340,000	374,039	374,039	-
Loan proceeds	1,219,600	800,000	800,000	-
Loan	-	-	(800,000)	(800,000)
Transfers	(1,654,320)	(454,279)	(354,128)	100,151
Total other financing sources	(94,720)	719,760	19,911	(699,849)
Total charges to appropriations	4,169,012	3,206,583	3,923,238	683,043
Budgetary fund balance, June 30, 2012	\$ 3,702,779	\$ 4,182,610	\$ 3,465,956	\$ (683,042)

TOWN OF ERWIN, TENNESSEE
Proprietary Funds - Erwin Utilities
Statement of Net Assets
June 30, 2012

ASSETS

Current Assets

Cash and cash equivalents	\$ 4,964,028
Certificates of deposit	3,665,079
Accounts receivable, net	2,124,023
Inventories	321,794
Accrued unbilled revenue	434,043
Other	<u>256,188</u>
Total current assets	<u>11,765,155</u>

Other Assets

Energy conservation program notes receivable	669,434
Other assets	107,321
Utility plant, net	<u>34,515,263</u>
Total other assets	<u>35,292,018</u>

Total assets	<u>\$ 47,057,173</u>
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LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	\$ 3,869,655
Current portion of long-term debt	465,443
Customer deposits	794,277
Accrued compensated absences	746,815
Other	<u>302,605</u>
Total current liabilities	<u>6,178,795</u>

Long-Term Liabilities

Long-term debt	8,705,921
Conservation loans	726,720
Other post employment benefits	<u>70,593</u>
Total long-term liabilities	<u>9,503,234</u>

Net Assets

Invested in capital assets, net of related debt	25,343,899
Unrestricted	<u>6,031,245</u>
Total net assets	<u>31,375,144</u>
Total liabilities and net assets	<u>\$ 47,057,173</u>

TOWN OF ERWIN, TENNESSEE
Proprietary Funds - Erwin Utilities
Statement of Revenues, Expenses, and Changes in Net Assets
Year Ended June 30, 2012

Operating Revenue	
Sales	\$ 23,804,019
Other operating revenue	<u>723,974</u>
Total operating revenue	<u>24,527,993</u>
Operating Expenses	
Purchased power	17,055,312
Distribution expense	894,650
Maintenance	1,129,904
Customer accounts expense	1,157,403
Depreciation	1,117,251
General and administrative expense	719,170
Treatment expense	488,652
Pumping expense	111,420
Collection expense	<u>74,678</u>
Total operating expenses	<u>22,748,440</u>
Operating income	<u>1,779,553</u>
Non-Operating Income(Expense)	
Interest income	44,715
Grant revenue	584,313
Interest expense	<u>(311,545)</u>
Total non-operating expense	<u>317,483</u>
Transfers, in lieu of taxes	<u>(479,148)</u>
Change in net assets	1,617,888
Net assets at the beginning of the year	<u>29,757,256</u>
Net assets at the end of the year	<u>\$ 31,375,144</u>

TOWN OF ERWIN, TENNESSEE
Proprietary Funds - Erwin Utilities
Statement of Cash Flows
Year Ended June 30, 2012

Cash Flows From Operating Activities	
Cash received from customers	\$ 24,962,481
Cash paid to suppliers and employees	<u>(21,117,166)</u>
Net cash flows from operating activities	<u>3,845,315</u>
Cash Flows From Capital and Related Financing Activities	
Acquisition and construction of capital assets	(2,877,873)
Principal paid on long-term debt	(485,635)
Grant proceeds	584,313
Interest expense	<u>(311,545)</u>
Net cash flows from capital and related financing activities	<u>(3,090,740)</u>
Cash Flows From Investing Activities	
Interest earned	44,715
Net purchases of certificates of deposit	<u>(89,866)</u>
Net cash flows from investing activities	<u>(45,151)</u>
Cash Flows From Non-Capital Financing Activities	
Transfers, in lieu of taxes	<u>(479,148)</u>
Net cash flows from non-capital financing activities	<u>(479,148)</u>
Net change in cash and cash equivalents	230,276
Cash and cash equivalents at the beginning of the year	<u>4,733,752</u>
Cash and cash equivalents at the end of the year	<u>\$ 4,964,028</u>

TOWN OF ERWIN, TENNESSEE
 Proprietary Funds - Erwin Utilities
 Statement of Cash Flows (Continued)

Reconciliation of net operating income to net cash flows from operating activities

Cash Flows From Operating Activities	
Operating income	\$ 1,779,553
Adjustments to reconcile operating income to net cash flows from operating activities	
Depreciation	1,117,251
Changes in operating assets and liabilities	
(Increase) decrease in assets:	
Accounts receivable & unbilled receivables	434,488
Inventories	(1,106)
Other assets	(231)
Increase (decrease) in liabilities:	
Accounts payable	445,324
Customer deposits	70,036
Net cash flows from operating activities	\$ 3,845,315

TOWN OF ERWIN, TENNESSEE
Notes to Financial Statements
June 30, 2012

NOTE 1 - REPORTING ENTITY

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

The Town of Erwin, Tennessee was incorporated in 1903 under the provisions of the State of Tennessee and operates taxation, entering into contracts, and issuing bonds. The following services are authorized by Charter: Public Safety (Police and Fire), Public Works, Public Welfare, Public Utilities, Planning and Zoning, and general administrative duties.

The Town, for financial purposes, includes all of the funds relevant to the operations of the Town of Erwin, Tennessee. The financial statements presented herein do not include agencies which have been formed under applicable state laws as separate and distinct units of government apart from the Town of Erwin, Tennessee.

Based on the foregoing criteria, the financial statements of the following organization is included in the accompanying financial statements:

Erwin Utilities - The Board of Mayor and Aldermen appoint the members of the Board of Public Utilities, which cannot issue bonded debt without the approval of the Board of Mayor and Aldermen. Erwin Utilities operates the electrical, water and wastewater systems for the Town. For more detailed information concerning their financial results please see their separately issued financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basic Financial Statements - Government-Wide Statements - The Town's basic financial statements include both government-wide (reporting the Town as a whole) and fund financial statements (reporting the Town's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The Town's public safety, public works, health and welfare, recreation, sanitation, and general administrative services are classified as governmental activities. The Town's electrical, water, and wastewater services are classified as business-type activities.

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns are presented on a consolidated basis by column and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Town's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted net assets are used first.

The government-wide Statement of Activities reports both the gross and net costs of each of the Town's functions (public safety, public works, etc.) and business-type activities. The functions are also supported by general government revenues (property, sales and use taxes, certain inter-governmental revenues, fines, permits, and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, and operating grants. Program revenues must be directly associated with the function (public safety, public works, etc.) or a business-type activity. Operating grants include operating-specific and discretionary grants. The Town's policy is to eliminate internal activity by distinguishing overhead costs which are eliminated by inter-fund services used and provided. The Town does not allocate indirect costs on the Statement of Activities.

The net costs (by function or business-type activity) are normally covered by general revenue (property, sales and use taxes, inter-governmental revenues, interest income, etc).

This government-wide focus is more on the sustainability of the Town as an entity and the change in the Town's net assets resulting from the current year's activities.

TOWN OF ERWIN, TENNESSEE
Notes to Financial Statements (Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Basic Financial Statements - Fund Financial Statements - The financial transactions of the Town are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The following fund types are used by the Town:

Governmental Funds

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the Town:

General Fund - The General Fund is the general operating fund of the Town. All financial resources, except those required to be accounted for in another fund, are accounted for in the General Fund.

Capital Projects Fund - The Capital Projects Fund is used to account for the acquisition or construction of general fixed assets.

Special Revenue Funds - Special Revenue Funds are used to account for all proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

Proprietary Funds

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The accounting principles generally accepted in the United States of America that are applicable are those similar to businesses in the private sector. The following is a description of the proprietary funds of the Town.

Enterprise Fund - The accounts of the Utility are an enterprise fund. An enterprise fund is a proprietary type fund used to account for operations that 1) 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; or 2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Utility applies all applicable GASB standards as well as any FASB standards issued on or before November 30, 1989, that do not conflict with or contradict GASB standards. The Utility has opted not to apply FASB standards issued after November 30, 1989.

Depreciation is provided in the enterprise fund in amounts sufficient to relate the cost of the depreciable assets to operations over their estimated service lives on the straight-line basis. The service lives by type of asset are as follows:

Buildings and permanent improvements	10-50 years
Furniture and equipment	4-50 years

When assets are retired or otherwise disposed of, the asset cost is removed from the asset account and the accumulated depreciation account. Removal cost less salvage value is charged or credited to the accumulated depreciation account. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized

TOWN OF ERWIN, TENNESSEE
Notes to Financial Statements (Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

Accrual - Both governmental and business-type activities in the government-wide financial statements and the proprietary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual - The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

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

- (1) Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds. These budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
- (2) The combined statement of revenues and expenditures - budget and actual for the General and Special Revenue Funds present comparisons of legally adopted budgets with actual data on a budgetary basis.
- (3) The Board of Mayor and Aldermen approve, by ordinance, total budget appropriations by department only for the Town. The City Recorder is authorized to transfer budget amounts within departments of any fund; however, any revisions that alter the total appropriations of any department must be approved by the Board of Mayor and Aldermen. Therefore, the level of budgetary responsibility is by total appropriations; however, for report purposes, it is consistent with the Statement of Revenues, Expenditures, and Changes in Fund Balance.
- (4) Unused appropriations for annually budgeted funds lapse at the end of the year.

Accumulated Compensated Absences - The cost of vacation pay and sick leave benefits is recognized as earned by employees. In the event of termination or retirement, an employee is reimbursed for accumulated vacation days not to exceed 15 days for Town of Erwin employees and 30 days for Erwin Utilities employees. Employees can accumulate sick leave, and upon retirement, employees are reimbursed for 60% of their accumulated sick leave benefits not to exceed one hundred thirty (130) work days for Town of Erwin employees and one hundred fifty (150) work days for Erwin Utilities employees.

TOWN OF ERWIN, TENNESSEE
Notes to Financial Statements (Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Revenue Recognition

- (1) Property taxes are levied on October 1 and are due and payable at that time. All unpaid taxes levied October 1 become delinquent March 1 of the following year. Property taxes attach as an enforceable lien on property after one year of delinquency.

Property tax revenues are recognized when they become available. Available includes those property tax receivables expected to be collected within sixty days after year-end. Allowances for uncollectible taxes within the General Fund are based upon historical experience in collecting taxes.

The assessed value at January 1, 2012, upon which the 2012 levy was based, was \$122,719,048 not including public utilities. The tax rate was \$.945 per \$100. Current tax collections for the year ended June 30, 2012 were 95% of the tax levy.

Sales taxes, which are collected by the State and subsequently remitted to the town, are recognized as revenues and receivables upon collection by the State, which is generally in the month proceeding receipt by the Town. Licenses, permits, fines and rents are recorded as revenues when received.

- (2) Erwin Utilities distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with ongoing operations. The principal operating revenues of proprietary funds are charges to customers for sales and services. Operating expenses 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. Revenue as billed to its customers is based on a monthly meter reading cycle.

Accounting Policies - Erwin Utilities follows accounting policies for public electric utilities as prescribed by the Federal Energy Regulation Commission of the Tennessee Valley Authority (TVA).

Cash and Cash Equivalents - The Town considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

Inventories - Enterprise fund materials and supply inventories are recorded at average cost.

Allowance for Uncollectible Accounts - At June 30, 2012, the allowance for uncollectible taxes in the General Fund was \$8,995 and the allowance for uncollectible accounts receivable in the enterprise fund was \$22,594.

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

Capital Assets - The historical cost of capital assets (excluding infrastructure) are recorded in the government-wide statements. Infrastructure assets have been recorded at deflated replacement cost. Depreciation is expensed based on the estimated useful lives of the assets on a straight line basis. Assets with a cost of greater than \$5,000 are capitalized. Estimated useful lives range from 4-50 years.

Fund Balance Items - The Town has implemented GASB Statement 54 employing the following terminology and classifications for fund balance items:

Non-spendable fund balance includes all amounts that cannot be spent because they are either not in spendable form (i.e. inventories and prepaids) or legally or contractually required to be maintained intact.

TOWN OF ERWIN, TENNESSEE
Notes to Financial Statements (Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Restricted fund balances have constraints imposed by grantors, creditors, contributors, laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Committed fund balances include funds that are set aside for a specific purpose by the Town's highest level of decision making authority (e.g., the Town of Erwin's Board of Mayor and Aldermen passing an Ordinance). Formal action must be taken prior to the end of the fiscal year. The same formal action must be taken to remove or change the limitations placed on funds.

Assigned fund balances are constrained by the Town's highest level of decision making authority or a body or official that has been given authority to assign funds (e.g., the Town of Erwin's Board of Mayor and Aldermen passing a Resolution). Assigned funds cannot cause a deficit in unassigned fund balance.

Unassigned funds balances include any residual fund balance remaining after all other categories of fund balance have been determined.

When both restricted and unrestricted fund balances are available for use, it is the Town's policy to use restricted fund balance first, then use unrestricted fund balance. Furthermore, committed fund balances are reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes which amounts in any of those unrestricted fund balance classifications can be used.

Date of Management's Review - Management has evaluated events and transactions occurring subsequent to the balance sheet date of June 30, 2012, for items that should potentially be recognized or disclosed in the financial statements. The evaluation was conducted through February 6, 2013, the date these financial statements were available to be issued.

NOTE 3 - DEPOSITS

State statutes require that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105 percent of the value of the deposits, less so much of such amount as is insured by federal deposit insurance. The collateral must be held by the Town or its agent in the Town's name, or by the Federal Reserve in the Town's name.

Statutes also authorize the Town to invest in bonds, notes or treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations and federally chartered banks and savings and loan associations, repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities, state pooled investment funds, and money market mutual funds. Statutes also require that securities underlying repurchase agreements must have a market value at least equal to the amount of funds invested in the repurchase transaction.

The Town does not have a policy for interest rate risk or other credit risk other than pledging of securities for amounts in excess of FDIC coverage. The Town is exposed to concentration of credit risk by placing its deposits in financial institutions. The Town has mitigated the risks because the bank balance in excess of the FDIC limit is collateralized by the State of Tennessee bank collateral pool.

At June 30, 2012, bank balances aggregated \$12,212,023 of which \$768,479 was covered by federal depository insurance and \$11,443,544 was covered through the banks' participation in the Tennessee Bank Collateral Pool.

TOWN OF ERWIN, TENNESSEE
Notes to Financial Statements (Continued)

NOTE 3 - DEPOSITS - (Continued)

A summary of the carrying amounts of these deposits at June 30, 2012 is as follows:

	Town of Erwin	Erwin Utilities	Totals
Interest and non-interest bearing	\$ 2,486,193	\$ 4,957,128	\$ 7,443,321
Certificates of deposits	1,000,000	3,665,079	4,665,079
Cash on hand	120	6,900	7,020
	\$ 3,486,313	\$ 8,629,107	\$ 12,115,420

NOTE 4 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

In the government-wide financial statements, internal activity is eliminated during the conversion from governmental fund statements. Net amounts due from and due to other funds before elimination, at June 30, 2012 are summarized as follows:

	Due From	Due To
General Fund	\$ 209,946	\$ 101,530
State Street Aid Fund	13,497	-
Capital Projects Fund	88,033	209,946
	\$ 311,476	\$ 311,476

The inter fund transfer from the General Fund to the Capital Project Fund in the amount of \$354,128 for the year ended June 30, 2012, was made to provide a sufficient balance to cover repairs, maintenance, and capital additions occurring during the year.

NOTE 5 - NOTE RECEIVABLE

The Town loaned a local hospital \$800,000 at a rate of 1%. The loan was dated May 24, 2012. A payment of approximately \$300,000 was made in December 2012. The balance is expected to be paid in full upon the sale of the hospital in April 2013.

TOWN OF ERWIN, TENNESSEE
Notes to Financial Statements (Continued)

NOTE 6 - CAPITAL ASSETS

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

	Primary Government			Ending Balance
	Beginning Balance	Additions	Disposals	
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 1,320,347	\$ 75,000	\$ -	\$ 1,395,347
Construction in progress	<u>873,258</u>	<u>176,525</u>	<u>(749,341)</u>	<u>300,442</u>
Total capital assets not being depreciated	<u>2,193,605</u>	<u>251,525</u>	<u>(749,341)</u>	<u>1,695,789</u>
Other capital assets				
Buildings and improvements	1,836,225	788,766	-	2,624,991
Infrastructure	9,608,817	-	-	9,608,817
Other fixed assets	<u>1,933,788</u>	<u>49,489</u>	<u>-</u>	<u>1,983,277</u>
Total other capital assets	<u>13,378,830</u>	<u>838,255</u>	<u>-</u>	<u>14,217,085</u>
Less accumulated depreciation for				
Buildings and improvements	(788,222)	(58,814)	-	(847,036)
Infrastructure	(9,608,817)	-	-	(9,608,817)
Other fixed assets	<u>(1,389,280)</u>	<u>(145,074)</u>	<u>-</u>	<u>(1,534,354)</u>
Total accumulated depreciation	<u>(11,786,319)</u>	<u>(203,888)</u>	<u>-</u>	<u>(11,990,207)</u>
Other capital assets, net	<u>1,592,511</u>	<u>634,367</u>	<u>-</u>	<u>2,226,878</u>
Governmental activities capital assets, net	<u>\$ 3,786,116</u>	<u>\$ 885,892</u>	<u>\$ (749,341)</u>	<u>\$ 3,922,667</u>
Business-type Activities				
Capital assets not being depreciated				
Land and land rights	\$ 1,404,436	\$ 132	\$ -	\$ 1,404,568
Construction in progress	<u>1,748,201</u>	<u>2,389,723</u>	<u>(2,868,509)</u>	<u>1,269,415</u>
Total capital assets not being depreciated	<u>3,152,637</u>	<u>2,389,855</u>	<u>(2,868,509)</u>	<u>2,673,983</u>
Other capital assets				
Structure and permanent improvements	12,666,800	1,844,325	(8,093)	14,503,032
Equipment, furnishings, and distribution systems	<u>29,526,924</u>	<u>1,244,174</u>	<u>(255,953)</u>	<u>30,515,145</u>
Total other capital assets	<u>42,193,724</u>	<u>3,088,499</u>	<u>(264,046)</u>	<u>45,018,177</u>
Less accumulated depreciation for				
Structures and permanent improvements	(3,979,637)	(694,068)	299,479	(4,374,226)
Equipment, furnishings, and distribution systems	<u>(8,458,179)</u>	<u>(423,183)</u>	<u>78,691</u>	<u>(8,802,671)</u>
Total accumulated depreciation	<u>(12,437,816)</u>	<u>(1,117,251)</u>	<u>378,170</u>	<u>(13,176,897)</u>
Other capital assets, net	<u>29,755,908</u>	<u>1,971,248</u>	<u>114,124</u>	<u>31,841,280</u>
Business-type activities capital assets, net	<u>\$ 32,908,545</u>	<u>\$ 4,361,103</u>	<u>\$ (2,754,385)</u>	<u>\$ 34,515,263</u>

TOWN OF ERWIN, TENNESSEE
Notes to Financial Statements (Continued)

NOTE 6 - CAPITAL ASSETS - (Continued)

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

Governmental Activities	
General Government	\$ 64,912
Public Safety	65,404
Public Works	<u>73,572</u>
Total depreciation expense - governmental activities	<u>\$ 203,888</u>
Business-type activities:	
Electric	\$ 699,280
Water	231,128
Wastewater	<u>186,843</u>
Total depreciation expense - governmental activities	<u>\$ 1,117,251</u>

NOTE 7 - PENSION PLAN FUNDS

Town of Erwin

Plan Description - Employees of the Town of Erwin 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 highest five-year average salary and years of service. Members become eligible to retire at the age of 60 with ten 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 became 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 ten 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 Town of Erwin 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, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at <http://www.tn.gov/treasury/tcrs/ps/>.

Funding Policy - The Town of Erwin has adopted a non-contributory retirement plan for its employees by assuming employee contributions up to 5.0 percent of annual covered payroll.

The Town of Erwin is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2012 was 14.77% of annual covered payroll. The contribution requirements of plan members are set by state statute. Contribution requirements for the Town of Erwin are established and may be amended by the TCRS Board of Trustees.

TOWN OF ERWIN, TENNESSEE
Notes to Financial Statements (Continued)

NOTE 7 - PENSION PLAN FUNDS - (Continued)

Annual Pension Cost - For the year ending June 30, 2012, the Town of Erwin's annual pension cost of \$228,542 to TCRS was equal to the Town of Erwin's required and actual contributions. The required contribution was determined as part of the July 1, 2009 actuarial valuation using the frozen entry age 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 3.0 percent annual rate of inflation, (c) 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), and (d) projected 3.5 percent annual increase in the Social Security wage base. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten-year period. The Town of Erwin's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2009 was 20 years. An actuarial valuation was performed as of July 1, 2011, which establishes contribution rates effective July 1, 2012.

Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2012	\$ 228,542	100.00%	\$ -
6/30/2011	\$ 207,816	100.00%	\$ -
6/30/2010	\$ 233,423	100.00%	\$ -

Funded Status and Funding Progress - As of July 1, 2011, the most recent actuarial valuation date, the plan was 74.62 percent funded. The actuarial accrued liability for benefits was \$4.69 million, and the actuarial value of assets was \$3.50 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$1.19 million. The covered payroll (annual payroll of active employees covered by the plan) was \$1.58 million, and the ratio of the UAAL to the covered payroll was 75.11 percent.

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

Erwin Utilities

Defined Benefit Retirement Plan

Plan Description - The Pension Plan for the Employees of the Erwin, Tennessee Board of Public Utilities (the "Plan") is individually designed by USI Consulting Group, established October 1, 2006 as a continuation of the CSA Plan. The Plan is a non-contributory, defined benefit retirement plan that provides retirement benefits as well as death benefits payable to surviving spouses. All employees of the Utility are eligible to participate in the Plan upon attaining the age of 21 and completing one year of service. 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 age 65. A reduced retirement benefit is available to vested members at the age of 55. At the option of the employee, retirement benefits may be received in the form of a lump-sum distribution or an annuity over a period of 60, 120, or 180 months, or an employee may elect a 50% lump sum distribution with the remaining balance in monthly annuity payments for 60, 120, or 180 months.

An employee joining the Plan after August 1, 1995, is vested in his or her account in accordance with the following schedule:

TOWN OF ERWIN, TENNESSEE
Notes to Financial Statements (Continued)

NOTE 7 - PENSION PLAN FUNDS - (Continued)

Years of Employment at Termination	Percentage of Account Vested
Less than 3	0%
3	20%
4	40%
5	60%
6	80%
7 or more	100%

Funding Provisions - It is the policy of the Plan to fund pension benefits by actuarially determined contributions which are intended to provide funding for both the normal cost and unfunded actuarial accrued liability cost so that sufficient assets will be available to pay benefits when due. The frozen initial liability method, a projected benefit cost method, is used to value the plan. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of 7.5 and 6.0% percent a year for pre-retirement mortality and post-retirement mortality, respectively, (b) projected salary increases of 4.0 %, (c) retirement age of 65. All unfunded actuarial accrued liabilities are amortized over a 30-year period. The Utility participates in the Plan as an individual entity and is liable for all costs associated with the operation and administration of its plan. Amendments to the Plan must be approved by the Utility's governing body.

The Utility makes monthly contributions to the Plan based on amounts set by participating employees.

Contributions to the Plan for the year ended June 30, 2012, were \$540,000.

Funded Status and Funding Progress - As of July 1, 2011, the most recent actuarial valuation date, the plan was 68.25% funded. The unfunded actuarial accrued liability was \$1.5 million. The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

401(K) Retirement Plan - Employees may elect to participate in a 401(k) Retirement Plan. The maximum contribution for employees is 15% of their salaries. The Utility does not contribute to the plan. The effective date of the plan was January 1, 1986. The plan was amended and restated effective July 1, 1989, to comply with tax law changes. Employee contributions for the year ended June 30, 2012, were \$119,136.

NOTE 8 - POST-RETIREMENT BENEFITS OTHER THAN PENSIONS

The Governmental Accounting Standards Board (GASB) established new standards for the measurement, recognition, and reporting of other post-employment benefits (OPEB). OPEB includes post-employment benefits other than pension, which, for the Utility, is presently limited to post-employment health insurance and life insurance for retired employees who are at least age 55 and their spouses. GASB requires the recognition of the accrued OPEB liability for the respective year, plus the disclosure of the unfunded liability. This was effective for the Utility for the fiscal year beginning July 1, 2009.

During 2009, the Utility had an actuarial study performed to determine the Utility's actuarial accrued liability for post-employment health insurance and life insurance benefits. The present value of the unfunded actuarial accrued OPEB liability was approximately \$355,344 as of the actuarial valuation date, July 1, 2009.

The valuation assumed a funding interest rate of 4%; a medical trend rate of 9%; an ultimate medical trend rate of 5%; that the ultimate trend rate will be reached in 2013; an Entry Age Normal actuarial cost method; annual payroll increase of 2.5%; and a remaining amortization period of 30 years at June 30, 2010.

The retiree pays 100% of the medical and life premiums and the spouse pays 100% of the medical premiums. During the year ended June 30, 2012, expenditures of \$22,516 were incurred for postretirement health care and life insurance. Current year cost of approximately \$22,516 includes a net OPEB obligation liability of \$70,593 at June 30, 2012.

TOWN OF ERWIN, TENNESSEE
Notes to Financial Statements (Continued)

NOTE 8 - POST-RETIREMENT BENEFITS OTHER THAN PENSIONS - (Continued)

The annual required contribution that will be reported in the next fiscal year is estimated to be \$35,884, which includes the normal cost of the plan and the amortization over thirty years of any unfunded actuarial liability.

NOTE 9 - LONG-TERM DEBT

The Town's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities.

Governmental Activities

Long-term debt consisted of the following at June 30, 2012:

Tennessee Municipal Bond Fund, variable interest rate, 5% at June 30, 2012, due in varying amounts through May 2034	\$1,240,000
Taxable Public Improvement Revenue and Tax Anticipation Note, Series 1998, dated January 26, 1998; refinanced by issuance of Taxable Revenue Bonds, Series 1998, dated October 1, 1998, due in annual installments of \$23,000 to \$125,000, through June 2018; interest rate 7.15%, payable semi-annually.	633,000
Note payable due to bank, dated June 1, 2012, due in annual installments of \$80,000 through June 1, 2022. Interest is due semi annually at a rate of 3.45% at June 30, 2012.	800,000
Note payable due to the State of Tennessee, dated November 24, 2008, due in annual installments of \$3,857 beginning January 2010 through 2016.	<u>\$ 15,429</u>
	\$2,688,429
Less: Amounts due within one year	<u>(203,857)</u>
	<u><u>\$ 2,484,572</u></u>

Business-Type Activities

Business-type activities' long-term debt at June 30, 2012 consisted of the following:

Tennessee Municipal Bond Fund, variable interest rate, varying amounts through 2023	\$ 1,523,100
Series 2002 revenue bonds, 4.63% interest rate, varying amounts through 2042	314,960
Series 2010 revenue bonds, 3.00% interest rate, varying amounts through 2025	1,335,000
Bank, 4.00% interest rate, monthly payments of \$6,906 through 2012	40,958
USDA, 4.00% interest rate, monthly payments of \$11,243 through 2048	2,579,220
Series 2007 revenue bonds, 3.75% interest rate, varying amounts through 2027	<u>3,415,000</u>
	9,208,238
Less: Unamortized discount	(36,874)
Amounts due within one year	<u>(465,443)</u>
Total long-term debt	<u><u>\$ 8,705,921</u></u>

TOWN OF ERWIN, TENNESSEE
Notes to Financial Statements (Continued)

NOTE 9 - LONG-TERM DEBT - (Continued)

The following is a schedule of changes in long-term debt for the year ended June 30, 2012:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities					
Bonds and notes payable					
Municipal Bond Fund	\$ 1,271,000	\$ -	\$ (31,000)	\$ 1,240,000	\$ 32,000
General obligation debt	19,286	-	(3,857)	15,429	3,857
Bank note	50,000	800,000	(50,000)	800,000	80,000
Revenue bonds	715,000	-	(82,000)	633,000	88,000
Governmental activities long-term debt	<u>\$ 2,055,286</u>	<u>\$ 800,000</u>	<u>\$ (166,857)</u>	<u>\$ 2,688,429</u>	<u>\$ 203,857</u>
Business-type Activities					
Bonds and notes payable					
Electric, water and wastewater	\$ 9,695,999	\$ -	\$ (487,761)	\$ 9,208,238	\$ 465,443
Less unamortized gain on defeasance	(39,000)	-	2,126	(36,874)	(2,400)
Business-type activities long-term debt	<u>\$ 9,656,999</u>	<u>\$ -</u>	<u>\$ (485,635)</u>	<u>\$ 9,171,364</u>	<u>\$ 463,043</u>

Future maturities of long-term debt excluding compensated absences at June 30, 2012 are as follows:

Fiscal Year Ending June 30,	Governmental Activities					
	Municipal Bond		Revenue Bonds		Bank Note	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 32,000	\$ 62,000	\$ 88,000	\$ 45,260	\$ 80,000	\$ 27,983
2014	34,000	60,400	95,000	38,968	80,000	25,185
2015	36,000	58,700	101,000	32,176	80,000	22,387
2016	37,000	56,900	108,000	24,954	80,000	19,642
2017	39,000	55,050	116,000	17,232	80,000	16,790
2018-2022	227,000	243,950	125,000	8,938	400,000	41,998
2023-2027	290,000	181,250	-	-	-	-
2028-2032	370,000	101,050	-	-	-	-
2033-2037	175,000	13,250	-	-	-	-
Totals	<u>\$ 1,240,000</u>	<u>\$ 832,550</u>	<u>\$ 633,000</u>	<u>\$ 167,528</u>	<u>\$ 800,000</u>	<u>\$ 153,985</u>

TOWN OF ERWIN, TENNESSEE
Notes to Financial Statements (Continued)

NOTE 9 - LONG-TERM DEBT - (Continued)

Fiscal Year Ending June 30,	General Obligation		Total	
	Principal	Interest	Principal	Interest
2013	\$ 3,857	\$ 509	\$ 203,857	\$ 135,752
2014	3,857	382	212,857	124,935
2015	3,857	255	220,857	113,518
2016	3,858	127	228,858	101,623
2017	-	-	235,000	89,072
2018-2022	-	-	752,000	294,886
2023-2027	-	-	290,000	181,250
2028-2032	-	-	370,000	101,050
2033-2037	-	-	175,000	13,250
Totals	<u>\$ 15,429</u>	<u>\$ 1,273</u>	<u>\$ 2,688,429</u>	<u>\$ 1,155,336</u>

Business - Type Activities

Fiscal Year Ending June 30,	Series 1997 General Obligation Bond		Series 2002 Revenue Bonds		Series 2007 Revenue Bond	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 107,200	\$ 6,245	\$ 4,958	\$ 14,662	\$ 160,000	\$ 131,185
2014	112,600	5,805	5,194	14,426	165,000	125,091
2015	118,200	5,344	5,441	14,179	170,000	118,810
2016	124,100	4,859	5,699	13,921	175,000	112,341
2017	130,300	4,350	5,970	13,650	185,000	105,591
2018-2022	756,100	13,182	34,386	63,714	1,030,000	414,569
2023-2027	174,600	715	43,342	54,758	1,250,000	188,383
2028-2032	-	-	54,707	43,393	280,000	5,740
2033-2037	-	-	69,004	29,096	-	-
2038-2042	-	-	86,259	11,063	-	-
2043-2047	-	-	-	-	-	-
2048-2051	-	-	-	-	-	-
Total	<u>\$ 1,523,100</u>	<u>\$ 40,500</u>	<u>\$ 314,960</u>	<u>\$ 272,862</u>	<u>\$ 3,415,000</u>	<u>\$ 1,201,710</u>

TOWN OF ERWIN, TENNESSEE
Notes to Financial Statements (Continued)

NOTE 9 - LONG-TERM DEBT - (Continued)

Business - Type Activities

Fiscal Year Ending June 30,	Series 2010 Revenue Bond		Electric Loan Payable		Wastewater Loan Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 120,000	\$ 36,994	\$ 40,958	\$ 479	\$ 32,327	\$ 102,589
2014	120,000	33,394	-	-	33,644	101,272
2015	125,000	29,794	-	-	35,014	99,902
2016	130,000	26,044	-	-	36,441	98,475
2017	130,000	22,144	-	-	37,926	96,990
2018-2022	590,000	62,762	-	-	214,103	460,477
2023-2027	120,000	7,900	-	-	261,419	413,161
2028-2032	-	-	-	-	319,192	355,388
2033-2037	-	-	-	-	389,732	284,848
2038-2042	-	-	-	-	475,862	198,718
2043-2047	-	-	-	-	581,026	93,554
2048-2051	-	-	-	-	162,534	4,290
Total	\$ 1,335,000	\$ 219,032	\$ 40,958	\$ 479	\$ 2,579,220	\$ 2,309,664

Fiscal Year Ending June 30,	Total	
	Principal	Interest
2013	\$ 465,443	\$ 292,154
2014	436,438	279,988
2015	453,655	268,029
2016	471,240	255,640
2017	489,196	242,725
2018-2022	2,624,589	1,014,704
2023-2027	1,849,361	664,917
2028-2032	653,899	404,521
2033-2037	458,736	313,944
2038-2042	562,121	209,781
2043-2047	581,026	93,554
2048-2051	162,534	4,290
Total	\$ 9,208,238	\$ 4,044,247

TOWN OF ERWIN, TENNESSEE
Notes to Financial Statements (Continued)

NOTE 10 - TVA RESIDENTIAL ENERGY EFFICIENCY PROGRAM

Under a contract with Tennessee Valley Authority, the Utility participates in home energy efficiency programs providing low-interest loans to qualified customers. Customer repayments are remitted to Regions Bank.

NOTE 11 - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Town to concentrations of credit risk consist primarily of customer accounts and taxes receivable. Management does not believe significant credit risk exists at June 30, 2012.

NOTE 12 - RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town's risks of loss are covered by its commercial package insurance policies. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

NOTE 13 - CONTINGENCIES - PENDING LITIGATION

In the normal course of operations, the Town is named as a defendant in various lawsuits. In the opinion of the administration, the outcome of these lawsuits will not have a material adverse affect on the accompanying combined financial statements, and accordingly, no provision for losses has been recorded.

NOTE 14 - SEGMENT INFORMATION

The Utility issues general obligation, public improvement, and revenue bonds to support the services provided to its customers and the Town of Erwin. The financial statements report general obligation and public improvement bonds for the electric, wastewater and water and a revenue bond for the wastewater segment. Condensed financial information is as follows:

Condensed Statement of Net Assets	Electric System	Water System	Wastewater System	Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
ASSETS				
Current assets	\$ 9,345,902	\$ 1,395,972	\$ 1,023,281	\$ 11,765,155
Utility plant, net	18,090,584	7,231,984	9,192,695	34,515,263
Other assets	<u>776,755</u>	<u>-</u>	<u>-</u>	<u>776,755</u>
Total assets	<u>28,213,241</u>	<u>8,627,956</u>	<u>10,215,976</u>	<u>47,057,173</u>
LIABILITIES				
Current liabilities	5,361,077	680,238	137,480	6,178,795
Long-term liabilities	<u>5,379,634</u>	<u>1,216,259</u>	<u>2,907,341</u>	<u>9,503,234</u>
Total liabilities	<u>10,740,711</u>	<u>1,896,497</u>	<u>3,044,821</u>	<u>15,682,029</u>
NET ASSETS				
Invested in capital assets, net of related debt	12,710,950	6,015,725	6,285,354	25,012,029
Unrestricted	<u>4,761,580</u>	<u>715,734</u>	<u>885,801</u>	<u>6,363,115</u>
Total net assets	<u>\$17,472,530</u>	<u>\$ 6,731,459</u>	<u>\$ 7,171,155</u>	<u>31,375,144</u>

TOWN OF ERWIN, TENNESSEE
Notes to Financial Statements (Continued)

NOTE 14 - SEGMENT INFORMATION - (Continued)

Condensed Statement of Revenues, Expenses, and Changes in Net Assets	Electric		Wastewater	
	System	Water System	System	Total
Operating Revenues	<u>\$21,447,381</u>	<u>\$ 1,802,896</u>	<u>\$ 1,277,716</u>	<u>24,527,993</u>
Depreciation	699,280	231,128	186,843	1,117,251
Other operating expenses	<u>19,772,766</u>	<u>1,164,037</u>	<u>694,386</u>	<u>21,631,189</u>
Total operating expenses	<u>20,472,046</u>	<u>1,395,165</u>	<u>881,229</u>	<u>22,748,440</u>
Operating income	<u>975,335</u>	<u>407,731</u>	<u>396,487</u>	<u>1,779,553</u>
Non-Operating Income (Expense)				
Interest income	40,504	1,605	2,606	44,715
Grants	-	246,449	337,864	584,313
Interest expense	<u>(173,325)</u>	<u>(20,544)</u>	<u>(117,676)</u>	<u>(311,545)</u>
Total non-operating	<u>(132,821)</u>	<u>227,510</u>	<u>222,794</u>	<u>317,483</u>
Transfers, in lieu of taxes	<u>(467,148)</u>	<u>(12,000)</u>	<u>-</u>	<u>(479,148)</u>
Change in net assets	375,366	623,241	619,281	1,617,888
Net Assets, Beginning of the Year	<u>17,097,164</u>	<u>6,108,218</u>	<u>6,551,874</u>	<u>29,757,256</u>
Net Assets, End of the Year	<u>\$17,472,530</u>	<u>\$ 6,731,459</u>	<u>\$ 7,171,155</u>	<u>31,375,144</u>
Condensed Statement of Cash Flows	Electric		Wastewater	
	System	Water System	System	Total
Net cash provided (used) by				
Operating activities	\$ 2,195,164	\$ 780,382	\$ 869,769	3,845,315
Capital and related financing activities	(1,755,177)	(939,719)	(395,844)	(3,090,740)
Investing activities	(47,954)	1,070	1,733	(45,151)
Non-Capital financing activities	<u>(467,148)</u>	<u>(12,000)</u>	<u>-</u>	<u>(479,148)</u>
Net increase (decrease)	(75,115)	(170,267)	475,658	230,276
Cash, Beginning of the year	<u>3,477,454</u>	<u>983,251</u>	<u>273,047</u>	<u>4,733,752</u>
Cash, End of the year	<u>\$ 3,402,339</u>	<u>\$ 812,984</u>	<u>\$ 748,705</u>	<u>4,964,028</u>

NOTE 15 - PRIOR PERIOD ADJUSTMENT

A prior period adjustment was made to increase the beginning net assets of the government wide statements in the amount of \$978,388. This includes increasing beginning capital assets in the amount of \$958,651 to include assets not capitalized in the prior year. This also includes increasing fund balance for library funds in the amount of \$19,737 that were not included in the government wide statements.

TOWN OF ERWIN, TENNESSEE
Notes to Financial Statements (Continued)

NOTE 16 - SUBSEQUENT EVENT

Subsequent to year end, Erwin Utilities began to draw down amounts on a State Revolving Fund Loan. The funds will be used to fund the Railroad Water Treatment Plant. The total amount of the loan is \$560,000 with \$140,000 of this amount being principal forgiveness.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF ERWIN, TENNESSEE
Schedule of Retirement Plan Funding Progress (Unaudited)
Year Ended June 30, 2012

(Dollar amounts in thousands)

Governmental Activities

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2011	\$ 3,499	\$ 4,689	\$ 1,190	74.62%	\$ 1,584	75.11%
July 1, 2009	\$ 2,889	\$ 4,139	\$ 1,250	69.80%	\$ 1,412	88.53%
July 1, 2007	\$ 2,835	\$ 3,284	\$ 449	86.33%	\$ 1,248	35.98%

Business-type Activities

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)
July 1, 2011	\$ 3,295	\$ 4,828	\$ 1,533	68.25%	\$ 2,033	75.41%
July 1, 2010	\$ 2,624	\$ 4,132	\$ 1,508	63.50%	\$ 1,903	79.24%
July 1, 2009	\$ 2,777	\$ 4,359	\$ 1,582	63.71%	\$ 1,985	79.70%

TOWN OF ERWIN, TENNESSEE
 Schedule of Funding Progress of Other Post Employment Benefits (Unaudited)
 Year Ended June 30, 2012

Business-type Activities

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)
July 1, 2009	\$ -	\$ 355,344	\$ 355,344	0.00%	\$ 2,125,744	16.70%

SUPPLEMENTARY INFORMATION

TOWN OF ERWIN, TENNESSEE
 Capital Project Fund
 Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
 Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget - Favorable (Unfavorable)
Fund Balance	\$ 121,912	\$ 121,912	\$ 121,912	\$ -
Other Financing Sources				
Transfers	<u>-</u>	<u>-</u>	<u>354,128</u>	<u>354,128</u>
Total	<u>121,912</u>	<u>121,912</u>	<u>476,040</u>	<u>354,128</u>
Expenditures				
Construction	<u>-</u>	<u>-</u>	<u>354,128</u>	<u>(354,128)</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>354,128</u>	<u>(354,128)</u>
Budgetary fund balance, June 30, 2012	<u>\$ 121,912</u>	<u>\$ 121,912</u>	<u>\$ 121,912</u>	<u>\$ -</u>

TOWN OF ERWIN, TENNESSEE
State Street Aid Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget - Favorable (Unfavorable)
	Original	Final		
Fund Balance	\$ 36,098	\$ 36,098	\$ 36,098	\$ -
Revenues				
Intergovernmental revenues	146,000	157,953	157,953	-
Interest earnings	<u>10</u>	<u>17</u>	<u>22</u>	<u>5</u>
Total	<u>182,108</u>	<u>194,068</u>	<u>194,073</u>	<u>5</u>
Expenditures				
Equipment and repairs	<u>164,135</u>	<u>42,371</u>	<u>42,370</u>	<u>1</u>
Total expenditures	<u>164,135</u>	<u>42,371</u>	<u>42,370</u>	<u>1</u>
Budgetary fund balance, June 30, 2012	<u><u>\$ 17,973</u></u>	<u><u>\$ 151,697</u></u>	<u><u>\$ 151,703</u></u>	<u><u>\$ 6</u></u>

TOWN OF ERWIN, TENNESSEE
Drug Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget - Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
Fund Balance	\$ 9,330	\$ 9,330	\$ 9,330	\$ -
Revenues				
Fines, fees and cost	<u>5,700</u>	<u>5,297</u>	<u>5,296</u>	<u>(1)</u>
Total	<u>15,030</u>	<u>14,627</u>	<u>14,626</u>	<u>(1)</u>
Expenditures				
Investigation and control	<u>13,991</u>	<u>4,468</u>	<u>4,468</u>	<u>-</u>
Total expenditures	<u>13,991</u>	<u>4,468</u>	<u>4,468</u>	<u>-</u>
Budgetary fund balance, June 30, 2012	<u><u>\$ 1,039</u></u>	<u><u>\$ 10,159</u></u>	<u><u>\$ 10,158</u></u>	<u><u>\$ (1)</u></u>

TOWN OF ERWIN, TENNESSEE
Library Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget - Favorable
	<u>Original</u>	<u>Final</u>		<u>(Unfavorable)</u>
Fund Balance	\$ 19,646	\$ 19,646	\$ 19,646	\$ -
Revenues				
Government appropriations	55,000	57,500	51,500	(6,000)
Books, Fines, Sales	9,150	9,625	10,612	987
Donation	40,350	39,305	40,414	1,109
Misc Income	<u>2,500</u>	<u>1,103</u>	<u>1,175</u>	<u>72</u>
Total	<u>126,646</u>	<u>127,179</u>	<u>123,347</u>	<u>(3,832)</u>
Expenditures				
Library	<u>118,634</u>	<u>114,908</u>	<u>118,755</u>	<u>(3,847)</u>
Total expenditures	<u>118,634</u>	<u>114,908</u>	<u>118,755</u>	<u>(3,847)</u>
Budgetary fund balance, June 30, 2012	<u>\$ 8,012</u>	<u>\$ 12,271</u>	<u>\$ 4,592</u>	<u>\$ (7,679)</u>

TOWN OF ERWIN, TENNESSEE
Schedule of Changes in Taxes Receivable
Year Ended June 30, 2012

Fiscal Year	Assessment	Tax Rate per \$100	Total Levy	Balance July 1, 2011	Adjustments, Collections Releases, and Abatements	Balance June 30, 2011
2011	\$ 122,719,048	0.945	\$ 1,159,818	\$ 1,159,818	\$ -	\$ 1,159,818
2010	124,980,358	0.945	1,181,204	1,181,204	1,124,947	56,257
2009	129,962,224	0.945	1,226,184	73,463	70,483	2,980
2008	128,765,236	0.945	1,216,831	17,803	17,158	645
2007	128,476,199	0.945	1,214,100	1,272	850	422
2006	102,212,915	1.15	1,175,449	150	124	26
2005	104,774,422	1.15	1,204,906	150	124	26
2004	86,313,122	1.15	992,601	-	-	-
2003	85,347,114	1.15	981,492	-	-	-
2002	82,893,363	1.26	953,274	-	-	-
2001	70,860,317	1.11	892,840	-	-	-
				<u>\$ 1,274,042</u>	<u>\$ 1,213,686</u>	<u>\$ 60,356</u>

* As of June 30, 2012, all unpaid taxes for years 2010 and earlier had been turned over to the county trustee for collection.

TOWN OF ERWIN, TENNESSEE
 Schedule of Utility Rates
 Erwin Utilities
 June 30, 2012

Utility rates in effect at June 30, 2012 consist of the following:

Electric System:

Residential Rate - Schedule RS

Customer Charge - per delivery point per month	\$11.29
Energy Charge - per kilowatt hour (kWh) per month	\$.08943

General Power Rate - Schedule GSA

Part 1.	Not to exceed 50 kW or 15,000 kWh per month:	
	Customer Charge - per delivery point per month	\$15.76
	Energy Charge - per kWh per month	\$.10190
Part 2.	Greater than 50 kW but not more than 1,000 kW or 50 kW or less with greater than 15,000 kWh:	
	Customer Charge - per delivery point per month	\$60.00
	Demand Charge - per kW per month:	
	First 50 kW	\$0.00
	Excess over 50 kW	\$11.96
	Energy Charge - per kWh per month:	
	First 15,000 kWh	\$.10265
	Additional kWh	\$.06368
Part 3.	Greater than 1,000 kW but not more than 5,000 kW:	
	Customer Charge - per delivery point per month	\$200.00
	Demand Charge - per kW per month:	
	First 1,000 kW	\$12.06
	Excess over 1,000 kW	\$14.02
	Excess Taking > 2,500 kW or Contract	\$14.02
	Energy Charge - per kWh per month	\$.06363

General Power Rate - Schedule TDHUD MSA Summer

Customer Charge - per delivery point per month	\$1,500.00
Administrative charge	\$350.00
Demand Charge	
Summer period - On peak kWh	\$16.45
Summer period - Off peak kWh	\$4.00
Energy Charge - Summer period - On peak kWh	.08177
All seasons off peak hours use of demand adjustment	
First 425 HUD	\$.04748
Next 195 HUD	\$.02882
Over 620 HUD	\$.01297

(Continued)

TOWN OF ERWIN, TENNESSEE
Schedule of Utility Rates (Continued)

Outdoor Lighting Rate - Schedule LS

Part A. Street Lighting, Traffic Signals, and Athletic Field Lighting:

Customer Charge	\$2.50
Energy Charge - per kWh per month	\$.06701
Facility Charge - annual rate	12%

Part B. Charges for Outdoor Lighting for Individual Customers:

Charges Per Fixture Per Month

<u>Type of Fixture</u>	<u>Lamp Size (Watts)</u>	<u>Monthly Charge</u>
Mercury Vapor	175	\$ 8.40
	400	15.45
High Pressure Sodium	100	7.93
	250	12.91
	400	17.84
Metal Halide	400	18.76
	1,000	35.55

Additional Facilities

Pole	\$2.00 per month per pole
Pole (Metal Halide Light)	\$4.15 per month per pole
Transformer	\$4.40 per month

(Continued)

TOWN OF ERWIN, TENNESSEE
 Schedule of Utility Rates (Continued)

<u>Erwin Water System:</u>	<u>Inside Corporate Limits</u>	<u>Outside Corporate Limits</u>
Customer Charge - per month based on meter size		
5/8" x 3/4" & 3/4"	\$ 7.76	\$ 11.64
1"	10.82	16.23
1 1/2"	20.42	30.63
2"	24.28	36.42
3"	49.28	73.92
4"	97.33	146.00
6"	193.49	290.24
8"	343.04	514.56
 Water Charge - cost per 1,000 gallons	 1.82	 2.73
 <u>Wastewater System:</u>		
Customer Charge - per month per unit	\$ 5.34	\$ 8.01
User Charge - cost per 1,000 gallons	3.58	5.37

TOWN OF ERWIN, TENNESSEE
Schedule of Number of Customers Served
Erwin Utilities
Year Ended June 30, 2012

The number of customers served at June 30, 2012 is as follows:

Electric System:	
Residential	7,697
Other	2,660
Water System:	
Residential	4,727
Other	537
Wastewater System:	
Residential	3,037
Other	510

TOWN OF ERWIN, TENNESSEE
Schedule of Investments
Erwin Utilities
Year Ended June 30, 2012

Description	Maturity Date	Interest Rate	Carrying Amount
Certificates of deposit	September-2012	0.10% - 0.30%	\$ 2,109,682
Certificates of deposit	October-2012	0.10% - 0.30%	975,578
Certificates of deposit	December-2012	0.50%	<u>579,819</u>
			<u>\$ 3,665,079</u>

TOWN OF ERWIN, TENNESSEE
Schedule of Insurance Coverage
June 30, 2012

<u>Town of Erwin, Tennessee</u>	<u>Coverage Amount</u>
Buildings and contents - fire and extended coverage including vandalism and malicious mischief (actual cash value less \$1,000 each occurrence)	\$ 8,741,890
Equipment other than auto (actual cash value less \$1,000 each occurrence)	\$ 589,056
Automotive Equipment:	
Liability coverage for bodily injury - each occurrence	\$ 300,000
Liability coverage for bodily injury - maximum	\$ 700,000
Liability coverage for property damage	\$ 100,000
Uninsured motorist for bodily injury	\$ 60,000
Uninsured motorists for property damage	\$ 100,000
Collision (actual cash value less \$500 each occurrence)	
Comprehensive coverage (actual cash value less \$250 each occurrence)	
Comprehensive General Liability:	
On Premises:	
Bodily injury - each occurrence	\$ 130,000
Property damage - each occurrence	\$ 50,000
Excess liability for non-tort actions	\$ 1,000,000
Public Officials' Liability (Less \$2,500 each occurrence)	\$ 1,000,000
Public Official Bond	\$ 100,000
Workman's Compensation	Statutory Limits

TOWN OF ERWIN, TENNESSEE
Schedule of Insurance Coverage (Continued)

<u>Erwin Utilities</u>	<u>Coverage Amount</u>
Blanket Real and Personal Property, Contractors Equipment	\$ 23,772,029
Boiler and Machinery (Fire, Lightning, & Extended Coverage)	\$ 20,243,880
Combination Liability: Comprehensive General Liability, Contracted Liability, Personal Injury Liability, Owner's and Contractor's Protective Liability, Premises Medical Payments:	
Primary: Each occurrence	\$ 250,000
Aggregate	\$ 750,000
Products aggregate	\$ 250,000
Excess: Each occurrence	\$ 750,000
Aggregate	\$ 2,250,000
Products aggregate	\$ 750,000
Blanket Crime Policy: (1) Employee Dishonesty, (2) Loss of Money Orders and Securities (Inside Premises), (3) Loss of Money Orders and Securities (Outside Premises), (4) Money Orders and Counterfeit Paper, and (5) Depositor's Forgery Coverage	\$ 100,000
Workman's Compensation Liability	Statutory Limits
Directors and Officers Liability and Corporation Reimbursements	\$ 1,000,000
Business Auto Policy: Personal Injury, Auto Medical Payments, Uninsured Motorist, Comprehensive Coverage, Collision Insurance Liability:	
Liability	\$ 1,000,000
Uninsured Motorist	\$ 1,000,000
Pollution Liability	\$ 1,000,000
Fiduciary Liability	\$ 1,000,000

TOWN OF ERWIN, TENNESSEE
Schedule of Unaccounted for Water
Erwin Utilities
June 30, 2012

(All amounts in gallons)

A	Water Treated and Produced:		
B	Water Pumped (potable)	624,482,000	
C	Water Purchased	<u>0</u>	
D	Total Water Treated and Produced (Sum Lines B and C)		624,482,000
E	Accounted for Water:		
F	Water Sold	485,034,700	
G	Metered for Consumption	602,628	
H	Fire Department(s) Usage	103,175	
I	Flushing	220,200	
J	Tank Cleaning/Filling	0	
K	Street Cleaning	80,200	
L	Bulk Sales	37,300	
M	Water Bill Adjustments	<u>(638,200)</u>	
N	Total Accounted for Water (Sum Lines F thru M)		485,440,003
O	Unaccounted for Water (Line D minus Line N)		139,041,997
P	Percent unaccounted for Water (Line O divided by Line D times 100)		22.265%

Explain Other:

	Bluelinx	37,500	
	Leaks	<u>2,870,500</u>	
		2,908,000	gallons

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

TOWN OF ERWIN, TENNESSEE
Governmental Funds
Combining Balance Sheet
June 30, 2012

	Drug Fund	State Street Aid	Library Fund	Total Nonmajor Funds
ASSETS				
Cash and cash equivalents	\$ 10,158	\$ 141,417	\$ 4,592	\$ 156,167
Receivables, net	-	23,783	-	23,783
Total assets	<u>\$ 10,158</u>	<u>\$ 165,200</u>	<u>\$ 4,592</u>	<u>\$ 179,950</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Due to other funds	\$ -	\$ 13,497	\$ -	\$ 13,497
Deferred revenue	-	-	-	-
Total liabilities	-	13,497	-	13,497
Fund balances				
Restricted				
State Street Aid	-	151,703	-	151,703
Library	-	-	4,592	4,592
Drug fund	10,158	-	-	10,158
Total fund balances	10,158	151,703	4,592	166,453
Total liabilities and fund balances	<u>\$ 10,158</u>	<u>\$ 165,200</u>	<u>\$ 4,592</u>	<u>\$ 179,950</u>

TOWN OF ERWIN, TENNESSEE
 Governmental Funds
 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
 Year Ended June 30, 2012

	Drug Fund	State Street Aid	Library Fund	Total Nonmajor Funds
Revenues				
Intergovernmental revenues	\$ -	\$ 157,953	\$ 93,089	\$ 251,042
Fines, fees, and costs	5,296	-	10,612	15,908
Investment earnings	-	22	-	22
Total revenues	<u>5,296</u>	<u>157,975</u>	<u>103,701</u>	<u>266,972</u>
Expenditures				
Current				
Other	4,468	42,370	118,755	165,593
Total expenditures	<u>4,468</u>	<u>42,370</u>	<u>118,755</u>	<u>165,593</u>
Excess of revenues over expenditures	828	115,605	(15,054)	101,379
Fund balance at the beginning of the year	9,330	36,098	19,646	65,074
Fund balance at the end of the year	<u>\$ 10,158</u>	<u>\$ 151,703</u>	<u>\$ 4,592</u>	<u>\$ 166,453</u>

TOWN OF ERWIN, TENNESSEE
 Departmental Statement of Net Assets
 Erwin Utilities
 Year Ended June 30, 2012

	Electric System	Water System	Wastewater System	Total
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 3,402,339	\$ 812,984	\$ 748,705	\$ 4,964,028
Certificates of deposit	3,397,896	100,812	166,371	3,665,079
Accounts receivable, net	1,943,084	90,691	90,248	2,124,023
Inventories	160,366	143,471	17,957	321,794
Accrued unbilled revenue	434,043	-	-	434,043
Other	8,174	248,014	-	256,188
	<u>9,345,902</u>	<u>1,395,972</u>	<u>1,023,281</u>	<u>11,765,155</u>
Utility Plant, net	<u>18,090,584</u>	<u>7,231,984</u>	<u>9,192,695</u>	<u>34,515,263</u>
Other Assets				
Other assets	107,321	-	-	107,321
Conservation notes receivable	669,434	-	-	669,434
	<u>776,755</u>	<u>-</u>	<u>-</u>	<u>776,755</u>
Total assets	<u><u>\$28,213,241</u></u>	<u><u>\$ 8,627,956</u></u>	<u><u>\$ 10,215,976</u></u>	<u><u>\$ 47,057,173</u></u>
LIABILITIES AND NET ASSETS				
Current Liabilities				
Accounts payable	\$ 3,322,708	\$ 505,840	\$ 41,107	\$ 3,869,655
Current portion of long-term debt	334,558	88,600	42,285	465,443
Customer deposits	789,427	4,850	-	794,277
Accrued compensated absences	624,426	74,349	48,040	746,815
Other	289,958	6,599	6,048	302,605
	<u>5,361,077</u>	<u>680,238</u>	<u>137,480</u>	<u>6,178,795</u>
Long-Term Liabilities				
Conservation loans	726,720	-	-	726,720
OPEB	48,012	17,509	5,072	70,593
Long-term debt	4,604,902	1,198,750	2,902,269	8,705,921
	<u>5,379,634</u>	<u>1,216,259</u>	<u>2,907,341</u>	<u>9,503,234</u>
Net assets	<u>17,472,530</u>	<u>6,731,459</u>	<u>7,171,155</u>	<u>31,375,144</u>
Total liabilities and net assets	<u><u>\$28,213,241</u></u>	<u><u>\$ 8,627,956</u></u>	<u><u>\$ 10,215,976</u></u>	<u><u>\$ 47,057,173</u></u>

See independent auditors' report.

TOWN OF ERWIN, TENNESSEE
 Departmental Statement of Revenues and Expenses and Changes in Net Assets
 Erwin Utilities
 Year Ended June 30, 2012

	<u>Electric System</u>	<u>Water System</u>	<u>Wastewater System</u>	<u>Total</u>
Operating Revenue				
Sales	\$20,842,935	\$ 1,762,633	\$ 1,198,451	\$23,804,019
Other operating revenue	<u>604,446</u>	<u>40,263</u>	<u>79,265</u>	<u>723,974</u>
Total operating revenues	<u>21,447,381</u>	<u>1,802,896</u>	<u>1,277,716</u>	<u>24,527,993</u>
Operating Expenses				
Purchased power	17,055,312	-	-	17,055,312
Distribution expense	682,950	211,700	-	894,650
Maintenance	750,719	262,247	116,938	1,129,904
Customer accounts expense	806,691	209,941	140,771	1,157,403
Depreciation	699,280	231,128	186,843	1,117,251
General and administrative expense	477,094	144,182	97,894	719,170
Treatment expense	-	335,967	152,685	488,652
Pumping expense	-	-	111,420	111,420
Collection expense	<u>-</u>	<u>-</u>	<u>74,678</u>	<u>74,678</u>
Total operating cost	<u>20,472,046</u>	<u>1,395,165</u>	<u>881,229</u>	<u>22,748,440</u>
Operating income	<u>975,335</u>	<u>407,731</u>	<u>396,487</u>	<u>1,779,553</u>
Non-Operating Income (Expense)				
Interest income	40,504	1,605	2,606	44,715
Grant revenue	-	246,449	337,864	584,313
Interest expense	<u>(173,325)</u>	<u>(20,544)</u>	<u>(117,676)</u>	<u>(311,545)</u>
Total non-operating income	<u>(132,821)</u>	<u>227,510</u>	<u>222,794</u>	<u>317,483</u>
Transfers, in lieu of taxes	<u>(467,148)</u>	<u>(12,000)</u>	<u>-</u>	<u>(479,148)</u>
Change in net assets	<u>375,366</u>	<u>623,241</u>	<u>619,281</u>	<u>1,617,888</u>
Net assets, Beginning of the year	<u>17,097,164</u>	<u>6,108,218</u>	<u>6,551,874</u>	<u>29,757,256</u>
Net assets, End of the year	<u>\$17,472,530</u>	<u>\$ 6,731,459</u>	<u>\$ 7,171,155</u>	<u>\$31,375,144</u>

See independent auditors' report.

TOWN OF ERWIN, TENNESSEE
 Departmental Statement of Cash Flows
 Erwin Utilities
 Year Ended June 30, 2012

	Electric System	Water System	Wastewater System	Total
Cash Flows From Operating Activities				
Cash received from customers	\$ 21,556,935	\$ 1,824,885	\$ 1,580,661	\$ 24,962,481
Cash paid to suppliers and employees	<u>(19,361,771)</u>	<u>(1,044,503)</u>	<u>(710,892)</u>	<u>(21,117,166)</u>
Net cash flows from operating activities	<u>2,195,164</u>	<u>780,382</u>	<u>869,769</u>	<u>3,845,315</u>
Cash Flows From Capital and Related Financing Activities				
Acquisition and construction of capital assets	(1,225,212)	(1,077,598)	(575,063)	(2,877,873)
Principal paid on long-term debt	(356,640)	(88,026)	(40,969)	(485,635)
Grant proceeds	-	246,449	337,864	584,313
Interest expense	<u>(173,325)</u>	<u>(20,544)</u>	<u>(117,676)</u>	<u>(311,545)</u>
Net cash flows from capital and related financing activities	<u>(1,755,177)</u>	<u>(939,719)</u>	<u>(395,844)</u>	<u>(3,090,740)</u>
Cash Flows From Investing Activities				
Interest earned	40,504	1,605	2,606	44,715
Net purchases of certificates of deposit	<u>(88,458)</u>	<u>(535)</u>	<u>(873)</u>	<u>(89,866)</u>
Net cash flows from investing activities	<u>(47,954)</u>	<u>1,070</u>	<u>1,733</u>	<u>(45,151)</u>
Cash Flows From Non-Capital Financing Activities				
Transfers, in lieu of taxes	<u>(467,148)</u>	<u>(12,000)</u>	<u>-</u>	<u>(479,148)</u>
Net cash flows from non-capital financing activities	<u>(467,148)</u>	<u>(12,000)</u>	<u>-</u>	<u>(479,148)</u>
Net change in cash and cash equivalents	(75,115)	(170,267)	475,658	230,276
Cash and Cash Equivalents, Beginning of the Year	<u>3,477,454</u>	<u>983,251</u>	<u>273,047</u>	<u>4,733,752</u>
Cash and Cash Equivalents, End of the Year	<u>\$ 3,402,339</u>	<u>\$ 812,984</u>	<u>\$ 748,705</u>	<u>\$ 4,964,028</u>

TOWN OF ERWIN, TENNESSEE
 Departmental Statement of Cash Flows (Continued)
 Erwin Utilities

	Electric System	Water System	Wastewater System	Total
Reconciliation of Operating Income to Net Cash Flows From Operating Activities				
Operating income	\$ 975,335	\$ 407,731	\$ 396,487	\$ 1,779,553
Adjustments to reconcile operating income to net cash flows from operating activities				
Depreciation	699,280	231,128	186,843	1,117,251
Changes in operating assets and liabilities				
(Increase) decrease in assets:				
Accounts receivable & unbilled receivables	109,554	21,989	302,945	434,488
Inventories	44,229	(33,785)	(11,550)	(1,106)
Other assets	-	(321)	90	(231)
Increase (decrease) in liabilities:				
Accounts payable	296,730	153,640	(5,046)	445,324
Customer deposits	70,036	-	-	70,036
Net cash flows from operating activities	<u>\$ 2,195,164</u>	<u>\$ 780,382</u>	<u>\$ 869,769</u>	<u>\$ 3,845,315</u>

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

To the Board of Mayor and Alderman
Town of Erwin, Tennessee

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Erwin, Tennessee, as of and for the year ended June 30, 2012, which collectively comprise the Town of Erwin, Tennessee's basic financial statements and have issued our report thereon dated February 6, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

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

Rodger Moss & Co, PLLC

Greeneville, Tennessee
February 6, 2013

TOWN OF ERWIN, TENNESSEE
Schedule of Expenditures of Federal Awards
Erwin Utilities
Year Ended June 30, 2012

Grantor Agency	Program Title	CFDA Number	Grant Number	Balance July 1, 2011	Receipts	Expenditures	Balance June 30, 2012
United States Department of Agriculture passed through Town of Erwin	Rural Utilities Service	10.760	N/A	\$ (279,818)	\$ 374,859	\$ 95,041	\$ -
United States Department of Housing and Urban Development passed through State of TN Department of Economic and Community Development	Community Development Block Grant	14.218	N/A	(22,676)	267,272	311,843	(67,247)
United States Department of Energy passed through State of TN Department of Economic and Community Development	EECBG Energy Grant	81.128	N/A	(48,808)	48,808	-	-
United States Environmental Protection Agency	EPA grant	66.202	N/A	(21,478)	25,194	177,429	(173,713)
Total grants from federal allocation				<u>\$ (372,780)</u>	<u>\$ 716,133</u>	<u>\$ 584,313</u>	<u>\$ (240,960)</u>

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

This schedule is prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.



Independent Auditor's Report on Compliance with Requirements That Could Have A
Direct and Material Effect on Each Major Program and on Internal Control Over
Compliance in Accordance with OMB Circular A-133

Board of Public Utilities
Town of Erwin, Tennessee

Compliance

We have audited the Town of Erwin's compliance, with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the Town of Erwin's major federal programs for the year ended June 30, 2012. The Town of Erwin's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Town of Erwin's management. Our responsibility is to express an opinion on the Town of Erwin's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Erwin's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Town of Erwin's compliance with those requirements.

In our opinion, the Town of Erwin, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the Town of Erwin is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Town of Erwin's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of Erwin's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Roderick Mass $\&$ Co, PLLC

Greeneville, Tennessee
February 6, 2013

TOWN OF ERWIN, TENNESSEE
Schedule of Findings and Questioned Costs
Erwin Utilities
Year Ended June 30, 2012

SUMMARY OF AUDITOR'S RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of the Town of Erwin, Tennessee.
2. There was one significant deficiency disclosed during the audit of the financial statements reported in the 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*.
3. No instance of noncompliance material to the financial statements of the Town of Erwin, Tennessee was disclosed during the audit.
4. There were no significant deficiencies disclosed in the Independent Auditor's Report on compliance with Requirements That Could Have A Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for the Town of Erwin, Tennessee expresses an unqualified opinion on all major federal programs.
6. There were no material audit findings relative to the major federal award program for the Town of Erwin, Tennessee.
7. The program tested as a major federal program was 14.218 Community Development Block Grant.
8. The threshold for distinguishing Type A and B projects was \$300,000.
9. There were no questioned costs related to major federal programs.
10. No Summary Schedule of Prior Audit Findings is required, because there were no prior audit findings related to federal programs.
11. No Corrective Action Plan is required, because there were no findings required to be reported under the Federal Single Audit Act.
12. Town of Erwin, Tennessee was determined to be a high-risk auditee

B. FINDINGS - FINANCIAL STATEMENT AUDIT

12-1

Observation - Transfers made after year end were included as reconciling items on the year end bank reconciliation instead of being recorded in the respective receivable or payable accounts. The Utility incurred some large expenses prior to June 30, 2012 that were not typical recurring payables and they were not recorded as payables in fiscal year 2012.

TOWN OF ERWIN, TENNESSEE
Schedule of Findings and Questioned Costs (Continued)
Erwin Utilities

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

12-1 (Continued)

Recommendation - In order to make the financial reports generated by the accounting system as meaningful as possible, the Utility should reconcile the non-typical recurring receivables and payables to year end. These reconciliations and adjustments will ensure meaningful and accurate financial statements. The financial statements can then be used to help in the management decision making process.

Management's response - The Utility has put controls in place to ensure that recurring and non-recurring receivables or payables received on or before June 30 will be recorded in the fiscal year to be audited.