

**CITY OF MIDDLETON, TENNESSEE**

**BASIC FINANCIAL STATEMENTS**  
**AND ACCOMPANYING INFORMATION**

**June 30, 2016**

**JONES & JONES**  
**CERTIFIED PUBLIC ACCOUNTANTS**  
**OF BOONEVILLE, P.A.**  
**BOONEVILLE, MISSISSIPPI 38829-0250**

**CITY OF MIDDLETON, TENNESSEE**  
**Basic Financial Statements**  
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**CITY OF MIDDLETON, TENNESSEE**  
**Roster of Publicly Elected Officials and Management Officials**  
**June 30, 2016**  
**(Unaudited)**

PUBLICLY ELECTED OFFICIALS

TITLE

Jackie Cox

Mayor

James Simpson, Jr

Aldersperson - Vice Mayor

Richie Yopp

Aldersperson

Randy Bishop

Aldersperson

Bo Callahan

Aldersperson

Doug Henderson

Aldersperson

MANAGEMENT OFFICIALS

Linda Earnest

City Recorder

**JONES & JONES**  
CERTIFIED PUBLIC ACCOUNTANTS  
OF BOONEVILLE PA

Kermit V Jones Jr., C.P.A.    Christopher D. Jones, C.P.A.    Jeremy D. Jones, C.P.A.    David W. Jones, C.P.A.

**INDEPENDENT AUDITOR'S REPORT**

To the Mayor and Board of Alderpersons  
City of Middleton, Tennessee

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Middleton, Tennessee, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## ***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 of the City of Middleton, Tennessee, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4–16 and the municipal employees' pension fund information on pages 74–75 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.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Middleton, Tennessee's basic financial statements. The roster of publicly elected officials and management officials, combining and individual nonmajor fund financial statements, schedules, and other supplemental information listed in the table of contents as Schedules 3 through 15, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, the schedule of expenditures of federal awards and state financial assistance, and other supplemental information listed in the table of contents as Schedules 3 through 9 and 14 through 15 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, the schedule of expenditures of federal awards and state financial assistance, and other supplemental information listed in the table of contents as Schedules 3 through 9 and 14

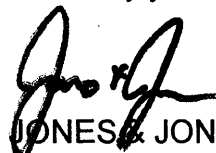
through 15 are fairly stated in all material respects in relation to the basic financial statements as a whole.

The other supplementary information listed in the table of contents as Roster of Publicly Elected Officials and Management Officials and Schedules 10 through 13 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2016, on our consideration of the City of Middleton, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Middleton, Tennessee's internal control over financial reporting and compliance.

Sincerely yours,



JONES & JONES  
Certified Public Accountants  
of Booneville, P.A.  
Booneville, Mississippi

December 15, 2016

CITY OF MIDDLETON, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Middleton, Tennessee, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with the City's financial statements, which follow this section.

**Financial Highlights**

The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$3,768,846 (net position). Of this amount, \$707,038 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.

The government's total net position increased by \$396,697, compared to the prior year decrease of \$65,715.

As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$657,715 an increase of \$203,957 in comparison with the prior year. Approximately 51.8 percent of this total amount, or \$341,015, is available for spending at the government's discretion (unassigned fund balance).

At the close of the current fiscal year, unassigned fund balance for the general fund was \$341,015 or 60.6 percent of total General Fund expenditures.

The City had fixed asset additions of \$544,626 during the current year. Of this amount, \$544,626 occurred in the business-type activities.

The City's total debt decreased by \$98,930 (approximately 3.1 percent) during the current fiscal year. The City issued new debt during the current year totaling \$0.

The City's property tax millage rate was 99.00 and 99.00 mils in 2016 and 2015.

**Overview of the Financial Statements**

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

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

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



## Overview of the Financial Statements – continued

**Government-wide financial statements – continued.** The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position 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., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, parks and recreation, and community development. The business-type activities of the City include water and sewer operations and solid waste collection operations.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate authority—the City of Middleton Industrial Development Board, the Planning Committee Board, the Library Board, and the Cemetery Board. These boards, although legally separate, function for all practical purposes as a department of the City; therefore, they have been included as an integral part of the primary government.

The government-wide financial statements can be found on pages 17 – 18 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 City, 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 City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term effect 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.

## Overview of the Financial Statements – continued

**Governmental funds – continued.** The City maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, which is considered to be a major fund. Data from the other four governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its General Fund and its Special Revenue Funds. Budgetary comparison schedules for the General Fund has been provided in the financial statements on pages 29 – 34 to demonstrate compliance with those budgets. The City had no major special revenue fund which required budget comparison schedules. The City also presents non-major governmental fund budgetary comparison schedules on pages 89 - 92 as required by the State of Tennessee Department of Audit *Audit Manual*.

The basic governmental fund financial statements can be found on pages 19 – 22 of this report.

**Proprietary funds.** The City maintains three different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer operations, its natural gas operations, and its solid waste collection operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The Proprietary Fund financial statements provide separate information for the water and sewer operations, natural gas operations, and the sanitation operations. The Water and Sewer Fund and Natural Gas Fund are considered to be major funds of the City. The Sanitation Fund is considered to be a non-major fund of the City.

The basic Proprietary Fund financial statements can be found on pages 23 – 28 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The City currently has no fiduciary funds for which it is responsible; therefore, no fiduciary fund financial statements are included in this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 35 – 73 of this report.

## Overview of the Financial Statements – continued

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This is limited to the municipal employees pension fund. Required supplementary information can be found on pages 74 - 75 of this report. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 76 – 77 of this report.

### Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Middleton, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$3,768,846 at the close of the most recent fiscal year.

By far the largest portion of the City's net position (80.9 percent) reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (approximately 0.4% or \$13,855) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (approximately 18.8% or \$707,038) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position, for the government as a whole, as well as for its separate governmental activities. The business-type activities reported positive balance for investment in capital assets, net of related debt and restricted positions. The business-type activities reported a negative unrestricted position of \$305,868 resulting from the cumulative losses in the natural gas system due to operations not beginning until the 2013-2014 fiscal year and the write-off of bond issuance cost as required by GASB No. 65.

The government's net position increased by \$396,697 during the current fiscal year. This increase was mainly due to the capital grant of \$170,608 received by the Water and Sewer Fund and the sale of surplus property of \$59,477.

**Government-wide Financial Analysis - continued**

**City of Middleton, Tennessee's Net Position**

	Governmental Activities				Business-Type Activities				Total			
	2016	2015	Increase (Decrease)	% Change	2016	2015	Increase (Decrease)	% Change	2016	2015	Increase (Decrease)	% Change
	Current and other assets	\$ 869,780	\$ 672,992	\$ 196,788	29.2%	\$ 370,801	\$ 440,763	\$ (69,962)	-15.9%	\$ 1,240,581	\$ 1,113,755	\$ 126,826
Capital assets	1,006,954	1,056,819	(49,865)	-4.7%	5,108,197	4,726,694	381,503	8.1%	6,115,151	5,783,513	331,638	5.7%
Total Assets	1,876,734	1,729,811	146,923	8.5%	5,478,998	5,167,457	311,541	6.0%	7,355,732	6,897,268	458,464	6.6%
Total Deferred Outflows of Resources	19,501	24,581	(5,080)	-20.7%	10,342	5,532	4,810	-20.7%	29,843	30,113	(270)	-0.90%
Long-term liabilities outstanding	17,156	31,448	(14,292)	-45.4%	3,096,980	3,183,615	(86,635)	-2.7%	3,114,136	3,215,063	(100,927)	-3.1%
Other liabilities	25,349	22,489	2,860	12.7%	267,821	80,290	187,531	233.6%	293,170	102,779	190,391	185.2%
Total Liabilities	42,505	53,937	(11,432)	-21.2%	3,364,801	3,263,905	100,896	3.1%	3,407,306	3,317,842	89,464	2.7%
Total Deferred Inflows of Resources	201,460	229,475	(28,015)	-12.2%	7,963	7,915	48	-20.7%	209,423	237,390	(27,967)	-11.8%
<b>Net Position</b>												
Investment in capital assets, net of related debt	1,006,954	1,045,377	(38,423)	-3.7%	2,040,999	2,101,977	(60,978)	-2.9%	3,047,953	3,147,354	(99,401)	-3.2%
Restricted	13,855	16,285	(2,430)	-14.9%	-	-	-	-	13,855	16,285	(2,430)	-14.9%
Unrestricted	631,461	409,318	222,143	54.3%	75,577	(200,808)	276,385	-137.6%	707,038	208,510	498,528	239.1%
<b>Total Net Position</b>	<b>\$ 1,652,270</b>	<b>\$ 1,470,980</b>	<b>\$ 181,290</b>	<b>12.3%</b>	<b>\$ 2,116,576</b>	<b>\$ 1,901,169</b>	<b>\$ 215,407</b>	<b>11.3%</b>	<b>\$ 3,768,846</b>	<b>\$ 3,372,149</b>	<b>\$ 396,697</b>	<b>11.8%</b>

**City of Middleton, Tennessee's Changes in Net Position**

	Governmental Activities				Business-Type Activities				Total			
	2016	2015	Increase (Decrease)	% Change	2016	2015	Increase (Decrease)	% Change	2016	2015	Increase (Decrease)	% Change
	Revenue											
Program Revenues												
Charges for services	\$ 55,637	\$ 55,048	\$ 589	1.1%	\$ 1,119,571	\$ 1,177,846	\$ (58,275)	-4.9%	\$ 1,175,208	\$ 1,232,894	\$ (57,686)	-4.7%
Operating grants and contributions	55,656	65,184	(9,528)	-14.6%	-	26,870	(26,870)	-100.0%	55,656	92,054	(36,398)	-39.5%
Capital grants and contributions	1,822	193	1,629	844.0%	170,608	51,950	118,658	228.4%	172,430	52,143	120,287	230.7%

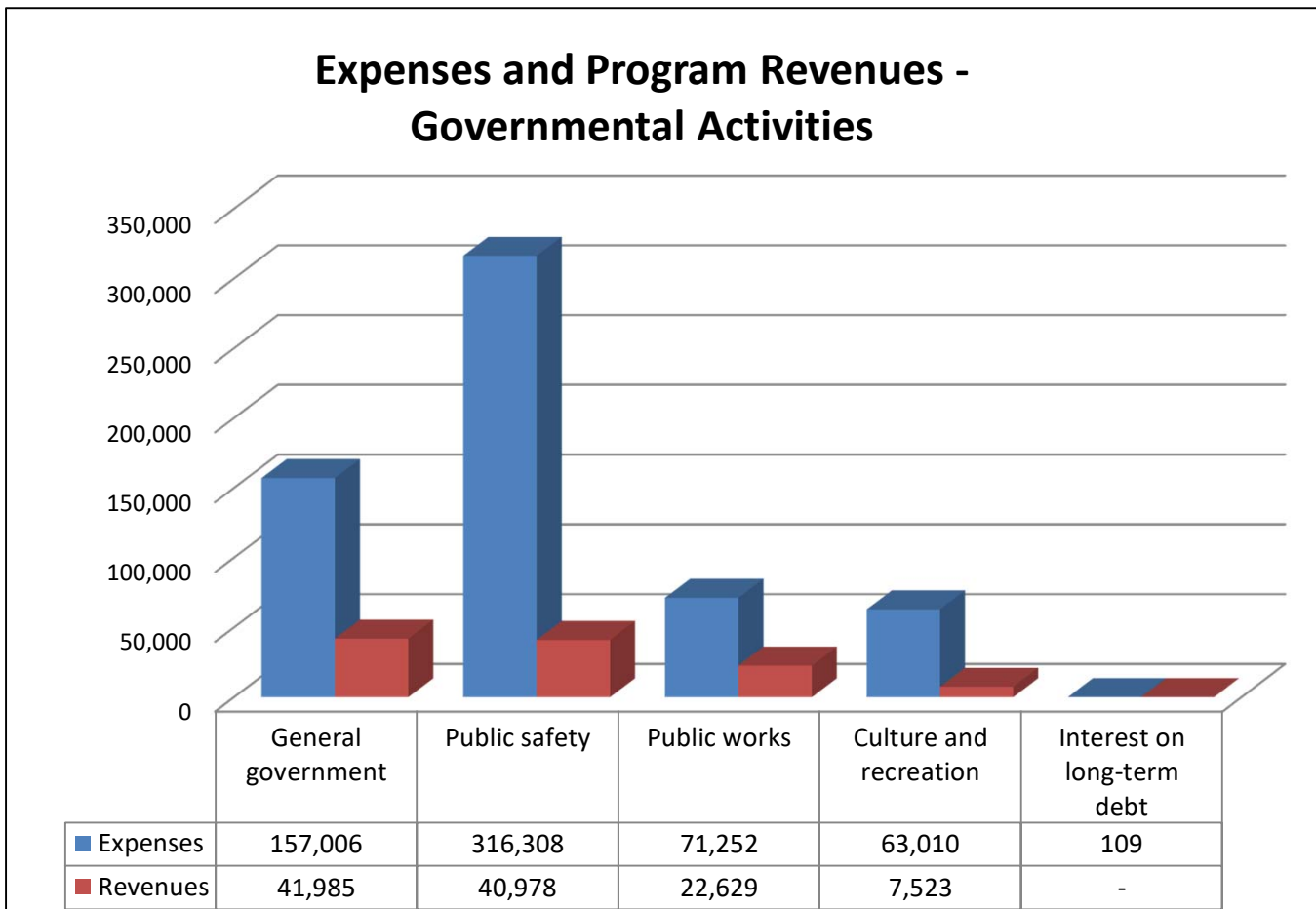
City of Middleton, Tennessee's Changes in Net Position - continued

	Governmental Activities				Business-Type Activities				Total			
	2016	2015	Increase (Decrease)	% Change	2016	2015	Increase (Decrease)	% Change	2016	2015	Increase (Decrease)	% Change
General Revenues												
Taxes												
Property taxes and late fees	\$ 187,639	\$ 165,055	\$ 22,584	13.7%	\$ -	\$ -	\$ -	0.0%	\$ 187,639	\$ 165,055	\$ 22,584	13.7%
Sales tax	307,507	277,054	30,453	11.0%	-	-	-	0.0%	307,507	277,054	30,453	11.0%
Beer tax	90,243	79,551	10,692	13.4%	-	-	-	0.0%	90,243	79,551	10,692	13.4%
Franchise tax	9,830	9,451	379	4.0%	-	-	-	0.0%	9,830	9,451	379	4.0%
In lieu taxes	11,556	10,492	1,064	10.1%	-	-	-	0.0%	11,556	10,492	1,064	10.1%
Income and excise tax	7,045	9,307	(2,262)	-24.3%	-	-	-	0.0%	7,045	9,307	(2,262)	-24.3%
Pension income	-	3,522	(3,522)	-100.0%	-	-	-	0.0%	-	3,522	(3,522)	-100.0%
Investment income	70	52	18	34.6%	564	559	5	0.9%	634	611	23	3.8%
Miscellaneous	2,493	1,118	1,375	123.0%	4,385	4,305	80	1.9%	6,878	5,423	1,455	26.8%
Gain on disposition of capital assets	59,477	3,919	55,558	1417.7%	-	-	-	0.0%	59,477	3,919	55,558	1417.7%
Total revenue	<u>\$ 788,975</u>	<u>\$ 679,946</u>	<u>\$ 109,029</u>	16.0%	<u>\$1,295,128</u>	<u>\$1,261,530</u>	<u>\$ 33,598</u>	2.7%	<u>\$2,084,103</u>	<u>\$1,941,476</u>	<u>\$ 142,627</u>	7.3%
Expenses:												
General government	\$ 157,006	\$ 170,579	\$ (13,573)	-8.0%	\$ -	\$ -	\$ -	0.0%	\$ 157,006	\$ 170,579	\$ (13,573)	-8.0%
Public safety	316,308	309,367	6,941	2.2%	-	-	-	0.0%	316,308	309,367	6,941	2.2%
Public works	71,252	74,704	(3,452)	-4.6%	-	-	-	0.0%	71,252	74,704	(3,452)	-4.6%
Culture and recreation	63,010	56,030	6,980	12.5%	-	-	-	0.0%	63,010	56,030	6,980	12.5%
Interest	109	1,455	(1,346)	-92.5%	-	-	-	0.0%	109	1,455	(1,346)	-92.5%
Water and sewer	-	-	-	0.0%	307,216	448,620	(141,404)	-31.5%	307,216	448,620	(141,404)	-31.5%
Natural gas	-	-	-	0.0%	727,242	865,594	(138,352)	-16.0%	727,242	865,594	(138,352)	-16.0%
Sanitation	-	-	-	0.0%	45,263	27,904	17,359	62.2%	45,263	27,904	17,359	62.2%
Total expenses	<u>607,685</u>	<u>612,135</u>	<u>(4,450)</u>	-0.7%	<u>1,079,721</u>	<u>1,342,118</u>	<u>(262,397)</u>	-19.6%	<u>1,687,406</u>	<u>1,954,253</u>	<u>(266,847)</u>	-13.7%
Increase (decrease) in net assets												
before contributions and transfers	181,290	67,811	113,479	167.3%	215,407	(80,588)	295,995	-367.3%	396,697	(12,777)	409,474	-3204.8%
Transfers	-	-	-	0.0%	-	-	-	0.0%	-	-	-	0.0%
Increase (decrease) in net position	181,290	67,811	113,479	167.3%	215,407	(80,588)	295,995	-367.3%	396,697	(12,777)	409,474	-3204.8%
Net position--beginning of year	1,470,980	1,450,617	20,363	1.4%	1,901,169	1,987,247	(86,078)	-4.3%	3,372,149	3,437,864	(65,715)	-1.9%
Changes in accounting method	-	(47,448)	47,448	-100.0%	-	(5,490)	5,490	-100.0%	-	(52,938)	52,938	-100.0%
Restated net assets - beginning	1,470,980	1,403,169	67,811	4.8%	1,901,169	1,981,757	(80,588)		3,372,149	3,384,926	(12,777)	-0.4%
Net position--end of year	<u>\$1,652,270</u>	<u>\$1,470,980</u>	<u>\$ 181,290</u>	12.3%	<u>\$2,116,576</u>	<u>\$1,901,169</u>	<u>\$ 215,407</u>	11.3%	<u>\$3,768,846</u>	<u>\$3,372,149</u>	<u>\$ 396,697</u>	11.8%

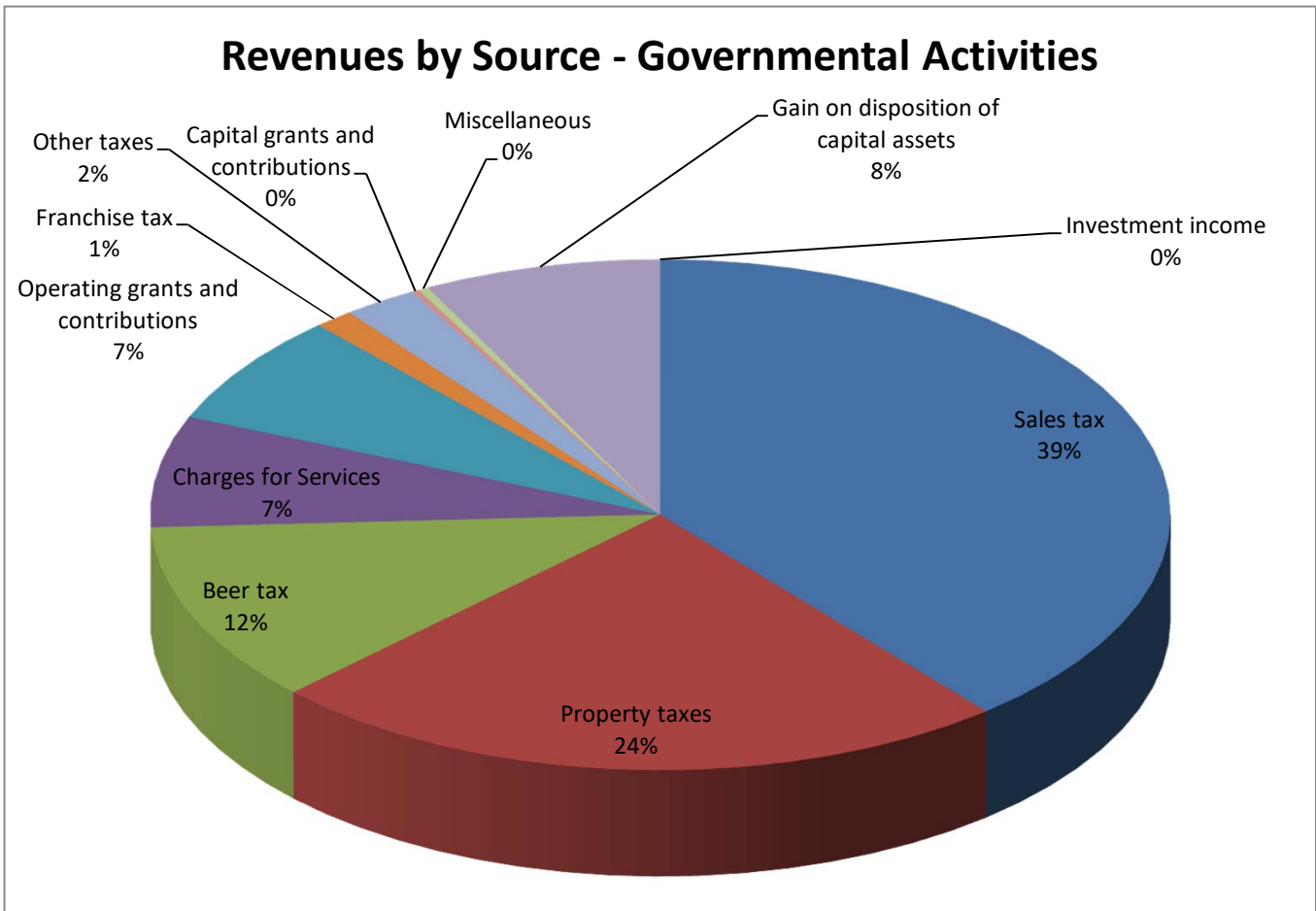
**Government-wide Financial Analysis- continued**

**Governmental activities.** Governmental activities increased the City’s net position by \$181,290 increasing the total increase in the government’s net position for the current year. By comparison, governmental activities reported an increase in net position the previous fiscal year of approximately \$20,363 which was net of a prior period restatement. Key elements of the changes are as follows:

During the year, general government expenses decreased by \$13,573 (approximately .8 percent), public safety expenses increased by \$6,941 (approximately 2.2 percent), public works expenses decreased by \$3,452 (approximately 4.6 percent), culture and recreation expenses increased by \$6,980 (approximately 12.5 percent), interest expense decreased by \$1,346 (approximately 92.5 percent. The 2015 tax rate increased from the 2014 tax rate of 93.79 mils to 99.00 mils. Governmental activities general revenue increased by \$109,030 as detailed on pages 8 - 9.



## Government-wide Financial Analysis- continued



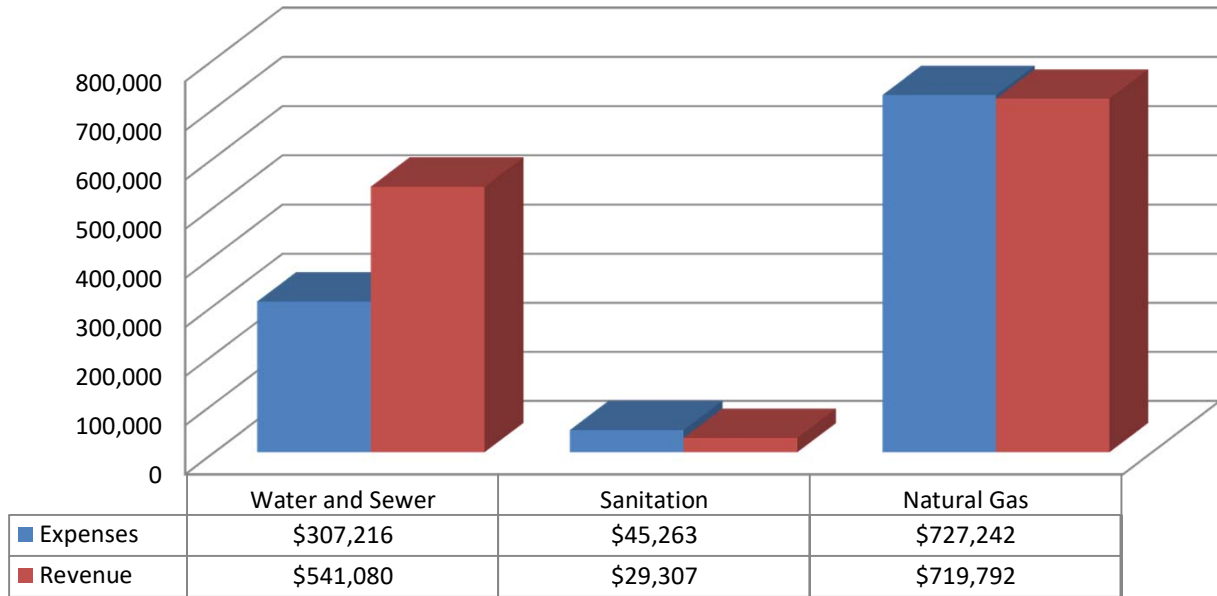
**Business-type activities.** Business-type activities increased the City's net position by \$215,407 contributing to the total increase in the government's net position for the current year. By comparison, business-type activities reported a decrease in net position the previous fiscal year of approximately \$86,078 including the restated beginning balance. Key elements of the changes are as follows:

Charges for services for business-type activities decreased \$58,275, or roughly 4.9 percent, compared to the prior year. This is a result of warmer winter and lower cost of natural gas decreasing natural gas sales. Operating and capital grants and contributions increased by \$91,788 compared to the prior year.

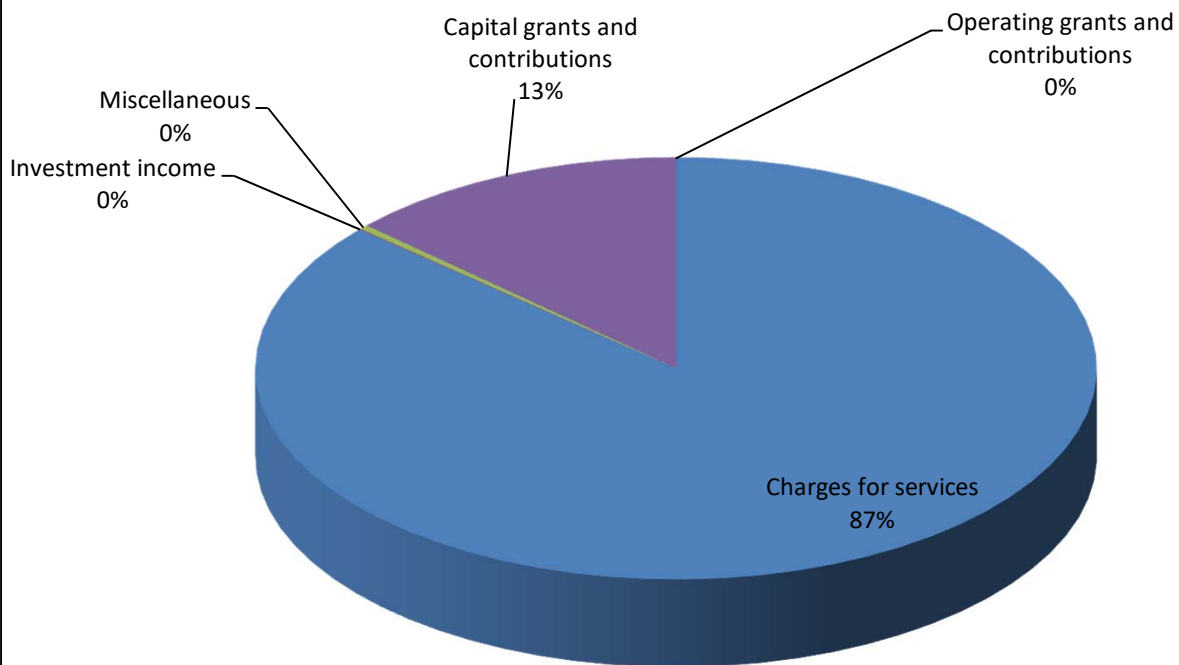
Expenses decreased \$262,398 or roughly 19.6 percent when compared to the prior year as detailed on page 9. This was mainly caused by the reduction of cost of natural gas due to warmer winter and lower natural gas costs.

**Government-wide Financial Analysis- continued**

**Expenses and Program Revenues -  
Business-Type Activities**



**Revenues by Source - Business-Type Activities**





## Financial Analysis of the Government's Funds

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

**Governmental funds.** The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$657,715 an increase of \$203,957 in comparison with the prior year. Approximately 51.8 percent of this total amount, or \$341,015, is available for spending at the government's discretion (unassigned fund balance).

The remainder of the fund balance is either restricted by laws, regulations or by donor, committed by the Board of Alderpersons, or assigned by the Board of Alderpersons or the Mayor, to indicate that it is not available for new spending or it can be spent only for specific items.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$341,015, while total fund balance was \$643,860. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 60.6 percent of total general fund expenditures.

The fund balance of the City's General Fund increased by \$206,387 during the current fiscal year. This is primarily attributable to an increase in taxes of \$62,910 and the sales of surplus property of \$59,477.

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

Unrestricted net position of the Water and Sewer, Natural Gas, and Solid Waste Collection Funds at the end of the year amounted to \$365,840, \$(305,868) and \$15,605, respectively. The Water and Sewer Fund had an increase in net assets for the year of \$235,447, the Natural Gas Fund had a decrease of \$4,096, and the Waste Collection Fund had a decrease of \$15,944.

Other factors concerning the finances of these three funds have already been addressed in the discussion of the City's business-type activities.

## General Fund Budgetary Highlights

The City had budget amendments during the year which are detailed on Statement 8 on pages 29 to 34. See Note 3 to the financial statements pages 46 to 48 for additional budgetary information.

During the year, General Fund revenues were more and expenditures were less than the budgetary estimates, resulting in an actual increase in fund balance that was more than the final budget fund balance by \$188,314.

## Capital Asset and Debt Administration

**Capital assets.** The City's investment in capital assets for its governmental and business-type activities as of June 30, 2016, amounted to \$6,115,151 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, and park facilities. Capital assets also include roads, highways, bridges and other infrastructure acquired after July 1, 2003. The total increase in the City's investment in capital assets for the current fiscal year was approximately 5.7 percent (an approximate 4.7 percent decrease for governmental activities and an approximate 8.1 percent increase for business-type activities).

Major capital asset events during the current fiscal year included the following:

- 1 Water and Sewer construction totaling \$207,567
- 2 Natural gas construction totaling \$327,059
- 3 Natural Gas equipment \$10,000.
- 3 Depreciation expense for governmental activities of \$49,865.
- 4 Depreciation expense for business-type activities of \$163,123.

### City of Middleton, Tennessee's Capital Assets - Net

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
Land	\$ 431,109	\$ 5,622	\$ 436,731
Infrastructure	70,126	-	70,126
Buildings and improvements	403,395	17,402	420,797
Water and sewer system	-	2,579,535	2,579,535
Natural gas system	-	2,480,478	2,480,478
Automotive and equipment	102,324	25,160	127,484
<b>Total</b>	<b>\$ 1,006,954</b>	<b>\$ 5,108,197</b>	<b>\$ 6,115,151</b>

Additional information on the City's capital assets can be found in Note 6 on pages 51 - 53 of this report and in the long-term debt section on the next page.

## Capital Asset and Debt Administration - continued

### Capital assets - continued

The City completed portions of its natural gas distribution system during the year ended June 30, 2014, 2015 and 2016 and expects to construct an addition to the system during the year ending June 30, 2017.

**Long-term debt.** At the end of the current fiscal year, the City had total debt outstanding of \$3,089,800. Of this amount, \$0 comprises debt backed by the full faith and credit of the government and \$0 from obligations under capital leases. The remainder of the City's debt of \$3,089,800 represents bonds secured by specified revenue sources (i.e., revenue bonds) and the full faith and credit of the government, if specified revenue sources are insufficient to retire this debt.

### City of Middleton, Tennessee's Outstanding Debt General Obligation and Revenue Bonds

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
General obligation bonds	\$ -	\$ -	\$ -
Combination revenue and general obligation bonds	-	3,089,800	3,089,800
<b>Total</b>	<b><u>\$ -</u></b>	<b><u>\$ 3,089,800</u></b>	<b><u>\$ 3,089,800</u></b>

The City's total debt decreased by \$98,930 (approximately 3.1 percent) during the current fiscal year. The City issued new debt during the current year totaling \$0.

The City has a rating of BBB+ from Standard & Poor's.

State statute does not limit the amount of general obligation debt a governmental entity may issue. Other short-term debt must be approved by the State. Additional information on the City's long-term debt can be found in Note 7 on pages 53 – 55 of this report.

## **Economic Factors and Next Year's Budgets and Rates**

The following factors were considered in preparing the City's budget for the 2017 fiscal year:

The City has one major industry located inside its city limits. This favorably increases the amount of taxes and utility revenue the City receives.

The City's tax millage rate was 99.00 mills on the 2015 tax rolls and 99.00 on the 2016 tax rolls.

Inflationary and recessionary trends in the region compare favorably to national indices.

During the current fiscal year, unassigned fund balance in the General Fund increased to \$341,015.

## **Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Recorder, P.O. Box 40, Middleton, Tennessee 38052.

**CITY OF MIDDLETON, TENNESSEE**  
**Statement of Net Position**  
**June 30, 2016**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 256,375	\$ 221,638	\$ 478,013
Restricted cash and cash equivalents	-	149,161	149,161
Investments - certificates of deposit	3,436	-	3,436
Receivables (Net, where applicable, of allowances for uncollectibles)			
Accounts (net of allowances of \$918)	8,756	139,834	148,590
Property taxes (net of allowances of \$1,561)	180,525	-	180,525
Police fines (net of allowances of \$2,115)	235	-	235
Interest	1	-	1
Other (net of allowances of \$0)	53,855	9,021	62,876
Prepaid items	1,023	1,676	2,699
Inventory	1,821	-	1,821
Due from other governments	58,193	148,855	207,048
Due from other funds	994	(994)	-
Advances to other funds	300,000	(300,000)	-
Net pension asset	4,566	1,610	6,176
Land and construction in progress	431,109	5,622	436,731
Other capital assets (net of accumulated depreciation)	575,845	5,102,575	5,678,420
<b>Total Assets</b>	<b>1,876,734</b>	<b>5,478,998</b>	<b>7,355,732</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension contributions	19,501	10,342	29,843
<b>Total Deferred Outflows of Resources</b>	<b>19,501</b>	<b>10,342</b>	<b>29,843</b>
<b>LIABILITIES</b>			
Accounts payable	9,725	26,591	36,316
Accounts payable - fixed assets	-	194,091	194,091
Accrued liabilities	15,624	6,583	22,207
Accrued interest	-	8,747	8,747
Customer deposits	-	31,809	31,809
Long-term debt and capital leases			
Bonds and notes payable due within one year	-	100,000	100,000
Bonds and notes payable due in more than one year	-	2,989,800	2,989,800
Compensated absense due in more than one year	17,156	7,180	24,336
<b>Total Liabilities</b>	<b>42,505</b>	<b>3,364,801</b>	<b>3,407,306</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pensions	26,060	7,963	34,023
Unavailable revenue	175,400	-	175,400
<b>Total Deferred Inflows of Resources</b>	<b>201,460</b>	<b>7,963</b>	<b>209,423</b>
<b>NET POSITION</b>			
Net investment in capital assets	1,006,954	2,040,999	3,047,953
Restricted for:			
State Street Aid	8,661	-	8,661
Drug abuse prevention and enforcement	1,757	-	1,757
Permanent fund - perpetual care - nonspendable	3,437	-	3,437
Unrestricted	631,461	75,577	707,038
<b>TOTAL NET POSITION</b>	<b>\$ 1,652,270</b>	<b>\$ 2,116,576</b>	<b>\$ 3,768,846</b>

The accompanying notes are an integral part of these statements.

**CITY OF MIDDLETON, TENNESSEE**  
**Statement of Activities**  
**For the fiscal year ended June 30, 2016**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Primary Government Business-Type Activities	Total
<b>Governmental Activities:</b>							
General government	\$ 157,006	\$ 40,985	\$ -	\$ 1,000	\$ (115,021)	\$ -	\$ (115,021)
Public safety	316,308	9,872	31,106	-	(275,330)	-	(275,330)
Public works	71,252	1,679	20,950	-	(48,623)	-	(48,623)
Culture and recreation	63,010	3,101	3,600	822	(55,487)	-	(55,487)
Interest	109	-	-	-	(109)	-	(109)
<b>Total Governmental Activities</b>	<b>607,685</b>	<b>55,637</b>	<b>55,656</b>	<b>1,822</b>	<b>(494,570)</b>	<b>-</b>	<b>(494,570)</b>
<b>Business-Type Activities:</b>							
Water and Sewer	307,216	370,472	-	170,608	-	233,864	233,864
Natural Gas	727,242	719,792	-	-	-	(7,450)	(7,450)
Sanitation	45,263	29,307	-	-	-	(15,956)	(15,956)
<b>Total Business-Type Activities</b>	<b>1,079,721</b>	<b>1,119,571</b>	<b>-</b>	<b>170,608</b>	<b>-</b>	<b>210,458</b>	<b>210,458</b>
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 1,687,406</b>	<b>\$ 1,175,208</b>	<b>\$ 55,656</b>	<b>\$ 172,430</b>	<b>(494,570)</b>	<b>210,458</b>	<b>(284,112)</b>
<b>General Revenues</b>							
<b>Taxes</b>							
Property taxes and late fees					187,639	-	187,639
Payment in lieu of taxes					11,556	-	11,556
Sales tax					307,507	-	307,507
Beer tax					90,243	-	90,243
Franchise tax - cable TV and natural gas					9,830	-	9,830
Income and excise tax					7,045	-	7,045
Investment income					70	564	634
Miscellaneous					2,493	4,385	6,878
Gain (loss) on disposition of capital assets					59,477	-	59,477
<b>Total</b>					<b>675,860</b>	<b>4,949</b>	<b>680,809</b>
<b>Change in Net Position</b>					<b>181,290</b>	<b>215,407</b>	<b>396,697</b>
<b>NET POSITION--BEGINNING</b>					<b>1,470,980</b>	<b>1,901,169</b>	<b>3,372,149</b>
<b>NET POSITION--ENDING</b>					<b>\$ 1,652,270</b>	<b>\$ 2,116,576</b>	<b>\$ 3,768,846</b>

The accompanying notes are an integral part of these statements.

**CITY OF MIDDLETON, TENNESSEE**  
**Governmental Funds**  
**Balance Sheet**  
**June 30, 2016**

	General	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 248,277	\$ 8,098	\$ 256,375
Investments - certificates of deposit	-	3,436	3,436
Receivables (net, where applicable, of allowances for uncollectibles)			
Property taxes (net of allowances of \$1,561)	180,525	-	180,525
Interest	-	1	1
Beer tax (net of allowances of \$0)	8,756	-	8,756
Police fines (net of allowances of \$2,115)	235	-	235
Other (net of allowances of \$0)	53,855	-	53,855
Due from other governments	54,661	3,532	58,193
Due from other funds	3,777	-	3,777
Advances to other funds	300,000	-	300,000
Inventory	1,821	-	1,821
Prepaid items	1,023	-	1,023
	<b>\$ 852,930</b>	<b>\$ 15,067</b>	<b>\$ 867,997</b>
<b>LIABILITIES</b>			
Accounts payable	\$ 8,513	\$ 1,212	9,725
Accrued liabilities	15,624	-	15,624
Due to other funds	2,783	-	2,783
	<b>26,920</b>	<b>1,212</b>	<b>28,132</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenues	182,150	-	182,150
	<b>182,150</b>	<b>-</b>	<b>182,150</b>
<b>FUND BALANCES</b>			
Nonspendable	302,845	3,032	305,877
Restricted	-	10,823	10,823
Unassigned	341,015	-	341,015
	<b>643,860</b>	<b>13,855</b>	<b>657,715</b>
	<b>\$ 852,930</b>	<b>\$ 15,067</b>	<b>\$ 867,997</b>

The accompanying notes are an integral part of these statements.

**CITY OF MIDDLETON, TENNESSEE**  
**Reconciliation of Fund Balances of Governmental Funds to the**  
**Governmental Activities in the Statement of Net Position**  
**June 30, 2016**

FUND BALANCES OF GOVERNMENTAL FUNDS	\$ 657,715
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>	
<p>Capital assets used in governmental activities are not financial resources and; therefore, were not reported in the governmental funds. The capital assets were adjusted as follows:</p>	
Land and construction in progress	431,109
Other capital assets	1,453,720
Less accumulated depreciation	<u>(877,875)</u>
Total capital asset adjustments	<u>1,006,954</u>
<p>Net pension activity reported in governmental activities are not financial resources and; therefore, were not reported in the governmental funds. The following accounts were adjusted:</p>	
Net pension asset	4,566
Deferred outflows of resources from pensions	19,501
Deferred inflow of resources from pensions	<u>(26,060)</u>
Total net pension activity adjustments	<u>(1,993)</u>
<p>Some of the City's revenues will be collected after year end but will not be available soon enough to pay for the current period's expenditures and; therefore, are deferred in the funds. The deferred revenues were adjusted as follows:</p>	
State beer tax	80
Insurance rebate	1,250
Police fines	371
Property taxes	<u>5,049</u>
Total deferred revenue adjustments	<u>6,750</u>
<p>Long-term liabilities, including bonds payable, accrued interest, and compensated absences not due and payable in the current period and; therefore, are not reported in the governmental funds. The long-term liabilities were adjusted as follows:</p>	
Compensated absences	<u>(17,156)</u>
Total long-term liability adjustments	<u>(17,156)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 1,652,270</u>

The accompanying notes are an integral part of these statements.



**CITY OF MIDDLETON, TENNESSEE**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the fiscal year ended June 30, 2016**

	General	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>			
Taxes	\$ 540,823	\$ -	\$ 540,823
License and permits	345	-	345
Intergovernmental revenues	107,641	19,514	127,155
Charges for services	1,814	-	1,814
Fines, forfeits and penalties	11,153	-	11,153
Investment income	56	15	71
Contributions	3,360	-	3,360
Other revenue	44,298	-	44,298
	<u>709,490</u>	<u>19,529</u>	<u>729,019</u>
<b>EXPENDITURES</b>			
<b>Current</b>			
General government	145,001	-	145,001
Public safety	265,656	2,874	268,530
Public works	37,956	19,085	57,041
Culture and recreation	45,931	-	45,931
Capital outlay	56,436	-	56,436
<b>Debt service</b>			
Principal retirement	11,442	-	11,442
Interest and fiscal charges	158	-	158
	<u>562,580</u>	<u>21,959</u>	<u>584,539</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>146,910</u>	<u>(2,430)</u>	<u>144,480</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from disposition of capital assets	59,477	-	59,477
	<u>59,477</u>	<u>-</u>	<u>59,477</u>
<b>NET CHANGE IN FUND BALANCES</b>	206,387	(2,430)	203,957
Fund balances--beginning	437,473	16,285	453,758
Fund balances--ending	<u>\$ 643,860</u>	<u>\$ 13,855</u>	<u>\$ 657,715</u>

The accompanying notes are an integral part of these statements.

**CITY OF MIDDLETON, TENNESSEE**  
**Reconciliation of Governmental Funds Statement of Revenues,**  
**Expenditures and Changes in Fund Balances to the**  
**Governmental Activities in the Statement of Activities**  
**For the fiscal year ended June 30, 2016**

NET CHANGES IN FUND BALANCES--TOTAL GOVERNMENTAL FUNDS           \$           203,957

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

Governmental funds report capital outlays as expenditures; however, in the statement of activities, assets with an individual cost of more than \$5,000 are capitalized and the cost is allocated over their estimated useful lives and are reported as depreciation expense. The following is a detail of these differences:

Depreciation expense	(49,865)
Total capital outlay changes	(49,865)

The repayment of long-term debt is reported as an expenditure when due in governmental funds, but as a reduction of principal outstanding in the statement of activities.

11,442

Revenues in the statement of activities that are not available in governmental funds are not reported as revenue in governmental funds. Unavailable revenues increased (decreased) by these amounts during the current year:

Insurance rebate	500
State beer tax	2
Property taxes	(42)
Police fines	20
Total changes in unavailable revenues	480

Some expenses in the statement of activities do not require the use of current financial resources and; therefore, are not reported as expenditures in governmental funds.

Compensated absences	(2,124)
Retirement	17,352
Interest expense	48
Total changes in expenses	15,276

CHANGES IN NET POSITION OF GOVERNMENTAL ACTIVITIES           \$           181,290

The accompanying notes are an integral part of these statements.

**CITY OF MIDDLETON, TENNESSEE**  
**Proprietary Fund**  
**Statement of Net Position**  
**June 30, 2016**

	Business-Type Activities-- Enterprise Fund			Total
	Water and Sewer	Natural Gas	Nonmajor Fund Solid Waste Collection	
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 160,706	\$ 43,396	\$ 17,536	\$ 221,638
Accounts receivable (net of allowance for uncollectables of \$918)	69,330	70,504	-	139,834
Other receivables	-	9,021	-	9,021
Due from other funds	2,783	-	2,522	5,305
Due from other governments	148,855	-	-	148,855
Prepaid expenses	908	768	-	1,676
<b>Total Current Assets</b>	<b>382,582</b>	<b>123,689</b>	<b>20,058</b>	<b>526,329</b>
<b>RESTRICTED ASSETS</b>				
Cash and cash equivalents	21,605	127,556	-	149,161
<b>Total Restricted Assets</b>	<b>21,605</b>	<b>127,556</b>	<b>-</b>	<b>149,161</b>
<b>NONCURRENT ASSETS</b>				
Net pension asset	718	602	290	1,610
Land and construction in progress	5,622	-	-	5,622
Other capital assets, net of depreciation	2,612,097	2,490,478	-	5,102,575
<b>Net Capital Assets</b>	<b>2,618,437</b>	<b>2,491,080</b>	<b>290</b>	<b>5,109,807</b>
<b>Total Assets</b>	<b>3,022,624</b>	<b>2,742,325</b>	<b>20,348</b>	<b>5,785,297</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Pensions	3,904	4,345	2,093	10,342
<b>Total deferred outflows of resources</b>	<b>\$ 3,904</b>	<b>\$ 4,345</b>	<b>\$ 2,093</b>	<b>\$ 10,342</b>

The accompanying notes are an integral part of these statements.

**CITY OF MIDDLETON, TENNESSEE**  
**Proprietary Fund**  
**Statement of Net Position**  
**June 30, 2016**

	Business-Type Activities-- Enterprise Fund			Total
	Water and Sewer	Natural Gas	Nonmajor Fund Solid Waste Collection	
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	\$ 7,171	\$ 17,086	\$ 2,334	\$ 26,591
Accounts payable - fixed assets	186,843	7,248	-	194,091
Accrued liabilities	4,024	2,145	414	6,583
Current portion of long term debt	15,000	85,000	-	100,000
Due to other funds	2,522	2,533	1,244	6,299
Current portion advance from other funds	-	150,000	-	150,000
Accrued interest	1,091	7,656	-	8,747
Customer deposits	21,659	10,150	-	31,809
<b>Total Current Liabilities</b>	<b><u>238,310</u></b>	<b><u>281,818</u></b>	<b><u>3,992</u></b>	<b><u>524,120</u></b>
<b>NONCURRENT LIABILITIES</b>				
Compensated absences	2,951	2,819	1,410	7,180
Revenue bonds and notes payable, less current maturities	374,877	2,614,923	-	2,989,800
Advance from other funds	-	150,000	-	150,000
<b>Total Noncurrent Liabilities</b>	<b><u>377,828</u></b>	<b><u>2,767,742</u></b>	<b><u>1,410</u></b>	<b><u>3,146,980</u></b>
<b>Total Liabilities</b>	<b><u>616,138</u></b>	<b><u>3,049,560</u></b>	<b><u>5,402</u></b>	<b><u>3,671,100</u></b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Pensions	3,551	2,978	1,434	7,963
<b>Total Deferred Inflows of Resources</b>	<b><u>3,551</u></b>	<b><u>2,978</u></b>	<b><u>1,434</u></b>	<b><u>7,963</u></b>
<b>NET POSITION</b>				
Net investment in capital asset	2,040,999	-	-	2,040,999
Unrestricted	365,840	(305,868)	15,605	75,577
<b>TOTAL NET POSITION</b>	<b><u>\$ 2,406,839</u></b>	<b><u>\$ (305,868)</u></b>	<b><u>\$ 15,605</u></b>	<b><u>\$ 2,116,576</u></b>

The accompanying notes are an integral part of these statements.

**CITY OF MIDDLETON, TENNESSEE**  
**Proprietary Fund**  
**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**For the fiscal year ended June 30, 2016**

	Business-Type Activities-- Enterprise Fund			Total
	Water and Sewer	Natural Gas	Nonmajor Fund Solid Waste Collection	
<b>OPERATING REVENUES</b>				
Charges for services	\$ 370,472	\$ 719,792	\$ 29,307	\$ 1,119,571
Total Operating Revenues	<u>370,472</u>	<u>719,792</u>	<u>29,307</u>	<u>1,119,571</u>
<b>OPERATING EXPENSES</b>				
Personnel services	26,489	23,161	11,608	61,258
Payroll taxes	1,945	1,762	813	4,520
Health insurance	9,801	7,759	3,966	21,526
Retirement	473	550	265	1,288
Employee training	1,928	-	-	1,928
Postage	803	395	364	1,562
Electricity	55,516	286	-	55,802
Telephone	-	1,061	-	1,061
Other professional services	15,059	33,362	-	48,421
Office supplies	-	1,067	-	1,067
Operating supplies	1,085	-	-	1,085
Memberships, dues, and permits	5,197	1,000	-	6,197
Advertising	154	-	-	154
Repair and maintenance	30,856	1,645	396	32,897
Travel	-	754	-	754
Purchases of natural gas	-	369,447	-	369,447
Waste disposal	-	-	27,566	27,566
Contracted operation and maintenance	-	103,764	-	103,764
Sundry	22,733	-	285	23,018
Chemicals and laboratory supplies	9,692	-	-	9,692
Gas, oil and diesel	2,080	194	-	2,274
Insurance	6,401	27,013	-	33,414
Depreciation	103,386	59,738	-	163,124
Total Operating Expenses	<u>293,598</u>	<u>632,958</u>	<u>45,263</u>	<u>971,819</u>
<b>OPERATING INCOME (LOSS)</b>	<u>\$ 76,874</u>	<u>\$ 86,834</u>	<u>\$ (15,956)</u>	<u>\$ 147,752</u>

The accompanying notes are an integral part of these statements.

**CITY OF MIDDLETON, TENNESSEE**  
**Proprietary Fund**  
**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**For the fiscal year ended June 30, 2016**

	Business-Type Activities-- Enterprise Fund			Total
	Water and Sewer	Natural Gas	Nonmajor Fund Solid Waste Collection	
OPERATING INCOME (LOSS)	\$ 76,874	\$ 86,834	\$ (15,956)	\$ 147,752
NONOPERATING REVENUES (EXPENSES)				
Investment income	171	381	12	564
Miscellaneous revenues	1,412	2,973	-	4,385
Interest expense	(13,618)	(94,284)	-	(107,902)
Total Nonoperating Revenues (Expenses)	(12,035)	(90,930)	12	(102,953)
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	64,839	(4,096)	(15,944)	44,799
Capital contributions and grants	170,608	-	-	170,608
CHANGES IN NET POSITION	235,447	(4,096)	(15,944)	215,407
TOTAL NET POSITION--BEGINNING OF YEAR	2,171,392	(301,772)	31,549	1,901,169
NET POSITION--ENDING	\$ 2,406,839	\$ (305,868)	\$ 15,605	\$ 2,116,576

The accompanying notes are an integral part of these statements.

**CITY OF MIDDLETON, TENNESSEE**  
**Proprietary Funds**  
**Statement of Cash Flows**  
**For the fiscal year ended June 30, 2016**

	Business-Type Activities--Enterprise Funds			
	Water and Sewer	Natural Gas	Nonmajor Fund Solid Waste Collection	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from customers	\$ 359,096	\$ 742,945	\$ 31,131	\$ 1,133,172
Other miscellaneous receipts	236	2,973	-	3,209
Cash payments to employees including fringe benefits	(44,614)	(35,201)	(17,601)	(97,416)
Cash payments to suppliers for goods and services	(152,187)	(546,315)	(28,602)	(727,104)
Net cash provided by (used in) operating activities	<u>162,531</u>	<u>164,402</u>	<u>(15,072)</u>	<u>311,861</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>				
Federal and state grants received	45,605	-	-	45,605
Net changes in due from other funds	(2,659)	(1,613)	(14)	(4,286)
Net changes in due to other funds	(15,169)	-	1,120	(14,049)
Net cash provided by (used in) non-capital financing activities	<u>27,777</u>	<u>(1,613)</u>	<u>1,106</u>	<u>27,270</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>				
Acquisition and construction of fixed assets	(20,724)	(337,059)	-	(357,783)
Payment of accounts payable used to acquire fixed assets	(6,300)	7,248	-	948
Bond and note principal payments	(15,000)	(70,000)	-	(85,000)
Interest paid on bonds and notes	(14,024)	(96,323)	-	(110,347)
Capital contributions and grants received	(23,852)	-	-	(23,852)
Net cash provided by (used in) capital financing activities	<u>(79,900)</u>	<u>(496,134)</u>	<u>-</u>	<u>(576,034)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest income received	171	116	12	299
Net cash provided by (used in) investing activities	<u>171</u>	<u>116</u>	<u>12</u>	<u>299</u>
Net increase (decrease) in cash and cash equivalents	110,579	(333,229)	(13,954)	(236,604)
Cash and cash equivalents, beginning of year	<u>71,732</u>	<u>504,181</u>	<u>31,490</u>	<u>607,403</u>
Cash and cash equivalents, end of year	<u>\$ 182,311</u>	<u>\$ 170,952</u>	<u>\$ 17,536</u>	<u>\$ 370,799</u>

The accompanying notes are an integral part of these statements.

**CITY OF MIDDLETON, TENNESSEE**  
**Proprietary Funds**  
**Statement of Cash Flows**  
**For the fiscal year ended June 30, 2016**

	Business-Type Activities--Enterprise Funds			Total
	Water and Sewer	Natural Gas	Nonmajor Fund Solid Waste Collection	
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>				
Operating income (loss)	\$ 76,874	\$ 86,834	\$ (15,956)	\$ 147,752
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	103,385	59,738	-	163,123
Miscellaneous revenues	1,412	2,973	-	4,385
Changes in assets and liabilities:				
Accounts receivable	(14,022)	15,289	-	1,267
Prepaid expense	(18)	(18)	-	(36)
Net pension asset	206	-	(290)	(84)
Deferred outflows of resources from pensions	1,628	2,978	(2,093)	2,513
Accounts payable	(665)	(6,309)	9	(6,965)
Accrued liabilities	1,152	4,964	1,824	7,940
Compensated absences	(3,376)	-	-	(3,376)
Net pension liability	-	(602)	-	(602)
Deferred inflows of resources from pensions	(4,364)	(4,345)	1,434	(7,275)
Due to other governments	(1,176)	-	-	(1,176)
Customer deposits	1,495	2,900	-	4,395
<b>Total adjustments</b>	<b>85,657</b>	<b>77,568</b>	<b>884</b>	<b>164,109</b>
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 162,531</b>	<b>\$ 164,402</b>	<b>\$ (15,072)</b>	<b>\$ 311,861</b>
Schedule of Non-Cash Investing Activities:				
Purchase of fixed assets	\$ (186,843)	-	-	\$ (186,843)
Accounts payable used to purchase fixed assets	186,843	-	-	186,843
Cash and Cash Equivalents Include the Following Statement of Net Assets Accounts				
Cash and cash equivalents	\$ 160,706	\$ 43,396	\$ 17,536	\$ 221,638
Restricted cash and cash equivalents	21,605	127,556	-	149,161
<b>Total cash and cash equivalents</b>	<b>\$ 182,311</b>	<b>\$ 170,952</b>	<b>\$ 17,536</b>	<b>\$ 370,799</b>

The accompanying notes are an integral part of these statements.



**CITY OF MIDDLETON, TENNESSEE**  
**General Fund**  
**Schedule of Revenues, Expenditures and Changes in**  
**Fund Balance--Budget and Actual**  
**For the fiscal year ended June 30, 2016**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts Budgetary Basis	Final Budget Positive/ Negative
<b>REVENUES</b>				
Taxes				
Real estate taxes	\$ 170,975	\$ 170,975	\$ 163,992	\$ (6,983)
Personal property taxes	11,775	11,775	13,941	2,166
Delinquent property taxes	2,000	2,000	4,664	2,664
Penalties and interest	450	450	5,084	4,634
In lieu taxes - Thyssenkrupp	5,000	5,000	3,271	(1,729)
Local sales tax	220,000	220,000	250,146	30,146
Local beer tax	72,000	72,000	89,896	17,896
Franchise tax	8,600	8,600	9,829	1,229
Total Taxes	<u>490,800</u>	<u>490,800</u>	<u>540,823</u>	<u>50,023</u>
Licenses and Permits				
Beer annual privilege tax	300	300	300	-
Building permits	200	200	45	(155)
Total Licenses and Permits	<u>500</u>	<u>500</u>	<u>345</u>	<u>(155)</u>
Intergovernmental Revenues				
Library grant	2,150	2,150	500	(1,650)
In service training	24,000	24,000	-	(24,000)
County library assistance	2,300	2,300	3,100	800
TVA in lieu	6,000	6,000	8,285	2,285
Sales tax allocation	48,000	48,000	57,304	9,304
Telecommunication sales tax	-	-	57	57
Income tax allocation	4,200	4,200	3,237	(963)
Beer tax allocation	400	400	345	(55)
Police operating grant	-	-	5,568	5,568
Natural Gas franchise tax	-	-	1	1
Street and transportation	1,200	1,200	1,436	236
County fire dept. assistance	18,500	18,500	24,000	5,500
Corporate excise tax	2,100	2,100	3,808	1,708
Total Intergovernmental Revenues	<u>108,850</u>	<u>108,850</u>	<u>107,641</u>	<u>(1,209)</u>
Charges for Services				
Cemetary maintenance charges	-	-	14	14
Police in service training charges	2,450	2,450	1,800	(650)
Total Charges for Services	<u>\$ 2,450</u>	<u>\$ 2,450</u>	<u>\$ 1,814</u>	<u>\$ (636)</u>

The accompanying notes are an integral part of these statements.

**CITY OF MIDDLETON, TENNESSEE**  
**General Fund**  
**Schedule of Revenues, Expenditures and Changes in**  
**Fund Balance--Budget and Actual**  
**For the fiscal year ended June 30, 2016**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget Positive/ Negative
	Original	Final		
<b>REVENUES - CONTINUED</b>				
<b>Fines, Forfeits and Penalties</b>				
Library fines	\$ 2,500	\$ 2,500	\$ 3,101	\$ 601
City court fines	2,450	2,450	7,015	4,565
Drug related fines	700	700	-	(700)
County court fines	-	-	1,037	1,037
<b>Total Fines, Forfeits and Penalties</b>	<u>5,650</u>	<u>5,650</u>	<u>11,153</u>	<u>5,503</u>
Investment income--interest	<u>48</u>	<u>48</u>	<u>56</u>	<u>8</u>
<b>Other Revenues</b>				
Rent	38,000	38,000	40,685	2,685
Library donations	650	650	822	172
Police department donations	350	350	538	188
Fire department donations	350	350	1,000	650
Donated property	-	-	1,000	1,000
Cemetary plots sold	1,200	1,200	1,620	420
Other income	600	600	1,993	1,393
<b>Total Other Revenues</b>	<u>41,150</u>	<u>41,150</u>	<u>47,658</u>	<u>6,508</u>
<b>Total Revenues</b>	<u>649,448</u>	<u>649,448</u>	<u>709,490</u>	<u>60,042</u>
<b>EXPENDITURES</b>				
<b>General Government</b>				
<b>General</b>				
Salaries	60,250	58,250	59,357	(1,107)
Payroll taxes	4,609	4,456	4,469	(13)
Health insurance	20,906	19,906	17,165	2,741
Retirement	4,780	4,780	4,441	339
Unemployment insurance	310	310	343	(33)
Employee training	500	500	345	155
Postage	500	500	441	59
Memberships, registration	1,500	1,500	1,178	322
Advertising	800	800	774	26
Utility services	2,700	2,700	2,026	674
Electricity	4,500	4,500	4,496	4
Solid waste	156	156	143	13
Telephone	2,220	2,220	2,583	(363)
Legal services	1,500	1,500	2,940	(1,440)
Audit	6,000	6,000	6,000	-
Data processing service	4,500	4,500	4,476	24
Travel	600	600	535	65

The accompanying notes are an integral part of these statements.

**CITY OF MIDDLETON, TENNESSEE**  
**General Fund**  
**Schedule of Revenues, Expenditures and Changes in**  
**Fund Balance--Budget and Actual**  
**For the fiscal year ended June 30, 2016**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts Budgetary Basis	Final Budget Positive/ Negative
<b>EXPENDITURES - CONTINUED</b>				
General Government - continued				
General - continued				
Office supplies	\$ 3,000	\$ 3,000	\$ 2,044	\$ 956
Repairs	660	660	661	(1)
Fuel (over) short	600	600	(297)	897
Insurance	5,500	8,100	26,824	(18,724)
Bonds	200	200	200	-
Christmas decorations	300	300	219	81
Miscellaneous	1,740	1,740	1,700	40
<b>Total General</b>	<b>128,331</b>	<b>127,778</b>	<b>143,063</b>	<b>(15,285)</b>
Judicial				
Salaries	1,800	1,800	1,800	-
Payroll taxes	138	138	138	-
<b>Total Judicial</b>	<b>1,938</b>	<b>1,938</b>	<b>1,938</b>	<b>-</b>
<b>Total General Government</b>	<b>130,269</b>	<b>129,716</b>	<b>145,001</b>	<b>(15,285)</b>
Public Safety				
Police Department				
Salaries	140,000	140,000	135,827	4,173
Police salaries - overtime	20,000	20,000	5,085	14,915
Payroll taxes	12,240	12,240	9,605	2,635
Hospital insurance	40,696	40,696	34,184	6,512
Retirement	16,704	16,704	13,590	3,114
Employee training	800	800	220	580
Postage	200	200	27	173
Utility services	1,200	1,200	1,181	19
Electricity	1,750	1,750	1,194	556
Data processing	300	300	182	118
Telephone	1,300	1,300	1,129	171
Other professional services	-	-	356	(356)
Radio repair and maintenance	600	600	(115)	715
Travel and training	2,000	2,000	55	1,945
Operating supplies	1,400	1,400	1,372	28
Office supplies	1,500	1,500	1,112	388
Police department uniforms	2,000	2,000	1,795	205
Repairs	2,500	3,600	5,808	(2,208)
Gasoline and oil	15,000	15,000	10,885	4,115

The accompanying notes are an integral part of these statements.

**CITY OF MIDDLETON, TENNESSEE**  
**General Fund**  
**Schedule of Revenues, Expenditures and Changes in**  
**Fund Balance--Budget and Actual**  
**For the fiscal year ended June 30, 2016**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts Budgetary Basis	Final Budget Positive/ Negative
EXPENDITURES - CONTINUED				
Public Safety - continued				
Police Department - continued				
Insurance	\$ 17,000	\$ 17,000	\$ -	\$ 17,000
Moving violations to state	-	-	1,198	(1,198)
Miscellaneous	900	900	899	1
Total Police Department	<u>278,090</u>	<u>279,190</u>	<u>225,589</u>	<u>53,601</u>
Fire Department				
Salaries	1,530	1,970	420	1,550
Volunteer fireman	20,000	15,850	15,780	70
Payroll taxes	-	(94)	1,436	(1,530)
Utility services	2,500	2,500	3,108	(608)
Electricity	2,450	2,450	2,277	173
Telephone	-	-	249	(249)
Radio repair and maintenance	2,500	2,500	2,500	-
Travel	-	151	280	(129)
Supplies	6,000	6,000	4,324	1,676
Repairs	3,700	3,700	4,659	(959)
Gasoline and oil	2,500	2,500	669	1,831
Insurance	14,000	4,000	4,000	-
Miscellaneous	-	2,615	365	2,250
Total Fire Department	<u>55,180</u>	<u>44,142</u>	<u>40,067</u>	<u>4,075</u>
Total Public Safety	<u>333,270</u>	<u>323,332</u>	<u>265,656</u>	<u>57,676</u>
Public Works				
Highways, Streets and Roadways				
Salaries	19,500	16,725	15,219	1,506
Payroll taxes	1,492	1,279	1,408	(129)
Hospital insurance	9,432	3,636	2,892	744
Retirement	2,040	1,443	1,080	363
Postage	200	200	-	200
Electricity	4,000	4,000	3,712	288
Repair and maintenance - buildings	1,000	1,000	984	16
Repair and maintenance - roads	2,000	2,000	1,999	1
Gas, oil and diesel	2,750	2,750	2,603	147
Repair and maintenance - street equipment	3,500	3,500	4,715	(1,215)
Repairs and maintenance - supplies	2,000	2,000	3,044	(1,044)
Total Highways, Streets and Roadways	<u>\$ 47,914</u>	<u>\$ 38,533</u>	<u>\$ 37,656</u>	<u>\$ 877</u>

The accompanying notes are an integral part of these statements.

**CITY OF MIDDLETON, TENNESSEE**  
**General Fund**  
**Schedule of Revenues, Expenditures and Changes in**  
**Fund Balance--Budget and Actual**  
**For the fiscal year ended June 30, 2016**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts Budgetary Basis	Final Budget Positive/ Negative
EXPENDITURES - CONTINUED				
Public Works - continued				
Cemetaries				
Repairs and maintenance	\$ 300	\$ 300	\$ 300	\$ -
Total Cemetaries	<u>300</u>	<u>300</u>	<u>300</u>	<u>-</u>
Total Public Works	<u>48,214</u>	<u>38,833</u>	<u>37,956</u>	<u>877</u>
Culture and Recreation				
Recreation Center				
Utility services	4,000	4,000	3,010	990
Solid waste	156	156	105	51
Repair and maintenance service	-	-	127	(127)
Total Recreation Center	<u>4,156</u>	<u>4,156</u>	<u>3,242</u>	<u>914</u>
Parks				
Utility services	7,800	7,800	8,740	(940)
Repair and maintenance - service	250	250	144	106
Repair and maintenance - supplies	250	250	-	250
Total Parks	<u>8,300</u>	<u>8,300</u>	<u>8,884</u>	<u>(584)</u>
Library				
Salaries	19,350	19,350	19,766	(416)
Payroll taxes	1,481	1,481	1,512	(31)
Utility services	2,800	2,800	2,130	670
Solid waste	156	156	132	24
Telephone	1,200	1,200	950	250
Repair and maintenance - service	150	150	-	150
Travel	400	400	354	46
Supplies	5,000	5,000	5,361	(361)
Office supplies	800	3,000	2,930	70
Repairs	500	500	290	210
Miscellaneous	400	400	380	20
Total Library	<u>32,237</u>	<u>34,437</u>	<u>33,805</u>	<u>632</u>
Total Culture and Recreation	<u>\$ 44,693</u>	<u>\$ 46,893</u>	<u>\$ 45,931</u>	<u>\$ 962</u>

The accompanying notes are an integral part of these statements.

**CITY OF MIDDLETON, TENNESSEE**  
**General Fund**  
**Schedule of Revenues, Expenditures and Changes in**  
**Fund Balance--Budget and Actual**  
**For the fiscal year ended June 30, 2016**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts Budgetary Basis	Final Budget Positive/ Negative
<b>EXPENDITURES - CONTINUED</b>				
Capital Outlays				
General government	\$ 15,000	\$ 15,000	\$ 1,692	\$ 13,308
Police department	10,000	10,000	12,025	(2,025)
Fire department	32,000	32,000	31,421	579
Public property	20,000	20,000	7,844	12,156
Parks	4,000	4,000	3,454	546
Total Capital Outlays	<u>81,000</u>	<u>81,000</u>	<u>56,436</u>	<u>24,564</u>
Debt Service				
Retirement of mortgage notes	11,000	11,000	11,442	(442)
Interest	414	600	158	442
Total Debt Service	<u>11,414</u>	<u>11,600</u>	<u>11,600</u>	<u>-</u>
Total Expenditures	<u>648,860</u>	<u>631,374</u>	<u>562,580</u>	<u>68,794</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>588</u>	<u>18,074</u>	<u>146,910</u>	<u>128,836</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	<u>-</u>	<u>-</u>	<u>59,477</u>	<u>59,477</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>59,477</u>	<u>59,477</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	588	18,074	206,387	188,313
Fund balance--beginning	<u>437,473</u>	<u>437,473</u>	<u>437,473</u>	<u>-</u>
Fund balance--ending	<u>\$ 438,061</u>	<u>\$ 455,547</u>	<u>\$ 643,860</u>	<u>\$ 188,313</u>

The accompanying notes are an integral part of these statements.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### a. Reporting Entity

The City is a municipal corporation governed by an elected Mayor and five-member board. As required by generally accepted accounting principles, these financial statements present the City and its component unit, entities for which the government is considered to be financially accountable. A component unit is included in the City's reporting entity if it is both fiscally dependent on the City and there is a potential for the component unit to provide specific financial benefits to, or impose specific financial burdens on, the City. The City is required to consider other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Financial accountability exists if the City appoints a voting majority of an organization's governing board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the City.

The financial statements of the component units may be discretely presented in a separate column from the primary government or blended with the financial statements of the primary government.

Based upon the application of these criteria, the following is a brief review of each potential component unit addressed in defining the government's reporting entity.

#### Blended Component Unit

The Industrial Development Board, the Planning Committee Board, the Library Board, the Zoning Board, and the Cemetery Board meet the criteria listed for inclusion as a component unit. However, these boards do not have any financial activity; therefore, there are no separate financial statements for these component units. Any assets, liabilities, revenues, or expenses of these boards are paid by the City and are blended in the City's financial statements. The Industrial Development Board is 100 percent appointed by the City Board and provides industrial planning for the City. The Planning Committee Board is 100 percent appointed by the City Board and provides planning commission services to the City. The Library Board is 100 percent appointed by the City Board and provides library oversight services to the City.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

a. Blended Component Unit - continued

The Zoning Board is 100 percent appointed by the City Board and provides zoning oversight to the City. The Cemetery Board is 100 percent appointed by the City Board and provides cemetery oversight and recommendations.

b. Fund Accounting

The accounts of the City are organized and operated using funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

Funds are classified into the following categories: governmental, proprietary, and fiduciary.

Governmental funds are used to account for all or most of a City's general activities, including the collection and disbursement of earmarked monies (special revenue funds), accounting for financial resources to be used for the acquisition or construction of major capital facilities (capital project funds) and to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's program (permanent funds). The General Fund is used to account for all activities of the general government not accounted for in some other fund.

Proprietary funds are used to account for activities for which a fee is charged to external or internal users for goods or services. Their reporting focuses on the determination of operating income and changes in net position. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies primarily within the City (internal service funds). The City considers all revenues and expenses derived from the performance of the fund's function (water, sewer, gas, sanitation), or paid to provide the function, to be operating revenues and expenses. Everything else is considered nonoperating.

Fiduciary funds are used to account for assets held in a trustee or agency capacity for others and; therefore, cannot be used to support the City's own programs.

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the City. The effect of material interfund activity has been eliminated from these statements.

Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges for support.



**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

c. Government-Wide and Fund Financial Statements

The statement of activities demonstrates the degree to which the direct expenses of a given function, segment, or program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and standard revenues that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The general fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The Industrial Development Board, the Planning Committee Board, the Library Board, and the Cemetery Board transactions are blended into the general fund because all expenditures thereof are provided by the general fund.

Additionally, the nonmajor governmental funds include the following:

The state street aid special revenue fund is used to account for state street aid collections set aside for which income is restricted for street expenditures.

The drug special revenue fund is used to account for drug fund collections set aside for which income is restricted for police drug awareness and drug enforcement.

The cemetery perpetual care permanent fund is used to account for collections set aside for which original donations are nonspendable by donor action and income from investment of these donations is restricted by donor action to be used for cemetery maintenance.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

c. Government-Wide and Fund Financial Statements - continued

The City reports the following major proprietary funds:

The Water and Sewer Fund accounts for the activities of the water and sewer operations. The City operates the sewage treatment plant, sewage pumping stations and collection systems, and the water distribution system.

The Natural Gas Fund accounts for the activities of the natural gas system. The City operates the natural gas distribution system.

Additionally, the nonmajor proprietary fund types include the following:

The Solid Waste Fund accounts for the activities of the collection and disposal of garbage.

d. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues and additions are recorded when earned and expenses and deductions are recorded when a liability is incurred. Property taxes are recognized as revenues in the year for which they are levied (i.e., intended to finance). Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a fund liability is incurred; however, debt service expenditures are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, licenses, charges for services (except police fines occurring prior to February 5, 2009 which are not measurable), and interest associated with the current fiscal period are all considered to be susceptible to accrual and are recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

d. Measurement Focus, Basis of Accounting, and Financial Statement Presentation - continued

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

e. Budgets

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted at the department level for the Governmental and Proprietary Funds. The annual appropriated budget is legally enacted and provides for a legal level of control at the department level. All annual appropriations lapse at fiscal year-end.

f. Cash and Investments

For purposes of the statement of cash flows, the City’s proprietary fund types consider all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Investments consist of certificates of deposit and are stated at cost which approximates fair value.

g. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds”.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Governmental fund other receivables include police fines, franchise fees, and other miscellaneous receivables.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

h. Inventories

Inventory of gasoline is valued at cost on a first-in first-out basis. Inventories of office materials, and water and sewer supplies were deemed to be immaterial and were not inventoried or reflected in the City's records.

i. Prepaid Items/Expenses

Payments made to vendors for services that will benefit periods beyond the date of this report are reported on the consumption basis on both the government-wide and fund financial statements.

j. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items acquired after June 30, 2003), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City has elected not to report infrastructure acquired prior to implementation of GASB 34. Capital assets are defined by the City as assets with an initial, individual cost of \$5,000 or more for land, building, infrastructure, improvements other than buildings, and equipment (amounts not rounded) and an estimated useful life of over one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. While implementing GASB 34, the City valued certain capital assets at estimated historical cost. It is at least reasonably possible that these estimates of historical cost could change in the near-term. The cost of normal maintenance and repairs and planned maintenance that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Property, plant and equipment is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	10-40
Improvements other than buildings	10-30
Infrastructure	20
Water and sewer system	10-50
Machinery and equipment	5-25

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

k. Capitalization of Interest

In conformity with Financial Accounting Standards No. 34, *Capitalization of Interest Cost*, the City capitalizes interest costs for business-type activities only, net of related interest earned, from the date of the borrowing until the projects acquired with those funds are ready for their intended use. Total interest, fiscal charges and amortization of loan premium and deferred amount of refunding incurred in the enterprise funds was \$107,902. Interest costs, fiscal charges and amortization of loan premium and deferred amount of refunding of \$107,902 were charged to expense. Interest costs of \$0, net of interest earned, were capitalized as fixed assets in the enterprise funds.

l. Compensated Absences

It is the City's policy to permit employees to accumulate a limited amount of earned, but unused vacation leave, which will be paid to employees upon separation from City services.

The City accrues a liability for compensated absences which meet the following criteria:

1. The City's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated.

As of June 30, 2016, the liability for accrued vacation leave was approximately \$24,336. The amount applicable to the Water and Sewer Fund of \$2,951, Natural Gas Fund of \$2,819, Solid Waste Collection fund \$1,410 and General Fund of \$0 has been recorded in these funds and the amount applicable to other funds of \$17,156 has been recorded in the government-wide statements.

In accordance with the provisions of GASB Statement No.16, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

m. Long-Term Obligations

The City has issued debt under the Tennessee Code. This code provides for the prompt payment of notes or certificates of indebtedness at maturity, both principal and interest. The full faith and credit and resources of the City are pledged for these notes. If the City does not have available funds in an amount sufficient to provide for the payment of principal and interest according to the terms of such notes or certificates of indebtedness, then the City is required to annually levy a special tax upon all of its taxable property at a rate, the avails of which will be sufficient to provide such payments. Funds derived from any such tax shall be paid into a sinking fund and used exclusively for the payment of principal and interest on the notes or certificates of indebtedness.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

m. Long-Term Obligations - continued

The City has not, and does not expect to be required to, levy such tax.

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type financial statements. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are chargeable to the current period.

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

n. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of City of Middleton's participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System (TCRS), and additions to/deductions from City of Middleton's fiduciary net position have been determined on the same basis as they are reported by the TCRS for the Public Employee Retirement Plan. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Public Employee Retirement Plan of TCRS. Investments are reported at fair value.

o. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The City reports GASB No. 71 pension contributions made after the pension reporting date as follows: Governmental Activities \$19,501, Business-Type Activities of \$10,342, Major Fund Water and Sewer Fund of \$3,904, Major Fund Natural Gas Fund of \$4,345 and Nonmajor Fund Solid Waste Collection Fund of \$2,093. See details in Note 9.

City of Middleton, Tennessee  
Notes to the Financial Statements  
June 30, 2016

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

o. Deferred Outflows/Inflows of Resources - continued

In addition to liabilities, the statement of net position will sometimes report a separate inflow of resources. This separate financial element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

The City has the following types of items for reporting in the government-wide statement of net position and the governmental funds balance sheet. The amounts are deferred and recognized as an inflow of resources in the period that the amount becomes available. The City reports unavailable revenues and GASB No. 68 pension deferrals from the following sources:

Solid .

	<u>Government-Wide</u>		<u>General Fund</u>	<u>Water and Sewer Fund</u>	<u>Natural Gas Fund</u>	<u>Waste Collection Fund</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>				
Unavailable Revenue						
Property taxes	\$175,400	\$ -	\$180,450	\$ -	\$ -	\$ -
Insurance rebate	-	-	1,250	-	-	-
State beer tax	-	-	80	-	-	-
Police fines	-	-	370	-	-	-
Total unavailable revenue	<u>175,400</u>	<u>-</u>	<u>182,150</u>	<u>-</u>	<u>-</u>	<u>-</u>
Pensions	<u>26,060</u>	<u>7,963</u>	<u>-</u>	<u>3,551</u>	<u>2,978</u>	<u>1,434</u>
Total deferred inflows of resources	<u>\$201,460</u>	<u>\$7,963</u>	<u>\$182,150</u>	<u>\$3,551</u>	<u>\$2,978</u>	<u>\$1,434</u>

p. Fund Equity/Net Position

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources.

**Nonspendable fund balance.** This classification includes amounts that cannot be spent because they are either (a) not in spendable form – prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

**Restricted fund balance.** This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

**Committed fund balance.** These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the Board of Alderpersons, the government's highest level of decision-making authority. Those committed amounts cannot be used for any other purpose unless the Board of Alderpersons removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

p. Fund Equity/Net Position - continued

obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned fund balance. This classification reflects the amounts constrained by the City's "intent" to be used for a specific purpose, but are neither restricted nor committed. The Board of Alderpersons and Mayor have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

Unassigned fund balance. This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

The constraints on fund balances as listed in aggregate in the Statement of Revenues, Expenditures, and Changes in Fund Balance are detailed according to balance classification and fund.

	<u>General Fund</u>	<u>Other Governmental Funds</u>
<b>Fund Balances:</b>		
<b>Nonspendable:</b>		
Prepaid items	\$ 1,821	\$ -
Inventories	1,024	-
Advances to other funds	300,000	-
Cemetery perpetual care	-	3,032
<b>Total – Nonspendable</b>	<b>\$ 302,845</b>	<b>\$ 3,032</b>
<b>Restricted:</b>		
State Street Aid	\$ -	\$ 8,661
Drug awareness and prevention	-	1,757
Cemetery maintenance	-	405
<b>Total – Restricted</b>	<b>\$ -</b>	<b>\$ 10,823</b>

The State Street Aid and the Drug Abuse Prevention and Enforcements fund balance and net position of \$8,661 and \$1,757 were restricted by State of Tennessee enabling legislation. The Cemetery Perpetual Care fund balance and net position of \$405 are restricted by donor.

When restricted, committed, assigned and unrestricted resources are available for use, it is the City's policy to use externally restricted resources first, then committed, assigned, and unassigned in that order as needed.



**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

p. Fund Equity/Net Position - continued

In the government-wide and proprietary fund financial statements, equity is classified as net position and displayed in three components:

*Net investment in capital assets*—Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any notes or other borrowings attributable to those assets.

*Restricted net position*—Consists of net assets with constraints placed on the use either by external groups, such as grantors or laws and regulations of other governments, or law through constitutional provisions or enabling legislation.

*Unrestricted net position*—All other assets that do not meet the definition of “restricted” or “net investment in capital assets.”

q. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. As such, actual results could differ from those estimates.

r. Encumbrances

Encumbrance accounting, under which commitments for the expenditure of monies are disclosed to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the governmental funds. The City’s budget basis is GAAP; therefore, the appropriations lapse at year end, even if encumbered. The City governmental funds had no material encumbrances as of June 30, 2016.

s. Reclassifications

Certain reclassifications have been made to the prior year financial statements in order to conform to the current year presentation.

**2. PROPERTY TAX**

Taxes are levied on January 1 and are due and payable October through February in the year succeeding the levy. Property taxes attach as an unperfected lien on property as of March 1. Taxes uncollected for one year past the due date are submitted to the Chancery Court for collection. Tax liens become perfected at the time the court enters judgment.

## 2. PROPERTY TAX - continued

Appraised values are established by Hardeman County, Tennessee at 100 percent of estimated market values. The City is required to adopt county tax rolls. The 2015 taxes are collected in October, 2015 through February, 2016. The 2015 taxes are levied to fund the 2015-2016 budget year. The assessed value upon which the 2015 taxes were based was \$18,322,797.

City property tax revenue is recorded in governmental funds as receivables and deferred inflows of resources for unavailable revenue at the time the tax attaches as an enforceable lien which includes the 2016 taxes intended to fund the 2016-2017 budget year of \$176,017. Current year revenues recognized are those collected within the current period, or soon enough thereafter to pay current liabilities, generally within sixty days after year end. An allowance is provided for property taxes not expected to be collected in the future.

The 2016 taxes of \$175,400 (\$176,017 net of \$618 allowance for bad debts) are also included in deferred inflows of resources for unavailable revenue and not in current revenues in governmental activities because they are levied to fund the 2016- 2017 budget year.

The City assessed a tax rate of 99.00 and 99.00 mills for the 2015 and 2016 taxes.

## 3. LEGAL COMPLIANCE AND ACCOUNTABILITY

### Budgets

The Mayor submits an annual budget to the Board of Alderpersons in accordance with the City charter and the State of Tennessee requirements. Prior to June 30, the Board of Alderpersons is required to adopt annual fiscal year appropriated budgets for specified City funds. These include general and special revenue funds. Annually appropriated budgets are also approved for certain portions of proprietary fund operations including water and sewer, natural gas and solid waste collection. Once approved, the Board of Alderpersons may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

Tennessee law requires the City to adopt a municipal budget on a basis consistent with U.S. generally accepted accounting principles; therefore, no reconciliation from budget basis to U.S. generally accepted accounting principles basis is required. In accordance with GASB 34, the City has presented the general fund budget comparison as part of the basic financial statements on Statement 8. The budgets shown on Statement 8 are the original and final adopted budgets.

The City is legally subject to the budgetary control requirements of its charter and the State of Tennessee. The City follows the following procedures in establishing the budgetary comparison:

City of Middleton, Tennessee  
Notes to the Financial Statements  
June 30, 2016

**3. LEGAL COMPLIANCE AND ACCOUNTABILITY - continued**

Budgets - continued

- A. Prior to June 1, the Mayor is required to submit to the Board of Alderpersons a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
- B. Public hearings are conducted to obtain taxpayer comments.
- C. Prior to July 1, the budget is required to be legally enacted through passage of an ordinance.
- D. The budget must be balanced. The balanced budget may include a contribution to or appropriation from fund balance.
- E. The budget must be amended when necessary.
- F. Debt cannot be entered into unless permitted by law.
- G. Expenditures cannot exceed budget appropriations.
- H. Expenditures cannot be made unless authorized in the budget.
- I. Appropriations lapse at the end of each year.

The following is a list of the excess of expenditures over appropriations for individual funds not included in the general fund budgetary comparisons on Statement 8:

<u>Fund/Category</u>	<u>Amount</u>
State street aid – street lighting	\$ 1,995
Drug – supplies and other	994
Drug – repairs	537
Drug – miscellaneous	243
Cemetery perpetual care – cemetery maintenance	14
Water and sewer – water repair and maintenance services	6,644
Water and sewer – operating supplies	209
Water and sewer – water depreciation	9,443
Water and sewer – bad debts	83
Water and sewer – sewer hospital and health insurance	12,921
Water and sewer – sewer employee education	1,167
Water and sewer – sewer permits	1,110
Water and sewer – sewer depreciation	9,443
Water and sewer – sewer capital outlays	57,568
Natural gas system – salaries	9,161
Natural gas system – FICA/Medicare – employer	691
Natural gas system – hospital and health insurance	7,759
Natural gas system – retirement	551
Natural gas system – telephone	65
Natural gas system – attorney	15,078

City of Middleton, Tennessee  
Notes to the Financial Statements  
June 30, 2016

**3. LEGAL COMPLIANCE AND ACCOUNTABILITY - continued**

Budgets - continued

<u>Fund/Category</u>	<u>Amount</u>
Natural gas system – consulting	\$ 3,113
Natural gas system – mileage	254
Natural gas system - depreciation	3,938
Sanitation – salaries	11,608
Sanitation – FICA/Medicare – employer	763
Sanitation – hospital and health insurance	3,966
Sanitation – retirement	165
Sanitation – repairs	396
Sanitation –bad debts	582
Sanitation – miscellaneous	285

**4. DEPOSITS AND INVESTMENTS**

At June 30, 2016, the cash and investments included the following:

<u>Account Balances</u>		<u>Ownership of Funds</u>	
Petty cash/cash on hand	\$ 430	Governmental Funds	\$ 259,812
Demand deposits	626,744	Enterprise Funds	<u>370,798</u>
Certificates of deposit	<u>3,436</u>		
	<u>\$630,610</u>		<u>\$630,610</u>

The deposits of the City are governed by State of Tennessee statutes which allow depositories to collateralize excess deposits above federal depository insurance coverage by one of two methods: 1) 105% of all deposits exceeding the federal depository insurance coverage are collateralized with securities held by the City's agency in the City's name, or 2) the financial institution must be a member of the State of Tennessee Bank Collateral Pool. Under this method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the City, these deposits are considered held by the City's agent in the City's name. The amount of the pledged collateral is based upon methods approved by the State of Tennessee.

Depositories using the pooling method report to the State Treasurer the adequacy of the pledged collateral covering uninsured deposits. The State Treasurer does not confirm this information with the City or with the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the City under the pooling method, the potential exists for under-collateralization, and the risk may increase in periods of high cash flows. However, the State Treasurer for Tennessee enforces strict standards of financial stability for each depository that collateralizes under the State of Tennessee Bank Collateral Pool.

#### **4. DEPOSITS AND INVESTMENTS - continued**

At June 30, 2016, the demand deposit and certificates of deposit held with various local financial institutions had carrying amounts totaling \$630,180 and bank balances totaling \$631,574, of which \$430,742 was covered by federal depository insurance and \$200,832 covered Tennessee bank Collateral Pool.

The City has designated First South Bank, Merchants & Planters Bank, and CB&S Bank as its official depositories.

##### Investments

State of Tennessee statutes authorize the City to invest in 1) short-term investments secured by FDIC in certificates of deposit, 2) short-term investments in treasury bills and treasury certificates, including security repurchase agreements at mutually agreeable interest rates for large sums available for very short-term investments, 3) short-term or long-term investments, which mature in two years or less, in TVA obligations, 4) long-term investments, which mature in two years or less, in housing authority bonds and in state, county, and city bonds, and 5) deposits in the Tennessee Local Government Investment Pool.

Investments are stated at cost. At June 30, 2016, the City investments consisted of certificates of deposit totaling \$3,436 with an average original maturity date of 365 days. There is no material difference in cost and market value of the certificates of deposit.

##### Interest Rate Risk

State law limits investments to maturities of two years or less. The City has no formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The City limited its investments during the year to federal depository insured certificates of deposit with Merchants & Planters Bank, First South Bank and CB&S Bank. These banks allow the City to cash out the certificates of deposit prior to maturity with a 90-180 day loss of interest.

##### Credit Risk

State law limits investments to 1) financial institutions insured by FDIC that are members of the State of Tennessee Bank Collateral Pool or that provide pledged collateral held by the City's agent in the City's name, 2) TVA obligations with a maturity of two years or less, 3) housing authority bonds and state, county, and city bonds which mature in two years or less, and 4) deposits in the Tennessee Local Government Investment Pool. The City has no investment policy that would limit its investment choices.

The City purchases certificates of deposit with the following financial institutions with the following ratings by Standard & Poor's: Merchants & Planters Bank (not rated).

City of Middleton, Tennessee  
Notes to the Financial Statements  
June 30, 2016

**4. DEPOSITS AND INVESTMENTS - continued**

Custodial Credit Risks

Custodial credit risk is the risk that the City will not be able to recover the value of its investments that are in the possession of its safekeeping custodian. To minimize this risk, the City's investment policy requires that all negotiable instruments shall be held in safekeeping in the trust department of a bank. The City's pledged collateral is held in the City's name by a safekeeping agent that is independent of all counterparties.

Concentration of Credit Risks

The City had investments in certificates of deposit at June 30, 2016 with more than 5% of the total in Merchants & Planters Bank. These investments represented 100% of total investments in certificates of deposit.

**5. RECEIVABLES**

Receivables at June 30, 2016 for the government's individual major funds and nonmajor funds, business-type funds, and fiduciary funds in the aggregate, including the applicable allowances for uncollectable accounts, consist of the following. It is at least reasonably possible that the City's estimate of allowance for doubtful accounts could change in the near-term.

	<u>General</u>	Other Governmental <u>Funds</u>	Water and Sewer <u>System</u>	Natural Gas <u>System</u>	<u>Total</u>
Receivables:					
Taxes					
Property	\$182,086	\$ -	\$ -	\$ -	\$182,086
Beer	8,756	-	-	-	8,756
Accounts	-	-	69,926	70,826	140,752
Police fines	2,350	-	-	-	2,350
Interest	-	1	-	-	1
Other	<u>53,855</u>	<u>-</u>	<u>-</u>	<u>9,021</u>	<u>62,876</u>
Gross receivables	247,047	1	69,926	79,847	396,821
Less: Allowance for uncollectables	<u>(3,676)</u>	<u>-</u>	<u>(596)</u>	<u>(322)</u>	<u>(4,594)</u>
Net receivables	<u>\$243,371</u>	<u>\$ 1</u>	<u>\$69,330</u>	<u>\$ 79,525</u>	<u>\$392,227</u>

City of Middleton, Tennessee  
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**6. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2016 was as follows:

	Balance June 30, 2015	<u>Additions</u>	<u>Deletions</u>	<u>Reclassifications</u>	Balance June 30, 2016
<b>GOVERNMENTAL ACTIVITIES</b>					
Capital assets not being depreciated:					
Land	\$ 431,109	\$ -	\$ -	\$ -	\$ 431,109
Total capital assets not being depreciated	<u>431,109</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>431,109</u>
Capital assets being depreciated:					
Building and improvements	947,828	-	-	-	947,828
Automotive and equipment	370,786	-	-	-	370,786
Infrastructure	<u>135,106</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>135,106</u>
Total capital assets being depreciated	<u>1,453,720</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,453,720</u>
Less accumulated depreciation for:					
Buildings and improvements	516,002	28,431	-	-	544,433
Automotive and equipment	253,783	14,679	-	-	268,462
Infrastructure	<u>58,225</u>	<u>6,755</u>	<u>-</u>	<u>-</u>	<u>64,980</u>
Total accumulated depreciation	<u>828,010</u>	<u>49,865</u>	<u>-</u>	<u>-</u>	<u>877,875</u>
Total capital assets being depreciated, net	<u>625,710</u>	<u>(49,865)</u>	<u>-</u>	<u>-</u>	<u>575,845</u>
<b>GOVERNMENTAL ACTIVITIES</b>					
<b>    CAPITAL ASSETS, NET</b>	<u>\$1,056,819</u>	<u>\$ (49,865)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,006,954</u>

City of Middleton, Tennessee  
Notes to the Financial Statements  
June 30, 2016

**6. CAPITAL ASSETS - continued**

Capital asset activity for the year ended June 30, 2016 was as follows:

	Balance June 30, 2015	Additions	Deletions	Reclassifications	Balance June 30, 2016
<b>BUSINESS TYPE ACTIVITIES</b>					
Water and Sewer System					
Capital assets not being depreciated:					
Land	\$ 5,622	\$ -	\$ -	\$ -	\$ 5,622
Total capital assets not being depreciated	<u>5,622</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,622</u>
Capital assets being depreciated:					
Building and improvements	30,944	-	-	-	30,944
Automotive and equipment	43,609	-	-	-	43,609
Water and sewer system	<u>4,202,178</u>	<u>207,567</u>	<u>-</u>	<u>-</u>	<u>4,409,745</u>
Total capital assets being depreciated	<u>4,276,731</u>	<u>207,567</u>	<u>-</u>	<u>-</u>	<u>4,484,298</u>
Less accumulated depreciation for:					
Buildings and improvements	12,925	617	-	-	13,542
Automotive and equipment	25,756	2,693	-	-	28,449
Water and sewer system	<u>1,730,135</u>	<u>100,075</u>	<u>-</u>	<u>-</u>	<u>1,830,210</u>
Total accumulated depreciation	<u>1,768,816</u>	<u>103,385</u>	<u>-</u>	<u>-</u>	<u>1,872,201</u>
Total capital assets being depreciated, net	<u>2,507,915</u>	<u>104,182</u>	<u>-</u>	<u>-</u>	<u>2,612,097</u>
<b>WATER AND SEWER SYSTEM</b>					
CAPITAL ASSETS, NET	<u>\$2,513,537</u>	<u>\$ 104,182</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$2,617,719</u>
Natural Gas System					
Capital assets not being depreciated:					
Construction in progress	\$ 0	\$ -	\$ -	\$ -	\$ -
Total capital assets not being depreciated	<u>0</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Capital assets being depreciated:					
Automotive and equipment	0	10,000	-	-	10,000
Natural gas system	<u>2,299,205</u>	<u>327,059</u>	<u>-</u>	<u>-</u>	<u>2,626,264</u>
Total capital assets being depreciated	<u>2,299,205</u>	<u>337,059</u>	<u>-</u>	<u>-</u>	<u>2,636,264</u>
Less accumulated depreciation for:					
Automotive and equipment	0	242	-	-	242
Natural gas system	<u>86,048</u>	<u>59,496</u>	<u>-</u>	<u>-</u>	<u>145,544</u>
Total accumulated depreciation	<u>86,048</u>	<u>59,738</u>	<u>-</u>	<u>-</u>	<u>145,786</u>
Total capital assets being depreciated, net	<u>2,213,157</u>	<u>277,321</u>	<u>-</u>	<u>-</u>	<u>2,490,478</u>
<b>NATURAL GAS SYSTEM</b>					
CAPITAL ASSETS, NET	<u>\$2,213,157</u>	<u>\$ 277,321</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$2,490,478</u>
<b>BUSINESS-TYPE ACTIVITIES</b>					
CAPITAL ASSETS, NET	<u>\$4,726,694</u>	<u>\$ 381,503</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$5,108,197</u>



City of Middleton, Tennessee  
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**6. CAPITAL ASSETS - continued**

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

**GOVERNMENTAL ACTIVITIES**

General government	\$ 13,810
Public safety	14,357
Public works	8,073
Culture and recreation	<u>13,625</u>

**TOTAL DEPRECIATION EXPENSE—GOVERNMENTAL ACTIVITIES** **\$ 49,865**

**BUSINESS-TYPE ACTIVITIES**

Water and Sewer	\$ 103,386
Natural Gas System	<u>59,738</u>

**TOTAL DEPRECIATION EXPENSE—BUSINESS-TYPE ACTIVITIES** **\$163,124**

**7. LONG-TERM DEBT**

GOVERNMENTAL ACTIVITIES

General obligation debt consists of debt issued that is backed by the full faith and credit of the City. The First South Bank capital outlay notes are also secured by real estate.

	Final Maturity Date	Interest Rate	Beginning Balance 7-1-2015	Additions	Repay- ments	Ending Amounts Due Balance Within One 6-30-2016 Year	
General obligation							
First South Bank capital outlay notes	11-09-15	5.76%	\$11,442	\$ -	\$11,442	\$ 0	\$ 0
Total general obligation			<u>11,442</u>	<u>-</u>	<u>11,442</u>	<u>0</u>	<u>0</u>
Compensated absences	-----	-----	20,007	-	2,851	17,156	0
			<u>\$31,449</u>	<u>\$ -</u>	<u>\$14,293</u>	<u>\$17,156</u>	<u>\$ 0</u>

Annual debt service requirements to maturity for bonds for governmental activities are as follows:

Years Ending June 30	<u>General Obligation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ -	\$ -	\$ -
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

If funds are not available from other sources, the ordinances require the City to ascertain a rate and amount of ad valorem tax which will be sufficient to pay interest as it comes due. The City does not levy taxes for debt service. All governmental debt is paid by the General Fund.

City of Middleton, Tennessee  
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**7. LONG-TERM DEBT – continued**

GOVERNMENTAL ACTIVITIES - continued

Specific years for payment of compensated absences are not determinable and are not included in the table above.

BUSINESS-TYPE ACTIVITIES

Revenue bonds consist of debt issued by the Water and Sewer System and Natural Gas System. These general obligation bonds are paid from revenues derived from the Water and Sewer System and the Natural Gas System; however, if these revenues are insufficient to retire these bonds, the full faith and credit of the government is pledged to these bonds.

	Final Maturity Date	Interest Rate	Beginning Balance 7-1-2015	Additions	Repay ments	Ending Balance 6-30-2016	Amounts Due Within One Year
<b>Water and Sewer Fund</b>							
General obligation and revenue bonds							
City of Middleton General Obligation Bond Series 2014	06-01-37	2% to 4.125%	\$400,000	\$ -	\$15,000	\$385,000	15,000
Unamortized bond premium	N/A	N/A	5,260	-	383	4,877	N/A
Compensated absences	-----	-----	<u>6,327</u>	<u>-</u>	<u>3,376</u>	<u>2,951</u>	<u>-</u>
<b>Total Water and Sewer</b>			<u>\$ 411,587</u>	<u>\$ -</u>	<u>\$18,759</u>	<u>\$392,828</u>	<u>\$15,000</u>
<b>Natural Gas System Fund</b>							
Revenue and general obligation bonds							
City of Middleton General Obligation Bond Series 2014		2% to 4.125%	\$2,740,000	\$ -	\$70,000	\$2,670,000	\$85,000
Unamortized bond premium	N/A	N/A	32,028	-	2,105	29,923	N/A
Compensated absences	-----	-----	<u>0</u>	<u>2,819</u>	<u>-</u>	<u>2,819</u>	<u>-</u>
<b>Total Natural Gas System Fund</b>			<u>\$2,772,028</u>	<u>\$2,819</u>	<u>\$72,105</u>	<u>\$2,702,742</u>	<u>\$85,000</u>
<b>Solid Waste Collection Fund</b>							
Compensated absences	-----	-----	<u>\$ 0</u>	<u>\$1,410</u>	<u>\$ -</u>	<u>\$ 1,410</u>	<u>-</u>
<b>Total Solid Waste Collection Fund</b>			<u>\$ 0</u>	<u>\$1,410</u>	<u>\$ -</u>	<u>\$ 1,410</u>	<u>\$ -</u>
<b>Total Business-Type Activities</b>			<u>\$3,183,615</u>	<u>\$4,229</u>	<u>\$90,864</u>	<u>\$3,096,980</u>	<u>\$100,000</u>

City of Middleton, Tennessee  
Notes to the Financial Statements  
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**7. LONG-TERM DEBT – continued**

BUSINESS-TYPE ACTIVITIES - continued

Annual debt service requirements to maturity for bonds for business-type activities are as follows:

Years Ending June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 100,000	\$ 111,206	\$ 211,206
2018	100,000	109,206	209,206
2019	100,000	107,206	207,206
2020	100,000	104,956	204,956
2021	105,000	102,456	207,456
2022-2026	555,000	458,793	1,013,793
2027-2031	670,000	345,269	1,015,269
2032-2036	820,000	203,782	1,023,782
2037-2039	<u>505,000</u>	<u>41,251</u>	<u>546,251</u>
	<u>\$3,055,000</u>	<u>\$1,584,125</u>	<u>\$4,639,125</u>

Specific years for payment of compensated absences are not determinable and are not included in the table above. All Enterprise Fund debt is paid by the fund incurring the debt.

Tennessee law does not limit the amount of debt the City can issue; however, the State of Tennessee requires the City obtain approval to issue debt other than debt issued by referendum.

The gross revenues of the Water and Sewer System and Natural Gas System, after deduction of reasonable expenses of operations and maintenance, are pledged to such funds in amounts equal to the total annual principal and interest requirements of the bonds and amounts required to maintain the reserve funds. These are also general obligation bonds.

**8. COMPONENTS OF RESTRICTED NET POSITION – Fund Balances**

Governmental Activities

June 30, 2016

State street aid	\$ 8,661
Drug abuse prevention and enforcement	1,757
Cemetery perpetual care – nonspendable	3,032
Cemetery perpetual care - restricted	<u>405</u>
	<u>\$13,855</u>

The City segregates funds restricted by state laws and donations received that the donor intended use is restricted for a specific purpose. The City received donations to provide cemetery perpetual care of which the original donation is nonspendable.

## 9. DEFINED BENEFIT PENSION PLAN

### General Information about the Pension Plan

*Plan description.* Employees of City of Middleton are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the TCRS. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at [www.treasury.tn.gov/tcrs](http://www.treasury.tn.gov/tcrs).

*Benefits provided.* Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Members are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Reduced benefits for early retirement are available at age 55 and vested. Members vest with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

*Employees covered by benefit terms.* At the measurement date of June 30, 2015, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	5
Inactive employees entitled to but not yet receiving benefits	10
Active employees	<u>7</u>
	<u>22</u>

## 9. DEFINED BENEFIT PENSION PLAN - continued

### General Information about the Pension Plan – continued

*Contributions.* Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5 percent of salary. City of Middleton makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2015, the Actuarially Determined Contributions (ADC) for City of Middleton was \$30,113 based on a rate of 10.44 percent of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept City of Middleton's state shared taxes if required employer contributions are not remitted. The employer's ADC and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

### Net Pension Liability (Asset)

City of Middleton's net pension liability (asset) was measured as of June 30, 2015, and the total pension liability (asset) used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date.

*Actuarial assumptions.* The total pension liability as of June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of pension plan investment expenses, including inflation
Cost of living adjustment	2.5 percent

Mortality rates were based on actual experience from the June 30, 2012 actuarial experience study adjusted for some of the expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2015 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

9. DEFINED BENEFIT PENSION PLAN - continued

**Net Pension Liability (Asset) - continued**

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation</u>
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	<u>1%</u>
		<u>100%</u>

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

*Discount rate.* The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from City of Middleton will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

City of Middleton, Tennessee  
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9. DEFINED BENEFIT PENSION PLAN - continued

**Changes in the Net Pension Liability (Asset)**

	Increase (decrease)		
	Total Pension Liability (Asset) (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) – (b)
<b>Balance at 6/30/14</b>	\$747,745	\$754,477	\$(6,732)
<b>Changes for the year:</b>			
Service cost	26,183	-	26,183
Interest	56,930	-	56,930
Differences between expected and actual experience	(14,917)	-	(14,917)
Contributions-employer	-	30,113	(30,113)
Contributions-employees	-	14,422	(14,422)
Net investment income	-	23,459	(23,459)
Benefit payments, including refunds of employee contributions	(29,725)	(29,725)	-
Administrative expense	<u>-</u>	<u>(355)</u>	<u>355</u>
<b>Net changes</b>	<u>38,471</u>	<u>37,914</u>	<u>557</u>
<b>Balance at 6/30/15</b>	<u>\$786,216</u>	<u>\$792,391</u>	<u>\$(6,175)</u>

*Sensitivity of the net pension liability (asset) to changes in the discount rate.* The following presents the net pension liability (asset) of City of Middleton calculated using the discount rate of 7.5 percent, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease <u>6.5%</u>	Current Discount Rate <u>7.5%</u>	1% Increase <u>8.5%</u>
City of Middleton's net pension liability (asset)	\$100,563	\$(6,175)	\$(95,244)

City of Middleton, Tennessee  
Notes to the Financial Statements  
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9. DEFINED BENEFIT PENSION PLAN - continued

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

*Pension expense.* For the year ended June 30, 2016, City of Middleton recognized pension expense of \$2,287 in the Governmental Activities and pension expense of \$1,290 in the Business-Type Activities for a net pension expense of \$3,577.

*Deferred outflows of resources and deferred inflows of resources.* For the year ended June 30, 2016, City of Middleton reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 22,675
Net difference between projected and actual earnings on pension plan investments	26,935	34,816
Changes in proportion between funds	3,467	3,467
Contributions subsequent to the measurement date of June 30, 2015	<u>26,375</u>	<u>(not applicable)</u>
<b>Total</b>	<b><u>\$ 56,777</u></b>	<b><u>\$ 60,958</u></b>

The amount shown above for "Contributions subsequent to the measurement date of June 30, 2015," will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period.

\$26,375 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date of June 30, 2015 will be recognized as a reduction of net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ending June 30:</b>	
2017	\$ (8,341)
2018	(8,341)
2019	(8,339)
2020	3,264
2021	(3,469)
Thereafter	<u>(5,330)</u>
<b>Total</b>	<b><u>\$(30,556)</u></b>

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.



City of Middleton, Tennessee  
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9. DEFINED BENEFIT PENSION PLAN - continued

**Payable to the Pension Plan**

At June 30, 2016, City of Middleton reported a payable of \$3,002 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2016.

**10. INTERFUND TRANSACTION**

A summary of interfund receivables and payables at June 30, 2016 is as follows:

Due to / from other funds (short term)

Receivable Fund	Payable Fund	Amount
General Fund	Natural Gas System	\$2,533
General Fund	Solid Waste Collection	1,244
Water and Sewer Fund	General Fund	2,783
Solid Waste Collection Fund	Water and Sewer Fund	2,522

Advance to / advance from other funds

Receivable Fund	Payable Fund	Amount
General Fund	Natural Gas System	\$300,000

The General Fund short term receivables of \$3,777 represent \$2,533 Natural Gas System Fund unreimbursed expenditures paid by the General Fund and not reimbursed prior to June 30, 2016 and \$1,244 Sanitation Fund unreimbursed expenditures paid by the General Fund and not reimbursed prior to June 30, 2016. The short term payables from the Natural Gas System is expected to be settled prior to June 30, 2017. The short term payable from the Solid Waste Collection Fund is expected to be settled prior to June 30, 2017.

The Water and Sewer Fund short term receivables of \$2,783 represent excess reimbursement made to the general fund. These short term receivables are expected to be settled prior to June 30, 2017.

The Solid Waste Collection Fund short term receivables of \$2,522 represent the amount due from the Water and Sewer Fund for solid waste collection fees collected that had not been remitted prior to June 30, 2016. These short term receivables are expected to be settled prior to June 30, 2017.

City of Middleton, Tennessee  
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**10. INTERFUND TRANSACTION - continued**

On August 7, 2015, the State of Tennessee retroactively approved the City to make an advance of \$300,000 from the General Fund to the Natural Gas System Fund pursuant to T.C.A. 9-21-604 and 9-21-408. The maximum maturity for this advance is three years after the date of issuance. In accordance with the requirements of T.C.A. 9-21-604, a condition of this approval is that not less than one-ninth of the original principal amount of the advance is paid each year after the year issued with the balance being paid in the final year of the advance. The City expects to pay \$150,000 on the original principal during the year ending June 30, 2017 and pay the remaining \$150,000 during the final two years. The Tennessee Comptroller has the option to levy a penalty for advances deemed nonconforming obligations.

A summary of interfund transfers at June 30, 2016 is as follows:

Transfers Out	Transfers In	
	General Fund	Total
None	\$ -	\$ -
Total	\$ -	\$ -

Purpose of transfers:

There were no transfers during the year ended June 30, 2016.

**11. INTERGOVERNMENTAL REVENUES**

Intergovernmental revenues include the following:

<u>Governmental Funds</u>	
Gasoline and motor fuel tax	\$ 13,385
Gas 1989	2,146
Gas 3 cents	3,983
Income tax allocation	3,237
TVA and other payments in lieu of taxes	8,285
Beer tax allocation	345
State sales tax allocation	57,304
Telecommunication sales tax	57
Corporate excise tax	3,808
Street and transportation	1,436
Police grant – alcohol open container requirements – federal	5,568
City of Bolivar – natural gas franchise tax	1
Library assistance – county	3,100
Fire department assistance – county	24,000
Library grant – federal	<u>500</u>
<b>Total Governmental Funds</b>	<b><u>\$127,155</u></b>

## 12. LEASES

The City had no capital lease agreements as of June 30, 2016.

### Operating Leases

The City had no operating leases that require payments beyond June 30, 2016. The City paid no material rent during the year ended June 30, 2016.

## 13. NON COMPLIANCE WITH STATE LAW REVENUE BOND REQUIREMENTS AND GRANT REQUIREMENTS

The City did not comply with all the requirements of the State Department of Audit or loan requirements as set forth in the Internal Control and Compliance Manual for Tennessee Municipalities. The results of our tests disclosed instances of noncompliance listed on the schedule of findings and responses on pages 95 to 102. The ultimate resolution of these findings cannot presently be determined. Accordingly, no provision for any liabilities, if any, that may result has been recognized in the accompanying financial statements.

## 14. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The individual Enterprise Funds have the following net working capital (deficit) (current assets less current liabilities) at June 30, 2016:

Water and Sewer Fund	\$ 144,272
Natural Gas Fund	(160,948)
Sanitation Fund	14,656

The Water and Sewer Fund is combined for both financial reporting and collateralizing debt with system revenues.

Enterprise Funds operate in the City of Middleton, Tennessee geographic area. Their revenues are subject to the economic conditions of Middleton, Tennessee. At June 30, 2016, the City Water and Sewer Fund and the Natural Gas Fund had extended credit to customers totaling \$69,330 and \$70,504 respectively. These receivables are unsecured other than security deposits totaling \$21,659 and \$10,150 respectively.

**15. LITIGATION, COMMITMENTS, CONTINGENCIES, UNCERTAINTIES, AND  
SUBSEQUENT EVENTS**

Litigation

The City had two complaints filed with the Equal Employment Commission during the year that was dismissed on September 23, 2016. The Parties involved have 90 days to file a suit. The City was not involved in any material litigation during the year ended June 30, 2016.

Grant Audit

The City receives federal and state grants for specific purposes that are subject to review and audit by federal and state agencies. Such audits could result in a request for reimbursement by the federal or state agencies for expenditures disallowed under the terms and conditions of the appropriate agency. In the opinion of the City's management, such disallowances, if any, will not be significant.

Commitments

Effective November 1, 1968, the City entered into a lease agreement with Dover Corporation to lease land with a book value of \$103,290 for \$1,000 per year until October 14, 2029. This lease automatically renews for two additional fifteen year terms, unless notice is given in writing sixty days prior to lease expiration.

Effective December 1, 2011, the City automatically renewed its contract with CNP Waste Company. This contract is in effect for 5 years. This contract is for sanitation services at a fee in effect on June 30, 2016 of \$6.47 per month per residential household, \$12.09 per month for commercial customers for once a week collection, and \$18.57 per month for twice weekly collection. This agreement will continue on 5 year increments, unless terminated by either party with written notice at least 90 days prior to expiration of each 5 year term. This contract can be increased 3% per year.

Effective August 1, 2015, the City entered into a contract with American Tank Maintenance to provide professional services needed to maintain its 200,000 gallon water storage tank. This contract remains in effect until canceled by written notice. If this contract is cancelled prior to payment of the first two annual fees, the remaining unpaid balance on the first two years annual fees will become payable within 30 days of termination. The annual fee for 2016 was \$10,057. This fee will remain in effect for three years. The fourth year shall be adjusted to reflect the current cost of service, but will be limited to a maximum adjustment of 4% annually.

Effective November 1, 2016, the City entered into a contract with American Tank Maintenance to provide professional services needed to maintain its 50,000 gallon water storage tank. This contract remains in effect until canceled by notice prior to 120 days of anniversary date. The annual fee for 2017 will be \$10,057. This fee will remain in effect for three years. The fourth year shall be adjusted to reflect the current cost of service, but will be limited to a maximum adjustment of 4% annually.

Effective December 17, 2015, the City entered into a contract with United Systems Technology Inc to provide accounting software for \$5,075 a year. This contract is for a period of 12 months and automatically extends from year to year.

**15. LITIGATION, COMMITMENTS, CONTINGENCIES, UNCERTAINTIES AND  
SUBSEQUENT EVENTS - continued**

Commitments - continued

Effective May 16, 2011, the City entered into an agreement with Fayette Utility District of Hardeman and Fayette Counties, Tennessee. This agreement provided for Fayette Utility District to provide operation and maintenance services on the Natural Gas System. The City is required to pay \$103,764 per year payable in 12 equal payments. The City is also required to pay for the repair of any damage to the system caused by customers or a third party for actual labor and materials plus 5%. The City is required to pay for repairing normal leaks including labor and materials plus 5% when the District's actual cost to repair normal leaks exceeds \$3,000 for a contract year. The City is required to pay \$350 to run a line and install a meter up to a 250 cubic foot house meter and 250 feet of PE pipe. The City is required to pay \$5 per foot for installation of a steel service line. For installations in excess of 250 feet of pipe or a meter other than a 250 cubic foot house meter, the City will be required to pay the District the same charge for such work which the District charges its own customers. These charges shall remain in effect for three years from the effective date of the agreement. The effective date is when the construction is complete. This contract can be terminated with material breach or default with six months written notice by either party. This agreement can be terminated by either party if they are unable to agree on compensation changes. The agreement can be terminated by the District for not following the District's recommendations with a 60 day notice. This agreement can be terminated if compensation for services are 30 days late.

**16. RELATED PARTY TRANSACTIONS**

The City has designated Merchants & Planters Bank as one of its depositories. The Mayor is employed by this bank. At June 30, 2016, the City had funds on deposit and certificates of deposit totaling \$158,709, with Merchants & Planters Bank. The City paid an Alderman \$4,500 for surveying land.

**17. ECONOMIC DEPENDENCE**

The City sells water and natural gas and provides sewer services to Thyssenkrupp which accounts for approximately 35% of Proprietary Fund Water and Sewer revenues, approximately 81% of Proprietary Fund Natural Gas revenues and approximately 60% of Proprietary Fund receivables. The City receives property taxes from Thyssenkrupp which accounts for approximately 39% of General Fund property tax revenue and approximately 41% of property taxes receivable. If this customer ceased operating in the Middleton, Tennessee area, the City's revenues would substantially decrease.

**18. RISK MANAGEMENT - CLAIMS AND JUDGMENTS**

Significant losses including comprehensive general liability, automobile liability, automotive collision and comprehensive, law enforcement, errors and omissions, standard workmen's compensation, property, equipment, employee dishonesty, forgery or alteration, theft, disappearance, or destruction, computer fraud, surety bond and notary bond are covered by the Tennessee Municipal League Risk Pool or commercial insurance for all major programs.

The City has had no significant reduction in insurance coverage during the year ended June 30, 2016. There have been no settlements in excess of insurance coverage during the current or prior three years.

The City is a member of the TML Risk Management Pool. The City pays insurance premiums based on experience ratios. The City does not expect to incur any liability in excess of insurance coverage.

**19. NET INVESTMENT IN CAPITAL ASSETS**

Net investments in capital assets in the net position section of the accompanying statement of net position for the government-wide financial statements consist of the following:

	Governmental Activities	Business-Type Activities
Land and construction in progress	\$ 431,109	\$ 5,622
Other capital assets (net of accumulated depreciation)	575,845	5,102,575
Unexpended bond funds	-	103,109
Interest and other costs paid from bond proceeds net of repayment	-	113,584
Less accounts payable – fixed assets	-	(194,091)
Less bonds and notes payable	-	(3,089,800)
Net investment in capital assets	<u>\$1,006,954</u>	<u>\$2,040,999</u>

**20. NEW GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STANDARDS**

During the year ended June 30, 2016, the City adopted the following Governmental Accounting Standards Board (GASB) Standards.

Statement No. 72 *Fair Value Measurement and Application* issued in February, 2015, became effective for the fiscal year ended June 30, 2016. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. There was no effect on the City's financial statements as a result of implementing this standard.

**20. NEW GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB)  
STANDARDS - continued**

Statement No. 73 *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* issued in June, 2015. The requirements of this Statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 is effective for financial statements for the fiscal year ending June 30, 2017, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions is effective for the fiscal year ended June 30, 2016. The requirements of this Statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 is effective for the fiscal year ended June 30, 2016.

The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes.

The requirements of this Statement extend the approach to accounting and financial reporting established in Statement 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement 68 be included in the notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities.

This Statement also clarifies the application of certain provisions of Statements 67 and 68 with regard to the following issues:

1. Information that is required to be presented as notes to the 10-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported.
2. Accounting and financial reporting for separately financed specific liabilities of individual employers and nonemployer contributing entities for defined benefit pensions.
3. Timing of employer recognition of revenue for the support of nonemployer contributing entities *not* in a special funding situation.

There was no effect on the City's financial statements as a result of implementing this standard.

**20. NEW GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB)  
STANDARDS - continued**

Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, issued in June, 2015, became effective for the fiscal year ended June 30, 2016. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

There was no effect on the City’s financial statements as a result of implementing this standard.

Statement No. 79, *Certain External Investment Pools and Pool Participants*, issued in December, 2015, became effective for the fiscal year ended June 30, 2016. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. If an external investment pool meets the criteria in this Statement and measures all of its investments at amortized cost, the pool’s participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in this Statement, the pool’s participants should measure their investments in that pool at fair value, as provided in paragraph 11 of Statement 31, as amended.



**20. NEW GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB)  
STANDARDS – continued**

This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. The City has no external investment pools; therefore, there was no effect on the City's financial statements in implementing this statement

The Governmental Accounting Standards Board (GASB) has issued 7 statements not yet implemented by the City. The statements which might impact the City are as follows:

Statement No. 74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* issued in June, 2015, and will become effective for the fiscal year ending June 30, 2017. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*.

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, issued in June, 2015, and will become effective for the fiscal year ending June 30, 2018. The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

## 20. NEW GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STANDARDS - continued

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity.

In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

Statement No. 77, *Tax Abatement Disclosures*, issued in August, 2015, will become effective for the fiscal year end June 30, 2017. Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time.

Financial statement users need information about certain limitations on a government's ability to raise resources. This includes limitations on revenue-raising capacity resulting from government programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Tax abatements are widely used by state and local governments, particularly to encourage economic development. For financial reporting purposes, this Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens.

## 20. NEW GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STANDARDS - continued

Although many governments offer tax abatements and provide information to the public about them, they do not always provide the information necessary to assess how tax abatements affect their financial position and results of operations, including their ability to raise resources in the future. This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues.

This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients
- The gross dollar amount of taxes abated during the period
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

Governments should organize those disclosures by major tax abatement program and may disclose information for individual tax abatement agreements within those programs.

Tax abatement agreements of other governments should be organized by the government that entered into the tax abatement agreement and the specific tax being abated. Governments may disclose information for individual tax abatement agreements of other governments within the specific tax being abated. For those tax abatement agreements, a reporting government should disclose:

- The names of the governments that entered into the agreements
- The specific taxes being abated
- The gross dollar amount of taxes abated during the period.

Statement No. 78 *Pension Provided through Certain Multi-Employer Defined Benefit Pension Plans* issued in December, 2015, and will become effective for the fiscal year ending June 30, 2017. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions.

Prior to the issuance of this Statement, the requirements of Statement 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that Statement.

**20. NEW GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB)  
STANDARDS - continued**

This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

Statement No. 80, *Blending Requirements for Certain Units an amendment of GASB Statement No. 14*, issued in January, 2016, and will become effective for the fiscal year ending June 30, 2017. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*.

This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

Statement No. 81, *Irrevocable Split-Interest Agreements*, issued in March, 2016, and will become effective for the fiscal year ending June 30, 2018. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts—or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements—in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

**20. NEW GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STANDARDS - continued**

Statement No. 82, *Pension Issues an amendment of GASB Statements No.67, No. 68, and No.73* issued in March, 2016, and will become effective for the fiscal year ending June 30, 2017. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The City's management has not yet determined the effect of implementation of these Statements on the City's financial statements.

**CITY OF MIDDLETON, TENNESSEE**  
**Schedules of Required Supplementary Information**

**Schedule of Changes in City of Middleton's Net Pension Liability (Asset) and Related  
Ratios Based on Participation in the  
Public Employee Pension Plan of TCRS  
Last Fiscal Year ending June 30**

	<u>2014</u>	<u>2015</u>
<b>Total pension liability (asset)</b>		
Service cost	\$ 20,250	\$ 26,183
Interest	54,085	56,930
Changes in benefit terms	-	-
Differences between actual and expected experience	(12,831)	(14,917)
Change of assumptions	-	-
Benefit payments, including refunds of employee contributions	<u>(29,285)</u>	<u>(29,725)</u>
<b>Net change in total pension liability (asset)</b>	32,219	38,471
<b>Total pension liability (asset)-beginning</b>	<u>715,526</u>	<u>747,745</u>
<b>Total pension liability (asset)-ending (a)</b>	<u>\$ 747,745</u>	<u>\$ 786,216</u>
<b>Plan fiduciary net position</b>		
Contributions-employer	\$ 32,610	\$ 30,113
Contributions-employee	15,514	14,422
Net investment income	105,971	23,459
Benefit payments, including refunds of employee contributions	(29,285)	(29,725)
Administrative expense	<u>(311)</u>	<u>(355)</u>
<b>Net change in plan fiduciary net position</b>	124,499	37,914
<b>Plan fiduciary net position-beginning</b>	<u>629,978</u>	<u>754,477</u>
<b>Plan fiduciary net position-ending (b)</b>	<u>\$ 754,477</u>	<u>\$ 792,391</u>
<b>Net Pension Liability (asset)-ending (a) - (b)</b>	<u>\$ (6,732)</u>	<u>\$ (6,175)</u>
<b>Plan fiduciary net position as a percentage of total pension liability</b>	100.90%	100.79%
<b>Covered payroll</b>	\$ 310,272	\$ 288,435
<b>Net pension liability (asset) as a percentage of covered payroll</b>	(2.17)%	(2.14)%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

**CITY OF MIDDLETON, TENNESSEE**  
**Schedules of Required Supplementary Information**

**Schedule of City of Middleton's Contributions**  
**Based on Participation in the Public Employee Pension Plan of TCRS**  
**Last Fiscal Year ending June 30**

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Actuarially determined contribution	\$ 32,610	\$ 30,113	\$ 26,375
Contributions in relation to the actuarially determined contribution	<u>32,610</u>	<u>30,113</u>	<u>26,375</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 310,272	\$ 288,435	\$ 252,636
Contributions as a percentage covered payroll	10.51%	10.44%	10.44%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

**Notes to Schedule**

*Valuation date:* Actuarially determined contribution rates for 2016 were calculated based on the July 1, 2013 actuarial valuation.

*Methods and assumptions used to determine contribution rates:*

Actuarial cost method	Frozen initial liability
Amortization method	Level dollar, closed (not to exceed 20 years)
Remaining amortization period	7 years
Asset valuation	10-year smoothed within a 20 percent corridor to market value
Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation
Investment Rate of Return	7.5 percent, net of investment expense, including inflation
Retirement age	Pattern of retirement determined by experience study
Mortality	Customized table based on actual experience including an adjustment for some anticipated improvement
Cost of Living Adjustments	2.5 percent

**CITY OF MIDDLETON, TENNESSEE**  
**Nonmajor Governmental Funds**  
**Combining Balance Sheet**  
**June 30, 2016**

ASSETS	Special Revenue Fund		Permanent Fund	Total Nonmajor
	State Street Aid	Drug	Cemetary Perpetual Care	Governmental Funds
Cash and cash equivalents	\$ 6,341	\$ 1,757	\$ -	\$ 8,098
Investments - certificates of deposit	-	-	3,436	3,436
Receivables (Net, where applicable, of allowance for uncollectables)				
Interest	-	-	1	1
Due from other governments	3,532	-	-	3,532
 TOTAL ASSETS	\$ 9,873	\$ 1,757	\$ 3,437	\$ 15,067
 LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 1,212	\$ -	\$ -	\$ 1,212
Total Liabilities	1,212	-	-	1,212
FUND BALANCES				
Nonspendable	-	-	3,032	3,032
Restricted	8,661	1,757	405	10,823
Total Fund Balances	8,661	1,757	3,437	13,855
 TOTAL LIABILITIES AND FUND BALANCE	\$ 9,873	\$ 1,757	\$ 3,437	\$ 15,067



**CITY OF MIDDLETON, TENNESSEE**  
**Nonmajor Governmental Funds**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the fiscal year ended June 30, 2016**

	Special Revenue Fund		Permanent Fund	Total Nonmajor Governmental Funds
	State Street Aid	Drug	Cemetary Perpetual Care	
<b>REVENUES</b>				
Intergovernmental revenues	\$ 19,514	\$ -	\$ -	\$ 19,514
Investment income	-	1	14	15
<b>Total Revenues</b>	<u>19,514</u>	<u>1</u>	<u>14</u>	<u>19,529</u>
<b>EXPENDITURES</b>				
Current				
Public safety	-	2,874	-	2,874
Public works	19,071	-	14	19,085
<b>Total Expenditures</b>	<u>19,071</u>	<u>2,874</u>	<u>14</u>	<u>21,959</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>443</u>	<u>(2,873)</u>	<u>-</u>	<u>(2,430)</u>
<b>NET CHANGE IN FUND BALANCES</b>	443	(2,873)	-	(2,430)
Fund balances--beginning	<u>8,218</u>	<u>4,630</u>	<u>3,437</u>	<u>16,285</u>
Fund balances--ending	<u>\$ 8,661</u>	<u>\$ 1,757</u>	<u>\$ 3,437</u>	<u>\$ 13,855</u>

**CITY OF MIDDLETON, TENNESSEE**  
**Schedule of General Long-Term Debt Principal and Interest**  
**Requirements by Fiscal Year**  
**June 30, 2016**

Year Ending June 30	None Outstanding		Total	
	Principal	Interest	Principal	Interest
None	-	-	-	-

The City had no general long-term debt outstanding at June 30, 2016.

**CITY OF MIDDLETON, TENNESSEE**  
**Schedule of Long-Term Debt Principal and Interest Requirements by Fiscal Year**  
**Enterprise Funds**  
**June 30, 2016**

Year Ended	Water and Sewer City of Middleton General Obligation Bond Series 2014		Natural Gas City of Middleton General Obligation Bond Series 2014		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
	2017	\$ 15,000	\$ 13,725	\$ 85,000	\$ 97,481	\$ 100,000
2018	15,000	13,425	85,000	95,781	100,000	109,206
2019	15,000	13,125	85,000	94,081	100,000	107,206
2020	15,000	12,787	85,000	92,169	100,000	104,956
2021	15,000	12,413	90,000	90,044	105,000	102,457
2022	15,000	11,962	90,000	87,344	105,000	99,306
2023	15,000	11,438	90,000	84,194	105,000	95,632
2024	15,000	10,912	95,000	81,044	110,000	91,956
2025	15,000	10,388	100,000	77,719	115,000	88,107
2026	15,000	9,825	105,000	73,969	120,000	83,794
2027	15,000	9,262	105,000	70,031	120,000	79,293
2028	20,000	8,663	110,000	65,831	130,000	74,494
2029	20,000	7,862	115,000	61,431	135,000	69,293
2030	20,000	7,063	120,000	56,831	140,000	63,894
2031	20,000	6,262	125,000	52,031	145,000	58,293
2032	20,000	5,513	130,000	47,344	150,000	52,857
2033	25,000	4,763	135,000	42,469	160,000	47,232
2034	25,000	3,825	140,000	37,406	165,000	41,231
2035	25,000	2,825	145,000	31,806	170,000	34,631
2036	25,000	1,825	150,000	26,006	175,000	27,831
2037	20,000	825	155,000	20,006	175,000	20,831
2038	-	-	165,000	13,613	165,000	13,613
2039	-	-	165,000	6,806	165,000	6,806
	385,000	178,688	2,670,000	1,405,437	3,055,000	1,584,125
Unamortized bond premium	4,877	-	29,923	-	34,800	-
	<u>\$ 389,877</u>	<u>\$ 178,688</u>	<u>\$ 2,699,923</u>	<u>\$ 1,405,437</u>	<u>\$ 3,089,800</u>	<u>\$ 1,584,125</u>

**CITY OF MIDDLETON, TENNESSEE**  
**Schedule of Interfund Transfers and Due to Other Funds**  
**For the fiscal year ended June 30, 2016**

INTERFUND TRANSFERS

TRANSFER TO

None

TRANSFER FROM

None

\$ -

\$ -

DUE TO

General Fund  
 General Fund  
 Water and Sewer Fund  
 Sanitation Fund

DUE FROM

Sanitation Fund  
 Natural Gas Fund  
 General Fund  
 Water and Sewer Fund

\$ 1,244

2,533

2,783

2,522

\$ 9,082

ADVANCE TO / ADVANCE FROM OTHER FUNDS (APPROVED BY STATE OF TENNESSEE)

RECEIVABLE FUND

General Fund

PAYABLE FUND

Natural Gas System

\$ 300,000

\$ 300,000

**CITY OF MIDDLETON, TENNESSEE**  
**Schedule of Changes in Property Taxes Receivable**  
**June 30, 2016**

Tax Year	Property Tax Receivable Balance June 30, 2015	Property Taxes Levied	Anticipated Current Year Levy	Abatements and Adjustments	Collections	Allowance for Uncollectibles	Net Receivable Balance June 30, 2016
2016	\$ -	\$ -	\$ 176,017	\$ -	\$ -	\$ 616	\$ 175,401
2015	-	180,373	-	1,015	176,169	522	4,697
2014	4,883	-	-	-	4,455	43	385
2013	1,064	-	-	-	1,064	-	-
2012	284	-	-	-	284	-	-
2011	283	-	-	-	283	-	-
2010	4	-	-	-	-	4	-
2009	408	-	-	-	320	79	9
2008	244	-	-	-	-	220	24
2007	70	-	-	-	-	63	7
2006	16	-	-	-	-	14	2
	<u>\$ 7,256</u>	<u>\$ 180,373</u>	<u>\$ 176,017</u>	<u>\$ 1,015</u>	<u>\$ 182,575</u>	<u>\$ 1,561</u>	<u>\$ 180,525</u>

NOTES All uncollected taxes for years prior to 2015 have been turned over to the Chancery Court of Hardeman County, Tennessee Clerk and Master for collection.

**CITY OF MIDDLETON, TENNESSEE**  
**Schedule of Expenditures of Federal Awards and State Financial Assistance**  
**For the fiscal year ended June 30, 2016**

<u>Federal Grantor/ Pass-through Grantor</u>	<u>CFDA Number</u>	<u>Contract Number</u>	<u>Beginning (Accrued) Deferred</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Ending (Accrued) Deferred</u>
<u>Federal Awards</u>						
Direct Federal Awards:						
U S Department of Justice Bureau of Justice Assistance Bulletproof Vest Partnership	16.607	119150	\$ (1,017)	\$ 1,017	\$ -	\$ -
Total Bureau of Justice Assistance			(1,017)	1,017	-	-
Total Direct Federal Awards			(1,017)	1,017	-	-
Pass-through Federal Awards:						
U S Department of Housing and Urban Development Pass-through programs from State of Tennessee Hurricane Sandy Community Development Block Grant Disaster Recovery Grant	14.269	33004-40416	-	21,753	170,608	(148,855)
Total U.S. Housing and Community Development			-	21,753	170,608	(148,855)
U. S. Department of Transportation Pass-through programs from State of Tennessee Alcohol Open Container Requirements	20.607	216GHS238	-	-	-	-
Alcohol Open Container Requirements	20.607	Z15GHS241	(6,978)	12,546	5,568	-
Total U. S. Department of Transportation			(6,978)	12,546	5,568	-
Institute of Museum and Library Services Pass-through programs from State of Tennessee Grants to States	45.310	2016 Tech Grant TSLA	-	500	500	-
Total Institute of Museum and Library Services			-	500	500	-
Total pass-through federal awards			(6,978)	34,799	176,676	(148,855)
Total Federal Awards			(7,995)	35,816	176,676	(148,855)
<u>State Financial Assistance</u>						
State of Tennessee None	N/A	N/A	-	-	-	-
Total Federal and State Awards			\$ (7,995)	\$ 35,816	\$ 176,676	\$ (148,855)

See accompanying notes to schedule of expenditures of federal awards and state financial assistance.

**CITY OF MIDDLETON, TENNESSEE**  
**Notes to Schedule of Expenditures of Federal Awards and State Financial Assistance**  
**For the fiscal year ended June 30, 2016**

Note A - Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance is a summary of the activity of the City's federal and state grant programs presented on the modified accrual basis of accounting for governmental funds and the accrual basis of accounting for Enterprise Funds in accordance with accounting principles generally accepted in the United States of America.

Note B – American Recovery and Reinvestment Act

The City did not receive any American Recovery and Reinvestment Act grant funds during the year ended June 30, 2016.

**CITY OF MIDDLETON, TENNESSEE**  
**Table of Utility Rates in Force and Number of Customers**  
**June 30, 2016**  
**(Unaudited)**

Water Rates


---

 Effective 7-1-15
 

---

## Customers inside the corporate limits

First 1,000 gallons

\$14.48 (minimum bill)

Over 1,000 gallons

\$2.79 per 1,000 gallons

## Customers outside the corporate limits

First 1,000 gallons

\$17.82 (minimum bill)

Over 1,000 gallons

\$ 5.06 per 1,000 gallons

Sewer Rates

## Customers inside the corporate limits

First 1,000 gallons

\$14.48 (minimum bill)

Over 1,000 gallons

\$2.79 per 1,000 gallons

## Customers outside the corporate limits

First 1,000 gallons

\$17.82 (minimum bill)

Over 1,000 gallons

\$ 5.06 per 1,000 gallons

## Thyssenkrupp

\$6.50 plus \$4.59 per  
1,000 gallons dischargedNumber of Customers at Year End

Water	412
Sewer	354
Garbage	324
Natural gas	287



**AWWA Free Water Audit Software:  
 Reporting Worksheet**

WAS v5.0  
 American Water Works Association.  
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Water Audit Report for: **City of Middleton (0000455)**  
 Reporting Year: **2016** **7/2015 - 6/2016**

Please enter data in the white cells below. Where available, metered values should be used; if metered values are unavailable please estimate a value. Indicate your confidence in the accuracy of the input data by grading each component (n/a or 1-10) using the drop-down list to the left of the input cell. Hover the mouse over the cell to obtain a description of the grades

**All volumes to be entered as: MILLION GALLONS (US) PER YEAR**

To select the correct data grading for each input, determine the highest grade where the utility meets or exceeds all criteria for that grade and all grades below it.

WATER SUPPLIED		Enter grading in column 'E' and 'J' ----->		Master Meter and Supply Error Adjustments	
		Pcnt:		Value:	
Volume from own sources:	+ ? 9 42.458 MG/Yr	+ ? 5 -1.00%	<input checked="" type="radio"/>	<input type="radio"/>	MG/Yr
Water imported:	+ ? n/a 0.000 MG/Yr		<input checked="" type="radio"/>	<input type="radio"/>	MG/Yr
Water exported:	+ ? n/a 0.000 MG/Yr		<input checked="" type="radio"/>	<input type="radio"/>	MG/Yr
<b>WATER SUPPLIED:</b>	<b>42.887</b> MG/Yr	Enter negative % or value for under-registration Enter positive % or value for over-registration			

AUTHORIZED CONSUMPTION		Click here: ? for help using option buttons below	
Billed metered:	+ ? 9 38.558 MG/Yr	Pcnt:	Value:
Billed unmetered:	+ ? 8 0.086 MG/Yr		
Unbilled metered:	+ ? 9 0.406 MG/Yr	1.25%	<input checked="" type="radio"/>
Unbilled unmetered:	+ ? 5 0.536 MG/Yr		<input type="radio"/>
<b>AUTHORIZED CONSUMPTION:</b>	<b>39.586</b> MG/Yr	Default option selected for Unbilled unmetered - a grading of 5 is applied but not displayed	

WATER LOSSES (Water Supplied - Authorized Consumption)		Use buttons to select percentage of water supplied OR value	
<b>WATER LOSSES:</b>	<b>3.301</b> MG/Yr	Pcnt:	Value:

Apparent Losses		Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed	
Unauthorized consumption:	+ ? 7 0.107 MG/Yr	0.25%	<input checked="" type="radio"/>

Customer metering inaccuracies:	+ ? 9 0.493 MG/Yr	1.25%	<input checked="" type="radio"/>
Systematic data handling errors:	+ ? 7 0.096 MG/Yr	0.25%	<input checked="" type="radio"/>

<b>Apparent Losses:</b>	<b>0.697</b> MG/Yr	Default option selected for Systematic data handling errors - a grading of 5 is applied but not displayed	
-------------------------	--------------------	---	--

Real Losses (Current Annual Real Losses or CARL)	
Real Losses = Water Losses - Apparent Losses:	? 2.604 MG/Yr
<b>WATER LOSSES:</b>	<b>3.301</b> MG/Yr

NON-REVENUE WATER	
<b>NON-REVENUE WATER:</b>	<b>4.243</b> MG/Yr
= Water Losses + Unbilled Metered + Unbilled Unmetered	

SYSTEM DATA	
Length of mains:	+ ? 7 18.0 miles
Number of active AND inactive service connections:	+ ? 9 428
Service connection density:	? 24 conn./mile main
Are customer meters typically located at the curbside or property line?	Yes (length of service line, beyond the property boundary, that is the responsibility of the utility)
Average length of customer service line:	+ ? 6 28.0 ft
Average length of customer service line has been set to zero and a data grading score of 10 has been applied	
Average operating pressure:	+ ? 7 55.0 psi

COST DATA	
Total annual cost of operating water system:	+ ? 9 \$150,586 /Year
Customer retail unit cost (applied to Apparent Losses):	+ ? 9 \$2.92 /1000 gallons (US)
Variable production cost (applied to Real Losses):	+ ? 10 \$154.18 /Million gallons <input type="checkbox"/> Use Customer Retail Unit Cost to value real losses

**WATER AUDIT DATA VALIDITY SCORE:**

**\*\*\* YOUR SCORE IS: 85 out of 100 \*\*\***

A weighted scale for the components of consumption and water loss is included in the calculation of the Water Audit Data Validity Score

PRIORITY AREAS FOR ATTENTION:	
Based on the information provided, audit accuracy can be improved by addressing the following components:	
<b>1: Volume from own sources</b>	
<b>2: Unauthorized consumption</b>	
<b>3: Systematic data handling errors</b>	



**AWWA Free Water Audit Software:  
 System Attributes and Performance Indicators**

WAS v5.0  
 American Water Works Association.  
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Water Audit Report for: **City of Middleton (0000455)**  
 Reporting Year: **2016** | **7/2015 - 6/2016**

**\*\*\* YOUR WATER AUDIT DATA VALIDITY SCORE IS: 85 out of 100 \*\*\***

**System Attributes:**

Apparent Losses:	0.697	MG/Yr
+ Real Losses:	2.604	MG/Yr
= <b>Water Losses:</b>	<b>3.301</b>	<b>MG/Yr</b>

? Unavoidable Annual Real Losses (UARL): See limits in definition MG/Yr

Annual cost of Apparent Losses: \$2,035

Annual cost of Real Losses: \$401 Valued at **Variable Production Cost**

Return to Reporting Worksheet to change this assumption

**Performance Indicators:**

Financial:	Non-revenue water as percent by volume of Water Supplied:	9.9%	
	Non-revenue water as percent by cost of operating system:	1.7%	Real Losses valued at Variable Production Cost

Operational Efficiency:	Apparent Losses per service connection per day:	4.46	gallons/connection/day
	Real Losses per service connection per day:	N/A	gallons/connection/day
	Real Losses per length of main per day*:	396.34	gallons/mile/day
	Real Losses per service connection per day per psi pressure:	N/A	gallons/connection/day/psi

From Above, Real Losses = Current Annual Real Losses (CARL): 2.60 million gallons/year

? Infrastructure Leakage Index (ILI) [CARL/UARL]:

\* This performance indicator applies for systems with a low service connection density of less than 32 service connections/mile of pipeline

**CITY OF MIDDLETON, TENNESSEE**  
**Assessed Value and Estimated Actual Value of Taxable Property**  
**Last Ten Fiscal Years**  
**(Unaudited)**

<u>Fiscal Year Ended June 30,</u>	<u>Residential Property</u>	<u>Industrial and Commercial Property</u>	<u>Farm and Agricultural Property</u>	<u>Public Utility Property</u>	<u>Less Tax Exempt Property</u>	<u>Total Taxable Assessed Value</u>	<u>Total Direct Tax Rate Per \$1,000</u>	<u>Estimated Actual Taxable Value</u>	<u>Assessed Value as a Percentage of Actual Value</u>
2007	\$ 4,646,075	\$ 10,082,097	\$ 226,025	\$ 1,397,613	Not available	\$16,351,810	\$ 8	\$ 51,985,992	31.45
2008	4,653,025	10,603,653	264,475	1,405,081	Not available	16,926,234	7.800	53,866,059	31.42
2009	4,685,850	10,912,995	250,900	1,318,659	Not available	17,168,404	9.900	54,943,401	31.25
2010	4,726,750	9,505,497	249,650	1,279,978	Not available	15,761,875	9.900	50,786,366	31.04
2011	4,788,200	9,924,862	246,175	1,186,856	Not available	16,146,093	9.900	52,362,542	30.84
2012	4,802,225	9,717,054	267,475	1,456,692	Not available	16,243,446	9.900	52,081,284	31.19
2013	4,721,402	11,894,788	276,525	1,274,936	Not available	18,167,651	9.379	58,176,708	31.23
2014	4,737,575	11,610,397	231,850	1,302,331	Not available	17,882,153	9.380	56,489,205	31.66
2015	4,742,675	11,952,519	221,950	1,405,653	Not available	18,322,797	9.900	59,285,459	30.91
2016	4,829,850	11,321,997	221,950	1,405,653	Not available	17,779,450	9.900	57,412,333	30.97

**Source:** Hardeman County, Tennessee Tax Assessor

**Note:** Property in Hardeman County is reassessed every six years on average. The County assesses property at approximately 55 percent on utility property, 40 percent on industrial and commercial property, and 25 percent for residential and agricultural property. Estimated actual value was obtained from records provided by Hardeman County, Tennessee. The County assessment summary does not provide details of tax exempt property and is not available; therefore, the information presented above does not present all GASB 44 required items for a ten year period. The information marked not available could not be located by the City. The property columns do not contain the assessed values for exempt properties. In accordance with GASB 44, available information has been presented.

**CITY OF MIDDLETON, TENNESSEE**  
**Table of Outstanding Delinquent Taxes Filed With Chancery Clerk**  
**(Unaudited)**  
**June 30, 2016**

<u>Tax Year</u>	<u>Outstanding Balance</u>
2014	\$ 428
2010	4
2009	88
2008	244
2007	70
2006	16
	<hr/>
	\$ 850

**CITY OF MIDDLETON, TENNESSEE**  
**Nonmajor Governmental Funds**  
**Schedule of Revenues, Expenditures and Changes in**  
**Fund Balance--Budget and Actual**  
**For the fiscal year ended June 30, 2016**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget Positive/ Negative
	Original	Final		
<b>STATE STREET AID FUND</b>				
<b>REVENUES</b>				
State gasoline and motor fuel tax	\$ 11,500	\$ 11,500	\$ 13,385	\$ 1,885
Gas 3 cent	3,400	3,400	2,146	(1,254)
Gas 1989	1,850	1,850	3,983	2,133
Interest income	12	12	-	(12)
	<u>16,762</u>	<u>16,762</u>	<u>19,514</u>	<u>2,752</u>
<b>EXPENDITURES</b>				
Street lighting	14,640	14,640	16,635	(1,995)
Repair and maintenance - roads	2,000	3,400	2,436	964
	<u>16,640</u>	<u>18,040</u>	<u>19,071</u>	<u>(1,031)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	122	(1,278)	443	1,721
<b>OTHER FINANCING SOURCES (USES)</b>	-	-	-	-
<b>NET CHANGE IN FUND BALANCES</b>	122	(1,278)	443	1,721
Fund balance--beginning	<u>8,218</u>	<u>8,218</u>	<u>8,218</u>	<u>-</u>
Fund balance--ending	<u>\$ 8,340</u>	<u>\$ 6,940</u>	<u>\$ 8,661</u>	<u>\$ 1,721</u>

**CITY OF MIDDLETON, TENNESSEE**  
**Nonmajor Governmental Funds**  
**Schedule of Revenues, Expenditures and Changes in**  
**Fund Balance--Budget and Actual**  
**For the fiscal year ended June 30, 2016**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts Budgetary Basis	Final Budget Positive/ Negative
<b>DRUG FUND</b>				
<b>REVENUES</b>				
Fines - County	\$ 600	\$ 600	\$ -	\$ (600)
Investment income	6	6	1	(5)
<b>Total Revenues</b>	<b>606</b>	<b>606</b>	<b>1</b>	<b>(605)</b>
<b>EXPENDITURES</b>				
Advertising	-	-	-	-
Supplies and other	600	1,100	2,631	(1,531)
Miscellaneous	-	-	243	(243)
<b>Total Expenditures</b>	<b>600</b>	<b>1,100</b>	<b>2,874</b>	<b>(1,774)</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>6</b>	<b>(494)</b>	<b>(2,873)</b>	<b>(2,379)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET CHANGES IN FUND BALANCES</b>	<b>6</b>	<b>(494)</b>	<b>(2,873)</b>	<b>(2,379)</b>
Fund balance--beginning	4,630	4,630	4,630	-
Fund balance--ending	\$ 4,636	\$ 4,136	\$ 1,757	\$ (2,379)

**CITY OF MIDDLETON, TENNESSEE**  
**Nonmajor Governmental Funds**  
**Schedule of Revenues, Expenditures and Changes in**  
**Fund Balance--Budget and Actual**  
**For the fiscal year ended June 30, 2016**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts Budgetary Basis	Final Budget Positive/ Negative
<b>CEMETARY PERPETUAL CARE</b>				
<b>REVENUES</b>				
Investment income	\$ -	\$ -	\$ 14	\$ 14
Total Revenues	-	-	14	14
<b>EXPENDITURES</b>				
Payments to general fund for cemetary maintenance	-	-	14	(14)
Total Expenditures	-	-	14	(14)
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>				
	-	-	-	-
Fund balance--beginning	3,437	3,437	3,437	-
Fund balance--ending	\$ 3,437	\$ 3,437	\$ 3,437	\$ -

**CITY OF MIDDLETON, TENNESSEE**  
**Schedule of Official Bonds of Principal Officials**  
**For the fiscal year ended June 30, 2016**

<u>NAME</u>	<u>TITLE</u>	<u>OFFICIAL BOND</u>
Jackie Cox	Mayor	\$ 500,000
Linda Earnest	City Recorder	500,000



**JONES & JONES**  
CERTIFIED PUBLIC ACCOUNTANTS  
OF BOONEVILLE PA

Kermit V Jones Jr., C.P.A.

Christopher D. Jones, C.P.A.

Jeremy D Jones, C.P.A.

David W. Jones, C.P.A.

**INDEPENDENT AUDITOR'S 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 Mayor and Board of Alderpersons  
City of Middleton, Tennessee

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Middleton, Tennessee, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Middleton, Tennessee's basic financial statements and have issued our report thereon dated December 15, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Middleton, Tennessee's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Middleton, Tennessee's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Middleton, Tennessee's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. These findings and responses are labeled as items 2016-001, 2016-003, 2016-004, and 2016-005.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies. These findings and responses are labeled as item 2016-002.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Middleton, Tennessee's financial statements are free from 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2016-006, 2016-007, 2016-008, 2016-009, 2016-010, and 2016-011.

We noted certain other matters that we reported to the management of the City of Middleton, Tennessee in a separate letter dated December 15, 2016.

## **City of Middleton, Tennessee's Response to Findings**

City of Middleton, Tennessee's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. City of Middleton, Tennessee's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sincerely yours,



JONES & JONES  
Certified Public Accountants  
of Booneville, PA  
Booneville, Mississippi

December 15, 2016

**CITY OF MIDDLETON, TENNESSEE**  
**Schedule of Findings and Responses**  
**For the fiscal year ended June 30, 2016**

**Significant Deficiencies or Material Weaknesses**

Finding Number 2016-001

**Condition:** The City does not have an adequate segregation of duties among most accounting functions.

**Criteria:** Internal controls should be in place and functioning to provide adequate segregation of duties among all accounting functions.

**Effect:** The office personnel collect cash, maintain receivable ledgers, maintain general ledgers, prepare payroll from time records, reconcile cash, write off bad debts, make adjustments to receivables, and order and receive supplies.

**Cause:** Due to the limited resources of the City, it is not practical to hire additional staff to have adequate segregation of duties.

**Recommendation:** We recommend the Board of Alderpersons and Mayor periodically review all accounting functions.

**Response:** We concur with the recommendation.

Finding Number 2016-002

**Condition:** Internal controls over disbursements are inadequate.

**Criteria:** Internal controls should be in place and functioning that require purchase orders.

**Effect:** In our test of 60 cash disbursements, we noted the following:

- A. 60 cash disbursements did not contain a purchase order.

**Cause:** The City does not use a purchase order system.

**Recommendation:** We recommend the City adopt a formal purchase order system. This would ensure all purchases are properly approved.

**Response:** We will consider adopting a purchase order system.

**CITY OF MIDDLETON, TENNESSEE**  
**Schedule of Findings and Responses**  
**For the fiscal year ended June 30, 2016**

**Significant Deficiencies or Material Weaknesses- continued**

Finding Number 2016-003

**Condition:** The transactions for general fixed assets and general long term debt categories are not being recorded. There were numerous adjusting journal entries required to correct posting errors or entries not made.

**Criteria:** Effective internal controls include recording all transactions correctly.

**Effect:** The financial statements could be misstated if the general ledger does not include the transactions for the general fixed assets category and general long-term debt category as well as other errors.

**Cause:** These transactions are not included when recording cash receipts and disbursements. There were transactions posted to the wrong account.

**Recommendation:** We recommend the bookkeeper record all transactions to the general ledger correctly.

**Response:** We concur with the recommendation.

Finding Number 2016-004

**Condition:** The City outsources financial statements, related notes, supplementary information preparation, and depreciation schedule preparation.

**Criteria:** Part of effective internal controls over financial reporting is the ability to adequately produce financial statements and depreciation schedules in accordance with generally accepted accounting principles.

**Effect:** The City must incur the expense of outsourcing the preparation of the financial statements, related notes, supplementary information, and depreciation schedules.

**Cause:** As is normal for cities of this type and size, the City's staff and management do not have the required technical expertise to meet the above criteria.

**Recommendation:** Due to the size of the City and the cost of hiring additional staff, no change is recommended.

**Response:** We agree with the finding, but feel the City is best served by continuing to outsource the preparation of financial statements, related notes, supplementary information, and depreciation schedules. This is less costly than hiring additional staff to perform these tasks.

**CITY OF MIDDLETON, TENNESSEE**  
**Schedule of Findings and Responses**  
**For the fiscal year ended June 30, 2016**

**Significant Deficiencies or Material Weaknesses- continued**

Finding Number 2016-005

**Condition:** As noted in finding numbers 2016-006 through 2016-012, there were violations of certain state laws and loan agreements.

**Criteria:** Internal controls should be in place to prevent violations of laws and loan agreements.

**Effect:** See effect of condition as listed in finding numbers 2016-006 through 2016-012.

**Cause:** The City did not have controls in place to prevent noncompliance. See cause of condition as listed in finding numbers 2016-006 through 2016-012.

**Recommendation:** We recommend the City install procedures to review each problem noted in finding numbers 2016-006 through 2016-012.

**Response:** We will install procedures to prevent noncompliance.

**Instances of Noncompliance and Other Matters Material to the Financial Statements**

Finding Number 2016-006

**Condition:** There was a conflict of interest in hiring an Alderman to survey land.

**Criteria:** Tennessee Code ANN 12-4-101 and 6-54-107 prohibit transacting business with an Alderman unless there are no other businesses in the City limits that provide this service and the Alderman declares his conflict of interest in the Board minutes for this transaction and recuses himself from voting.

**Effect:** On September 10, 2015 the City hired an Alderman to survey land. This Alderman is the only provider of surveying services within the City limits of Middleton, Tennessee. However, the Board of Alderman's minutes did not reflect that there was a declaration of conflict of interest with this Alderman on this transaction.

**Cause:** The City knew he was the only source for this service in the City limits, but forgot to have the Alderman declare his conflict of interest in the Board of Alderman's minutes.

**Recommendation:** Management should remind its elected officials of the requirements of the conflict of interest rule and follow its requirements if purchases or contracts are entered into with an elected official.

**Response:** We forgot to document the conflict of interest in the Board of Alderman's minutes. If this occurs in the future, we will follow all requirements of the law.

**CITY OF MIDDLETON, TENNESSEE**  
**Schedule of Findings and Responses**  
**For the fiscal year ended June 30, 2016**

**Instances of Noncompliance and Other Matters Material to the Financial Statements - continued**

Finding Number 2016-007

**Condition:** Employees were charged the wrong amount for their portion of additional family medical insurance coverage.

**Criteria:** The City's policy is to pay 100% of employee coverage and 75% of additional coverage.

**Effect:** Effective September 1, 2015 the City changed insurance coverage from Blue Cross to Humana. The prior Blue Cross policy charged the same price for all employees for all types of coverage. Humana charges a different rate for each employee based on age. Subsequent to September 1, 2015 management determined a blended rate for additional coverage based on the proposal originally received and charged each employee 25% of this blended rate instead of 25% of the actual cost for that employee. This resulted in younger employees being overcharged and older employees being undercharged. Effective September 1, 2016 management began charging each employee who wanted additional family coverage 25% of the actual cost of the employee's additional insurance. Management did not make corrections for the prior error.

**Cause:** Management looked at the blended rate quoted by the insurance company and did not consider actual cost of the additional family coverage.

**Recommendation:** We recommend management consult with its Board of Alderman and determine if employees are due a refund or owe the City additional monies.

**Response:** We will bring this before the Board of Alderman and let them determine the course of action we will take.

Finding Number 2016-008

**Condition:** The City did not obtain advertised competitive bids for all required items.

**Criteria:** Title 2 Section 6 of the Tennessee Code requires competitive bids for management services for construction projects. The City's purchasing policy requires public advertisement and competitive bidding for the purchase of all goods and services exceeding \$5,000, except for those purchases specifically exempt from advertisement and bidding by the Municipal Purchasing Act of 1983.

**Effect:** The City did not obtain advertised competitive bids for the following:  
Vermeer (1999 Ditch Witch model 5700) \$ 10,000

**Cause:** This Ditch Witch was being used by Fayette Utility District of Hardeman and Fayette Counties, Tennessee and when it was returned to Vermeer, the City purchased it without advertising for bids.

**CITY OF MIDDLETON, TENNESSEE**  
**Schedule of Findings and Responses**  
**For the fiscal year ended June 30, 2016**

**Instances of Noncompliance and Other Matters Material to the Financial Statements - continued**

Finding Number 2016-008 - continued

**Recommendation:** We recommend the City require advertised competitive bids for all purchases exceeding \$5,000.

**Response:** We concur with the recommendation.

Finding Number 2016-009

**Condition:** Capital assets are not tagged for proper identification.

**Criteria:** Tennessee Department of Audit requires the City to maintain detailed general fixed asset records. Annual inventories should be taken and compared to general fixed asset records. General fixed assets should be tagged for proper identification.

**Effect:** The City's governmental fund capital assets are not identified with a tag or other identification method.

**Cause:** The City officials established depreciation records for governmental fund capital assets as required by GASB 34; however, they did not tag the movable equipment.

**Recommendation:** The City should permanently tag all City fixed assets.

**Response:** We will consider establishing a tagging system.

Finding Number 2016-010

**Condition:** Expenditures exceeded the budget.

**Criteria:** State law requires purchases to remain within budgeted amounts.

**Effect:** The City had the following budget overruns:

General Fund

General Government

General – salaries	\$ 1,107
General – payroll taxes	13
General – unemployment insurance	33
General – telephone	363
General – legal services	1,440
General – repairs	1
General – insurance	18,724

**CITY OF MIDDLETON, TENNESSEE**  
**Schedule of Findings and Responses**  
**For the fiscal year ended June 30, 2016**

**Instances of Noncompliance and Other Matters Material to the Financial Statements - continued**

Finding Number 2016-010 - continued

**Effect – continued:**

Public Safety	
Police – other professional services	\$ 356
Police – repairs	2,208
Police – moving violations to state	1,198
Fire – payroll taxes	1,530
Fire – utility services	608
Fire – telephone	249
Fire – travel	129
Fire – repairs	959
Public Works	
Highway, streets and roadways – payroll taxes	129
Highway, streets and roadways – repair and maintenance – street equipment	1,215
Highway, streets and roadways – repairs and maintenance – supplies	1,044
Culture and Recreation	
Park – repair and maintenance service	127
Park – utility services	940
Library – salaries	416
Library – payroll taxes	31
Library – supplies	361
Capital Outlays	
Police department	2,025
Debt Service – retirement of mortgage notes	442
State Street Aid Fund	
Street lighting	1,995
Drug Fund	
Supplies and other	994
Repairs	537
Miscellaneous	243
Cemetery Perpetual Care Fund	
Payments to General Fund for cemetery maintenance	14



**CITY OF MIDDLETON, TENNESSEE**  
**Schedule of Findings and Responses**  
**For the fiscal year ended June 30, 2016**

**Instances of Noncompliance and Other Matters Material to the Financial Statements - continued**

Finding Number 2016-010 - continued

**Effect – continued:**

Enterprise Fund

Water and sewer – water repair and maintenance services	\$ 6,644
Water and sewer – water operating supplies	209
Water and sewer – water depreciation	9,443
Water and sewer – water bad debts	83
Water and sewer – sewer hospital and health insurance	12,921
Water and sewer – sewer employee education	1,167
Water and sewer – sewer permits	1,110
Water and sewer – sewer depreciation	9,443
Water and sewer – sewer capital outlays	57,568
Natural gas system – salaries	9,161
Natural gas system – FICA/Medicare – employer	691
Natural gas system – hospital and health insurance	7,759
Natural gas system – retirement	551
Natural gas system – telephone	65
Natural gas system – attorney	15,078
Natural gas system – consulting	3,113
Natural gas system – mileage	254
Natural gas system – depreciation	3,938
Sanitation – salaries	11,608
Sanitation – FICA/Medicare – employer	763
Sanitation – hospital and health insurance	3,966
Sanitation – retirement	165
Sanitation – repairs	396
Sanitation – bad debts	582
Sanitation – miscellaneous	285

**Cause:** Budget amendments for these items were not requested.

**Recommendation:** Budgets should be reviewed monthly and amendments made by the Board of Alderpersons when necessary.

**Response:** We concur with the recommendation.

**CITY OF MIDDLETON, TENNESSEE**  
**Schedule of Findings and Responses**  
**For the fiscal year ended June 30, 2016**

**Instances of Noncompliance and Other Matters Material to the Financial Statements - continued**

Finding Number 2016-011

**Condition:** The City forgave utility penalties of \$5,536 without Board of Alderman authorization.

**Criteria:** Management should obtain the Board of Alderman's authorization to forgive penalties owed.

**Effect:** The City sent out utility bills in December 2015 that the ink did not print correctly. The office staff decided to not bill any penalties for this collection period. The office staff reversed penalties totaling \$5,536 from customer accounts and did not obtain Board of Alderman's authorization to do so.

**Cause:** The office staff felt they erred when mailing out the bills that were not totally readable and felt no one should be charged a penalty for paying late.

**Recommendation:** We recommend management obtain Board of Alderman's authorization to remove any penalties properly charged.

**Response:** The Board of Alderman authorized forgiving these penalties for the December 2015 billing on August 15, 2016.

**CITY OF MIDDLETON, TENNESSEE**  
**Results of Prior Year Findings**  
**For the fiscal year ended June 30, 2016**

Financial Statement Findings

Finding Number	Finding Title	Status
2015-001	The City does not have an adequate segregation of duties among most accounting functions. (original finding #2010-001)	Repeated -see current year finding 2016-001
2015-002	Internal controls over disbursements are inadequate. (original finding #2010-002)	Partially corrected see current year finding 2016-002
2015-003	The transactions for general fixed assets and general long term debt categories are not being recorded. There were numerous adjusting journal entries required to correct posting errors or entries not made. (original finding #2010-004)	Repeated -see current year finding 2016-003
2015-004	The City had unaccounted for water of approximately 29.15%. (original finding # 2010-005)	Corrected
2015-005	The City outsources financial statements, related notes, supplementary information preparation, and depreciation schedule preparation. (original finding #2010-006)	Repeated -see current year finding 2016-004
2015-006	As noted in finding numbers 2015-007 through 2015-014, there were violations of certain state laws and loan agreements. (original finding #2010-008)	Repeated see current year finding 2016-005
2015-007	The Water and Sewer Fund reported a negative change in net position during the years ended June 30, 2010, 2011, 2012, 2013, 2014, and 2015. (original finding # 2012-008)	Corrected
2015-008	Payments were made in excess of contracted amount. (original finding 2015-008)	Corrected
2015-009	Interfund loans are not being authorized or approved by the Board of Alderpersons. (original finding # 2010-010)	Corrected
2015-010	The City did not obtain advertised competitive bids for all required items. (original finding # 2010-011)	Repeated - see current year finding 2016-008
2015-011	Capital assets are not tagged for proper identification. (original finding #2010-012)	Repeated -see current year finding 2016-009
2015-012	Expenditures exceeded the budget. (original finding #2010-014)	Repeated -see current year finding 2016-010
2015-013	The City Board of Alderpersons' minutes do not document the amount of the assessed valuation adopted. (original finding # 2013-017)	Corrected
2015-014	The City closed certificates of deposit without Board of Alderperson's authorization. (original finding # 2015-014)	Corrected

Federal Award Findings and Questioned Costs

Finding Number	Finding Title	Status
	There were no prior year federal award findings and questioned costs	