

CITY OF SODDY-DAISY, TENNESSEE

ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2012

I. INTRODUCTORY SECTION

CITY OF SODDY-DAISY, TENNESSEE
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June 30, 2012

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CITY OF SODDY-DAISY, TENNESSEE
City Officials
June 30, 2012

City Mayor Jim Adams

Vice Mayor..... Janice Cagle

Commissioner.....Shane Harmon

Commissioner..... Rick Nunley

Commissioner.....Gene Shipley

City Manager.....Hardie Stulce

Finance Director/City Recorder Burt Johnson

II. FINANCIAL SECTION



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INDEPENDENT AUDITOR'S REPORT

Mayor and Commissioners
City of Soddy-Daisy, Tennessee
Soddy-Daisy, Tennessee

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the remaining fund information of the City of Soddy-Daisy, Tennessee, as of June 30, 2012, and the respective changes in financial position thereof and the respective budgetary comparison for the General 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 26, 2012, on our consideration of the City of Soddy-Daisy, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Required Supplementary Information on page 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Soddy-Daisy, Tennessee's financial statements as a whole. The Introductory Section, individual nonmajor fund financial statements and Supplemental Information are presented for purposes of additional analysis and are not a required part of the financial statements. The individual nonmajor fund financial statements and the Supplemental Information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The Introductory Section has 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 it.

Chattanooga, Tennessee
November 26, 2012

Johnson, Murphey & Wright, P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Soddy-Daisy, Tennessee, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Soddy-Daisy, Tennessee for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with the City's financial statements.

FINANCIAL HIGHLIGHTS

The assets of the City of Soddy-Daisy, Tennessee exceeded its liabilities at June 30, 2012, by \$4,948,286 (net assets). Of this amount \$2,176,016 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.

The City's governmental activities operated at a surplus of \$1,039,405.

As of the close of the current fiscal year, the City of Soddy-Daisy, Tennessee's governmental funds reported combined ending fund balances of \$2,424,249. Of that amount, \$189,091 is restricted for a specific purpose. The remaining 92.20% or \$2,235,158 is available for spending at the City's discretion (unassigned fund balance).

At the end of the current fiscal year, unassigned fund balance for the General Fund was \$2,235,158, or 36.81%, of total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction of the City of Soddy-Daisy, Tennessee's basic financial statements. The City of Soddy-Daisy, Tennessee's basic financial statements comprise three components: (1) government-wide financial statements; (2) fund financial statements, and (3) Notes to the Financial Statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The *Government-wide Financial Statements* are designed to provide readers with a broad overview of the City of Soddy-Daisy, Tennessee's finances, in a manner similar to a private-sector business.

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

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

Both of the government-wide financial statements distinguish functions of the City of Soddy-Daisy, Tennessee 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 of Soddy-Daisy, Tennessee include general government, public safety, public works, state street aid, and public welfare and recreation. The City of Soddy-Daisy, Tennessee has no business-type activities.

The government-wide financial statements can be found on pages 13 and 14 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 of Soddy-Daisy, Tennessee, 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 of Soddy-Daisy, Tennessee are governmental 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 impact of the government’s near-term financing decisions. Both the governmental fund Balance Sheet and governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between the governmental funds and governmental activities.

The City of Soddy-Daisy, Tennessee maintains two 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 the major fund. Individual fund data for the non-major governmental fund is provided later in this report beginning on page 41.

The City of Soddy-Daisy, Tennessee adopts an annual appropriated budget for its governmental funds. A budgetary comparison statement has been provided for the major governmental funds, which is the General Fund, to demonstrate compliance with this budget, as well as for the non-major fund.

The basic governmental fund financial statements can be found on pages 15 through 24 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 25 through 38 of this report.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Soddy-Daisy, Tennessee, assets exceeded liabilities by \$4,948,286 at the close of this fiscal year.

The largest portion of the City of Soddy-Daisy, Tennessee's net assets (52.20 percent) reflects its investment in capital assets (e.g., land, buildings, equipment, and public improvements), less any debt used to acquire those assets that is still outstanding. The City of Soddy-Daisy, Tennessee uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City of Soddy-Daisy, Tennessee'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.

Approximately 3.82%, or \$189,091, of the City of Soddy-Daisy, Tennessee's net assets represents resources that are subject to external restrictions on how they may be used. The remaining \$2,176,016 of unrestricted net assets may be used to meet the government's ongoing obligations to its citizens and creditors.

At June 30, 2012, the City of Soddy-Daisy, Tennessee is able to report positive balances in all three categories of net assets.

The table below provides a summary of the City's net assets.

City of Soddy-Daisy, Tennessee's Net Assets

	Governmental Activities	
	2012	2011
Current and other assets	\$ 5,061,591	\$ 4,274,835
Capital assets	2,583,179	2,368,768
Total assets	\$ 7,644,770	\$ 6,643,603
Long-term liabilities	\$ 202,402	\$ 181,094
Other liabilities	2,494,082	2,553,628
Total liabilities	\$ 2,696,484	\$ 2,734,722
Net assets:		
Invested in capital assets - net of related debt	\$ 2,583,179	\$ 2,368,768
Restricted	189,091	15,276
Unrestricted	2,176,016	1,524,837
Total net assets	\$ 4,948,286	\$ 3,908,881

Change in Net Assets

Governmental activities increased the City of Soddy-Daisy, Tennessee's net assets by \$1,039,405.

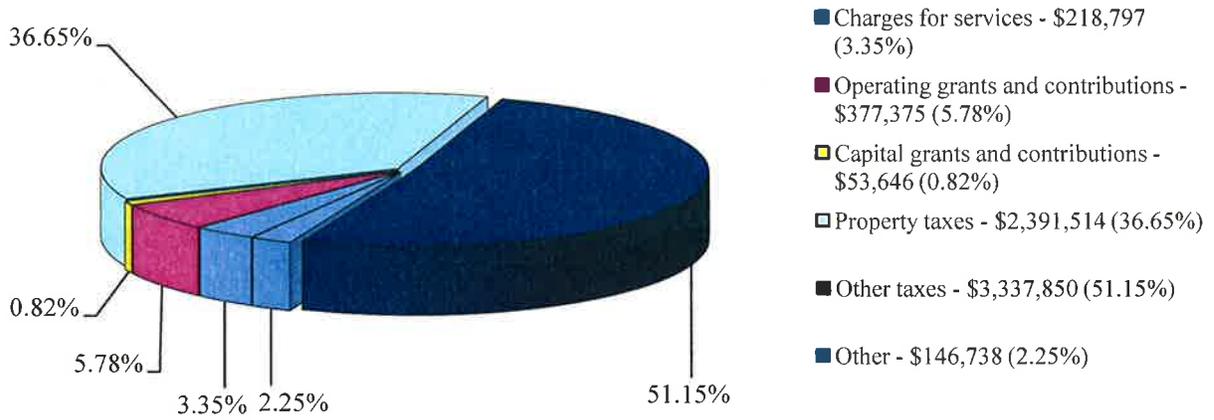
The table below provides a summary of the City's net assets.

City of Soddy-Daisy, Tennessee's Changes in Net Assets

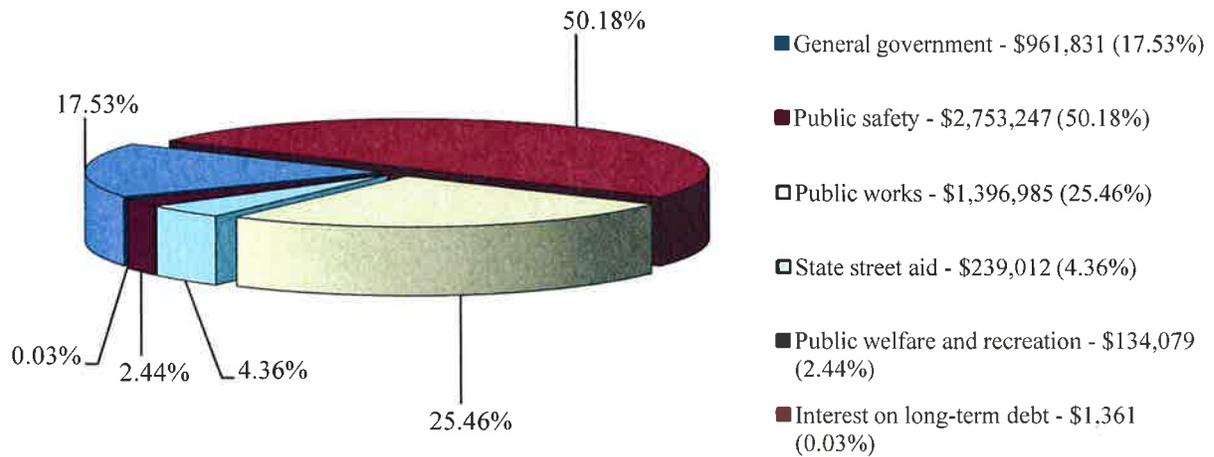
	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011</u>
Revenues:		
Program revenues:		
Charges for services	\$ 218,797	\$ 236,939
Operating grants and Contributions	377,375	639,887
Capital grants and Contributions	53,646	113,451
General revenues:		
Property taxes	2,391,514	1,595,123
Other taxes	3,337,850	3,115,456
Other	<u>146,738</u>	<u>174,114</u>
Total revenues	<u>6,525,920</u>	<u>5,874,970</u>
Expenses:		
General government	961,831	1,019,514
Public safety	2,753,247	2,655,897
Public works	1,396,985	1,252,691
State street aid	239,012	231,111
Public welfare and recreation	134,079	675,014
Interest on long-term debt	<u>1,361</u>	<u>9,312</u>
Total expenses	<u>5,486,515</u>	<u>5,843,539</u>
Change in net assets	1,039,405	31,431
Net assets - beginning	<u>3,908,881</u>	<u>3,877,450</u>
Net assets - end	<u>\$ 4,948,286</u>	<u>\$ 3,908,881</u>

The graphs below summarize the \$6,525,920 of City-wide revenues by source and the associated \$5,486,515 of expense by program.

City-Wide Sources of Revenue

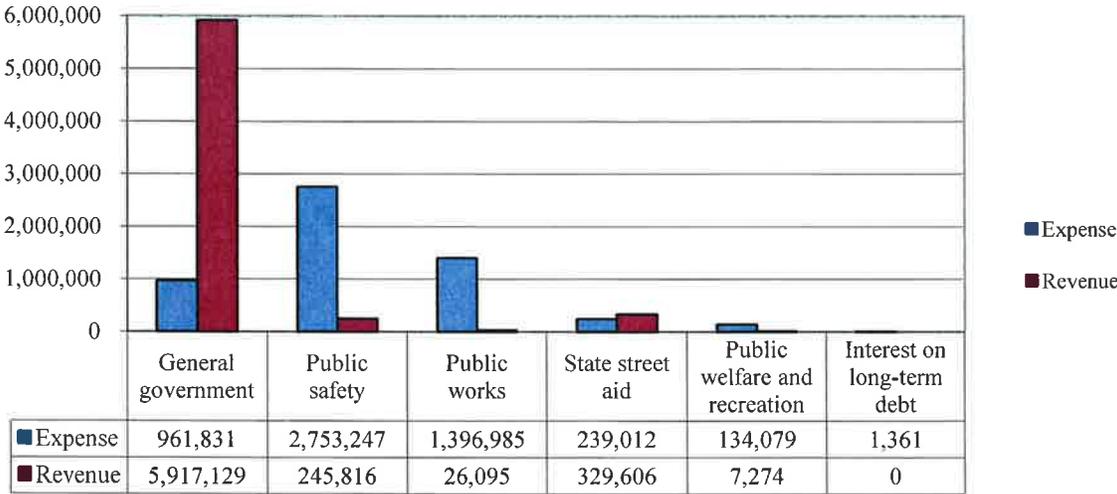


City-Wide Program Expenses



The following graph summarizes the revenue and related expense for each government program of the City. The difference between expense and revenue is the financial burden placed on the City's taxpayers for each program.

Expenses and Program Revenues -
Governmental Activities



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

Governmental Funds

The focus of the City of Soddy-Daisy, Tennessee'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 of Soddy-Daisy, Tennessee's financing requirements. The unassigned fund balance may serve as a useful measure of a government's net resources available at the end of the fiscal year for future unforeseen emergencies.

As of the end of the current fiscal year, the City of Soddy-Daisy, Tennessee's governmental funds reported combined ending fund balances of \$2,424,249. Of this total amount, \$2,235,158, or 92.20%, constitutes unassigned fund balance. The remaining \$189,091 is restricted to indicate that it is not available for spending because it has already been committed.

The General Fund is the chief operating fund of the City of Soddy-Daisy, Tennessee. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$2,235,158. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance to total General Fund expenditures. Unassigned fund balance represents 36.81% of total fund expenditures.

General Fund Budgetary Highlights

The City of Soddy-Daisy, Tennessee had amendments to their original budget. These changes netted to \$0. This demonstrates responsible and accurate budget policies and procedures for the City's officials.

Departmental budget officers closely monitored expenditures during the fiscal year in order to minimize budget amendments.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City of Soddy-Daisy, Tennessee's investment in capital assets for its governmental activities as of June 30, 2012, amounts to \$2,583,179 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and public improvements.

Some of the major capital asset events during the current fiscal year include the following:

Governmental Activities

Six (6) 2012 Ford Expeditions for Police Department for \$163,110.

Radios for Fire Department for \$96,919.

Two (2) 2012 dump trucks for Public Works Department for \$59,000.

Snow plow and salt spreader for Public Works Department for \$44,945.

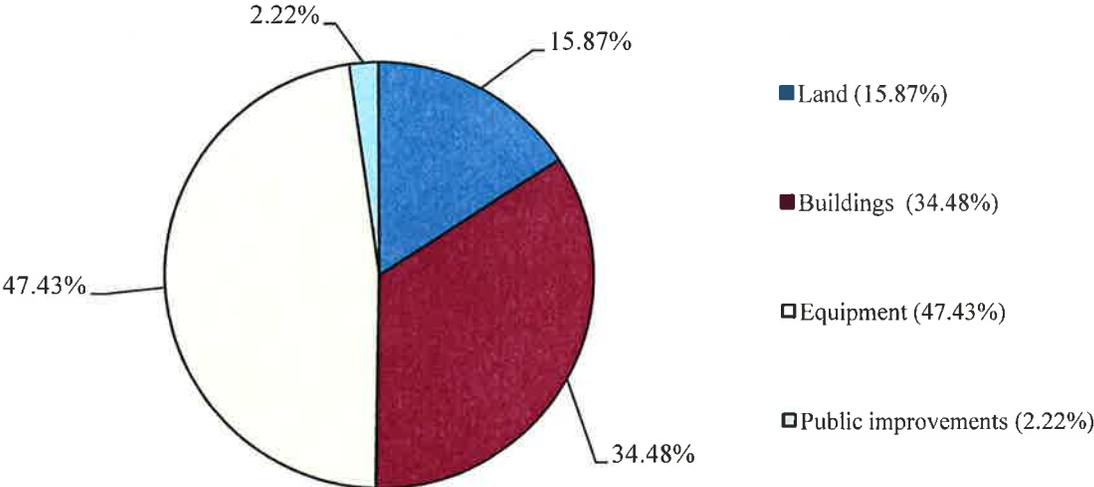
Backhoe Caterpillar for Public Works Department for \$84,776.

City of Soddy-Daisy, Tennessee's Capital Assets (Net of Depreciation)

	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011</u>
Land	\$ 409,970	\$ 409,970
Buildings	890,723	899,615
Equipment	1,225,246	988,088
Public improvements	<u>57,240</u>	<u>71,095</u>
	<u>\$ 2,583,179</u>	<u>\$ 2,368,768</u>

The following graph provides a breakdown of which assets make up the largest portion of the City's total investment in capital assets.

City-Wide Capital Assets



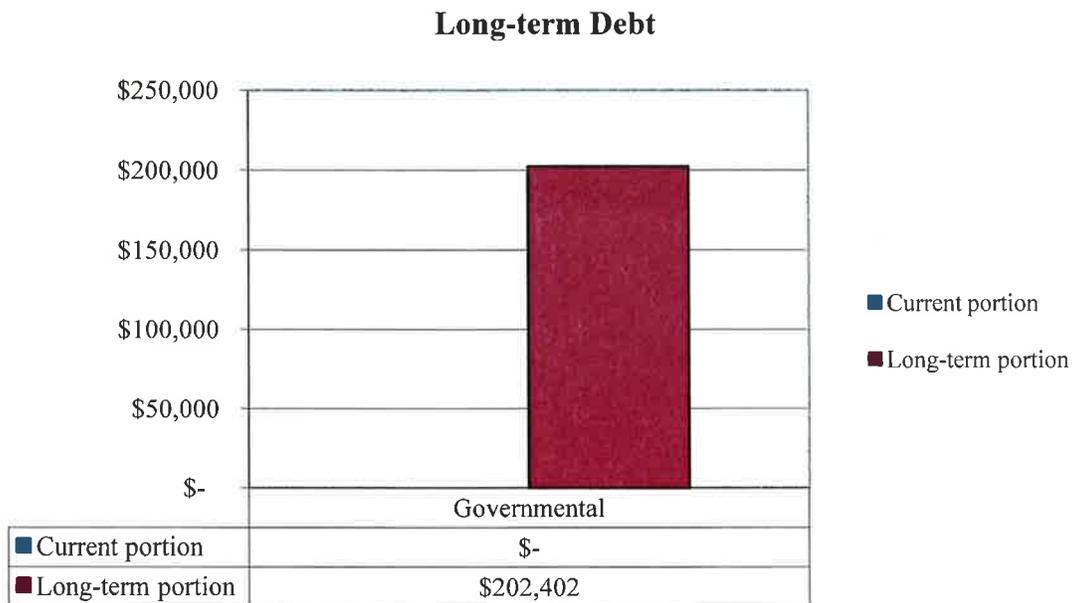
Additional information on the City of Soddy-Daisy, Tennessee's capital assets can be found in Note 6 on page 32 of this report.

City Of Soddy-Daisy, Tennessee's Outstanding Debt

At the end of the current fiscal year, the City of Soddy-Daisy, Tennessee had total long-term debt outstanding of \$202,402. Of that amount, \$0 is due in the next fiscal year.

	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011</u>
Compensated absences	\$ 202,402	\$ 181,094
Less current portion	-	-
 Long-term debt	 <u>\$ 202,402</u>	 <u>\$ 181,094</u>

The graph below shows debt for governmental activities broken down into current and long-term portions.



Additional information on outstanding debt can be found in Note 8 on page 33.

Currently Known Conditions Effecting Future Years

With the gradual recovery of the national economy and the property tax increase for the fiscal year 2011-2012, the City experienced an increase in revenue from the previous year. The local sales tax remained steady and is expected to continue the next fiscal year. There are various commercial sites available around the City, hopefully these properties will develop and broaden the City’s tax base.

However, demands on the police department due to an increase in population as well as other factors require more funds to handle the additional call volume on a daily basis. Our city court system continues to generate a negative fund balance and must be tax subsidized to maintain its present level of service.

The fire department continues to provide service with an all volunteer staff. Recruitment and retention of suitable personnel continues to be very difficult and expensive considering the ever increasing state and federal mandates placed on the fire department in general.

The City’s infrastructure continues to deteriorate although we have an excellent staff. Available funds are never adequate to do much more than “patch-a-patch.” Examples: city hall, parks and recreation centers, fire stations, traffic signals, paving, guardrails, vehicles for police and general government, heavy equipment for public works and apparatus for the fire department. The City increased the property tax rate from \$.686 to \$1.00 for fiscal year 2011-2012, which has allowed for some much needed replacement of police vehicles and public works heavy equipment as well as future plans to resurface some city streets.

In my opinion as City Manager, the needs of the City along with the wants of the general public coupled with the desires and vision of the elected officials still far exceeds our present tax structure both residential and commercial.

Requests for Information

This financial report is designed to provide a general overview of the City of Soddy-Daisy, Tennessee’s finances for all those with an interest in the City’s finances. Questions concerning any of the information provided in this report or requests for additional information may be addressed to the City of Soddy-Daisy, Tennessee, 9835 Dayton Pike, Soddy-Daisy, TN 37379.

BASIC FINANCIAL STATEMENTS

CITY OF SODDY-DAISY, TENNESSEE
Statement of Net Assets
June 30, 2012

	<u>Primary Government Governmental Activities</u>
ASSETS	
Cash	\$ 1,943,718
Property tax receivable - net	2,546,770
Accounts receivable - net	36,584
Due from other governments	534,519
Capital assets:	
Land	409,970
Other capital assets - net of accumulated depreciation	<u>2,173,209</u>
TOTAL ASSETS	<u>\$ 7,644,770</u>
LIABILITIES	
Accounts payable	\$ 68,016
Accrued liabilities	52,066
Deferred revenue - other	2,000
Deferred revenue - property taxes	2,372,000
Non-current liabilities:	
Compensated absences	<u>202,402</u>
TOTAL LIABILITIES	<u>\$ 2,696,484</u>
NET ASSETS	
Invested in capital assets - net of related debt	\$ 2,583,179
Restricted for:	
State street aid expenditures	161,742
Non-recurring police expenditures	27,349
Unrestricted	<u>2,176,016</u>
TOTAL NET ASSETS	<u>\$ 4,948,286</u>

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

CITY OF SODDY-DAISY, TENNESSEE
Statement of Activities
Year Ended June 30, 2012

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Net (Expense)</u> <u>Revenue and</u> <u>Changes in Net Assets</u> <u>Primary Government</u>	
<u>Primary Government:</u>	<u>Expenses</u>	<u>Charges for</u> <u>Services</u>	<u>Operating Grants</u> <u>and Contributions</u>	<u>Capital Grants</u> <u>and Contributions</u>	<u>Governmental</u> <u>Activities</u>
Governmental activities:					
General government	\$ 961,831	\$ 41,027	\$ -	\$ -	\$ (920,804)
Public safety	2,753,247	177,770	14,400	53,646	(2,507,431)
Public works	1,396,985	-	26,095	-	(1,370,890)
State street aid	239,012	-	329,606	-	90,594
Public welfare and recreation	134,079	-	7,274	-	(126,805)
Interest on long-term debt	1,361	-	-	-	(1,361)
Total governmental activities	<u>\$ 5,486,515</u>	<u>\$ 218,797</u>	<u>\$ 377,375</u>	<u>\$ 53,646</u>	<u>(4,836,697)</u>
		General Revenues:			
					2,391,514
					1,608,015
					1,052,240
					378,799
					136,778
					162,018
					23,287
					25,334
					98,117
					<u>5,876,102</u>
					1,039,405
					<u>3,908,881</u>
					<u>\$ 4,948,286</u>

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

CITY OF SODDY-DAISY, TENNESSEE
Governmental Funds
Balance Sheet
June 30, 2012

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash	\$ 1,916,369	\$ 27,349	\$ 1,943,718
Property taxes receivable - net	2,546,770	-	2,546,770
Accounts receivable - net	36,584	-	36,584
Due from other governments	<u>534,519</u>	<u>-</u>	<u>534,519</u>
TOTAL ASSETS	<u>\$ 5,034,242</u>	<u>\$ 27,349</u>	<u>\$ 5,061,591</u>
 LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 68,016	\$ -	\$ 68,016
Accrued liabilities	52,066	-	52,066
Deferred revenue - other	2,000	-	2,000
Deferred revenue - property taxes	<u>2,515,260</u>	<u>-</u>	<u>2,515,260</u>
Total liabilities	<u>2,637,342</u>	<u>-</u>	<u>2,637,342</u>
 Fund Balances			
Restricted	161,742	27,349	189,091
Unassigned	<u>2,235,158</u>	<u>-</u>	<u>2,235,158</u>
Total fund balances	<u>2,396,900</u>	<u>27,349</u>	<u>2,424,249</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 5,034,242</u>	<u>\$ 27,349</u>	<u>\$ 5,061,591</u>

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

CITY OF SODDY-DAISY, TENNESSEE
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
June 30, 2012

Total fund balances per governmental funds Balance Sheet	\$ 2,424,249
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	2,583,179
Long-term liabilities, including notes payable and compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.	(202,402)
Some of the City's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	<u>143,260</u>
Net assets of governmental activities	<u>\$ 4,948,286</u>

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

CITY OF SODDY-DAISY, TENNESSEE
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended June 30, 2012

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes	\$ 4,625,526	\$ -	\$ 4,625,526
Licenses and permits	41,027	-	41,027
Intergovernmental	1,483,261	-	1,483,261
Fines and forfeitures	147,509	30,410	177,919
Other revenues	<u>87,286</u>	<u>456</u>	<u>87,742</u>
TOTAL REVENUES	<u>6,384,609</u>	<u>30,866</u>	<u>6,415,475</u>
EXPENDITURES			
Current Expenditures			
General government	952,835	-	952,835
Public safety	2,471,663	12,709	2,484,372
Public works	1,323,123	-	1,323,123
State street aid	252,571	-	252,571
Public welfare and recreation	112,421	-	112,421
Capital outlay	546,853	6,084	552,937
Debt service	<u>412,361</u>	<u>-</u>	<u>412,361</u>
TOTAL EXPENDITURES	<u>6,071,827</u>	<u>18,793</u>	<u>6,090,620</u>
Excess (deficiency) of revenues over (under) expenditures	<u>312,782</u>	<u>12,073</u>	<u>324,855</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from debt issuance	411,000	-	411,000
Sale of capital assets	23,287	-	23,287
Insurance recoveries	<u>35,561</u>	<u>-</u>	<u>35,561</u>
Total other financing sources (uses)	<u>469,848</u>	<u>-</u>	<u>469,848</u>
Net changes in fund balances	782,630	12,073	794,703
Fund balances - beginning	<u>1,614,270</u>	<u>15,276</u>	<u>1,629,546</u>
Fund balances - end	<u>\$ 2,396,900</u>	<u>\$ 27,349</u>	<u>\$ 2,424,249</u>

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

CITY OF SODDY-DAISY, TENNESSEE
Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended June 30, 2012

Net changes in fund balances for total governmental funds	\$ 794,703
Governmental funds report capital outlay as expenditures, however, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeds depreciation in the current period.	214,411
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	51,599
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	411,000
Notes issued is reported as a financial resource in the governmental funds. However, this is reported as an increase in long-term liabilities in the Statement of Net Assets. During the current year additional loan proceeds were drawn on notes payable.	(411,000)
Some items reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. These activities consist of:	
(Increase) decrease in compensated absences	<u>(21,308)</u>
Change in net assets of governmental activities	<u>\$ 1,039,405</u>

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

CITY OF SODDY-DAISY, TENNESSEE
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual
Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable)
REVENUES				
Taxes				
Property tax	\$ 2,377,000	\$ 2,377,000	\$ 2,339,916	\$ (37,084)
Local sales tax	1,530,000	1,530,000	1,608,015	78,015
Wholesale beer tax	325,000	325,000	360,964	35,964
Privilege tax	65,000	65,000	136,778	71,778
Mixed drink tax	20,000	20,000	17,835	(2,165)
Cable TV franchise tax	145,000	145,000	162,018	17,018
Total taxes	<u>4,462,000</u>	<u>4,462,000</u>	<u>4,625,526</u>	<u>163,526</u>
Licenses and permits				
Building permits	35,000	35,000	23,436	(11,564)
Electrical permits	8,000	8,000	6,200	(1,800)
Other permits	13,300	13,300	11,391	(1,909)
Total licenses and permits	<u>56,300</u>	<u>56,300</u>	<u>41,027</u>	<u>(15,273)</u>
Intergovernmental				
Federal and state grants	-	-	60,920	60,920
State shared revenue:				
Sales tax allocation	820,000	820,000	863,140	43,140
Income tax allocation	30,000	30,000	35,967	5,967
TVA in lieu of tax	140,000	140,000	146,892	6,892
Beer tax allocation	6,400	6,400	6,241	(159)
Streets and transportation funds	26,000	26,000	26,095	95
State gas and motor fuel tax	339,000	339,000	329,606	(9,394)
Other state and local	3,000	28,000	14,400	(13,600)
Total intergovernmental	<u>1,364,400</u>	<u>1,389,400</u>	<u>1,483,261</u>	<u>93,861</u>
Fines and forfeitures				
Court fines and forfeitures	<u>124,000</u>	<u>124,000</u>	<u>147,509</u>	<u>23,509</u>
Other revenues				
Interest revenue	5,000	5,000	25,334	20,334
Donations	-	-	52,800	52,800
Other revenues	20,000	20,000	9,152	(10,848)
Total other revenues	<u>25,000</u>	<u>25,000</u>	<u>87,286</u>	<u>62,286</u>
TOTAL REVENUES	<u>6,031,700</u>	<u>6,056,700</u>	<u>6,384,609</u>	<u>327,909</u>

(Continued)

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

CITY OF SODDY-DAISY, TENNESSEE
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual (Continued)
Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable)
EXPENDITURES				
Current Expenditures				
General government				
Finance and administration				
Salaries	\$ 244,000	\$ 244,000	\$ 239,229	\$ 4,771
Payroll taxes	19,100	19,100	17,551	1,549
Employee benefits	81,000	81,000	55,539	25,461
Commissions	-	-	58,074	(58,074)
Contract services	17,000	877,700	12,046	865,654
Dues and subscriptions	12,000	12,000	9,061	2,939
Insurance	153,000	153,000	152,732	268
Office supplies and expenses	15,300	15,300	12,080	3,220
Operating supplies	30,000	30,000	31,423	(1,423)
Professional services	45,000	45,000	65,031	(20,031)
Repairs and maintenance	28,000	28,000	22,069	5,931
Telephone	14,000	14,000	13,133	867
Training and travel	5,500	5,500	1,465	4,035
Vehicle expense	5,000	5,000	1,979	3,021
Miscellaneous	910,300	4,000	97,291	(93,291)
Total finance and administration	<u>1,579,200</u>	<u>1,533,600</u>	<u>788,703</u>	<u>744,897</u>
Judicial				
Salaries	80,700	80,700	83,373	(2,673)
Payroll taxes	6,500	6,500	5,714	786
Employee benefits	10,600	10,600	8,258	2,342
Fees for officials	8,500	8,500	6,300	2,200
Office supplies and expenses	3,500	3,500	2,766	734
Professional services	20,000	20,000	20,261	(261)
Miscellaneous	1,000	1,000	334	666
Total judicial	<u>130,800</u>	<u>130,800</u>	<u>127,006</u>	<u>3,794</u>
(Continued)				

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

CITY OF SODDY-DAISY, TENNESSEE
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual (Continued)
Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable)
EXPENDITURES (Continued)				
Current Expenditures (Continued)				
General government (Continued)				
Buildings				
Repairs and maintenance	\$ 91,000	\$ 91,000	\$ 8,859	\$ 82,141
Operating supplies	8,000	8,000	639	7,361
Utilities	32,500	32,500	26,783	5,717
Miscellaneous	1,550	1,550	845	705
Total buildings	<u>133,050</u>	<u>133,050</u>	<u>37,126</u>	<u>95,924</u>
 Total general government	 <u>1,843,050</u>	 <u>1,797,450</u>	 <u>952,835</u>	 <u>844,615</u>
 Public safety				
Police department				
Salaries	1,394,000	1,428,200	1,483,053	(54,853)
Payroll taxes	110,000	112,000	104,364	7,636
Dues and subscriptions	14,000	14,000	8,082	5,918
Contract services	20,000	20,000	-	20,000
Employee benefits	406,500	409,200	408,722	478
Office supplies and expenses	7,000	7,000	6,800	200
Operating supplies	74,000	86,000	62,745	23,255
Repairs and maintenance	37,000	37,000	25,799	11,201
Telephone and communications	19,400	19,400	13,993	5,407
Training and travel	20,000	20,000	20,376	(376)
Utilities	1,000	1,000	1,322	(322)
Vehicle expense	158,000	158,000	159,914	(1,914)
Miscellaneous	3,000	3,000	5,735	(2,735)
Total police department	<u>2,263,900</u>	<u>2,314,800</u>	<u>2,300,905</u>	<u>13,895</u>
(Continued)				

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

CITY OF SODDY-DAISY, TENNESSEE
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual (Continued)
Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable</u> <u>(Unfavorable)</u>
EXPENDITURES (Continued)				
Current Expenditures (Continued)				
Public safety (Continued)				
Fire department				
Volunteer stipend	\$ 25,000	\$ 25,000	\$ 13,885	\$ 11,115
Employee benefits	5,000	5,000	3,864	1,136
Dues and subscriptions	500	500	292	208
Operating supplies	37,000	37,000	19,104	17,896
Repairs and maintenance	74,000	74,000	61,335	12,665
Service fees	10,000	10,000	10,000	-
Telephone and communications	24,500	24,500	9,101	15,399
Training and travel	20,000	20,000	9,225	10,775
Utilities	37,000	37,000	20,422	16,578
Vehicle expense	35,500	35,500	22,393	13,107
Miscellaneous	5,000	5,000	1,137	3,863
Total fire department	<u>273,500</u>	<u>273,500</u>	<u>170,758</u>	<u>102,742</u>
 Total public safety	 <u>2,537,400</u>	 <u>2,588,300</u>	 <u>2,471,663</u>	 <u>116,637</u>
 Public works				
Street department				
Salaries	493,000	493,000	478,699	14,301
Payroll taxes	39,000	39,000	32,958	6,042
Dues and subscriptions	1,000	1,000	572	428
Employee benefits	182,000	182,000	173,220	8,780
Equipment rental	28,500	28,500	23,522	4,978
Professional services	22,000	22,000	22,000	-
Operating supplies	17,500	17,500	17,849	(349)
Training and travel	2,000	2,000	2,194	(194)
Repairs and maintenance	95,000	95,000	41,913	53,087
Utilities	27,000	27,000	25,902	1,098
Vehicle expense	-	-	71	(71)
Miscellaneous	2,000	2,000	780	1,220
Total street department	<u>909,000</u>	<u>909,000</u>	<u>819,680</u>	<u>89,320</u>
 Solid waste				
Contracted services	<u>510,000</u>	<u>510,000</u>	<u>503,443</u>	<u>6,557</u>
 Total public works	 <u>1,419,000</u>	 <u>1,419,000</u>	 <u>1,323,123</u>	 <u>95,877</u>
(Continued)				

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

CITY OF SODDY-DAISY, TENNESSEE
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual (Continued)
Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable</u> <u>(Unfavorable)</u>
EXPENDITURES (Continued)				
Current Expenditures (Continued)				
State street aid				
Operating supplies	\$ 39,000	\$ 39,000	\$ 20,013	\$ 18,987
Repairs and maintenance	3,000	3,000	287	2,713
Street repair	207,000	207,000	82,344	124,656
Telephone and communications	4,000	4,000	15,220	(11,220)
Utilities	55,000	55,000	62,688	(7,688)
Vehicle expense	100,000	100,000	71,857	28,143
Miscellaneous	<u>1,000</u>	<u>1,000</u>	<u>162</u>	<u>838</u>
Total state street aid	<u>409,000</u>	<u>409,000</u>	<u>252,571</u>	<u>156,429</u>
Public welfare and recreation				
Senior Center				
Contracted services	45,000	45,000	44,802	198
Repairs and maintenance	1,500	1,500	473	1,027
Operating supplies	1,000	2,000	697	1,303
Utilities	8,500	8,500	7,695	805
Miscellaneous	<u>1,000</u>	<u>-</u>	<u>325</u>	<u>(325)</u>
Total Senior Center	<u>57,000</u>	<u>57,000</u>	<u>53,992</u>	<u>3,008</u>
Animal control				
Animal care	<u>59,000</u>	<u>59,000</u>	<u>58,429</u>	<u>571</u>
Total public welfare and recreation	<u>116,000</u>	<u>116,000</u>	<u>112,421</u>	<u>3,579</u>
(Continued)				

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

CITY OF SODDY-DAISY, TENNESSEE
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual (Continued)
Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable</u> <u>(Unfavorable)</u>
EXPENDITURES (Continued)				
Capital outlay				
Public safety	\$ 371,450	\$ 388,250	\$ 319,189	\$ 69,061
Public works	<u>494,800</u>	<u>494,800</u>	<u>227,664</u>	<u>267,136</u>
Total capital outlay	<u>866,250</u>	<u>883,050</u>	<u>546,853</u>	<u>336,197</u>
Debt service				
Retirement of bonds	<u>-</u>	<u>413,900</u>	<u>412,361</u>	<u>1,539</u>
TOTAL EXPENDITURES	<u>7,190,700</u>	<u>7,626,700</u>	<u>6,071,827</u>	<u>1,554,873</u>
Excess (deficiency) of revenues over (under) expenditures	(1,159,000)	(1,570,000)	312,782	1,882,782
OTHER FINANCING SOURCES (USES)				
Proceeds from debt issuance	-	411,000	411,000	-
Sale of capital assets	5,000	5,000	23,287	18,287
Insurance recoveries	<u>4,000</u>	<u>4,000</u>	<u>35,561</u>	<u>31,561</u>
Total other financing sources (uses)	<u>9,000</u>	<u>420,000</u>	<u>469,848</u>	<u>49,848</u>
Net changes in fund balances	(1,150,000)	(1,150,000)	782,630	1,932,630
Fund balances - beginning	<u>1,614,270</u>	<u>1,614,270</u>	<u>1,614,270</u>	<u>-</u>
Fund balances - end	<u>\$ 464,270</u>	<u>\$ 464,270</u>	<u>\$ 2,396,900</u>	<u>\$ 1,932,630</u>

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

CITY OF SODDY-DAISY, TENNESSEE
Notes to Financial Statements
June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Soddy-Daisy, Tennessee have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The City of Soddy-Daisy, Tennessee operates under a Mayor and Board of Commissioners within the following departments: general government, public safety, public works, state street aid, and public welfare and recreation.

The following is a summary of the more significant accounting policies:

A. Reporting Entity

In evaluating how to define the reporting entity 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 GAAP and GASB issued Statement No. 14, *The Financial Reporting Entity*. This statement requires that the financial statements present the City of Soddy-Daisy, 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 potential component unit (i.e., the primary government appoints the voting majority of its 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 inclusion in the City of Soddy-Daisy, Tennessee's financial statements.

B. Basic Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. Both the government-wide and fund financial statements categorize activities as either governmental activities or business-type activities.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basic Financial Statements (Continued)

Government-wide Statements - The Statement of Net Assets and the Statement of Activities display information about the primary government. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis for column, and (b) are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties. As of June 30, 2012, the City had no business-type activities.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. The net cost (by function or business-type activity) is normally covered by general revenue (property or sales taxes, intergovernmental revenues, interest income, etc.).

This government-wide focus is designed to view the City as a complete entity and the change in aggregate financial position resulting from the activities of the fiscal period.

Fund Financial Statements - The fund financial statements provide information about the City's governmental funds. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as non-major funds.

The City reports the following major governmental fund:

General Fund - This 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.

C. Measurement Focus - Basis of Accounting

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus - Basis of Accounting (Continued)

Government 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 all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Property taxes, sales taxes, franchise taxes, gasoline taxes, wholesale beer taxes, income taxes, mixed drink taxes and in-lieu of taxes are susceptible to accrual. Licenses and permits, fines and forfeitures, gross receipts taxes and excise taxes are recorded as revenue when received in cash because they are generally not measurable until actually received. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the governmental activities column in the government-wide financial statements, a reconciliation is presented on the page following each statement which briefly explains the adjustments necessary to transform the fund-based financial statements into the governmental activities column of the government-wide presentation.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

All governmental activities of the City follow FASB ASC, unless those pronouncements conflict with GASB pronouncements, in which case, GASB prevails.

D. Fund Balance Policy

Committed Fund Balances:

The Mayor and Board of Commissioners have the authority to commit funds for a specific purpose. Any funds set aside as committed fund balance requires, at a minimum, the passage of a resolution by a simple majority vote. An ordinance may also be used.

Assigned Fund Balance:

The Mayor and Board of Commissioners have the authority to set aside funds for the intended use of a specific purpose. Any funds set aside as assigned fund balance requires a simple majority vote and must be recorded in the minutes.

Order of Use of Restricted and Unrestricted Funds:

When both restricted and unrestricted funds are available for expenditure, restricted funds should be spent first unless legal requirements disallow it.

When committed, assigned and unassigned funds are available for expenditure, committed funds should be spent first, assigned funds second, and unassigned funds last.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Data

Prior to May 15, the City Recorder submits to the Mayor and Board of Commissioners, the proposed operating budgets of the governmental fund types for the fiscal year commencing the following July 1st. The operating budget includes proposed expenditures and the means of financing them. Budgets are adopted in accordance with GAAP and, therefore, no adjustments are necessary to convert to the actual GAAP data from budgetary basis. Prior to July 1st, the budget is legally enacted through passage of an ordinance.

The Mayor and Board of Commissioners approve departmental budgets, supplementary appropriations to the General Fund if necessary. The City Recorder approves any transfer of budgeted amounts between departments within any fund and the Mayor and Board of Commissioners approve any revisions in the total appropriations. Expenditures may not exceed appropriations at the fund level. All appropriations which are not expended lapse at year-end.

During the year, supplementary appropriations were necessary. Changes in the General Fund netted to \$0.

F. Cash and Cash Equivalents

Cash consists of cash-on-hand and on-deposit with financial institutions. Cash is reported on the Statement of Net Assets as "Cash and Cash Equivalents". For purposes of reporting cash, the City considers unrestricted highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

G. Investments

Investments are reported at fair value, which is based on quoted market prices.

The City is authorized by State Statutes to invest in the following:

- Bonds, notes or treasury bills of the United States.

- Nonconvertible debt securities of the Federal Home Loan Bank, the Federal National Mortgage Association, the Federal Farm Credit Bank and the Student Loan Marketing Association.

- Any obligation guaranteed by the United States or any of its agencies.

- Certificates-of-deposit at state and federal chartered banks and savings and loan associations.

- The Local Government Investment Pool created by Title 9.

H. Interfund Transactions

Interfund Receivables and Payables

Short-term advances between funds are not eliminated but accounted for in the appropriate interfund receivable and payable accounts classified as due to other funds and due from other funds in the fund financial statements and are subject to elimination upon consolidation. At June 30, 2012, there were no interfund receivables and payables.

Transactions between Funds

Transactions between funds that would be treated as revenues, expenditures, or expenses if they involved organizations external to the governmental unit are accounted for as revenues, expenditures, or expenses in the funds involved. Transactions which constitute reimbursements of a fund for expenditures or expenses initially made from that fund which are properly applicable to another fund are recorded as expenditures or expenses in the reimbursing fund and as reductions of the expenditures or expenses in the fund that is reimbursed. All other legally authorized transfers are not eliminated but treated as operating transfers and are included as other financing sources or uses in the governmental funds.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Capital Assets

Capital assets, which include property, plant, equipment and public improvements, are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. 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. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Years</u>
Buildings	15-40
Equipment	3-40
Public improvements	15

Donated capital assets are valued at their estimated fair value on the date donated. The City's policy is to capitalize the net interest cost incurred during the year resulting from borrowings utilized to finance the construction of assets.

J. Compensated Absences

City employees are granted annual leave in varying amounts. In the event of termination, an employee is paid for accumulated annual and sick leave. Government-wide funds accrue vacation benefits in the period they are earned. A liability for these amounts is reported in governmental funds only if they have matured.

K. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Assets.

L. Restricted Net Assets

The City records restrictions of net assets, which are maintained for specific purposes.

M. Property Taxes

Property taxes are levied by the City on October 1st on property values assessed for that calendar year. The lien date is January 1st. The billings are mailed October 1st and are considered due upon receipt by the taxpayer; however the actual due date is based on a period ending approximately 60 days after the calendar year end. On this date, March 1st, the bill becomes delinquent and penalties and interest may be assessed.

Property taxes are recognized on the modified accrual basis on the governmental fund financial statements. Proper allowances are made for estimated uncollectible accounts and delinquent accounts when necessary. The tax rate for the 2011 levy is \$1.000 per \$100 of assessed valuation, and the tax rate for the 2012 levy is \$1.00 per \$100 of assessed valuation.

Property taxes for the 2012 levy are considered to be owed to the City as of the lien date on January 1, 2012. Therefore, the entire 2012 levy was recorded as a receivable and deferred revenue as of June 30, 2012.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Prepayment of Expenditures

Governmental fund expenditures for insurance and similar services extending over more than one accounting period are not allocated between accounting periods but accounted for as expenditures of the period of acquisition.

O. Estimates

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

P. Events Occurring after Reporting Date

The City has evaluated events and transactions that occurred between June 30, 2012, and November 26, 2012, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTE 2 - DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk is the risk that in the event of a bank failure the City's deposits may not be returned to it. The City does not have a deposit or investment policy for custodial credit risk, however, the State of Tennessee requires its governmental entities to either meet the deposit and collateralization regulations under TCA Title 9, Chapter 4, Parts 1 and 4, or as provided in the collateral pool. As of June 30, 2012, the carrying amount of the City's deposits was \$1,943,448 and the bank balance was \$2,192,626. None of the City's bank balance was exposed to custodial credit risk as uninsured or uncollateralized due to the fact that all of its deposits and investments are in a financial institution that is a participant in the State of Tennessee collateral pool.

The carrying amount of the City's deposits is classified as follows on the Statement of Net Assets:

Cash	\$ 1,943,718
Less: petty cash	(270)
Total	<u>\$ 1,943,448</u>

NOTE 3 - PROPERTY TAXES RECEIVABLE - NET

Property taxes were levied for 2012 at the rate of \$1.000 per \$100 of assessed value and for 2011 at the rate of \$1.000 per \$100 of assessed value. Property taxes receivable as of June 30, 2012, including prior years unpaid taxes are composed of the following:

<u>Year of Levy</u>	<u>Amount</u>
2012	\$ 2,372,000
2011	184,040
2010	37,808
2009	18,733
2008	-
2007	2,681
	<u>2,615,262</u>
Less: allowance for uncollectible taxes	<u>(68,492)</u>
Property taxes receivable - net	<u>\$ 2,546,770</u>

NOTE 4 - ACCOUNTS RECEIVABLE - NET

Accounts receivable - net as of June 30, 2012, consists of the following:

	<u>General Fund</u>
Local beer tax	<u>\$ 36,584</u>

Due to the collection history of the City, no allowance for bad debt was deemed necessary.

NOTE 5 - DUE FROM OTHER GOVERNMENTS

Due from other governments as of June 30, 2012, consists of the following:

State business tax	\$ 8,860
State income tax	35,967
State street aid revenues	58,517
City streets and transportation revenues	4,346
State sales tax revenue	150,757
Local sales tax revenue	272,953
State mixed drink tax	<u>3,119</u>
	<u>\$ 534,519</u>

Due to the collection history of the City, no allowance for bad debts was deemed necessary.

NOTE 6 - CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 409,970	\$ -	\$ -	\$ 409,970
Total capital assets not being depreciated	<u>409,970</u>	<u>-</u>	<u>-</u>	<u>409,970</u>
Capital assets being depreciated:				
Buildings	1,576,162	44,722	-	1,620,884
Equipment	3,796,086	559,246	(165,112)	4,190,220
Public improvements	293,569	-	-	293,569
Total capital assets being depreciated	<u>5,665,817</u>	<u>603,968</u>	<u>(165,112)</u>	<u>6,104,673</u>
Less: accumulated depreciation for:				
Buildings	676,547	53,614	-	730,161
Equipment	2,807,998	322,088	(165,112)	2,964,974
Public improvements	222,474	13,855	-	236,329
Total accumulated depreciation	<u>3,707,019</u>	<u>389,557</u>	<u>(165,112)</u>	<u>3,931,464</u>
Total capital assets being depreciated - net	<u>1,958,798</u>	<u>214,411</u>	<u>-</u>	<u>2,173,209</u>
Governmental activities capital assets - net	<u>\$ 2,368,768</u>	<u>\$ 214,411</u>	<u>\$ -</u>	<u>\$ 2,583,179</u>

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

General government	\$ 85,029
Public safety	246,303
Public works	36,567
Public welfare and recreation	<u>21,658</u>
Total	<u>\$ 389,557</u>

NOTE 7 - DEFERRED REVENUES

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Property taxes	\$ 143,260	\$ 2,372,000	<u>\$ 2,515,260</u>

Funds that are earned, but not available, are realized as revenue under GASB #33.

NOTE 8 - LONG-TERM DEBT

A. Governmental Debt

Long-term debt payable by the governmental funds, which consists of notes payable and compensated absences, is summarized as follows:

	<u>Principal Balance</u>
Capital Outlay Note, Series 2011, original amount of \$411,000 at 1.37%, for equipment acquisition	\$ -
Compensated absences	202,402
Less: current portion	<u>-</u>
Total governmental long-term debt	<u>\$ 202,402</u>

A summary of changes in long-term debt for the year ended June 30, 2012, is as follows:

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2012</u>	<u>Amount Due Within One Year</u>
Capital Outlay Note - 2011	\$ -	\$ 411,000	\$(411,000)	\$ -	\$ -
Compensated absences	<u>181,094</u>	<u>21,308</u>	<u>-</u>	<u>202,402</u>	<u>-</u>
Total	<u>\$ 181,094</u>	<u>\$ 432,308</u>	<u>\$(411,000)</u>	202,402	<u>\$ -</u>
Less: current portion				<u>-</u>	
Total governmental long-term debt				<u>\$ 202,402</u>	

Interest paid during the year ended June 30, 2012, on governmental long-term debt was \$1,361.

NOTE 9 - NET ASSET AND FUND BALANCE RESTRICTIONS

The City records restrictions of net assets and fund balances, which are maintained for specific purposes. The nature and purpose of these are explained as follows:

Net Assets and Fund Balances Restricted for Non-recurring Police Expenditures - Drug funds in the amount of \$27,349 are legally restricted for non-recurring police expenditures.

Net Assets Restricted for State Street Aid Expenditures - State street aid funds in the amount of \$161,742 are legally restricted for state street aid expenditures.

NOTE 10 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of certain differences between the governmental funds Balance Sheet and the government-wide Statement of Net Assets:

The governmental funds Balance Sheet includes a reconciliation between fund balance - total governmental funds and net assets - government activities as reported in the government-wide Statement of Net Assets. One element of that reconciliation explains that, “long-term liabilities, including notes payable and compensated absences are not due and payable in the current period, and therefore, are not reported in the funds”. The details of this \$(202,402) difference are as follows:

Compensated absences	<u>\$ (202,402)</u>
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Explanation of certain differences between the governmental funds Statement of Revenues, Expenditures and Changes in Fund Balances and the government-wide Statement of Activities:

The governmental funds Statement of Revenues, Expenditures and Changes in Fund Balances includes a reconciliation between net changes in fund balances for total governmental funds and changes in net assets of governmental activities as reported in the government-wide Statement of Activities. One element of that reconciliation explains that, “Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense”. The details of this \$214,411 difference are as follows:

Depreciation expense	\$ (389,557)
Capital outlay	<u>603,968</u>
Net adjustment	<u>\$ 214,411</u>

Another element of that reconciliation states that, “Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets”. The details of this \$411,000 difference are as follows:

Principal repayments:	
Notes	<u>\$ 411,000</u>

NOTE 11 - MATERIAL COMPLIANCE WITH FINANCE RELATED LEGAL AND CONTRACTUAL PROVISIONS

The City has no material violations of finance related legal and contractual provisions.

NOTE 12 - COMMERCIAL INSURANCE

It is the policy of the City to purchase commercial insurance for various risks of losses to which it is exposed. These risks include general liability, property, casualty, and employee health. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE 13 - PENSION PLAN

Plan Description

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

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

Funding Policy

Soddy-Daisy requires employees to contribute 5.0 percent of earnable compensation.

Soddy-Daisy is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2012, was 10.19% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Soddy-Daisy is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ending June 30, 2012, Soddy-Daisy's annual pension cost of \$230,756 to TCRS was equal to Soddy-Daisy's required and actual contributions. The required contribution was determined as part of the July 1, 2009, actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected 3.0 percent annual rate of inflation, (c) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5 percent annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten-year period. Soddy-Daisy's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2009 was 12 years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

NOTE 13 - PENSION PLAN (Continued)

Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2012	\$ 230,756	100.00%	\$0.00
June 30, 2011	\$ 214,815	100.00%	\$0.00
June 30, 2010	\$ 217,774	100.00%	\$0.00

Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the plan was 92.69 percent funded. The actuarial accrued liability for benefits was \$6.2 million, and the actuarial value of assets was \$5.8 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.5 million. The covered payroll (annual payroll of active employees covered by the plan) was \$2.1 million, and the ratio of the UAAL to the covered payroll was 21.26 percent.

The Schedule of Funding Progress, presented as required supplementary information (RSI) following the Notes to the Financial Statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

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

(Dollar amounts in thousands)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Plan Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b) - (a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
July 01, 2011	\$ 5,775	\$ 6,231	\$ 455	92.69%	\$ 2,142	21.26%
July 01, 2009	\$ 4,590	\$ 5,103	\$ 513	89.94%	\$ 2,110	24.33%
July 01, 2007	\$ 4,102	\$ 4,666	\$ 563	87.93%	\$ 1,812	31.07%

NOTE 14 - CONTINGENCIES AND LITIGATION

Litigation

Certain claims and lawsuits are pending against the City. In the opinion of City management, the potential loss on all claims and lawsuits will not be significant to the City's financial statements.

NOTE 15 - RISK MANAGEMENT POOL

The City is exposed to various risks of loss related to torts, errors and omissions, damages to assets, and injuries to employees. The City has joined the Tennessee Municipal League Risk Management Pool (TML). The membership allows the City to share liability, motor vehicle, and employee injury risks.

The TML Risk Management Pool is a governmental entity organized by Tennessee cities as a not-for-profit corporation to provide liability and workers' compensation coverage to Tennessee cities. Emphasis is on risk management and controlling losses, as all costs are shared by the Pool member cities. An extensive program of loss prevention, employee training and legal counsel supplements experienced claims processing for member cities.

Coverage's are as follows:

Buildings and personal property	\$ 7,693,956	
Workmen's compensation	\$ 300,000	per accident
	\$ 700,000	policy limit
	\$ 300,000	per person
General and personal injury liability	\$ 300,000	per person
	\$ 700,000	per occurrence
	\$ 300,000	per property
	\$ 1,000,000	each other loss -
		per occurrence
Automobile liability	\$ 300,000	per person
	\$ 700,000	per occurrence
	\$ 300,000	per property

NOTE 15 - RISK MANAGEMENT POOL (Continued)

The responsibilities of the City are as follows:

To pay all contributions or other sums due to TML at such times and in such amounts as shall be established by TML.

To allow TML and its agents access to facilities of the City and all records, including but not limited to financial records, which relate to the purposes of TML during the coverage period and up to (3) three years afterward.

To allow attorneys appointed by TML to represent the City in investigation, settlement discussions and all levels of litigation arising out of any claim made against the City within the scope of loss protection furnished by TML.

To assist and cooperate in the defense and settlement of claims against the City.

To furnish full cooperation to TML's attorneys, claims adjusters, and any agent, employee, officer or independent contractor of TML relating to the purposes of TML.

To follow all loss reduction and prevention procedures established by TML where possible.

To furnish to TML such operating and underwriting information as may be requested.

To report as promptly as possible, and in accordance with any conditions issued, all incidents which could result in TML being required to pay claim for loss or injuries to municipal property or injuries to persons or property when such loss or injury is within the scope of the protection in which the City participates.

To allow TML to inspect and appraise any damaged property before its repair or disposition.

The City must cooperate with the pool in any dispute resolutions with other insurance companies.

The responsibilities of TML are as follows:

TML will defend any suit against the City or covered party seeking damages even if any of the allegations of the suit are groundless, false, or fraudulent.

TML's duty to pay on behalf of or to indemnify a covered party other than the City does not apply to any act, error or omission:

- (1) That constitutes malfeasance in office;
- (2) That constitutes willful and wanton neglect of duty;
- (3) That constitutes dishonesty on the part of a covered party; or
- (4) That constitutes the willful violation of a statute or ordinance by any official, employee, or agent of the municipality.

The City has not compiled a record of the claims paid up to the applicable deductible for the prior or current fiscal year. The City is not aware of any claims, which the City is liable for (up to the applicable deductible), which were outstanding and unpaid at June 30, 2012. No provisions have been made in the financial statements for the year ended June 30, 2012, for any estimate of potential unpaid claims.

REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A

CITY OF SODDY-DAISY, TENNESSEE
Tennessee Consolidated Retirement System
Schedule of Funding Progress
June 30, 2012

Required Supplementary Information

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 01, 2011	\$ 5,775	\$ 6,231	\$ 455	92.69%	\$ 2,142	21.26%
July 01, 2009	\$ 4,590	\$ 5,103	\$ 513	89.94%	\$ 2,110	24.33%
July 01, 2007	\$ 4,102	\$ 4,666	\$ 563	87.93%	\$ 1,812	31.07%

OTHER INFORMATION

NON-MAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Drug Fund: This fund is used to account for investigations of violations of controlled substance laws and is funded primarily by the state statute from the receipt of fines and costs related to drug enforcement cases.

CITY OF SODDY-DAISY, TENNESSEE
Non-major Governmental Funds
Balance Sheet
June 30, 2012

	<u>Drug Fund</u>
ASSETS	
Cash	\$ 27,349
TOTAL ASSETS	<u>\$ 27,349</u>
LIABILITIES AND FUND BALANCES	
Fund Balances	
Restricted	\$ 27,349
Total fund balances	<u>27,349</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 27,349</u>

CITY OF SODDY - DAISY, TENNESSEE
Non-major Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended June 30, 2012

	Drug Fund
REVENUES	
Fines and forfeitures	\$ 30,410
Other revenues	456
TOTAL REVENUES	30,866
EXPENDITURES	
Current expenditures	
Public safety	12,709
Capital outlay	6,084
TOTAL EXPENDITURES	18,793
Excess (deficiency) of revenues over (under) expenditures	12,073
Fund balances - beginning	15,276
Fund balances - end	\$ 27,349

CITY OF SODDY-DAISY, TENNESSEE
Drug Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable (Unfavorable)</u>
REVENUES				
Fines and forfeitures				
Court fines and forfeitures	\$ 90,000	\$ 90,000	\$ 30,410	\$ (59,590)
Other revenues				
Miscellaneous	-	-	456	456
Total other revenues	-	-	456	456
TOTAL REVENUES	<u>90,000</u>	<u>90,000</u>	<u>30,866</u>	<u>(59,134)</u>
EXPENDITURES				
Current expenditures				
Public safety				
Drug enforcement	25,000	25,000	2,500	22,500
Repairs and maintenance	5,000	5,000	-	5,000
Operating supplies	5,000	5,000	9,999	(4,999)
Miscellaneous	5,000	5,000	210	4,790
Total public safety	<u>40,000</u>	<u>40,000</u>	<u>12,709</u>	<u>27,291</u>
Capital outlay				
Public safety	<u>50,000</u>	<u>50,000</u>	<u>6,084</u>	<u>43,916</u>
TOTAL EXPENDITURES	<u>90,000</u>	<u>90,000</u>	<u>18,793</u>	<u>71,207</u>
Excess (deficiency) of revenues over (under) expenditures	-	-	12,073	12,073
Fund balances - beginning	<u>15,276</u>	<u>15,276</u>	<u>15,276</u>	<u>-</u>
Fund balances - end	<u>\$ 15,276</u>	<u>\$ 15,276</u>	<u>\$ 27,349</u>	<u>\$ 12,073</u>

SUPPLEMENTAL INFORMATION

CITY OF SODDY-DAISY, TENNESSEE
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

<u>Federal Grantor/Pass-through Agency/Program Title</u>	<u>Federal CFDA Number</u>	<u>State Grant/Project Number</u>	<u>(Accrued) Deferred Grant Revenues June 30, 2011</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>(Accrued) Deferred Grant Revenues June 30, 2012</u>
FEDERAL						
U.S. Department of Health and Human Services/ Southeast Tennessee Development District Senior Center Grant - Title III	13.633	-	\$ -	\$ 7,274	\$ 7,274	\$ -
U.S. Department of Homeland Security 2010 Homeland Security Grant thru Hamilton County	97.067	-	-	29,348	29,348	-
Department of Transportation Highway Safety Grant - Traffic Communication	20.607	Z-12-GHS267	-	24,298	24,298	-
Total federal awards			<u>\$ -</u>	<u>\$ 60,920</u>	<u>\$ 60,920</u>	<u>\$ -</u>

CITY OF SODDY-DAISY, TENNESSEE
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Soddy-Daisy, Tennessee and is presented on the modified accrual basis of accounting.

CITY OF SODDY-DAISY, TENNESSEE
Solid Waste Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable</u> <u>(Unfavorable)</u>
EXPENDITURES				
Current expenditures				
Public works				
Contracted services	\$ 510,000	\$ 510,000	\$ 503,443	\$ 6,557
TOTAL EXPENDITURES	<u>510,000</u>	<u>510,000</u>	<u>503,443</u>	<u>6,557</u>
Excess (deficiency) of revenues over (under) expenditures	(510,000)	(510,000)	(503,443)	6,557
OTHER FINANCING SOURCES (USES)				
Transfer in	<u>510,000</u>	<u>510,000</u>	<u>538,000</u>	<u>28,000</u>
Net changes in fund balances	-	-	34,557	34,557
Fund balances - beginning	<u>(34,009)</u>	<u>(34,009)</u>	<u>(34,009)</u>	<u>-</u>
Fund balances - end	<u>\$ (34,009)</u>	<u>\$ (34,009)</u>	<u>\$ 548</u>	<u>\$ 34,557</u>

CITY OF SODDY-DAISY, TENNESSEE
Schedule of Property Taxes Receivable
General Fund
June 30, 2012

<u>Year of Levy</u>	
2012	\$ 2,372,000
2011	184,040
2010	37,808
2009	18,733
2008	-
2007	2,681
2006	-
2005	-
2004	-
2003	-
Total property taxes receivable	<u>2,615,262</u>
Less: allowance for uncollectible taxes	<u>(68,492)</u>
Net property taxes receivable	<u>\$ 2,546,770</u>

CITY OF SODDY-DAISY, TENNESSEE
Schedule of Changes in Property Taxes Receivable
General Fund
Year Ended June 30, 2012

	Taxes Receivable July 1, 2011	Taxes Levied	Pickups	Collections	Error/ Releases	Taxes Receivable June 30, 2012
2012	\$ -	\$ 2,372,000	\$ -	\$ -	\$ -	\$ 2,372,000
2011	2,371,023	-	1,513	(2,181,865)	(6,631)	184,040
2010	147,292	-	-	(109,484)	-	37,808
2009	55,176	-	-	(36,443)	-	18,733
2008	1,046	-	12,190	(13,236)	-	-
2007	4,487	-	-	(1,806)	-	2,681
2006	-	-	54	(54)	-	-
2005	-	-	133	(133)	-	-
2004	-	-	-	-	-	-
2003	-	-	-	-	-	-
2002	<u>984</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(984)</u>	<u>-</u>
Total	<u>\$ 2,580,008</u>	<u>\$ 2,372,000</u>	<u>\$ 13,890</u>	<u>\$ (2,343,021)</u>	<u>\$ (7,615)</u>	<u>\$ 2,615,262</u>

CITY OF SODDY-DAISY, TENNESSEE
Tax Rates and Assessed Valuation Applicable to the Last Ten Years and
Uncollected Delinquent Accounts
June 30, 2012

<u>Year of Levy</u>	<u>Tax Rate Per \$100</u>	<u>Assessed Valuation</u>	<u>Levy</u>
2012	\$1.000/\$100	\$ 237,200,000	\$ 2,372,000
2011	\$1.000/\$100	\$ 227,790,734	\$ 2,277,907
2010	\$.686/\$100	\$ 226,402,335	\$ 1,553,120
2009	\$.780/\$100	\$ 234,832,362	\$ 1,610,950
2008	\$.780/\$100	\$ 202,800,513	\$ 1,581,844
2007	\$.780/\$100	\$ 196,155,718	\$ 1,530,015
2006	\$.780/\$100	\$ 178,423,077	\$ 1,391,700
2005	\$.780/\$100	\$ 170,897,436	\$ 1,333,000
2004	\$.490/\$100	\$ 145,891,837	\$ 714,870
2003	\$.490/\$100	\$ 141,768,571	\$ 694,666

Uncollected Delinquent Accounts

The City of Soddy-Daisy has filed all delinquent taxes with the Hamilton County Trustee for collection as of June 30, 2012.

CITY OF SODDY-DAISY, TENNESSEE
Schedule of Insurance
June 30, 2012

General Fund	<u>Expiration</u>	<u>Amount</u>	
TML Pool:			
Buildings and personal property	7-01-12	\$ 7,693,956	
Workmen's compensation	7-01-12	\$ 300,000	per accident
		\$ 700,000	policy limit
		\$ 300,000	per person
General and personal injury liability	7-01-12	\$ 300,000	per person
		\$ 700,000	per occurrence
		\$ 300,000	per property
		\$ 1,000,000	each other loss per occurrence
Automobile liability	7-01-12	\$ 300,000	per person
		\$ 700,000	per occurrence
		\$ 300,000	per property

III. INTERNAL CONTROL & COMPLIANCE SECTION



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**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***

Mayor and Commissioners
City of Soddy-Daisy, Tennessee
Soddy-Daisy, Tennessee

We have audited the accompanying financial statements of the governmental activities, the major fund and the remaining fund information of the City of Soddy-Daisy, Tennessee, as of and for the year ended June 30, 2012, and have issued our report thereon dated November 26, 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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Responses, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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 as 12-1 and 12-2 to be material weaknesses.

Mayor and Commissioners
City of Soddy-Daisy, Tennessee
Page Two

Compliance and Other Matters

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

The City of Soddy-Daisy, Tennessee's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the City of Soddy-Daisy, Tennessee's response and, accordingly, we express no opinion on it.

This report is intended solely for the information of the Mayor and Commissioners, management, federal awarding agencies and the Comptroller of the Treasury of the State of Tennessee, and is not intended to be and should not be used by anyone other than these specified parties.

Johnson, Murphey & Wright, P.C.

Chattanooga, Tennessee
November 26, 2012

CITY OF SODDY-DAISY, TENNESSEE
Schedule of Findings and Responses
June 30, 2012

SUMMARY OF AUDIT RESULTS

Opinion:

Unqualified opinion issued on the financial statements in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Deficiencies:

During the audit of the financial statements two significant deficiencies in internal controls were disclosed, which also were considered to be material weaknesses.

Material Noncompliance:

No instances of compliance or other matters were disclosed.

FINDINGS RELATING TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

INTERNAL CONTROL:

Finding 12-1 - Accounting Expertise (repeat 11-1)

Criteria:

SAS 115 states in part that the lack of accounting personnel with sufficient “training” to properly design controls over the year-end financial reporting process, including the actual “preparation of financial statements” is a “significant deficiency” and a strong indication of a “material weakness”.

Condition Found:

The City did not have accounting personnel on staff that had sufficient training to prepare their own financial report.

Recommendation:

The City should consider the risk benefits of continuing to allow the outside auditors to prepare the financial report versus having an internal auditor/CPA to perform the year-end financial reporting process.

Management’s Response:

We concur. However, even though we are aware that we cannot theoretically rely on our outside CPA as a part of our system, we feel that this is still a very important and very reliable way to safeguard our assets and report the transactions of the City. We are taking responsibility for the preparation and fair presentation of the financial statements and we possess suitable skill, knowledge, and/or experience to evaluate the adequacy of any services in this area provided by the auditor. In addition, we are currently sending one of our staff members through CMFO training so that they will be better equipped to review and accept the financial report prepared by the auditor.

FINDINGS RELATING TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

INTERNAL CONTROL: (Continued)

Finding 12-2 - Approvals and Documentation (repeat 11-2)

Criteria:

Government Auditing Standards Chapter A.04(h) states that, “inadequate controls for the safeguarding of assets,” is a control deficiency.

Condition Found:

Odometer readings are not being entered correctly at the fueling station.

Recommendation:

Complete fuel logs should be reviewed for odometer readings to verify proper fuel use.

Management’s Response:

We concur. We will make every effort to correct the area as noted.

CITY OF SODDY-DAISY, TENNESSEE
Schedule of Prior Year Findings
June 30, 2012

INTERNAL CONTROL:

Finding 11-1 - Accounting Expertise

Still in effect.

Finding 11-2 - Approvals and Documentation

Still in effect.

COMPLIANCE:

None.