

**CITY OF LAKESITE, TENNESSEE**

**FINANCIAL STATEMENTS**

**JUNE 30, 2012**



**G. R. RUSH & COMPANY, PLLC**  
CERTIFIED PUBLIC ACCOUNTANTS • CONSULTANTS

CITY OF LAKESITE, TENNESSEE

INDEX

JUNE 30, 2012

|   | <u>PAGE</u> |
|---|-------------|
| INTRODUCTORY SECTION:   |             |
| City Officials  | 3           |
| FINANCIAL SECTION:  |             |
| Independent Auditors' Report  | 4-5         |
| Management's Discussion and Analysis                                  | 6-12        |
| Basic Financial Statements:   |             |
| Government-wide Financial Statements -                                |             |
| Statement of net assets   | 13          |
| Statement of activities   | 14          |
| Fund Financial Statements -   |             |
| Balance sheet and reconciliation to statement of net assets -         |             |
| Governmental Funds  | 15          |
| Statement of revenues, expenditures and changes in fund balance -     |             |
| Governmental Funds  | 16          |
| Reconciliation of the statement of revenues, expenditures and changes |             |
| in fund balance of governmental funds to the statement of activities  | 17          |
| Statement of revenues, expenditures and changes in fund balance -     |             |
| Budget and Actual - On GAAP Basis - General Fund                      | 18-20       |
| Statement of revenues, expenditures and changes in fund balance -     |             |
| Budget and Actual - On GAAP Basis - Sanitation Fund                   | 21          |
| Notes to financial statements   | 22-30       |
| SUPPLEMENTAL DATA SECTION (UNAUDITED)                                 |             |
| Schedule of insurance coverage  | 31          |
| Tax rates and assessed valuation                                      | 32          |
| Schedule of changes in taxes receivable                               | 33          |
| Property tax levies and collections                                   | 34          |

CITY OF LAKESITE, TENNESSEE

INDEX

JUNE 30, 2012

COMPLIANCE AND INTERNAL CONTROL SECTION

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*

35-36

CITY OF LAKESITE, TENNESSEE

CITY OFFICIALS

JUNE 30, 2012

|                     |               |
|---------------------|---------------|
| Ken Wilkerson.....  | Mayor         |
| John McPherson..... | Vice-Mayor    |
| David Edwards.....  | City Manager  |
| Jodi LaCroix.....   | City Recorder |
| Sam Elliott.....    | City Attorney |
| Valerie Boddy.....  | Commissioner  |
| Phil Burkett.....   | Commissioner  |
| David Howell.....   | Commissioner  |



## INDEPENDENT AUDITORS' REPORT

To the Mayor and Board of Commissioners  
City of Lakesite  
Lakesite, Tennessee

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Lakesite, Tennessee, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the index. These financial statements are the responsibility of the City of Lakesite's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the City of Lakesite, Tennessee, as of June 30, 2012, and the respective changes in financial position, thereof and the respective budgetary comparison for the General Fund and Sanitation Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2012, on our consideration of the City of Lakesite, Tennessee's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 12 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 basis 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 assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lakesite, Tennessee's financial statements as a whole. The Introductory Section on page 3 and the Supplemental Data Section on pages 31 through 34 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or provide any assurance on them.

*B. R. Runk + Company, PLLC*

November 1, 2012

# CITY OF LAKESITE, TENNESSEE

## MANAGEMENT DISCUSSION AND ANALYSIS

JUNE 30, 2012

This section of the City of Lakesite's annual financial report presents a narrative overview and analysis of the City's financial performance for the fiscal year ended June 30, 2012. Please read it in conjunction with the City's financial statements which follow. This discussion and analysis is intended to serve as an introduction to the City of Lakesite's financial statements. The basic financial statements consist of three parts: (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 both long-term and short-term information about the City's overall financial status in a manner similar to private-sector businesses. There are two government-wide financial statements:

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

**Statement of activities** - presents information showing how the City's net assets change during the most recent fiscal year. All current revenues and expenses are taken into account regardless of the timing of the related cash flows. Thus revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal years.

**Fund financial statements.** The fund financial statements provide more detailed information about the most significant funds - not necessarily the City as a whole. Some funds are required by State or Federal law or by bond covenants; other funds are established by the City Commission to help it control and manage money for designated or restricted purposes, or to show that it is meeting legal responsibilities for how certain taxes, grants and other monies are used. All funds of the City are governmental type funds.

**Governmental funds** - The City's basic services are included in governmental funds. The focus of these funds is on (1) how cash and other financial assets that can be readily converted to cash were received and used and (2) what remains at the end of the fiscal year for future spending. This detailed short-term view helps in determining whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not include the additional long-term focus of the government-wide financial statements, we provide additional information after the governmental fund statement that explains the difference between the long-term view and the short-term view.

**Notes to financial statements.** The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The additional information contained in these notes is essential to a full understanding of the information provided in the government-wide and fund financial statements.

# CITY OF LAKESITE, TENNESSEE

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

JUNE 30, 2012

**Other information.** In addition to the basic financial statements discussed above, this report also presents supplementary information about the City's insurance coverages and about the value of property supporting the City's tax base and the enacted rates for the past several years.

### FINANCIAL ANALYSIS OF THE CITY AS A WHOLE.

**Net assets.** Net assets may serve over time as a useful indicator of the government's financial position. In the case of the City of Lakesite, assets exceed liabilities by \$3,524,489 at the close of the most recent fiscal year, an increase of \$96,110 or 2.8% from last year. About one-third of the City's net assets are related to its investment in capital assets (land, buildings, equipment, infrastructure, etc.); less any related debt used to acquire those assets. Because capital assets are used to provide services to citizens, the assets are not available for future spending. The remaining balance is available to meet the City's ongoing obligations. A condensed summary of the net assets of the City is provided below.

#### City of Lakesite's Net Assets

|                            | <u>Governmental Activities</u> |                     |                                 |
|----------------------------|--------------------------------|---------------------|---------------------------------|
|                            | <u>2012</u>                    | <u>2011</u>         | <u>Increase/<br/>(Decrease)</u> |
| Current and other assets   | \$ 2,528,807                   | \$ 2,473,572        | \$ 55,235                       |
| General fixed assets       | <u>1,115,444</u>               | <u>1,074,529</u>    | <u>40,915</u>                   |
| Total assets               | <u>3,644,251</u>               | <u>3,548,101</u>    | <u>96,150</u>                   |
| Liabilities                | <u>119,762</u>                 | <u>119,722</u>      | <u>40</u>                       |
| Net assets -               |                                |                     |                                 |
| Invested in capital assets | 1,115,444                      | 1,074,529           | 40,915                          |
| Unrestricted               | <u>2,409,045</u>               | <u>2,353,850</u>    | <u>55,195</u>                   |
| Total net assets           | <u>\$ 3,524,489</u>            | <u>\$ 3,428,379</u> | <u>\$ 96,110</u>                |

**Change in net assets.** Net assets of the City's governmental activities increased 2.8% to \$3,524,489. Of that balance, \$1,115,444 or 31.7% are invested in capital assets (buildings, equipment, infrastructure, etc.). Therefore, \$2,409,045 or 68.3% remains available to meet the City's ongoing obligations to citizens and creditors.

The graphs below summarize the sources of the City's revenues of \$898,025 and total program expenses of \$801,915.

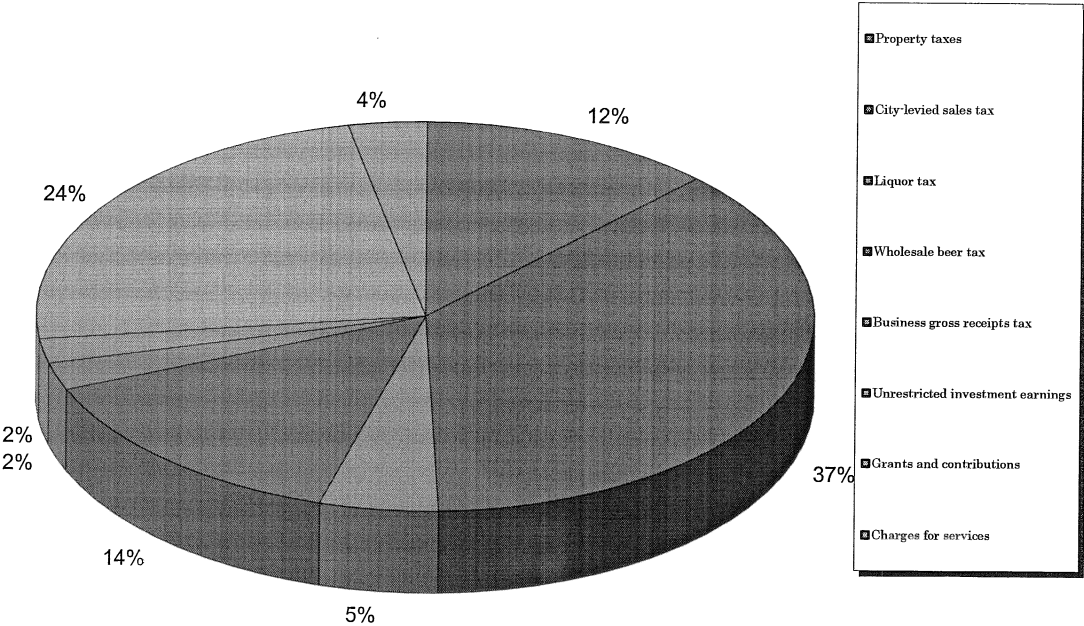


CITY OF LAKESITE, TENNESSEE

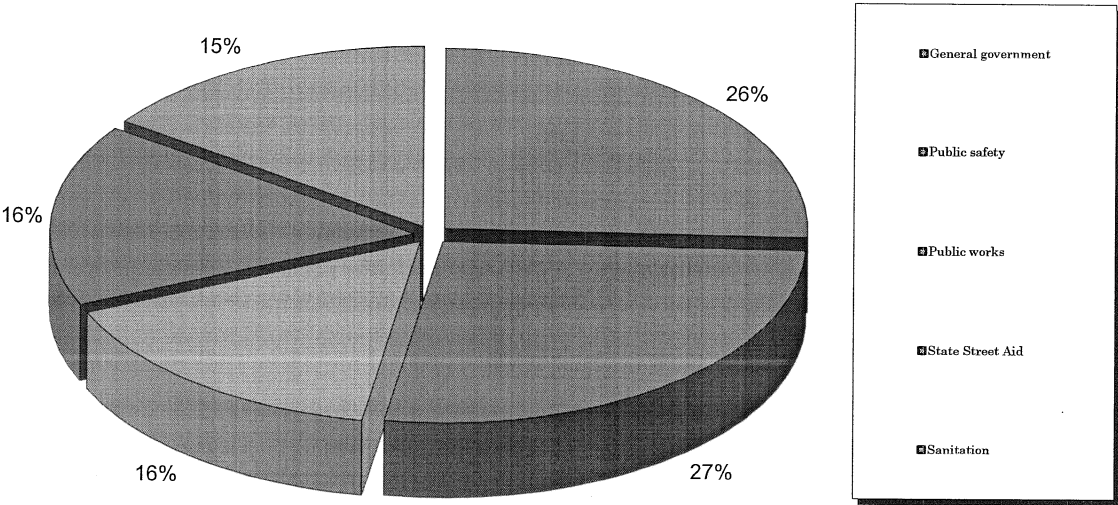
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

JUNE 30, 2012

Total Revenues by Source



Total Expenditures by Function



## CITY OF LAKESITE, TENNESSEE

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

JUNE 30, 2012

A complete picture of the changes in net assets of the City is provided in the summary below.

## City of Lakesite's Changes in Net Assets

|                        | <u>Governmental Activities</u> |                   | <u>Increase/<br/>(Decrease)</u> |
|------------------------|--------------------------------|-------------------|---------------------------------|
|                        | <u>2012</u>                    | <u>2011</u>       |                                 |
| Revenues:              |                                |                   |                                 |
| Program revenues -     |                                |                   |                                 |
| Charges for services   | \$ 29,432                      | \$ 30,504         | \$( 1,072)                      |
| Grants                 | 51,096                         | 56,017            | ( 4,921)                        |
| General revenues -     |                                |                   |                                 |
| Property taxes         | 109,702                        | 110,562           | ( 860)                          |
| Sales taxes            | 333,968                        | 329,293           | 4,675                           |
| Other taxes            | 192,846                        | 188,026           | 4,820                           |
| Grants                 | 162,772                        | 158,851           | 3,921                           |
| Investment income      | <u>18,209</u>                  | <u>38,574</u>     | <u>( 20,365)</u>                |
| Total revenue          | <u>898,025</u>                 | <u>911,827</u>    | <u>( 13,802)</u>                |
| Expenses:              |                                |                   |                                 |
| General government     | 205,505                        | 201,287           | 4,218                           |
| Public safety          | 215,867                        | 168,186           | 47,681                          |
| Public works           | 126,854                        | 80,962            | 45,892                          |
| State Street Aid       | 130,195                        | 158,376           | ( 28,181)                       |
| Sanitation             | <u>123,494</u>                 | <u>116,347</u>    | <u>7,147</u>                    |
| Total expenses         | <u>801,915</u>                 | <u>725,158</u>    | <u>76,757</u>                   |
| Increase in net assets | <u>\$ 96,110</u>               | <u>\$ 186,669</u> | <u>\$( 90,559)</u>              |

Current fiscal year revenues for the City's governmental activities were \$898,025 compared to \$911,827 last year, down 1.5%. Current year expenses were \$801,915 compared with \$725,158 last year, an increase of \$76,757, up 10.6%.

CITY OF LAKESITE, TENNESSEE

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

JUNE 30, 2012

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS.**

The City of Lakesite, Tennessee uses fund accounting to help it control and manage money for particular purposes or to demonstrate compliance with legal requirements. More detailed analysis is provided below for the City's funds.

**Governmental funds.** Governmental funds focus on providing information on the near-term flow of resources. The City's governmental funds reported a fund balance of \$2,397,487 at the end of the fiscal year which is available for spending at the City's discretion. Information about the City's governmental funds is presented below.

**General fund.** This fund is the chief operating fund of the City of Lakesite. All of the \$2,397,487 fund balance is held in the general fund, of which \$1,886,704 or 78.7% is assigned for future spending. The increase in general fund balance was \$55,195 or 2.4% from the beginning of the fiscal year.

**Sanitation fund.** This fund separately accounts for all of the costs incurred by the City for trash removal services provided to its residents. There are no separately charged fees for this service and the City makes an operating transfer of funds equal to the cost of the service each year. Thus, there is no fund balance for this fund.

**General fund budgetary highlights.** Actual revenues were below budgeted amounts by \$1,870. Actual expenditures were less than budgetary estimates in all departments by a combined \$760,150. The City's original budget expected a deficit of \$781,791. With actual revenues below budgeted amounts and actual expenditures below budgetary estimates, the City achieved a surplus for the fiscal year of \$55,195.

During the 2005 fiscal year, the City adopted a ten year plan that calls for the accumulation of funds to provide for future capital expansion. At the end of the current fiscal year, the City's designated funds had a balance of \$1,886,704. Of the amount designated, \$1,025,000 is for future sewer expansion, \$64,986 is for the replacement of police and city vehicles and \$796,718 is for future expansion and maintenance of the City's recreational facilities.

CITY OF LAKESITE, TENNESSEE

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

JUNE 30, 2012

CAPITAL ASSET AND DEBT ADMINISTRATION.

At the end of the fiscal year, the City had \$1,115,444 (net of accumulated depreciation) invested in capital assets, an increase of 1%. This investment includes land, buildings and improvements, vehicles, equipment and infrastructure as listed in the table below.

City of Lakesite's Changes in Net Assets

|  | <u>Governmental Activities</u> |                     | <u>Increase/<br/>(Decrease)</u> |
|--|--------------------------------|---------------------|---------------------------------|
|  | <u>2012</u>                    | <u>2011</u>         |                                 |
| Non-depreciable -  |                                |                     |                                 |
| Land   | \$ 95,431                      | \$ 95,431           | \$ -                            |
| Depreciable -  |                                |                     |                                 |
| Buildings and improvements                               | 1,069,300                      | 1,008,970           | 60,330                          |
| Vehicles   | 33,943                         | 30,744              | 3,199                           |
| Equipment  | 213,681                        | 228,785             | ( 15,104)                       |
| Infrastructure   | <u>240,260</u>                 | <u>221,285</u>      | <u>18,975</u>                   |
| Total capital assets                                     | 1,652,615                      | 1,585,215           | 67,400                          |
| Accumulated depreciation                                 | <u>537,171</u>                 | <u>510,686</u>      | <u>26,485</u>                   |
| Total capital assets, net of accumulated<br>depreciation | <u>\$ 1,115,444</u>            | <u>\$ 1,074,529</u> | <u>\$ 40,915</u>                |

Major additions for 2012 included completion of upgrades at the Little Chickey recreational area, as well as the purchase of a new city maintenance truck.

As allowed by GASB 34, the City has elected not to record on the books the estimated cost of infrastructure already in place at the time of implementation, thus the total for capital assets does not include existing roads, bridges, sewers or water lines currently in existence prior to June 30, 2004.

The City has no outstanding debt.

CITY OF LAKESITE, TENNESSEE

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

JUNE 30, 2012

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES.**

The City is situated only a few miles from the City of Chattanooga and is one of nine municipal entities that are incorporated in Hamilton County, Tennessee. Most businesses and industries are not located in the City of Lakesite although some revenue growth is anticipated from the business district along Hixson Pike. Expenditures for the coming year are expected to decrease as the park expansion project is substantially complete. The City's property tax rate this levy year is \$0.240 per \$100 of valuation, no change from the past year rate.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT.**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact:

Dr. David Edwards, City Manager  
City of Lakesite, Tennessee  
9201 Rocky Point Road  
Lakesite, Tennessee 37379-3046  
423-842-2533

CITY OF LAKESITE, TENNESSEE

STATEMENT OF NET ASSETS

JUNE 30, 2012

ASSETS

|   | Governmental<br><u>Activities</u> |
|---|-----------------------------------|
| Cash and cash equivalents                       | \$ 1,234,157                      |
| Property taxes receivable                       | 118,000                           |
| Due from other governments                      | 112,171                           |
| Due from other entities                         | 11,558                            |
| Investments                                     | 1,052,921                         |
| Capital assets, net of accumulated depreciation | <u>1,115,444</u>                  |
| <br>Total assets                                | <br><u><u>\$ 3,644,251</u></u>    |

LIABILITIES AND NET ASSETS

LIABILITIES:

|                          |                    |
|--------------------------|--------------------|
| Accrued liabilities      | \$ 1,762           |
| Deferred revenue - taxes | <u>118,000</u>     |
| <br>Total liabilities    | <br><u>119,762</u> |

NET ASSETS:

|                                      |                                |
|--------------------------------------|--------------------------------|
| Invested in capital assets           | 1,115,444                      |
| Unrestricted                         | <u>2,409,045</u>               |
| <br>Total net assets                 | <br><u>3,524,489</u>           |
| <br>Total liabilities and net assets | <br><u><u>\$ 3,644,251</u></u> |

See notes to financial statements.

## CITY OF LAKESITE, TENNESSEE

## STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2012

|   |                   | <u>Program Revenues</u>                       |   | Net (Expense)<br>Revenue and<br>Changes in Net<br>Assets |
|---|-------------------|---|---|--|
|   | <u>Expenses</u>   | <u>Charges for<br/>Services<br/>and Fines</u> | <u>Operating<br/>Grants and<br/>Contributions</u> | <u>Governmental<br/>Activities</u>                       |
| GOVERNMENTAL ACTIVITIES:  |                   |   |   |  |
| General government  | \$ 205,505        | \$ 29,432                                     | \$ -  | \$ ( 176,073)  |
| Public safety   | 215,867           | -   | -   | ( 215,867)   |
| Public works  | 126,854           | -   | -   | ( 126,854)   |
| State Street Aid  | 130,195           | -   | 51,096  | ( 79,099)  |
| Sanitation  | <u>123,494</u>    | <u>-</u>                                      | <u>-</u>  | <u>( 123,494)</u>  |
| Total governmental activities                                   | <u>\$ 801,915</u> | <u>\$ 29,432</u>                              | <u>\$ 51,096</u>                                  | <u>( 721,387)</u>  |
| GENERAL REVENUES:   |                   |   |   |  |
| Property taxes  |                   |   |   | 109,702  |
| City-levied sales tax   |                   |   |   | 333,968  |
| Liquor tax  |                   |   |   | 44,346   |
| Wholesale beer tax  |                   |   |   | 128,195  |
| Business gross receipts tax                                     |                   |   |   | 20,305   |
| Unrestricted investment earnings                                |                   |   |   | 18,209   |
| Grants and contributions not restricted<br>to specific programs |                   |   |   | <u>162,772</u>   |
| Total general revenues  |                   |   |   | <u>817,497</u>   |
| Change in net assets  |                   |   |   | 96,110   |
| Net assets, beginning of fiscal year                            |                   |   |   | <u>3,428,379</u>   |
| Net assets, end of fiscal year                                  |                   |   |   | <u>\$ 3,524,489</u>                                      |

See notes to financial statements.

CITY OF LAKESITE, TENNESSEE

BALANCE SHEET AND RECONCILIATION TO STATEMENT OF NET ASSETS -

GOVERNMENTAL FUNDS

JUNE 30, 2012

ASSETS

|                            | General<br>Fund     |
|----------------------------|---------------------|
| Cash                       | \$ 1,234,157        |
| Property taxes receivable  | 118,000             |
| Due from other governments | 112,171             |
| Investments                | <u>1,052,921</u>    |
| Total assets               | <u>\$ 2,517,249</u> |

LIABILITIES AND FUND BALANCE

LIABILITIES:

|                          |                |
|--------------------------|----------------|
| Accrued liabilities      | \$ 1,762       |
| Deferred revenue - taxes | <u>118,000</u> |
| Total liabilities        | <u>119,762</u> |

FUND BALANCE:

|                    |                  |
|--------------------|------------------|
| Assigned           | 1,886,704        |
| Unassigned         | <u>510,783</u>   |
| Total fund balance | <u>2,397,487</u> |

|                                    |                     |
|------------------------------------|---------------------|
| Total liabilities and fund balance | <u>\$ 2,517,249</u> |
|------------------------------------|---------------------|

RECONCILIATION OF FUND BALANCE TO STATEMENT OF NET ASSETS:

Amounts reported for governmental activities in the statement of net assets  
are different because -

|   |                     |
|---|---------------------|
| Fund balance  | \$ 2,397,487        |
| Other long-term assets not available to pay for current-period expenditures<br>and, therefore, are deferred in the funds    | 11,558              |
| Capital assets used in governmental activities are not financial resources<br>and, therefore, are not reported in the funds | <u>1,115,444</u>    |
| Net assets of governmental activities   | <u>\$ 3,524,489</u> |

See notes to financial statements.



## CITY OF LAKESITE, TENNESSEE

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -

## GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2012

|  | General<br>Fund     | Special<br>Revenue<br>Fund | Total<br>Governmental<br>Funds |
|--|---------------------|----------------------------|--------------------------------|
| REVENUES:  |                     |                            |                                |
| Taxes  | \$ 636,516          | \$ -                       | \$ 636,516                     |
| Intergovernmental  | 206,346             | -                          | 206,346                        |
| Licenses and permits   | 5,303               | -                          | 5,303                          |
| Other  | <u>49,860</u>       | <u>-</u>                   | <u>49,860</u>                  |
| Total revenues   | <u>898,025</u>      | <u>-</u>                   | <u>898,025</u>                 |
| EXPENDITURES:  |                     |                            |                                |
| General government   | 160,772             | -                          | 160,772                        |
| Public safety  | 215,867             | -                          | 215,867                        |
| Public works   | 212,502             | -                          | 212,502                        |
| State Street Aid   | 130,195             | -                          | 130,195                        |
| Sanitation   | <u>-</u>            | <u>123,494</u>             | <u>123,494</u>                 |
| Total expenditures   | <u>719,336</u>      | <u>123,494</u>             | <u>842,830</u>                 |
| Excess (deficiency) of revenues over (under)<br>Expenditures | 178,689             | ( 123,494)                 | 55,195                         |
| OTHER FINANCING SOURCES (USES):                              |                     |                            |                                |
| Operating transfers  | <u>( 123,494)</u>   | <u>123,494</u>             | <u>-</u>                       |
| NET CHANGE IN FUND BALANCE                                   | 55,195              | -                          | 55,195                         |
| FUND BALANCE at beginning of fiscal year                     | <u>2,342,292</u>    | <u>-</u>                   | <u>2,342,292</u>               |
| FUND BALANCE at end of fiscal year                           | <u>\$ 2,397,487</u> | <u>\$ -</u>                | <u>\$ 2,397,487</u>            |

See notes to financial statements.

CITY OF LAKESITE, TENNESSEE

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

FOR THE YEAR ENDED JUNE 30, 2012

Amounts reported for governmental activities in the statement of activities  
on page 14 are different because:

|  |           |
|--|-----------|
| Net change in fund balances - total governmental funds (page 16) | \$ 55,195 |
|--|-----------|

|   |               |
|---|---------------|
| Governmental funds report capital outlays as expenditures. However,<br>in the statement of activities, the cost of those assets is allocated<br>over their estimated useful lives and reported as depreciation<br>expense. This is the amount by which capital outlays exceeded<br>depreciation in the current period | <u>40,915</u> |
|---|---------------|

|   |                  |
|---|------------------|
| Change in net assets of governmental activities (page 14) | <u>\$ 96,110</u> |
|---|------------------|

See notes to financial statements.

## CITY OF LAKESITE, TENNESSEE

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

## BUDGET AND ACTUAL - ON GAAP BASIS - GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2012

|                                       | <u>Budgeted Amounts</u> |                | <u>Actual</u>  | <u>Variance with</u>  |
|---------------------------------------|-------------------------|----------------|----------------|-----------------------|
|                                       | <u>Original</u>         | <u>Final</u>   | <u>Amounts</u> | <u>Final Budget -</u> |
|                                       |                         |                |                | <u>Favorable/</u>     |
|                                       |                         |                |                | <u>(Unfavorable)</u>  |
| REVENUES:                             |                         |                |                |                       |
| Taxes -                               |                         |                |                |                       |
| Real property                         | \$ 109,000              | \$ 109,000     | \$ 109,702     | \$ 702                |
| Local option sales                    | 320,000                 | 334,180        | 333,968        | ( 212)                |
| Liquor                                | 32,000                  | 44,120         | 44,346         | 226                   |
| Wholesale beer                        | 105,000                 | 121,800        | 128,195        | 6,395                 |
| Gross receipts                        | <u>15,000</u>           | <u>24,300</u>  | <u>20,305</u>  | <u>( 3,995)</u>       |
| Total taxes                           | <u>581,000</u>          | <u>633,400</u> | <u>636,516</u> | <u>3,116</u>          |
| Intergovernmental revenues -          |                         |                |                |                       |
| Sales tax                             | 120,000                 | 122,900        | 123,867        | 967                   |
| State income tax                      | 7,000                   | 6,082          | 7,693          | 1,611                 |
| Beer tax                              | 1,000                   | 900            | 896            | ( 4)                  |
| Mixed drink tax                       | 1,750                   | 1,800          | 1,583          | ( 217)                |
| Streets and transportation system     | 4,000                   | 3,800          | 3,758          | ( 42)                 |
| TVA replacement                       | 19,000                  | 15,822         | 21,097         | 5,275                 |
| State gas tax                         | 35,000                  | 33,100         | 32,433         | ( 667)                |
| State add 3% gas tax                  | 10,000                  | 9,800          | 9,687          | ( 113)                |
| A89 increase gas tax                  | 5,800                   | 4,775          | 5,219          | 444                   |
| State telecommunication sales         | <u>150</u>              | <u>100</u>     | <u>113</u>     | <u>13</u>             |
| Total intergovernmental revenues      | <u>203,700</u>          | <u>199,079</u> | <u>206,346</u> | <u>7,267</u>          |
| Licenses and permits                  | <u>3,300</u>            | <u>5,830</u>   | <u>5,303</u>   | <u>( 527)</u>         |
| Other revenues -                      |                         |                |                |                       |
| Cable television franchise fees       | 23,000                  | 23,536         | 24,129         | 593                   |
| Interest                              | 34,000                  | 30,540         | 35,181         | 4,641                 |
| Unrealized gain/(loss) on investments | -                       | 5,510          | ( 16,972)      | ( 22,482)             |
| Miscellaneous                         | <u>1,000</u>            | <u>2,000</u>   | <u>7,522</u>   | <u>5,522</u>          |
| Total miscellaneous revenues          | <u>58,000</u>           | <u>61,586</u>  | <u>49,860</u>  | <u>( 11,726)</u>      |
| Total revenues                        | <u>846,000</u>          | <u>899,895</u> | <u>898,025</u> | <u>( 1,870)</u>       |

See notes to financial statements.

## CITY OF LAKESITE, TENNESSEE

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

## BUDGET AND ACTUAL - ON GAAP BASIS - GENERAL FUND (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2012

|                                 | <u>Budgeted Amounts</u> |                | <u>Actual</u>  | <u>Variance with</u>  |
|---------------------------------|-------------------------|----------------|----------------|-----------------------|
|                                 | <u>Original</u>         | <u>Final</u>   | <u>Amounts</u> | <u>Final Budget -</u> |
|                                 |                         |                |                | <u>Favorable/</u>     |
|                                 |                         |                |                | <u>(Unfavorable)</u>  |
| <b>EXPENDITURES:</b>            |                         |                |                |                       |
| General government -            |                         |                |                |                       |
| Building maintenance, etc.      | 5,000                   | 2,500          | 1,915          | 585                   |
| Capital outlay                  | 5,000                   | 2,000          | 1,192          | 808                   |
| Commission expense allowance    | 18,000                  | 11,200         | 11,164         | 36                    |
| Commission discretionary fund   | 20,000                  | 20,000         | -              | 20,000                |
| Communications                  | 10,000                  | 11,000         | 11,226         | ( 226)                |
| Donations                       | 8,000                   | 3,000          | 2,500          | 500                   |
| Dues and publications           | 3,500                   | 2,500          | 1,496          | 1,004                 |
| Elections                       | -                       | 2,500          | -              | 2,500                 |
| Insurance                       | 6,000                   | 5,645          | 5,645          | -                     |
| Miscellaneous                   | 8,250                   | 8,690          | 8,351          | 339                   |
| Office supplies                 | 7,500                   | 7,500          | 7,735          | ( 235)                |
| Payroll expense                 | 8,000                   | 8,000          | 7,092          | 908                   |
| Professional services           | 27,000                  | 23,671         | 23,175         | 496                   |
| Salaries                        | 47,239                  | 49,413         | 58,829         | ( 9,416)              |
| Training                        | 5,000                   | 4,000          | 3,180          | 820                   |
| Utilities                       | 11,000                  | 8,650          | 8,084          | 566                   |
| Workers' compensation insurance | <u>5,000</u>            | <u>9,200</u>   | <u>9,188</u>   | <u>12</u>             |
| Total general government        | <u>194,489</u>          | <u>179,469</u> | <u>160,772</u> | <u>18,697</u>         |
| Public works -                  |                         |                |                |                       |
| Buildings maintenance, etc.     | 20,000                  | 20,000         | 13,324         | 6,676                 |
| Capital outlay – public works   | 58,000                  | 58,000         | 85,648         | ( 27,648)             |
| Capital outlay - parks          | 701,000                 | 701,000        | -              | 701,000               |
| Consulting services             | 20,000                  | 2,000          | -              | 2,000                 |
| Contract labor                  | 3,000                   | 10,000         | 9,256          | 744                   |
| Equipment & uniforms            | 800                     | 1,165          | 1,163          | 2                     |
| Health insurance                | 25,000                  | 25,000         | 19,465         | 5,535                 |
| Parks and playgrounds           | 40,000                  | 30,000         | 40,116         | ( 10,116)             |
| Salaries                        | 37,252                  | 37,252         | 37,252         | -                     |
| Sewer                           | 5,000                   | -              | -              | -                     |
| Supplies                        | <u>6,000</u>            | <u>6,000</u>   | <u>6,278</u>   | <u>( 278)</u>         |
| Total public works              | <u>916,052</u>          | <u>890,417</u> | <u>212,502</u> | <u>677,915</u>        |

See notes to financial statements.

## CITY OF LAKESITE, TENNESSEE

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

## BUDGET AND ACTUAL - ON GAAP BASIS - GENERAL FUND (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2012

|  | <u>Budgeted Amounts</u> |                     | <u>Actual</u>       | Variance with<br>Final Budget -<br>Favorable/<br>(Unfavorable) |
|--|-------------------------|---------------------|---------------------|--|
|  | <u>Original</u>         | <u>Final</u>        | <u>Amounts</u>      |  |
| Public safety -  |                         |                     |                     |  |
| Animal control   | 11,250                  | 9,400               | 9,350               | 50   |
| Code enforcement   | 16,000                  | 16,000              | -                   | 16,000   |
| Fire service   | 46,500                  | 44,750              | 44,750              | -  |
| Capital outlay   | 55,000                  | 55,000              | 50,000              | 5,000  |
| Security   | 3,000                   | 1,000               | 860                 | 140  |
| Sheriff contract costs                                       | <u>120,000</u>          | <u>120,000</u>      | <u>110,907</u>      | <u>9,093</u>   |
| Total public safety  | <u>251,750</u>          | <u>246,150</u>      | <u>215,867</u>      | <u>30,283</u>  |
| State Street Aid -   |                         |                     |                     |  |
| Emergency fund   | 5,000                   | 1,000               | 450                 | 550  |
| Equipment  | 4,000                   | 1,000               | -                   | 1,000  |
| Paving and repair  | 140,000                 | 90,000              | 87,512              | 2,488  |
| Pedestrian enhancement match                                 | 40,000                  | -                   | -                   | -  |
| Right of way maintenance                                     | 12,000                  | 7,250               | 13,955              | ( 6,705)   |
| Roadscapes grant match                                       | 8,000                   | -                   | 570                 | ( 570)   |
| Road shoulders and drainage                                  | 35,000                  | 35,000              | 15,114              | 19,886   |
| Street lights  | 14,000                  | 20,000              | 10,169              | 9,831  |
| Street signs   | 2,500                   | 1,200               | 815                 | 385  |
| Traffic lights   | <u>5,000</u>            | <u>8,000</u>        | <u>1,610</u>        | <u>6,390</u>   |
| Total highways and streets                                   | <u>265,500</u>          | <u>163,450</u>      | <u>130,195</u>      | <u>33,255</u>  |
| Total expenditures   | <u>1,627,791</u>        | <u>1,479,486</u>    | <u>719,336</u>      | <u>760,150</u>   |
| Excess (deficiency) of revenues<br>over (under) expenditures | ( 781,791)              | ( 579,591)          | 178,689             | 758,280  |
| OTHER FINANCING SOURCES (USES):                              |                         |                     |                     |  |
| Operating transfers out                                      | <u>( 120,000)</u>       | <u>( 124,000)</u>   | <u>( 123,494)</u>   | <u>506</u>   |
| NET CHANGE IN FUND BALANCES                                  | <u>\$( 901,791)</u>     | <u>\$( 703,591)</u> | <u>\$ 55,195</u>    | <u>\$ 758,786</u>  |
| FUND BALANCE at beginning of year                            |                         |                     | <u>2,342,292</u>    | 842,830  |
| FUND BALANCE at end of year                                  |                         |                     | <u>\$ 2,397,487</u> | 2.36%  |

See notes to financial statements.

CITY OF LAKESITE, TENNESSEE

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL - ON GAAP BASIS – SANITATION FUND

FOR THE YEAR ENDED JUNE 30, 2012

|  | <u>Budgeted Amounts</u> |                | <u>Actual</u>  | <u>Variance with</u>   |
|--|-------------------------|----------------|----------------|--|
|  | <u>Original</u>         | <u>Final</u>   | <u>Amounts</u> | <u>Final Budget -</u><br><u>Favorable/</u><br><u>(Unfavorable)</u> |
| EXPENDITURES:  |                         |                |                |  |
| Contracted services  | <u>120,000</u>          | <u>124,000</u> | <u>123,494</u> | <u>506</u>   |
| Total expenditures   | <u>120,000</u>          | <u>124,000</u> | <u>123,494</u> | <u>506</u>   |
| Excess (deficiency) of revenues<br>over (under) expenditures | ( 120,000)              | ( 124,000)     | ( 123,494)     | 506  |
| OTHER FINANCING SOURCES (USES):                              |                         |                |                |  |
| Operating transfers in                                       | <u>120,000</u>          | <u>124,000</u> | <u>123,494</u> | <u>( 506)</u>  |
| NET CHANGE IN FUND BALANCE                                   | <u>\$ -</u>             | <u>\$ -</u>    | -              | <u>\$ -</u>  |
| FUND BALANCE at beginning of fiscal year                     |                         |                | -              |  |
| FUND BALANCE at end of fiscal year                           |                         |                | <u>\$ -</u>    |  |

See notes to financial statements.

CITY OF LAKESITE, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

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

**Reporting entity.** The City of Lakesite, Tennessee, is a municipal corporation incorporated in 1972 under provisions of the laws of Tennessee. The City is governed by an elected mayor and four other commissioners who jointly appoint a city manager to oversee the general administrative responsibilities.

The financial statements of the City have been prepared in accordance with generally accepted accounting principals (GAAP) as applied to governmental units. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with the subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

In June 1999, the GASB issued Statement Number 34, "*Basic Financial Statements and Management Discussion and Analysis for State and Local Governments.*" This statement provides for the most significant change in financial reporting in over twenty years and included a phased implementation (based on the size of the government) starting with fiscal years ending in 2002. As part of this statement, there are new reporting requirements regarding a local government's infrastructure (roads, bridges, sewers, etc.). The City implemented GASB Number 34 according to its requirements during fiscal year 2004. Additionally, under GASB 34, smaller governments were relieved of the requirement to record the existing infrastructure at the time of implementation, but will record all new infrastructure assets constructed.

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement Number 14, "*The Financial Reporting Entity,*" and GAAP. This statement requires that the financial statements present the City of Lakesite, Tennessee (the primary government) and any component units. Component units generally are legally separate entities for which a primary government is financially accountable. Financial accountability ordinarily involves meeting one of the following criteria: the primary government is accountable for the component unit (i.e., the primary government appoints the voting majority of the potential component unit board and the primary government is able to impose its will upon the potential component unit), or there is a possibility that the potential component unit may provide specific financial benefits or impose specific financial burdens on the primary government.

Based on the foregoing criteria, there are no entities which meet the above criteria for the City of Lakesite, Tennessee.

CITY OF LAKESITE, TENNESSEE  
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued).

**Measurement focus, basis of accounting and basis of presentation.** The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue and expenditures or expenses as appropriate. Governmental resources are allocated to and accounted for in individual funds based on the purpose for which they are to be spent and the means by which spending activities are controlled.

The basic financial statements of the City are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the financial statements

**Government-wide financial statements** - The City government-wide financial statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of Governmental Activities for the City accompanied by a total column. The City has no business-type or fiduciary activities.

These statements are presented in an “economic resources measurement focus” and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets as well as infrastructure assets and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transactions reported as program revenues for the City are reported in three categories: 1) charges for services; 2) operating grants and contributions; and 3) capital grants and contributions.

Certain eliminations have been made as prescribed by GASB Statement Number 34 in regards to interfund activities, payables and receivables.

The City applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedure.

**Subsequent events.** Management has evaluated subsequent events through November 1, 2012, the date the financial statements were available to be issued.



CITY OF LAKESITE, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued).

**Government fund financial statements** - Government fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net assets and changes in net assets presented in the government-wide financial statements. The following are the City's major funds:

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

**Sanitation Fund** – The sanitation fund is used to account for the operations of the City's sanitation services.

All governmental funds are accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balance present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to financial expenditures of the current period. Accordingly, revenues are recognized when received in cash, except that revenues subject to accrual (generally sixty days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property tax and sales tax. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

**Budgets and budgetary accounting.** Budgets are adopted on a basis consistent with generally accounting principles. Annual appropriated budgets are adopted for the general and special revenue funds. All annual appropriations lapse at fiscal year end. Budgeted amounts are as originally adopted, or as amended by the Board prior to June 30, 2012.

**Cash and cash equivalents and investments.** Cash and cash equivalents for balance sheet purposes, consist of demand deposits and certificates of deposit with original maturities of three months or less and investments in the State of Tennessee's Local Government Investment Pool.

Investments are carried at market. Per the investment policy established by the City, investments are held in certificates of deposit and fixed income securities. Fixed income securities must exclude corporate bonds and shall not exceed fifteen years in maturity or average life. The City's investment objectives are the preservation of principal while providing potential gains in good market conditions and the minimization of low or negative returns in poor market conditions.

CITY OF LAKESITE, TENNESSEE  
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued).

The City of Lakesite, Tennessee is authorized by Tennessee statutes to invest in the following:

- Deposit accounts with eligible depository institutions
- Obligations of the State of Tennessee or other states
- Obligations issued by the United States government
- Obligations fully insured or guaranteed by the United States government or a United States government agency
- Obligations of any corporation of the United States government
- Prime banker's acceptance
- The local government investment pool established by the Tennessee Code Annotated Title 9, Chapter 4, Part 7
- Obligations of other political subdivisions of this State

**Encumbrances.** Encumbrance accounting is used for the general fund. Encumbrances are identified when contracts are issued but are not considered expenditures until liabilities for payments are incurred. Encumbrances are reported as a reservation of fund balance on the balance sheet. Encumbrances for contract costs do not lapse at the close of the fiscal year but are carried forward as reserved fund balance until liquidated.

**Capital assets.** Capital assets, including infrastructure additions are recorded at historical cost. Contributed capital assets are recorded at their estimated fair market value on the date contributed. Capital assets include public domain infrastructure assets consisting of roads, bridges, streets and sidewalks, sewers, lighting systems and drainage systems. The City defines capital assets as assets with an initial, individual cost of more than \$500 (\$5,000 for infrastructure assets) and an estimated useful life of three years or more.

Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on capital assets is calculated on the straight-line basis over the following estimated useful lives:

|                            | <u>Useful life</u> |
|----------------------------|--------------------|
| Buildings and improvements | 10 - 50 years      |
| Equipment                  | 5 - 20 years       |
| Infrastructure             | 40 years           |
| Vehicles                   | 10 years           |

**Property taxes.** Under State law, municipalities may levy a property tax. Property tax revenues are recognized on the modified accrual basis. A receivable should be recognized as of the date when an enforceable legal claim to the taxable property arises. This date is known as the "lien date". The receivable should be recognized as of year-end, June 30. The receivable should be recognized for the entire tax levy of the ensuing fiscal year. Taxes not expected to be collected within sixty days after the end of the fiscal year are recorded as deferred revenue.

CITY OF LAKESITE, TENNESSEE  
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued).

The property tax calendar applicable to the current fiscal year is as follows:

|                   |                               |
|-------------------|-------------------------------|
| Lien date         | January 1                     |
| Levy date         | October 1                     |
| Tax bills mailed  | October 1                     |
| Payment due dates | October 1 through February 28 |
| Delinquency date  | March 1                       |

The tax rate for the 2012 levy year was \$0.240 per \$100 of valuation.

**Interfund transactions.** Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

2. CASH DEPOSITS AND INVESTMENTS.

Cash deposits and investments as of June 30, 2012, are classified in the accompanying financial statements as follows:

|                                     |                     |
|-------------------------------------|---------------------|
| Statement of net assets:            |                     |
| Cash and cash equivalents           | \$ 1,234,157        |
| Investments                         | <u>1,052,921</u>    |
| Total cash deposits and investments | <u>\$ 2,287,078</u> |

Cash deposits and investments as of June 30, 2012, consist of the following:

|                                      |                     |
|--------------------------------------|---------------------|
| Cash on hand                         | \$ 111              |
| Deposits with financial institutions | 1,300,708           |
| Investments                          | <u>986,259</u>      |
| Total cash deposits and investments  | <u>\$ 2,287,078</u> |

**Deposits.** The City's policies limit deposits to those allowed by applicable state laws. State statutes require that all deposits with financial institutions must be collateralized with securities whose market value is equal to 105% of the value of the uninsured deposits. The deposits must be covered by federal depository insurance or the Tennessee Bank Collateral Pool, by collateral held by the City's agent in the City's name, or by the Federal Reserve Banks acting as third party agents.

CITY OF LAKESITE, TENNESSEE  
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

2. CASH DEPOSITS AND INVESTMENTS (Continued).

At June 30, 2012, the City's deposits had a carrying amount of \$1,167,138 and a bank balance of \$1,180,189. The City's bank balances at year-end were entirely insured or collateralized by either federal depository insurance or the Tennessee Bank Collateral Pool or with securities held by the City's agent in the City's name.

**Investments.** State statutes authorize the City to invest in bonds, notes or treasury bills of the United States and obligations guaranteed by the United States or any of its agencies; certificates of deposit at Tennessee state chartered banks and a savings and loan associations and federally chartered banks and savings and loan associations; repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities; and the State of Tennessee's Local Government Investment Pool (LGIP). Statutes also require that securities underlying repurchase agreements must have a market value at least equal to the amount of funds invested in the repurchase transaction.

At June 30, 2012, the City's investment balances were as follows:

|                                       | <u>Maturities</u> | <u>Fair<br/>Value</u> |
|---------------------------------------|-------------------|-----------------------|
| Investment in the LGIP                | Daily             | \$ 968,436            |
| Federal National Mortgage Association | October 25, 2017  | 8,534                 |
| Other                                 |                   | <u>9,289</u>          |
| Total investments                     |                   | <u>\$ 986,259</u>     |

The LGIP is not registered with the Securities and Exchange Commission (SEC), but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a-7 of the "Investment Company Act of 1940". Rule 2a-7 allows SEC-registered mutual funds to use amortized cost rather than fair value to report net assets to compute share prices if certain conditions are met. Participation in the LGIP is voluntary. As a participant, the City must report its position in the pool to be in compliance. Because the pool is basically valued at a constant dollar, the City's position in the pool is its account balance for any reporting period. The oversight for the LGIP is the State Funding Board comprised of the State Treasurer, Comptroller, Governor, Secretary of State and Commissioner of Finance and Administration. All funds invested in the LGIP will return 100% of principal plus interest at a calculated rate.

**Interest rate risk.** As a means of limiting its exposure to fair value losses arising from interest rates, the City's investment strategy limits at least half of the City's investment portfolio to maturities of less than 2 years. Also, the City's investment policy requires purchases of securities to be laddered with staggered maturity dates and limits all securities to a final maturity of no more than 15 years. The City's investment portfolio did not experience significant fluctuations in fair value during the year.

CITY OF LAKESITE, TENNESSEE  
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

2. CASH DEPOSITS AND INVESTMENTS (Continued).

**Credit risk.** State law limits investments in commercial paper, corporate bonds and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. At June 30, 2012, the City's investment in Federal National Mortgage Association bonds was rated Aaa by Moody's Investors Service and A by Standard & Poor's Rating Service. The City's investment in the LGIP was unrated as of June 30, 2012.

During 2012, the City realized a net increase in investments of \$18,209. The calculation of realized gains is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. This amount takes into account all changes in fair value, such as dividend and interest payments received, that occurred during the year. The unrealized loss on investments held at year-end was \$16,972.

3. DUE FROM OTHER GOVERNMENTS.

The amount due from other governments as of June 30, 2012, consists of the following:

|                            |                   |
|----------------------------|-------------------|
| Hamilton County, Tennessee | \$ 59,286         |
| State of Tennessee         | <u>52,885</u>     |
|                            | <u>\$ 112,171</u> |

4. TRANSFERS.

Operating transfers between funds during the year were as follows:

| <u>Operating transfers from</u> | <u>Operating transfers to</u> | <u>Amount</u>     |
|---------------------------------|-------------------------------|-------------------|
| General fund                    | Sanitation fund               | <u>\$ 123,494</u> |

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

In the year ended June 30, 2011, the City made operating transfers in the amount of \$116,347 from the general fund to the sanitation fund for the cost of contracted services provided through the sanitation fund.

## CITY OF LAKESITE, TENNESSEE

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

## 5. RISK MANAGEMENT.

Significant losses are covered by the Tennessee Municipal League Risk Management Pool (general liability, workers' compensation, errors or omissions liability and physical damage) or commercial insurance for other programs (employee dishonesty). For insured programs, there have been no significant reductions in insurance coverage and settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

## 6. CAPITAL ASSETS.

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

|                                   | Balance<br>July 1,<br>2011 | Additions | Reclassifications<br>and<br>Deletions | Balance<br>June 30,<br>2012 |
|-----------------------------------|----------------------------|-----------|---------------------------------------|-----------------------------|
| Non-depreciable assets:           |                            |           |                                       |                             |
| Land                              | \$ 95,431                  | \$ -      | \$ -                                  | \$ 95,431                   |
| Total non-depreciable<br>assets   | 95,431                     | -         | -                                     | 95,431                      |
| Depreciable assets:               |                            |           |                                       |                             |
| Buildings and<br>improvements     | 1,008,970                  | 46,527    | 13,803                                | 1,069,300                   |
| Vehicles                          | 30,744                     | 22,640    | ( 19,441)                             | 33,943                      |
| Equipment                         | 228,785                    | 17,674    | ( 32,778)                             | 213,681                     |
| Infrastructure                    | 221,285                    | -         | 18,975                                | 240,260                     |
| Total depreciable<br>assets       | 1,489,784                  | 86,841    | ( 19,441)                             | 1,557,184                   |
| Less: accumulated<br>depreciation | 510,686                    | 45,926    | ( 19,441)                             | 537,171                     |
| Capital assets, net               | \$ 1,074,529               | \$ 40,915 | \$ -                                  | \$ 1,115,444                |

## 7. DEFERRED REVENUE.

The government-wide financial statements use the accrual basis of accounting and all revenue is recognized when earned. Deferred revenues reported in governmental fund financial statements represent unearned revenues or revenues which are measurable but not available and, in accordance with the modified accrual basis of accounting, are reported as deferred revenues. Deferred revenues in the government-wide financial statements are based on the legal lien date for property tax assessments, which occurs in the prior fiscal year.

CITY OF LAKESITE, TENNESSEE  
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

8. COMPENSATED ABSENCES.

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. A liability is not reported for unpaid accumulated vacation or sick pay benefits which does not vest and is not paid upon termination.

9. DESIGNATED FUND BALANCE.

During the 2005 fiscal year, the City adopted a ten year plan that calls for the accumulation of funds to provide for future capital expansion. At the end of the current fiscal year, the City's designated funds had a balance of \$1,886,704. Of the amount designated, \$1,025,000 is for future sewer expansion, \$64,986 is for the replacement of police and city vehicles and \$796,718 is for future expansion and maintenance of the City's recreational facilities.

10. RESTRICTED NET ASSETS.

Each year the City receives funds from the State of Tennessee which are restricted in their use. They are restricted for expenditures related to the maintenance of roadways within the community. The City's expenditures in this category typically exceed the amount of funds provided by the State, as a result there are no restricted funds remaining at June 30, 2012.

CITY OF LAKESITE, TENNESSEE

SCHEDULE OF INSURANCE COVERAGE

JUNE 30, 2012

(Unaudited)

Crime Coverage:

|                                     |            |
|-------------------------------------|------------|
| Employee dishonesty, per loss       | \$ 100,000 |
| Forgery or alteration               | \$ 100,000 |
| Theft, disappearance or destruction | \$ 100,000 |
| Computer fraud                      | \$ 100,000 |

Comprehensive General Liability:

|  |              |
|--|--------------|
| Bodily injury or personal injury to -                    |              |
| Any one person per occurrence                            | \$ 300,000   |
| Any two or more persons per occurrence                   | \$ 700,000   |
| Property damage per occurrence                           | \$ 100,000   |
| Errors and omissions per occurrence                      | \$ 700,000   |
| Catastrophic medical expenses in excess of bodily injury | \$ 1,000,000 |

Workers' Compensation:

|                  |            |
|------------------|------------|
| Per accident     | \$ 300,000 |
| Disease policy - |            |
| Per employee     | \$ 300,000 |
| Maximum limit    | \$ 700,000 |

Buildings and Equipment:

|                      |            |
|----------------------|------------|
| City Hall            | \$ 953,500 |
| City Hall - contents | \$ 65,000  |
| Equipment            | \$ 16,500  |



CITY OF LAKESITE, TENNESSEE

TAX RATES AND ASSESSED VALUATION

APPLICABLE TO LAST TEN YEARS

JUNE 30, 2012

(Unaudited)

| <u>Year<br/>of<br/>Levy</u> | <u>Assessed<br/>Valuation</u> | <u>Tax Rate<br/>per \$100<br/>Valuation</u> | <u>Net<br/>Taxes<br/>Levied</u> |
|-----------------------------|-------------------------------|---|---------------------------------|
| 2001                        | \$ 30,667,850                 | \$ .339                                     | \$ 103,964                      |
| 2002                        | \$ 30,761,367                 | \$ .339                                     | \$ 104,281                      |
| 2003                        | \$ 30,806,310                 | \$ .339                                     | \$ 104,433                      |
| 2004                        | \$ 31,796,265                 | \$ .339                                     | \$ 107,789                      |
| 2005                        | \$ 37,233,401                 | \$ .290                                     | \$ 107,977                      |
| 2006                        | \$ 38,125,655                 | \$ .290                                     | \$ 110,564                      |
| 2007                        | \$ 39,090,000                 | \$ .290                                     | \$ 113,361                      |
| 2008                        | \$ 39,437,145                 | \$ .290                                     | \$ 114,368                      |
| 2009                        | \$ 46,876,200                 | \$ .240                                     | \$ 112,503                      |
| 2010                        | \$ 46,594,660                 | \$ .240                                     | \$ 111,827                      |
| 2011                        | \$ 46,430,627                 | \$ .240                                     | \$ 109,808                      |

CITY OF LAKESITE, TENNESSEE

SCHEDULE OF CHANGES IN TAXES RECEIVABLE

JUNE 30, 2012

(Unaudited)

| <u>Tax<br/>Year (1)</u> | <u>Property<br/>Taxes<br/>Receivable<br/>Balance<br/>June 30, 2011</u> | <u>Property<br/>Taxes<br/>Levied</u> | <u>Anticipated<br/>Current Year<br/>Levy (2)</u> | <u>Net Pick-Ups<br/>and<br/>Charge-Offs</u> | <u>Collections</u> | <u>Property<br/>Taxes<br/>Receivable<br/>Balance<br/>June 30, 2012</u> |
|-------------------------|--|--------------------------------------|--|---|--------------------|--|
| 2012                    | \$ -   | \$ -                                 | \$ 100,050                                       | \$ -  | \$ -               | \$ 100,050   |
| 2011                    | 101,765  | 109,808                              | -  | ( 100,617)                                  | 103,624            | 7,332  |
| 2010                    | 6,497  | -                                    | -  | -   | 1,018              | 5,479  |
| 2009                    | <u>9,738</u>   | <u>-</u>                             | <u>-</u>   | <u>-</u>                                    | <u>4,599</u>       | <u>5,139</u>   |
|                         | <u>\$ 118,000</u>  | <u>\$ 109,808</u>                    | <u>\$ 100,050</u>                                | <u>\$ ( 100,617)</u>                        | <u>\$ 109,241</u>  | <u>\$ 118,000</u>  |

Note:

(1) According to the Clerk and Master of Hamilton County, Tennessee, all years prior to 2009 have been substantially recovered through collection or sale.

(2) Accrual of the anticipated current year levy is required by GASB Statement No. 33.

CITY OF LAKESITE, TENNESSEE

PROPERTY TAX LEVIES AND COLLECTIONS

LAST SEVEN FISCAL YEARS

JUNE 30, 2012

(Unaudited)

| <u>Fiscal<br/>Year Ended<br/>June 30</u> | <u>Original<br/>Tax Levy</u> | <u>Original<br/>Amount<br/>Collected</u> | <u>Percentage<br/>of Levy</u> | <u>Collections in<br/>Subsequent<br/>Years</u> | <u>Total<br/>Amount<br/>Collected</u> | <u>Percentage<br/>of Levy</u> |
|--|------------------------------|--|-------------------------------|--|---------------------------------------|-------------------------------|
| 2005                                     | 107,789                      | 105,696                                  | 98.1%                         | 2,569  | 108,265                               | 100.0%                        |
| 2006                                     | 107,977                      | 105,648                                  | 97.8%                         | 2,462  | 108,110                               | 100.1%                        |
| 2007                                     | 110,564                      | 107,240                                  | 97.0%                         | 4,699  | 111,939                               | 101.2%                        |
| 2008                                     | 113,667                      | 107,039                                  | 94.2%                         | 5,591  | 112,630                               | 99.9%                         |
| 2009                                     | 114,184                      | 107,328                                  | 93.9%                         | 8,611  | 115,939                               | 101.5%                        |
| 2010                                     | 111,165                      | 106,326                                  | 95.6%                         | 5,977  | 112,303                               | 101.0%                        |
| 2011                                     | 111,827                      | 105,359                                  | 94.2%                         | 1,018  | 106,377                               | 95.1%                         |
| 2012                                     | 109,808                      | 103,624                                  | 94.4%                         | -  | 103,624                               | 94.4%                         |

Note: This format was not required until fiscal year 2006; there will ultimately be ten years of information provided.



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 Commissioners  
City of Lakesite  
Lakesite, Tennessee

We have audited the financial statements of the governmental activities and each major fund of the City of Lakesite, Tennessee, as of and for the year ended June 30, 2012, which collectively comprise the City of Lakesite, Tennessee's basic financial statements and have issued our report thereon dated November 1, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

### Compliance and Other Matters

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

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

*B.R. Runk + Company, PLLC*

November 1, 2012