

AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

CITY OF SHELBYVILLE, TENNESSEE

June 30, 2012

WINNETT
Associates, PLLC

Certified Public Accountants and Consultants

INTRODUCTORY SECTION

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OFFICIALS
CITY OF SHELBYVILLE, TENNESSEE
JUNE 30, 2012

MAYOR Wallace Cartwright

VICE-MAYOR Thomas Landers

COUNCILMEMBERS Ward 1 - Jo Ann Holland
 Ward 2 - Sam Meek
 Ward 3 - Kay Rose
 Ward 4 - Jamie Williams
 Ward 5 - Jean Pruitt
 Ward 6 - Thomas Landers

OTHER OFFICIALS City Manager - Jay Johnson
 City Recorder - Vickie Haskins
 City Treasurer - Jamey Owen
 City Judge - John T. Bobo
 City Attorney - Ginger Shofner

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Councilmembers
City of Shelbyville
Shelbyville, Tennessee

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Shelbyville, 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 City of Shelbyville, Tennessee's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Shelbyville Power, Water and Sewerage Systems, which represent 100 percent of the assets, net assets, and revenues of the business-type activities. The Shelbyville Power, Water and Sewerage Systems are also major funds. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Shelbyville Power, Water and Sewerage Systems, is based on the report of the other auditors.

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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Shelbyville, Tennessee, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons 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 March 1, 2013, on our consideration of the City of Shelbyville, Tennessee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental 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 schedules of funding progress on pages 9 through 14 and 52 through 53 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, and the other auditors, 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 Shelbyville, Tennessee's, financial statements as a whole. The introductory section and supplemental information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and budgetary schedules and the schedule of expenditures of federal awards and state financial assistance 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 by us 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 and miscellaneous schedules have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Winnett Associates, LLC

March 1, 2013

CITY OF SHELBYVILLE, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended June 30, 2012

As management of the City of Shelbyville, Tennessee (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2012. Management's Discussion and Analysis (MD&A) focuses on current year activities and resulting changes.

This report consists of management's presentations concerning the finances of the City of Shelbyville. Consequently, management assumes full responsibility for the completeness and reliability for all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Shelbyville has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Shelbyville's financial statements in conformity with GAAP. Because the cost of internal controls should outweigh their benefits, the City of Shelbyville's comprehensive frame work of internal controls has been designated to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that to the best of our knowledge and belief this financial report is complete and reliable in all material respects.

Using this Annual Report

This Annual Report (the "Report") consists of a series of financial statements. The Statement of Net Assets and Statement of Activities (pages 15-16) provide information about the City as a whole and provide a long-term view of the City's finances. Fund financial statements begin on page 17, and tell how government activities were financed in the short term, as well as what remains for future spending. The Report deals with two types of funds, governmental and proprietary. The only proprietary funds are those maintained by the separately chartered Shelbyville Power, Water and Sewerage System. The governmental funds record the City's activities in providing basic municipal services.

Governmental Funds

The Report refers to the General Fund and Other Governmental Funds. The General Fund is the basic operating fund for all city departments. The Other Governmental Funds are Special Revenue Funds and Capital Projects Funds. The funds are maintained and reported using the modified accrual method of accounting. In its accounting system, the City maintains the following funds which are consolidated into the General Fund for purposes of the Report: Fixed Asset Group, Capital, Budget Reserve, and Recoveries. These funds have been established to enable the City to improve its financial position by developing and managing cash reserves for budget shortfalls, equipment, and capital expenditures.

The Shelbyville Power, Water & Sewerage Systems are composed of three separate divisions that are financially accounted for on a separate basis. All divisions are reportable to the General Manager. The General Manager reports to a five-member board that is appointed by the Mayor and the City Council of the City of Shelbyville, TN.

Financial Highlights

- The City's governmental activities' total liabilities increased by \$58,866. This liability increase is due to a combination of the increase in employee long term benefits and the reduction of capital outlay notes.
- The assets of the governmental activities of the City of Shelbyville exceeded its liabilities at the close of the fiscal year ended 2012 by \$29,488,987 which is an increase of \$2,122,128 from the prior year.
- Governmental activities total expenses increased by \$656,993 for 2012. Much of the increase in spending is due to the increase in needed maintenance and repairs.
- The assets of the Shelbyville Power, Water and Sewerage Systems exceeded their liabilities at the close of the most recent fiscal year by \$69,411,606. Of this amount, \$25,007,026 may be used to meet the Systems ongoing obligations to suppliers and creditors.
- The Shelbyville Power, Water and Sewerage Systems' total net assets increased by \$3,998,977.

According to the Systems management, the statement of net assets of the Systems is very solid. Plant is being well maintained and improved based on needs forecast well into the future. Debt is being conservatively managed with debt service coverage leverage ratios that are more than adequate. Cash reserves are more than adequate for all systems.

Power System

Total power system assets went from \$32,123,570 fiscal year ending June 30, 2011 to \$34,578,325 fiscal year ending June 30, 2012. Current assets went from \$14,755,698 to \$15,964,648. Plant, net of accumulated depreciation, increased from \$16,834,365 to \$18,087,045. Other assets went from \$346,955 to \$348,743. Total power system liabilities went from \$4,787,143 to \$4,762,497. Current liabilities went from \$4,123,695 to \$4,270,666. Long-term liabilities went from \$663,448 to \$491,831.

Income before capital contributions for the power system increased from \$2,799,151 in fiscal year ending 2011 to \$3,047,276 in fiscal year 2012. Total operating revenue decreased from \$36,494,472 to \$34,371,361. This is a function of weather, growth in our customer base, rate increases, and unbilled revenue. Operational and maintenance expenses decreased from \$3,251,829 in 2011 to \$3,220,650 in 2012. Interest expense decreased from \$48,509 to \$38,855.

Water System

Total water system assets went from \$23,513,221 to \$23,647,692. Current assets went from \$7,178,334 to \$7,618,926. Plant, net of accumulated depreciation, decreased from \$15,376,330 to \$14,987,870. Total liabilities increased from \$3,837,469 to \$3,664,396. Long-term liabilities decreased from \$3,206,313 to \$3,114,162.

Income before capital contributions decreased from \$394,615 to \$281,558. Total operating revenue showed a decrease from \$4,026,890 to \$3,988,988. Operational and maintenance expenses increased from \$2,738,916 to \$2,869,577. Interest expense decreased from \$140,260 to \$80,152.

Sewerage System

Total sewerage system assets increased from \$29,577,265 to \$42,191,892. Current assets went from \$5,583,243 to \$6,292,238. Plant, net of accumulated depreciation, increased from \$23,720,650 to \$35,052,784. Total liabilities went from \$11,176,815 to \$22,579,410. Long-term liabilities increased from \$9,973,227 to \$22,093,239.

Income before capital contributions for the sewerage system went from \$763,317 in fiscal year ending 2011 to \$1,121,232 in fiscal year ending 2012. Sewer rates are based on water usage and bill at approximately 135% of the water rate. Sewer operational and maintenance expenses showed a decrease from \$2,189,754 to \$2,091,968. Interest expense decreased from \$170,889 to \$165,455.

Condensed Statement of Activities June 30, 2012

	Governmental activities		Business-type activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$ 1,537,924	\$ 1,481,975	\$ 42,299,075	\$ 44,305,439	\$ 43,836,999	\$ 45,787,414
Operating grants	710,026	1,035,935	-	-	710,026	1,035,935
Capital grants	255,951	1,110,418	116,786	77,425	372,737	1,187,843
General revenues:						
Property taxes	5,988,598	5,033,430	-	-	5,988,598	5,033,430
Other taxes	4,952,372	4,647,545	-	-	4,952,372	4,647,545
Other	2,517,321	1,582,110	106,450	170,893	2,623,771	1,582,110
Total revenues	<u>15,962,192</u>	<u>14,891,413</u>	<u>42,522,311</u>	<u>44,553,757</u>	<u>58,484,503</u>	<u>59,445,170</u>
Expenses:						
General government	1,752,494	1,638,600	-	-	1,752,494	1,638,600
Public recreation	1,640,781	1,636,524	-	-	1,640,781	1,636,524
Public safety	6,378,161	6,093,477	-	-	6,378,161	6,093,477
Public works	3,318,612	3,235,184	-	-	3,318,612	3,235,184
Airport	1,044,329	873,390	-	-	1,044,329	873,390
Welfare	121,970	121,957	-	-	121,970	121,957
Industrial development	138,570	134,031	-	-	138,570	134,031
Interest on debt	13,022	17,783	-	-	13,022	17,783
Power	-	-	31,362,337	33,494,472	31,362,337	36,494,472
Water	-	-	3,760,270	4,026,890	3,760,270	4,026,890
Sewerage	-	-	2,832,852	3,784,077	2,832,852	3,784,077
Total expenses	<u>14,407,939</u>	<u>13,750,946</u>	<u>37,955,459</u>	<u>40,305,439</u>	<u>52,363,398</u>	<u>54,270,195</u>
Change in net assets						
before transfers	1,554,253	1,140,467	4,566,852	4,034,508	6,121,105	5,174,975
Transfers	567,875	539,430	(567,875)	(539,430)	-	-
Change in net assets	2,122,128	1,679,897	3,998,977	3,495,078	6,121,105	5,174,975
Net assets-beginning	27,366,859	25,432,462	65,412,629	61,917,551	92,779,488	87,350,013
Prior period adjustment	-	254,500	-	-	-	254,500
Net assets-ending	<u>\$ 29,488,987</u>	<u>\$ 27,366,859</u>	<u>\$ 69,411,606</u>	<u>\$ 65,412,629</u>	<u>\$ 98,900,593</u>	<u>\$ 92,779,488</u>

Condensed Statement of Net Assets
June 30, 2012

	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 14,891,934	\$ 12,893,661	\$ 32,004,421	\$ 28,935,305	\$ 46,896,355	\$ 41,828,966
Capital assets	<u>22,242,375</u>	<u>22,059,654</u>	<u>68,127,699</u>	<u>55,931,345</u>	<u>90,370,074</u>	<u>77,990,999</u>
Total assets	<u>37,134,309</u>	<u>34,953,315</u>	<u>100,132,120</u>	<u>84,866,650</u>	<u>137,266,429</u>	<u>119,819,965</u>
Long-term liabilities	1,025,005	1,022,945	26,095,914	15,285,606	27,120,919	16,308,551
Other liabilities	<u>6,620,317</u>	<u>6,563,511</u>	<u>4,624,600</u>	<u>4,168,415</u>	<u>11,244,917</u>	<u>10,731,926</u>
Total liabilities	<u>7,645,322</u>	<u>7,586,456</u>	<u>30,720,514</u>	<u>19,454,021</u>	<u>38,365,836</u>	<u>27,040,477</u>
Net assets:						
Invested in capital assets, net of related debt	22,032,263	21,748,541	42,662,958	41,585,259	64,695,221	63,333,800
Restricted	232,343	266,767	1,741,622	1,168,585	1,973,965	1,435,352
Unrestricted	<u>7,224,381</u>	<u>5,351,551</u>	<u>25,007,026</u>	<u>22,658,785</u>	<u>32,231,407</u>	<u>28,010,336</u>
Total net assets	<u>\$ 29,488,987</u>	<u>\$ 27,366,859</u>	<u>\$ 69,411,606</u>	<u>\$ 65,412,629</u>	<u>\$ 98,900,593</u>	<u>\$ 92,779,488</u>

The City as a Whole

The Statement of Net Assets and Statement of Activities report information about the City as a whole and about its activities. The statements of the City are reported on the accrual basis of accounting. This means the expenses are recognized when they are incurred and revenues are accounted for when they are earned and not when the money is received. The financial stability of the City remains about the same from the prior year. The net assets increased from the prior year which proves the stability of the City is increasing.

The Statement of Net Assets and the Statement of Activities are divided into two categories. These two categories are governmental activities and business activities. The governmental activities report the basic services of the City such as public general administration, public safety, public works, parks and recreation and airport. The business type activities cover the business of the Shelbyville Power, Water and Sewerage System, which is maintained under a separate Charter.

Overview of the Financial Statements

Total revenues for the governmental activities increased \$1,070,779 from FY 2011 to FY 2012 due to conservative revenue estimates and a one-time insurance settlement recovery. The City's major income is property taxes, which supplied the City with 39 percent of total general fund revenue. The second major source of revenue was the local sales tax that supplied 23 percent of the City's general fund revenue. Property taxes, franchise taxes, business licenses, and interest associated with the current fiscal period are all considered current and have been recognized as revenues of the current fiscal period. All other revenues are recognized when cash is received.

Total general fund revenues for FY 2012 were \$15,081,729. This is an increase from FY 2011 of \$1,857,146.

As stated earlier, the City of Shelbyville's assets of its governmental activities exceeded its liabilities by \$29,488,987. The City's investments are in capital assets. These assets are used to provide services to the citizens of Shelbyville. Cash and cash equivalents of the City's governmental funds increased by \$1,618,525 from FY 2011 to FY 2012.

The financial statements of the Systems report information about the Systems using accounting methods similar to those used by private sector companies. These statements offer short-term (current) and long-term (noncurrent) financial information about its activities. The Statement of Net Assets includes all of the Systems' assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). It also provides the basis for computing operating results, evaluating the capital structure of the Systems and assessing the liquidity and financial flexibility of the Systems. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the Systems' operations over the past year, and can be used to determine whether the Systems have successfully recovered its costs through user fees and other charges, and to assess its profitability, and credit worthiness. The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Systems' cash receipts, cash payments, and net changes in cash resulting from operations, investing, and capital and non-capital financing activities. It also provides information regarding resources of cash, uses of cash, and the change in the cash balance during the reporting period.

Capital Assets

The Systems' investment in capital assets as of June 30, 2012, amounts to \$68,127,699 (net of accumulated depreciation). Depreciation charges for the year totaled \$2,241,955. The total increase in the Systems' investment in capital assets for the current fiscal year was \$12,196,354 (21.805%).

The Systems' Capital Assets (as of June 30,)

	2012	2011
Land and land rights	\$ 634,862	\$ 636,162
Structures and improvements	19,466,934	18,741,520
Distribution plant	65,514,028	63,143,855
Furniture and fixtures	827,901	731,675
Transportation equipment	2,275,679	2,257,534
Equipment	1,842,174	1,837,274
Construction in process	18,775,800	8,016,687
Less: Accumulated depreciation	<u>(41,209,679)</u>	<u>(39,433,362)</u>
	<u>\$ 68,127,699</u>	<u>\$ 55,931,345</u>

Long – Term Debt

At the end of the current fiscal year the governmental activities of the City of Shelbyville included total outstanding long-term debt of \$1,025,005. The long-term debt of the City is used to finance the assets acquired by the City and Post-employment benefits. The City has not issued any new long-term debt during the year. Repayments of debt have been made on the airport t-hangar debt. The capital outlay notes for the t-hangars were reduced by \$101,001.

At the end of the current fiscal year, the Systems had total outstanding debt for notes, bonds, and other obligations of \$25,731,114.

The Systems' Outstanding Debt
(as of June 30,)

	<u>2012</u>	<u>2011</u>
Bonds payable	\$ 5,880,000	\$ 5,735,000
Less: deferred loss	<u>(331,080)</u>	<u>(81,218)</u>
	<u>5,548,920</u>	<u>5,653,782</u>
Notes payable	20,141,415	8,871,470
Less: deferred loss	<u>(594)</u>	<u>(4,165)</u>
	<u>20,140,821</u>	<u>8,867,305</u>
Net OPEB obligation	<u>41,373</u>	<u>28,333</u>
Total outstanding debt	<u>\$ 25,731,114</u>	<u>\$ 14,549,420</u>

Power system notes, bonds and other obligation debt at fiscal year-end 2012 was \$203,197.

Water system notes, bonds and other obligation debt was \$3,213,395.

Sewer system notes, bonds and other obligation debt totaled \$22,314,522.

General Fund Budget Performance

For fiscal year 2012, the city budgeted \$14,968,879 in total expenses for the original budget. This budget amount was amended at the end of the fiscal year to \$13,479,680. The budget amendment was based on the year-end amounts before audit adjustments. The City as a whole spent less than budgeted this year because of the economy and managements emphasis on controlling expenses.

Rates

Power system rates increased along with TVA rates quarterly during the fiscal year. Water system rates increased as of January 1, 2010, and sewer system rates increased as of January 1, 2011.

Looking to the Future

The City is continuing to focus efforts on revising and enhancing our financial reporting and policies. The City plans to increase our grant participation to better serve the City. In the past year, the City has started the process of making some needed repairs to the buildings and equipment as well as buying needed fixed assets that have been delayed in the past few years because of the economy.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, 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 information, contact the City Treasurer, 201 North Spring Street, Shelbyville, Tennessee 37160.

STATEMENT OF NET ASSETS
CITY OF SHELBYVILLE, TENNESSEE

June 30, 2012

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 6,494,762	\$ 24,331,616	\$ 30,826,378
Taxes receivable - net	7,401,309	-	7,401,309
Accounts receivable	20,380	4,658,650	4,679,030
Intergovernmental receivable	622,550	-	622,550
Other receivables	-	77,990	77,990
Inventory and other assets	52,937	521,767	574,704
Overfunded net pension obligation	299,996	-	299,996
Unamortized bond expense	-	64,458	64,458
Energy conservation loans	-	348,270	348,270
Restricted assets:			
Temporarily restricted:			
Cash and cash equivalents	-	2,001,670	2,001,670
Capital assets:			
Land and construction in progress	3,645,623	19,410,662	23,056,285
Other capital assets, net of accumulated depreciation	18,596,752	48,717,037	67,313,789
TOTAL ASSETS	37,134,309	100,132,120	137,266,429
LIABILITIES			
Accounts payable	397,023	2,913,197	3,310,220
Accrued expenses and other liabilities	106,219	76,177	182,396
Deposits	46,381	1,449,450	1,495,831
Deferred revenue	5,994,310	-	5,994,310
Internal balances	74,272	(74,272)	-
Funds held in trust	2,112	-	2,112
Liabilities payable from restricted assets	-	260,048	260,048
Noncurrent liabilities:			
Due in one year	158,550	396,682	555,232
Due in more than one year	866,455	25,699,232	26,565,687
TOTAL LIABILITIES	7,645,322	30,720,514	38,365,836
NET ASSETS			
Invested in capital assets, net of related debt	22,032,263	42,662,958	64,695,221
Restricted for:			
Highways and streets	182,813	-	182,813
Drug education and enforcement	19,530	-	19,530
TV station	30,000	-	30,000
Debt service	-	1,741,622	1,741,622
Unrestricted	7,224,381	25,007,026	32,231,407
	\$ 29,488,987	\$ 69,411,606	\$ 98,900,593

The accompanying notes are an integral part of this financial statement.

STATEMENT OF ACTIVITIES
CITY OF SHELBYVILLE, TENNESSEE

For the year ended June 30, 2012

Functions/ Programs	PROGRAM REVENUES					Net (Expense) Revenue and	
	Expenses	Indirect Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Changes in Net Assets	
						Governmental Activities	Business-type Activities
Primary government:							
Governmental activities:							
General government	\$ 4,831,139	\$ (3,078,645)	\$ 89,691	\$ 14,874	\$ -	\$ (1,647,929)	\$ -
Public recreation	1,309,111	331,670	261,796	6,500	-	(1,372,485)	-
Public safety	4,343,370	2,034,791	341,987	54,804	-	(5,981,370)	-
Public works	2,647,937	670,675	10,402	620,037	195,342	(2,492,831)	-
Airport	1,002,820	41,509	834,048	13,811	-	(196,470)	-
Welfare	121,970	-	-	-	-	(121,970)	-
Industrial development	138,570	-	-	-	60,609	(77,961)	-
Interest on long-term debt	13,022	-	-	-	-	(13,022)	-
Total governmental activities	14,407,939	-	1,537,924	710,026	255,951	(11,904,038)	-
Business-type activities							
Power system	31,362,337	-	34,371,361	-	-	-	3,009,024
Water system	3,760,270	-	3,988,988	-	25,986	-	254,704
Sewerage system	2,832,852	-	3,938,726	-	90,800	-	1,196,674
Total business-type activities	37,955,459	-	42,299,075	-	116,786	-	4,460,402
Total primary government	\$ 52,363,398	\$ -	\$ 43,836,999	\$ 710,026	\$ 372,737	\$ (11,904,038)	\$ 4,460,402
General revenues:							
Property taxes						\$ 5,988,598	\$ -
Business taxes						370,791	-
Local sales taxes						3,416,681	-
Beverage taxes						750,184	-
Franchise taxes						133,249	-
Payments in lieu of taxes						142,897	-
Penalties and interest						83,268	-
State shared revenues						1,921,898	-
Hotel/ Motel taxes						138,570	-
Other						480,604	-
Unrestricted investment earnings						31,551	106,450
Transfers						567,875	(567,875)
Total general revenues						14,026,166	(461,425)
Change in net assets						2,122,128	3,998,977
Net assets - beginning						27,366,859	65,412,629
Net assets - ending						\$ 29,488,987	\$ 69,411,606

The accompanying notes are an integral part of this financial statement.

BALANCE SHEET
GOVERNMENTAL FUNDS
CITY OF SHELBYVILLE, TENNESSEE
June 30, 2012

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Cash	\$ 6,249,296	\$ 245,466	\$ 6,494,762
Taxes receivable - net	7,383,244	18,065	7,401,309
Accounts receivable	20,380	-	20,380
Intergovernmental receivable	536,050	86,500	622,550
Inventory and other assets	52,906	31	52,937
Total assets	<u>\$ 14,241,876</u>	<u>\$ 350,062</u>	<u>\$ 14,591,938</u>
Liabilities and fund balances			
Liabilities:			
Accounts payable	\$ 367,781	\$ 29,242	\$ 397,023
Accrued wages	106,219	-	106,219
Deposits	46,381	-	46,381
Deferred revenue	6,649,094	-	6,649,094
Due to other funds	51,238	23,034	74,272
Funds held in trust	-	2,112	2,112
Total liabilities	<u>7,220,713</u>	<u>54,388</u>	<u>7,275,101</u>
Fund balances:			
Nonspendable			
Inventory and other assets	52,906	-	52,906
Restricted			
Cable TV	30,000	-	30,000
Police	-	82,861	82,861
State street aid	-	182,813	182,813
Committed	-	-	-
Assigned	-	30,000	30,000
Stormwater management	113,245	-	113,245
Sanitation	6,921	-	6,921
Major repairs	87,656	-	87,656
State road projects	956,070	-	956,070
Capital assets	1,801,566	-	1,801,566
Unassigned	3,972,799	-	3,972,799
Total fund balances	<u>7,021,163</u>	<u>295,674</u>	<u>7,316,837</u>
Total liabilities and fund balances	<u>\$ 14,241,876</u>	<u>\$ 350,062</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	22,242,375
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	954,780
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(1,025,005)
	<u>\$ 29,488,987</u>

The accompanying notes are an integral part of this financial statement.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

CITY OF SHELBYVILLE, TENNESSEE

Year ended June 30, 2012

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 10,567,035	\$ 138,570	\$ 10,705,605
Payments in lieu of taxes	142,897	-	142,897
Penalties and interest	83,268	-	83,268
Licenses and permits	39,105	-	39,105
Intergovernmental	2,184,295	531,814	2,716,109
Charges for services	1,209,451	-	1,209,451
Fines	295,782	32,691	328,473
Miscellaneous	530,640	-	530,640
Investment earnings	30,259	1,292	31,551
Total revenues	<u>15,082,732</u>	<u>704,367</u>	<u>15,787,099</u>
Expenditures:			
Current:			
General government	1,775,962	-	1,775,962
Parks and recreation	1,586,890	-	1,586,890
Public safety	6,422,579	22,338	6,444,917
Public works	2,950,213	561,550	3,511,763
Airport	977,637	-	977,637
Welfare	117,329	-	117,329
Industrial development	-	138,570	138,570
Debt service:			
Principal retirement	101,001	-	101,001
Interest payments on notes	13,022	-	13,022
Total expenditures	<u>13,944,633</u>	<u>722,458</u>	<u>14,667,091</u>
Excess of revenues over (under) expenditures	<u>1,138,099</u>	<u>(18,091)</u>	<u>1,120,008</u>
Other financing sources (uses):			
Transfers in	567,875	-	567,875
Transfers out	-	-	-
Sale of capital assets	25,240	-	25,240
Total other financing sources (uses)	<u>593,115</u>	<u>-</u>	<u>593,115</u>
Net change in fund balances	1,731,214	(18,091)	1,713,123
Fund balances - July 1, 2011	<u>5,289,949</u>	<u>313,765</u>	<u>5,603,714</u>
Fund balances - June 30, 2012	<u>\$ 7,021,163</u>	<u>\$ 295,674</u>	<u>\$ 7,316,837</u>

The accompanying notes are an integral part of this financial statement.

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

CITY OF SHELBYVILLE, TENNESSEE

For the year ended June 30, 2012

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

Net change in fund balances - total governmental funds	\$ 1,713,123
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
Capital asset purchases capitalized	896,231
Depreciation expense	(660,960)
The net effect of various miscellaneous transactions involving capital assets is to increase (decrease) net assets:	
Donations of capital assets	82,625
Sales and abandonments of capital assets	(135,174)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	
Change in deferred revenue	92,468
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.	
Promissory note principal payments	101,001
Some expenses 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:	
Compensated absences	(6,088)
Net pension obligation	135,876
Net OPEB obligation	(96,974)
Change in net assets of governmental activities	<u>\$ 2,122,128</u>

The accompanying notes are an integral part of this financial statement.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL - GENERAL FUND

CITY OF SHELBYVILLE, TENNESSEE

Year ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget - Favorable (Unfavorable)
REVENUES				
Taxes:				
Property	\$ 5,970,990	\$ 5,497,234	\$ 5,896,130	\$ 398,896
Business	273,799	370,791	370,791	-
Local sales	3,210,753	3,416,681	3,416,681	-
Beverage	707,737	750,184	750,184	-
Franchise	137,068	133,249	133,249	-
Payments in lieu of taxes	137,615	142,897	142,897	-
Penalties and interest	64,767	83,268	83,268	-
Licenses and permits	16,252	39,105	39,105	-
Intergovernmental revenues				
State sales tax allocation	1,060,173	1,394,096	1,394,096	-
State income tax allocation	35,000	106,961	106,961	-
State beer tax allocation	8,220	10,182	10,182	-
State mixed drink tax allocation	26,508	31,817	31,817	-
State gasoline and motor fuel tax	34,625	42,164	42,164	-
State excise tax allocation	22,000	97,781	97,781	-
State TVA in lieu	186,414	238,897	238,897	-
State and federal grant funds	1,044,450	134,691	211,813	77,122
State supplements	54,015	50,584	50,584	-
Charges for services	1,450,358	1,238,445	1,208,448	(29,997)
Fines	326,726	295,782	295,782	-
Miscellaneous	5,250	451,372	530,640	79,268
Investment earnings	24,703	30,259	30,259	-
TOTAL REVENUES	14,797,423	14,556,440	15,081,729	525,289
EXPENDITURES				
General government:				
General government				
Salaries	102,562	104,152	108,353	(4,201)
Professional services	109,375	241,140	241,140	-
Payroll taxes and administration	59,359	64,986	63,926	1,060
Utilities	5,613	3,381	3,381	-
Mayor and council salaries	57,600	57,600	57,600	-
Maintenance and repair	19,050	45,460	45,460	-
Argie Cooper Library	130,500	130,500	130,500	-
Subscriptions and dues	13,158	14,792	14,792	-
Insurance	260,216	205,818	205,818	-
Electric tax equivalent	123,309	127,772	127,772	-
Business taxes-state share	-	3,050	3,050	-
Industrial dev. and promotion	15,020	7,560	7,560	-
Capital outlay	140,000	48,002	140,559	(92,557)
Other general government	60,379	73,425	66,519	6,906
	1,096,141	1,127,638	1,216,430	(88,792)

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND (Continued)**

CITY OF SHELBYVILLE, TENNESSEE

Year ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget - Favorable (Unfavorable)
EXPENDITURES (Continued)				
General government:				
Planning and zoning				
Salaries	\$ 138,491	\$ 134,555	\$ 134,904	\$ (349)
Professional services	33,000	22,640	22,640	-
Payroll taxes and administration	80,153	84,807	83,425	1,382
Utilities	5,223	3,299	3,299	-
Maintenance and repair	2,580	2,209	2,209	-
Fees paid to state	25,822	14,254	14,254	-
Slum clearance	30,000	-	-	-
Other planning and zoning	13,184	14,061	12,397	1,664
	<u>328,453</u>	<u>275,825</u>	<u>273,128</u>	<u>2,697</u>
Cemetery				
Salaries	84,044	84,764	84,406	358
Payroll taxes and administration	36,478	40,400	39,744	656
Utilities	6,557	5,967	5,967	-
Maintenance and repair	3,359	4,702	4,702	-
Chemical supplies	6,000	4,356	4,356	-
Gasoline and oil	5,042	6,461	6,461	-
Capital outlay	8,000	13,190	13,190	-
Other cemetery	11,217	10,133	3,966	6,167
	<u>160,697</u>	<u>169,973</u>	<u>162,792</u>	<u>7,181</u>
Animal control				
Salaries	68,561	70,398	70,213	185
Payroll taxes and administration	39,680	38,576	37,948	628
Utilities	7,537	6,310	6,310	-
Maintenance and repair	2,378	1,925	1,925	-
Gasoline and oil	6,120	4,243	4,243	-
Other animal control	6,734	4,971	2,973	1,998
	<u>131,010</u>	<u>126,423</u>	<u>123,612</u>	<u>2,811</u>
Public recreation:				
Parks and recreation				
Salaries	291,614	259,427	258,863	564
Payroll taxes and administration	141,914	139,547	137,273	2,274
Utilities	33,538	28,798	28,798	-
Maintenance and repair	40,194	68,839	68,839	-
Gasoline and oil	29,229	19,361	19,361	-
Chemical supplies	8,584	6,229	6,229	-
Capital outlay	18,850	34,034	34,034	-
Other parks and recreation	77,864	78,499	12,875	65,624
	<u>641,787</u>	<u>634,734</u>	<u>566,272</u>	<u>68,462</u>

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND (Continued)

CITY OF SHELBYVILLE, TENNESSEE

Year ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget - Favorable (Unfavorable)
EXPENDITURES (Continued)				
General government:				
Recreational center				
Salaries	\$ 400,923	\$ 420,160	\$ 420,067	\$ 93
Payroll taxes and administration	160,894	177,038	174,158	2,880
Utilities	171,044	159,471	159,471	-
Maintenance and repair	119,002	121,190	75,727	45,463
Recreational programming	7,335	7,064	7,064	-
Office supplies and materials	2,920	3,209	3,209	-
Chemical supplies	19,790	16,192	16,192	-
Products for resale	1,900	1,409	1,409	-
Capital outlay	-	7,228	52,691	(45,463)
Other recreational center	101,133	101,939	23,978	77,961
	<u>984,941</u>	<u>1,014,900</u>	<u>933,966</u>	<u>80,934</u>
Sports league				
Salaries	35,701	35,883	35,603	280
Professional services	24,410	21,602	21,602	-
Payroll taxes and administration	18,460	20,571	20,239	332
Clothing and uniforms	5,160	5,387	5,387	-
Materials	3,938	2,635	2,635	-
Other sports league	1,905	1,186	1,186	-
	<u>89,574</u>	<u>87,264</u>	<u>86,652</u>	<u>612</u>
Public safety:				
Police				
Salaries	2,152,707	2,098,643	2,090,015	8,628
Payroll taxes and administration	1,223,521	1,210,607	1,190,909	19,698
Employee education and training	35,047	15,774	15,774	-
Utilities	48,857	41,807	41,807	-
Maintenance and repair	69,630	123,333	63,333	60,000
Gasoline and fuel	143,387	118,333	118,333	-
Machinery and equipment rental	10,840	14,308	14,308	-
Expensable tools and materials	27,390	31,880	31,880	-
Office supplies and materials	9,174	7,472	7,472	-
Clothing and uniforms	13,200	13,855	13,855	-
Capital outlay	280,000	145,946	205,946	(60,000)
Other police	136,817	143,684	28,808	114,876
	<u>4,150,570</u>	<u>3,965,642</u>	<u>3,822,440</u>	<u>143,202</u>

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND (Continued)

CITY OF SHELBYVILLE, TENNESSEE

Year ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget - Favorable (Unfavorable)
EXPENDITURES (Continued)				
Public safety:				
Fire				
Salaries	\$ 1,499,398	\$ 1,435,140	\$ 1,435,450	\$ (310)
Professional services	11,631	10,450	10,450	-
Payroll taxes and administration	854,943	857,841	843,882	13,959
Employee education and training	10,950	11,952	11,952	-
Utilities	41,304	32,759	32,759	-
Maintenance and repair	242,960	36,133	36,133	-
Gasoline and fuel	18,670	18,769	18,769	-
Fire hydrant rental	153,496	139,630	139,630	-
Expensable tools	12,500	12,526	12,526	-
Clothing and uniforms	12,500	12,718	12,718	-
Capital outlay	28,687	29,876	29,876	-
Other fire	100,640	98,838	15,994	82,844
	<u>2,987,679</u>	<u>2,696,632</u>	<u>2,600,139</u>	<u>96,493</u>
Public works:				
Streets				
Salaries	808,847	743,354	743,305	49
Payroll taxes and administration	468,129	467,500	459,892	7,608
Utilities	27,448	21,819	21,819	-
Maintenance and repair	49,743	63,923	63,923	-
Gasoline and fuel	116,968	85,597	85,597	-
Expensable materials	34,058	30,602	30,602	-
Construction material	38,000	32,137	32,137	-
Clothing and uniforms	10,140	9,088	9,088	-
Chemical supplies	21,187	2,067	2,067	-
State road paving	80,000	88,222	88,222	-
Street paving	-	90,554	90,554	-
State road projects	982,675	59,851	69,405	(9,554)
Capital outlay	-	116,872	116,872	-
Other streets	190,218	203,532	19,024	184,508
	<u>2,827,413</u>	<u>2,015,118</u>	<u>1,832,507</u>	<u>182,611</u>
Stormwater management				
Professional services	4,000	5,253	5,253	-
Gasoline and oil	2,767	1,621	1,621	-
Construction material	80,000	48,482	48,482	-
Expensable tools	250	-	-	-
Other stormwater management	10,421	8,836	8,836	-
	<u>97,438</u>	<u>64,192</u>	<u>64,192</u>	<u>-</u>

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL - GENERAL FUND (Continued)

CITY OF SHELBYVILLE, TENNESSEE

Year ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget - Favorable (Unfavorable)
EXPENDITURES (Continued)				
Finance				
Retirement of capital outlay notes	\$ 100,495	\$ 101,068	\$ 101,001	\$ 67
Interest on capital outlay notes	13,529	12,955	13,022	(67)
	<u>114,024</u>	<u>114,023</u>	<u>114,023</u>	<u>-</u>
Airport				
Salaries	119,114	87,498	87,603	(105)
Professional services	55,000	55,000	55,000	-
Payroll taxes and administration	42,387	42,198	41,509	689
Utilities	38,777	39,435	39,435	-
Maintenance and repair	70,720	17,125	17,125	-
Fuel for resale	791,880	686,718	685,609	1,109
Products for resale	9,568	8,691	8,691	-
Bank service charges	19,342	16,345	16,345	-
Capital outlay	-	23,375	2,575	20,800
Other recreational center	95,035	93,602	23,745	69,857
	<u>1,241,823</u>	<u>1,069,987</u>	<u>977,637</u>	<u>92,350</u>
Welfare	117,329	117,329	117,329	-
TOTAL EXPENDITURES	<u>14,968,879</u>	<u>13,479,680</u>	<u>12,891,119</u>	<u>588,561</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(171,456)</u>	<u>1,076,760</u>	<u>2,190,610</u>	<u>1,113,850</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	548,039	519,726	567,875	48,149
Transfers out	(781,827)	(781,828)	(1,059,433)	(277,605)
Sales of capital assets	121	25,240	25,240	-
TOTAL OTHER FINANCING USES	<u>(233,667)</u>	<u>(236,862)</u>	<u>(466,318)</u>	<u>(229,456)</u>
NET CHANGE IN FUND BALANCE	<u>\$ (405,123)</u>	<u>\$ 839,898</u>	<u>1,724,292</u>	<u>\$ 884,394</u>
FUND BALANCE - BEGINNING			5,289,949	
FUND BALANCE - END			<u>\$ 7,014,241</u>	
Reconciliation to fund financial statements:				
Excess of revenues over expenditures - budgetary			\$ 1,724,292	
Revenues and expenditures not included in budgetary statements:				
Sanitation - charges for services			1,003	
Sanitation - expenditures			(1,053,514)	
General fund transfer to sanitation fund			1,059,433	
Excess of revenues over expenditures - page 18			<u>\$ 1,731,214</u>	

The accompanying notes are an integral part of this financial statement.

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
CITY OF SHELBYVILLE, TENNESSEE

Year ended June 30, 2012

	Business type activities - Enterprise Funds			
	Power System	Water System	Sewerage System	Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 11,325,593	\$ 7,120,833	\$ 5,885,190	\$ 24,331,616
Accounts receivable, net of allowance	3,995,564	348,401	388,957	4,732,922
Other receivables	77,453	-	537	77,990
Inventory	353,656	141,338	17,415	512,409
Due from other funds	205,468	5,910	139	211,517
Other assets	6,914	2,444	-	9,358
Total current assets	15,964,648	7,618,926	6,292,238	29,875,812
Noncurrent assets:				
Restricted cash and cash equivalents	177,889	976,911	846,870	2,001,670
Energy conservation loans	348,270	-	-	348,270
Unamortized bond expense	473	63,985	-	64,458
Capital assets	18,087,045	14,987,870	35,052,784	68,127,699
Total noncurrent assets	18,613,677	16,028,766	35,899,654	70,542,097
TOTAL ASSETS	\$ 34,578,325	\$ 23,647,692	\$ 42,191,892	\$ 100,417,909
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 2,766,192	\$ 77,404	\$ 69,601	\$ 2,913,197
Notes payable	189,406	-	207,276	396,682
Accrued expenses and other liabilities	19,735	-	-	19,735
Accrued interest	3,735	-	52,707	56,442
Due to other funds	1,640	114,710	95,167	211,517
Customer deposits	1,289,958	153,072	6,420	1,449,450
Total current liabilities	4,270,666	345,186	431,171	5,047,023
Current liabilities payable from restricted assets:				
Bonds payable	-	170,000	55,000	225,000
Accrued interest	-	35,048	-	35,048
Total current liabilities payable from restricted assets	-	205,048	55,000	260,048
Noncurrent liabilities:				
Conservation - TVA program	348,270	-	-	348,270
Accrued vacation	129,770	70,767	40,993	241,530
Bonds payable	-	3,029,604	2,294,316	5,323,920
Notes payable	-	-	19,744,139	19,744,139
Net OPEB liability	13,791	13,791	13,791	41,373
Total noncurrent liabilities	491,831	3,114,162	22,093,239	25,699,232
TOTAL LIABILITIES	4,762,497	3,664,396	22,579,410	31,006,303
NET ASSETS				
Invested in capital assets, net of related debt	17,897,639	11,958,266	12,807,053	42,662,958
Restricted	177,889	771,863	791,870	1,741,622
Unrestricted	11,740,300	7,253,167	6,013,559	25,007,026
TOTAL NET ASSETS	\$ 29,815,828	\$ 19,983,296	\$ 19,612,482	\$ 69,411,606

The accompanying notes are an integral part of this financial statement.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

PROPRIETARY FUNDS

CITY OF SHELBYVILLE, TENNESSEE

Year ended June 30, 2012

	Business type activities - Enterprise Funds			
	Power System	Water System	Sewerage System	Total
Operating revenues:				
Charges for services pledged as security for revenue bonds	\$ 33,759,100	\$ 3,928,887	\$ 3,890,995	\$ 41,578,982
Forfeited discounts and penalties	196,778	31,644	47,731	276,153
Rental income	271,113	-	-	271,113
Other operating revenue	144,370	28,457	-	172,827
TOTAL OPERATING REVENUE	34,371,361	3,988,988	3,938,726	42,299,075
Operating expenses:				
Purchased power	27,235,671	-	-	27,235,671
Operational expenses	2,413,899	2,085,829	1,670,593	6,170,321
Maintenance expense	806,751	783,748	421,375	2,011,874
Depreciation and amortization	862,895	810,541	575,429	2,248,865
TOTAL OPERATING EXPENSES	31,319,216	3,680,118	2,667,397	37,666,731
OPERATING INCOME	3,052,145	308,870	1,271,329	4,632,344
Nonoperating revenues (expenses):				
Interest income	38,252	52,840	15,358	106,450
Interest expense	(38,855)	(80,152)	(165,455)	(284,462)
Other income (expenses)	(4,266)	-	-	(4,266)
TOTAL NONOPERATING REVENUES (EXPENSES)	(4,869)	(27,312)	(150,097)	(182,278)
INCOME BEFORE CONTRIBUTIONS	3,047,276	281,558	1,121,232	4,450,066
Transfers out	(567,875)	-	-	(567,875)
Capital contributions	-	25,986	28,300	54,286
Contributions in aid-grants	-	-	62,500	62,500
CHANGE IN NET ASSETS	2,479,401	307,544	1,212,032	3,998,977
NET ASSETS, BEGINNING OF YEAR	27,336,427	19,675,752	18,400,450	65,412,629
NET ASSETS, END OF YEAR	\$ 29,815,828	\$ 19,983,296	\$ 19,612,482	\$ 69,411,606

The accompanying notes are an integral part of this financial statement.

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
CITY OF SHELBYVILLE, TENNESSEE

Year ended June 30, 2012

	Business type activities - Enterprise Funds			
	Power System	Water System	Sewerage System	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers (including other funds)	\$ 34,242,582	\$ 3,956,468	\$ 3,835,520	\$ 42,034,570
Payments to suppliers	(28,244,727)	(1,691,800)	(1,268,069)	(31,204,596)
Cash paid to employees	(1,863,656)	(1,224,275)	(785,651)	(3,873,582)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>4,134,199</u>	<u>1,040,393</u>	<u>1,781,800</u>	<u>6,956,392</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital contributed	-	25,986	90,800	116,786
Donated labor	(4,266)	-	-	(4,266)
Proceeds from issuance of long-term debt, net of issuance cost	-	3,210,000	11,668,729	14,878,729
Acquisition and construction of capital assets	(2,109,159)	(418,811)	(11,905,435)	(14,433,405)
Principal paid on long-term debt	(195,000)	(3,318,489)	(253,784)	(3,767,273)
Interest paid on long-term debt	(43,604)	(104,244)	(158,251)	(306,099)
NET CASH USED BY CAPITAL FINANCING ACTIVITIES	<u>(2,352,029)</u>	<u>(605,558)</u>	<u>(557,941)</u>	<u>(3,515,528)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Increase in customer deposits	69,034	7,123	-	76,157
Issuance of energy conservation loans	(4,633)	-	-	(4,633)
Payments to DREMC for transfers of members	81	-	-	81
Transfers to other funds	(567,875)	-	-	(567,875)
Home weatherization loan advances	4,633	-	-	4,633
NET CASH PROVIDED(USED) BY NON-CAPITAL FINANCING ACTIVITIES	<u>(498,760)</u>	<u>7,123</u>	<u>-</u>	<u>(491,637)</u>
CASH FLOWS FROM INVESTING ACTIVITIES - Interest and other income				
	38,884	54,295	15,595	108,774
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>1,322,294</u>	<u>496,253</u>	<u>1,239,454</u>	<u>3,058,001</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	10,181,188	7,601,491	5,492,606	23,275,285
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 11,503,482</u>	<u>\$ 8,097,744</u>	<u>\$ 6,732,060</u>	<u>\$ 26,333,286</u>
CASH AND CASH EQUIVALENTS CONSIST OF:				
Unrestricted cash and cash equivalents	\$ 11,325,593	\$ 7,120,833	\$ 5,885,190	\$ 24,331,616
Restricted cash and cash equivalents	177,889	976,911	846,870	2,001,670
	<u>\$ 11,503,482</u>	<u>\$ 8,097,744</u>	<u>\$ 6,732,060</u>	<u>\$ 26,333,286</u>

STATEMENT OF CASH FLOWS (Continued)
PROPRIETARY FUNDS
CITY OF SHELBYVILLE, TENNESSEE

June 30, 2012

	Business type activities - Enterprise Funds			
	Power System	Water System	Sewerage System	Total
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income	\$ 3,052,145	\$ 308,870	\$ 1,271,329	\$ 4,632,344
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	862,895	810,541	575,429	2,248,865
Provision for bad debts	156,046	27,222	39,528	222,796
(Increase) decrease in:				
Accounts receivable	(128,779)	(28,308)	(103,467)	(260,554)
Inventory	41,792	25,393	20,402	87,587
Other assets	(13,052)	-	-	(13,052)
Due from other funds	65,368	(4,212)	261	61,417
Increase (decrease) in:				
Accounts payable	85,027	(70,500)	3,741	18,268
Other liabilities	-	-	4,348	4,348
Due to other funds	1,640	(38,453)	(24,604)	(61,417)
Accrued expenses	11,117	9,840	(5,167)	15,790
Total adjustments	1,082,054	731,523	510,471	2,324,048
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 4,134,199	\$ 1,040,393	\$ 1,781,800	\$ 6,956,392

The accompanying notes are an integral part of this financial statement.

NOTES TO FINANCIAL STATEMENTS
CITY OF SHELBYVILLE, TENNESSEE

June 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Financial Reporting Entity and Introduction

The City of Shelbyville, Tennessee (the City) was incorporated in 1819, and its citizens elect a Mayor at large and six-member governing council by wards. As required by U.S. generally accepted accounting principles, the financial statements of the reporting entity include those of the City of Shelbyville (the government) and its component units. There are no legally separate component units of City of Shelbyville, which meet the criteria for being reported as part of the government.

The enterprise funds of the City are the Shelbyville Power, Water and Sewerage Systems (Systems). These proprietary fund types issue separately audited general purpose financial statements, copies of which may be obtained from their administrative office, 308 South Main Street, Shelbyville, Tennessee.

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

(2) Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. Certain administrative expenses are considered indirect expenses of all functions and are allocated, based on payroll, in the statement of activities.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. 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

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF SHELBYVILLE, TENNESSEE

June 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(3) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

revenues 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.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, licenses, state and federal grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Property taxes receivable is reduced by an allowance for uncollectible accounts.

The fund financial statements provide information about the government's funds. Separate statements for each fund category, governmental and proprietary, are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The government reports the following major governmental funds:

General Fund - This fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The government reports the following major enterprise funds:

Power System - This fund accounts for the activities of the government's power distributions operations.

Water System - This fund accounts for the activities of the government's water distribution system.

Sewerage System - This fund accounts for the activities of the government's sewerage distribution system.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF SHELBYVILLE, TENNESSEE

June 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(3) Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes as well as utility charges provided to city departments. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods and services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the government's enterprise funds are charges to customers for sales and services. The Shelbyville Power, Water and Sewerage Systems recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(4) Net Assets and Fund Equity

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

Invested in capital assets, net of related debt - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of debt equal to the unspent proceeds is included in the same net assets component as the unspent proceeds.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF SHELBYVILLE, TENNESSEE

June 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(4) Net Assets and Fund Equity (Continued)

Restricted - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributions, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

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 they are needed. Also, when expenditures are incurred for purposes for which amounts in committed, assigned, and unassigned fund balance classifications could be used, the governing council (council) will determine the best use of funds based on the specific facts and circumstances at that time.

The governmental funds report fund balances in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in these funds can be spent. These classifications may consist of the following:

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

Restricted fund balance – includes amounts that have constraints placed on the use of the resources that are either (a) externally imposed by creditors, grantors, contributors or laws and regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance – includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Assigned fund balance – includes amounts that are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The council has not authorized anyone to make assignments.

Unassigned fund balance – the residual classification of the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF SHELBYVILLE, TENNESSEE

June 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(5) Energy Conservation Loans

The Shelbyville Power System is fiscal intermediary for the TVA energy conservation program whereby loans are made to the System's customers to be used in connection with TVA's Residential Energy Services Program. Pursuant to the terms of an agreement with TVA, the energy conservation loans made to the System's customers are funded and guaranteed by TVA. These loans to customers are recorded as other assets, with the corresponding liability to TVA recorded as long-term debt.

(6) Bond Discounts/ Issuance Costs

Bond discounts and issuance costs are deferred and amortized over the terms of the bonds using the straight-line method. Bond discounts are presented as a reduction of the face amount of bonds payable whereas issuance costs are recorded as deferred charges.

(7) Inventories

Governmental funds' fuel and merchandise inventory is valued using the first-in/ first-out method and is recorded as an expenditure when consumed rather than when purchased. The enterprise funds' materials and supplies inventories are stated at lower of cost or market, with cost being determined on an average cost basis.

(8) Budgetary Information

Formal budgetary accounting is employed as a management control for all governmental funds of the City. Annual operating budgets are adopted each fiscal year through passage of an annual budget ordinance and amended as required for the general fund, special revenue funds, and capital projects funds; the same basis of accounting is used to reflect actual revenues and expenditures/expenses recognized on a U. S. generally accepted accounting principles basis. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level. The council approves all budget amendments.

Under *Tennessee Code Annotated* section 68-211-874, the City is required to account for its solid waste collection activities in a separate fund. The City accounts for these activities in a separate sanitation fund which does not qualify as a special revenue fund under generally accepted accounting principles. Accordingly, for fund reporting, the sanitation fund is included as a part of the general fund, but for budgetary reporting is not included as part of the general fund. Page 24 includes a reconciliation of the general fund budgetary reporting to the general fund reporting on page 18 under generally accepted accounting principles.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF SHELBYVILLE, TENNESSEE

June 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(9) Compensated Absences

The government's policy permits employees to accumulate earned but unused vacation benefits, which are eligible for payment upon separation from government service. The liability for such leave is reported as incurred in the government-wide and proprietary fund financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements. Accumulated sick leave lapses when employees leave the employ of the government and, upon separation from service, no monetary obligation exists.

(10) Estimates

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(11) Statement of Cash Flows

For the purposes of the statement of cash flows, the government considers all cash deposits and certificates of deposit with an original maturity of three months or less when acquired to be cash equivalents.

(12) Contributed Capital

The Systems have received federal and state grants to pay a portion of the costs of construction projects.

(13) Capital Assets

Governmental funds do not capitalize the cost of capital outlays; these funds report capital outlays as expenditures upon acquisition.

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets, except for land, are defined by the government as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of one year. Land need only cost \$1. to be reported as a capital asset. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at estimated fair value at the date of donation.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF SHELBYVILLE, TENNESSEE

June 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interest incurred during the construction phase of capital assets of enterprise funds is included as part of the capitalized value of the assets constructed. Interest capitalized by the enterprise funds during the year ended June 30, 2012, totaled \$227,373.

Land and construction in progress are not depreciated. The other property, plant, equipment, and infrastructure of the government are depreciated using the straight-line method over the following estimated useful lives:

<u>Capital asset classes</u>	<u>Lives</u>
Buildings and improvements	15 - 75
Equipment	3 - 20
Vehicles	10 - 35
Infrastructure	75 - 100

(14) Receivables and Payables

Outstanding balances between funds are reported as "due to/ from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and are due and payable on or before February 28 of the following year. All unpaid taxes become delinquent March 1. The City bills and collects its own property taxes, which are recognized when measurable and available. All trade and property tax receivables are shown net of an allowance for uncollectibles. An allowance is established for delinquent taxes to the extent that their collectability is improbable. The allowance for uncollectible property taxes at June 30, 2012, is \$22,551.

Customer utility accounts receivable of the enterprise funds are presented net of an allowance for uncollectible accounts of \$145,515. Bad debt expense for the current year is \$222,796. Accounts receivable are reported at the amount management expects to collect from outstanding balances. Differences between the amount due and the amount management expects to collect are reported in the results of operations of the year in which those differences are determined, with an offsetting entry to a valuation allowance for accounts receivable. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The enterprise funds use the reserve method, based upon a review of the current status of receivables and historical experience, in determining bad debt expense.

The power system has unbilled revenue of \$1,149,041 as of June 30, 2012. The water system and the sewerage system have followed the practice of not recording unbilled revenue.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF SHELBYVILLE, TENNESSEE

June 30, 2012

NOTE B - DEPOSITS AND INVESTMENTS

Deposits:

Cash of the enterprise funds includes petty cash and amounts in demand deposits and money market accounts. The enterprise funds invest cash in excess of current requirements in various interest-bearing accounts such as certificates of deposit with financial institutions which are carried at cost. The governmental funds invest funds in an interest bearing public funds checking account. These funds are stated at cost which approximates fair value.

The City does not have a formal policy that limits custodial credit risk for 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. However, the City follows state statutes. All deposits with financial institutions must be secured by one of two methods. One method involves financial institutions that participate in the bank collateral pool administered by the state treasurer. Public fund accounts covered by the pool are considered to be insured for purposes of custodial credit risk exposure. For deposits with financial institutions that do not participate in the bank collateral pool, state statutes require that deposits be collateralized with collateral whose market value is equal to 105% of the uninsured amount of the deposits. The collateral must be placed by the depository bank in an escrow account in a second bank for the benefit of the City.

At June 30, 2012, the entire carrying amount of the City's, excluding its proprietary funds, cash deposits were covered by F.D.I.C. insurance or were held with a financial institution participating in the bank collateral pool administered by the state treasurer.

At June 30, 2012, the carrying amount of the Systems' deposits was \$26,333,286 and the amount of the banks balances was \$28,845,687. Of the banks balances, \$1,250,000 was covered by Federal depository insurance, and \$8,711,789 was collateralized with securities pledged that comply with statutes as acceptable collateral, and \$18,883,898 was collateralized by the banks' participation in the Tennessee State Collateral Pool.

Investments:

State statutes authorize the City to invest in bonds, notes, or treasury bills of the U.S. government or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations and federally chartered banks and savings and loan associations, repurchase agreements utilizing obligations of the U.S. government or its agencies as the underlying securities, and the Local Government Investment Pool established by Title 9, Chapter 4, Part 7, *Tennessee Code Annotated*. Statutes also require that securities underlying repurchase agreements must have a market value at least equal to the amount of funds invested in the repurchase transaction. The government had no investments as of June 30, 2012.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF SHELBYVILLE, TENNESSEE

June 30, 2012

NOTE C - INCOME TAXES

Being a municipality, all funds of the City, including its proprietary funds, are exempt from Federal and State income taxes.

NOTE D - RELATED ORGANIZATIONS

The mayor and councilmembers are responsible for appointing board members of the Shelbyville Housing Authority and the Industrial Development Board, but the City's accountability for these organizations does not extend beyond making the appointments.

NOTE E - 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	\$ 2,613,584	\$ -	\$ 125,169	\$ 2,488,415
Construction in progress	978,684	534,752	356,228	1,157,208
Total capital assets, not being depreciated	<u>3,592,268</u>	<u>534,752</u>	<u>481,397</u>	<u>3,645,623</u>
Capital assets, being depreciated:				
Buildings	10,843,322	59,655	-	10,902,977
Equipment	1,852,610	19,850	49,158	1,823,302
Vehicles	5,152,282	632,701	121,550	5,663,433
Infrastructure	<u>8,357,681</u>	<u>88,125</u>	<u>-</u>	<u>8,445,806</u>
Total capital assets being depreciated	26,205,895	800,331	170,708	26,835,518
Less accumulated depreciation for:				
Buildings	2,813,829	182,701	-	2,996,530
Equipment	1,027,905	106,901	49,157	1,085,649
Vehicles	2,855,079	259,163	111,546	3,002,696
Infrastructure	<u>1,041,696</u>	<u>112,195</u>	<u>-</u>	<u>1,153,891</u>
Total accumulated depreciation	<u>7,738,509</u>	<u>660,960</u>	<u>160,703</u>	<u>8,238,766</u>
Total capital assets, being depreciated, net	<u>18,467,386</u>	<u>139,371</u>	<u>10,005</u>	<u>18,596,752</u>
Governmental activities capital assets, net	<u>\$ 22,059,654</u>	<u>\$ 674,123</u>	<u>\$ 491,402</u>	<u>\$ 22,242,375</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF SHELBYVILLE, TENNESSEE

June 30, 2012

NOTE E - CAPITAL ASSETS (Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 636,162	\$ -	\$ 1,300	\$ 634,862
Construction in progress	8,016,687	24,733,451	13,974,338	18,775,800
Total capital assets, not being depreciated	<u>8,652,849</u>	<u>24,733,451</u>	<u>13,975,638</u>	<u>19,410,662</u>
Capital assets, being depreciated:				
Structures and improvements	18,741,520	1,292,157	566,743	19,466,934
Distribution plant	63,143,855	2,519,283	149,110	65,514,028
Furniture and fixtures	731,675	96,226	-	827,901
Transportation equipment	2,257,534	18,145	-	2,275,679
Equipment	<u>1,837,274</u>	<u>4,900</u>	<u>-</u>	<u>1,842,174</u>
Total capital assets, being depreciated	86,711,858	3,930,711	715,853	89,926,716
Less accumulated depreciation for:				
Structures and improvements	5,083,930	572,451	266,805	5,389,576
Distribution plant	29,857,753	1,474,239	198,833	31,133,159
Furniture and fixtures	647,289	93,430	-	740,719
Transportation equipment	2,037,100	97,026	-	2,134,126
Equipment	<u>1,807,290</u>	<u>4,809</u>	<u>-</u>	<u>1,812,099</u>
Total accumulated depreciation	<u>39,433,362</u>	<u>2,241,955</u>	<u>465,638</u>	<u>41,209,679</u>
Total capital assets, being depreciated, net	<u>47,278,496</u>	<u>1,688,756</u>	<u>250,215</u>	<u>48,717,037</u>
Business-type activities capital assets, net	<u>\$ 55,931,345</u>	<u>\$ 26,422,207</u>	<u>\$ 14,225,853</u>	<u>\$ 68,127,699</u>

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

Governmental activities:	
General government	\$ 26,996
Public recreation	143,584
Public safety	197,719
Public works	218,163
Airport	69,856
Welfare	<u>4,642</u>
Total depreciation expense - governmental activities	<u>\$ 660,960</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF SHELBYVILLE, TENNESSEE

June 30, 2012

NOTE E - CAPITAL ASSETS (Continued)

Business-type activities:	
Power system	\$ 860,850
Water system	807,270
Sewerage system	<u>573,835</u>
Total depreciation expense - business-type activities	<u>\$ 2,241,955</u>

NOTE F - LONG-TERM DEBT

Capital outlay notes

The City has issued \$900,000 of capital outlay notes to finance the cost of constructing t-hangers at the municipal airport. These capital outlay notes are direct obligations and are secured by the t-hangers and related leases and rents. Capital outlay notes currently outstanding are as follows:

<u>Purpose</u>	<u>Interest rate</u>	<u>Amount</u>
Governmental activities	4.9%	<u>\$ 210,112</u>

Annual debt service requirements to maturity for capital outlay notes are as follows:

<u>Year Ending</u> <u>June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 106,143	\$ 7,881
2014	<u>103,969</u>	<u>2,522</u>
Total	<u>\$ 210,112</u>	<u>\$ 10,403</u>

Revenue bonds and notes payable

Revenue bonds and notes payable of the business-type activities outstanding at year-end are as follows:

<u>Purpose</u>	<u>Interest rates</u>	<u>Maturity</u>	<u>Amount</u>
Water and sewer - revenue bonds	4.0 - 4.500%	8/01/2037	\$ 2,405,000
Water system - revenue bonds	2.0 - 4.625%	8/01/2013	265,000
Water system - refunding bonds	1.25 - 2.80%	8/01/2028	3,210,000
Power system - revenue notes	3.0 - 4.750%	8/01/2012	190,000
Sewerage system - revolving loan	1.70%	6/30/2037	3,511,087
Sewerage system - construction note	*	*	<u>16,440,328</u>
			<u>\$ 26,021,415</u>

* Terms of the loan will be finalized when construction is complete.

The bonds are, among other things, secured by the revenues of the systems. In addition, the Systems have complied with the bond resolution requirements as adopted by the Systems.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF SHELBYVILLE, TENNESSEE

June 30, 2012

NOTE F - LONG-TERM DEBT (Continued)

On November 4, 2011, the water system issued \$3,210,000 of 2011 series general obligation refunding bonds to provide resources to purchase securities that were placed in an irrevocable trust for purpose of generating resources for all future debt service payments of series 2003 water and sewer revenue and tax refunding and improvement bonds, series 2003, dated September 15, 2003 water and sewer revenue and tax refunding and improvement bonds, series 2003, dated September 15, 2003 totaling \$2,810,000. As a result the refunded bonds are considered defeased and the liability has been removed from the water system's statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$286,637. This amount is being netted against the new debt and amortized over the life of the refunded debt. Of the original 2003 bond issue, \$265,000 was not refunded and is outstanding as of June 30, 2012, maturing August 1, 2013.

Annual debt service requirements to maturity for the enterprise funds' bonds and notes are as follows:

Year Ending June 30	Business-Type Activities		
	Bonds	Notes	Total
2013	\$ 225,000	\$ 397,276	\$ 622,276
2014	230,000	210,828	440,828
2015	240,000	214,440	454,440
2016	240,000	218,112	458,112
2017	245,000	221,856	466,856
2018-2022	1,335,000	1,167,588	2,502,588
2023-2027	1,545,000	1,270,987	2,815,987
2028-2032	1,015,000	-	1,015,000
2033-2037	655,000	-	655,000
2038	150,000	-	150,000
Total	<u>\$ 5,880,000</u>	<u>\$ 3,701,087</u>	<u>\$ 9,581,087</u>

Changes in long-term liabilities

Long-term liability activity for the year ended June 30, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Capital outlay notes	\$ 311,113	\$ -	\$ 101,001	\$ 210,112	\$ 106,143
Post-employment benefit obligation	208,791	145,198	48,224	305,765	-
Compensated absences	503,041	336,285	330,197	509,129	52,407
Long-term liabilities	<u>\$1,022,945</u>	<u>\$ 481,483</u>	<u>\$ 479,422</u>	<u>\$ 1,025,006</u>	<u>\$ 158,550</u>
Business-type activities:					
Revenue bonds	\$ 5,653,782	\$ 3,246,775	\$3,351,637	\$ 5,548,920	\$ 225,000
Notes payable	9,210,942	11,676,933	398,784	20,489,091	396,682
Compensated absences	235,966	5,564	-	241,530	-
Post-employment benefit obligation	28,333	13,040	-	41,373	-
Long-term liabilities	<u>\$ 15,129,023</u>	<u>\$ 14,942,312</u>	<u>\$3,750,421</u>	<u>\$ 26,320,914</u>	<u>\$ 621,682</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF SHELBYVILLE, TENNESSEE

June 30, 2012

NOTE G - COMMITMENTS AND CONTINGENCIES

The water system and four other water systems in the Upper Duck River area entered into an agreement with the Tennessee Valley Authority (TVA) whereby, commencing February 25, 1972, each water system began paying monthly to TVA five cents (\$.05) for each 1,000 gallons of water sold by it during the preceding month. The funds will go to return the Agencies' portion of the debt incurred to build the Normandy and Columbia reservoirs. Such payments shall be made regardless of the source of water sold and shall continue until a total of \$16,200,000 has been paid to TVA by the group. There has been no division of the total liability between the parties to the contract.

The government is party to legal proceedings that normally occur in governmental operations. Any proceedings are unlikely to have a material adverse effect on its financial position.

Under its power contract, effective as of August 15, 1979, the power system is committed to purchase its electric power from TVA. This contract expired in 1999, and an amendment was signed to extend the contract. The amendment continues the contract for a term not less than five years, subject to termination by either party, with not less than five years written notice. The rates paid for the power and energy supplied by TVA shall be in accordance with the provisions of the Wholesale Power Rate - Schedule WS.

At June 30, 2012, the Systems had several construction projects in process. The Systems take bids for these projects and award construction contracts to various companies.

In connection with TVA, the power system makes loans to individuals wishing to make their homes more energy efficient. The system is required to use the funds, including repayments, in making further loans, or to reduce the advances to the system by TVA.

NOTE H - CLEAN WATER STATE REVOLVING FUNDS

Beginning in 2007, the sewerage system received funding for sanitary sewer system improvements through the Clean Water State Revolving Fund. The total amount of funding is projected to be \$24,800,000. Funds drawn on the loan fund totaled \$16,440,328 for the year ended June 30, 2012. Funds received during the year ended June 30, 2012, totaled \$11,668,729 of which \$1,394,214 represents federal non-ARRA funds.

NOTE I - PENSION PLAN

GENERAL GOVERNMENT:

Plan Description

The Retirement Plan for Full-Time Employees of the City of Shelbyville, Tennessee, (Plan), is a single-employer defined benefit pension plan that covers full time employees who have completed one (1) year of continuous service and have reached age 21 and who were not hired after age 59. The Plan was amended effective July 1, 2005, to freeze the Plan to new participants. The Plan provides retirement, termination, disability and death benefits to plan members and beneficiaries. The council assigns the City Manager to administer the Plan who

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF SHELBYVILLE, TENNESSEE

June 30, 2012

NOTE I - PENSION PLAN (Continued)

in turn delegates certain daily administrative duties to employees of the administrative staff. All the benefits and provisions of the Plan are at the discretion of the council and are consistent with the laws of Tennessee and the United States government. The Plan does not issue a publicly available financial report.

Funding Policy

Effective for Plan years after December 31, 1984, Plan members may not contribute to the Plan. Prior to January 1, 1985, Plan members were required to contribute. The City has no regulatory amount to contribute, but has established an informal policy to annually contribute, on a quarterly basis, an actuarially determined amount based on the previous January 1 actuarial valuation. For the year ended June 30, 2012, the City contributed \$1,023,492.

The annual required contribution (ARC) for the fiscal year ended June 30, 2012, was determined as part of the actuarial valuation for the Plan Year beginning January 1, 2011, and is the December 31, 2011 recommended contribution using the traditional unit credit cost method. The actuarial assumptions included (a) funding rate of 7.75% per year compounded annually and (b) projected salary increase of 4.0% per year. The actuarial value of assets is equal to the market value of the assets held in the separate accounts at Aetna Life Insurance Company. The unfunded actuarial liability is being amortized as a level dollar amount on an open basis. The remaining amortization period at December 31, 2011, ranged from 1 to 20 years depending on the date the amortization base was established.

The government's annual pension cost (APC) and net pension asset (NPA) for the Plan are as follows:

Annual required contribution (ARC)	\$ 884,704
Interest on NPA	(12,309)
Amortization of NPA	<u>15,221</u>
Annual pension cost (APC)	887,616
Contributions made	<u>(1,023,492)</u>
Increase in net pension asset	(135,876)
Net pension asset, beginning of year	<u>(164,120)</u>
Net pension asset, end of year	<u><u>\$ (299,996)</u></u>

The government's APC, percentage of APC contributed, and NPA for the plan for the current year and each of the two preceding years were as follows:

<u>Fiscal Year</u> <u>Ended June 30,</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage of</u> <u>APC Contributed</u>	<u>Net Pension</u> <u>Asset</u>
2012	\$ 887,616	115.7%	\$ (299,996)
2011	933,615	109.8	(164,120)
2010	905,875	110.3	(74,243)

The council established the benefit provisions of this plan, and they have the authority to amend those provisions. They also authorize the contributions to the plan.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF SHELBYVILLE, TENNESSEE

June 30, 2012

NOTE I - PENSION PLAN (Continued)

As of January 1, 2012, the most recent actuarial valuation date, the funded status of the plan was as follows:

Actuarial accrued liability (AAL)	\$ 9,852,061
Actuarial value of plan assets	<u>6,242,048</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 3,610,013</u>
Funded ratio (actuarial value of plan assets/AAL)	63%
Covered payroll	\$ 3,353,371
UAAL as a percentage of covered payroll	107.65%

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

PROPRIETARY FUNDS:

Plan Description

The System's defined benefit plan, "Shelbyville Power, Water and Sewerage Systems" provides retirement and death benefits to plan members and beneficiaries. The Systems joined the Central Service Association Pension Plan (CSA), a cost sharing multiple employer defined benefit pension plan for utility systems in 1997. Benefits are determined by a formula using the member's average monthly earnings and years of service. A reduced retirement benefit is available to vested members who are age 55 and have 10 years of service. The CSA issues a publicly available financial report that includes the financial statements and required supplementary information for CSA. That report can be obtained by writing to CSA, P. O. Box 3480, Tupelo, Mississippi 38803-3480.

Funding Policy

The Systems are required to contribute at an actuarially determined rate. The contribution requirements of plan members are established and may be amended by CSA. If a participant becomes totally disabled before termination of employment, he is 100% vested. After completing five years of service, an employee is entitled to 100% of his accrued benefit. The plan is available to employees after attaining age 24 ½ and completing 6 months of service. Market value of assets as of October 1, 2011 totaled \$11,610,515. Contributions totaled \$901,274 for both employer and employee portions. The covered payroll totaled \$3,452,370.

NOTE J - OTHER POST-EMPLOYMENT BENEFITS (OPEB)

The City maintains two separate single-employer defined benefit post-employment healthcare plans. One covers the general government while the other covers employees of Shelbyville Power, Water, and Sewerage Systems.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF SHELBYVILLE, TENNESSEE

June 30, 2012

NOTE J - OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

The following is a summary of each of these plans:

PLAN DESCRIPTION-SHELBYVILLE POWER, WATER AND SEWER SYSTEMS

The Systems sponsor a single-employer post retirement medical plan. The plan provides medical, prescription and death benefits to eligible retirees and their spouses. The Plan allows employees to continue health insurance between the ages of 62 and 65.

PLAN DESCRIPTION-GENERAL GOVERNMENT

The City administers a single-employer defined benefit healthcare plan which provides postemployment healthcare benefits for retirees. The City will continue coverage under its medical insurance plan until the employee is eligible for Medicare in the same manner as then current employees. For employees with twenty years or more of service the City pays the full cost of the coverage. Employees with less than twenty years of service are reimbursed a percentage of coverage based on years of service, but not less than fifty percent. The council may amend the benefit provisions. A separate report was not issued for the plan.

FUNDING POLICY-SHELBYVILLE POWER, WATER, AND SEWERAGE SYSTEMS

Employees pay the premium except for a small amount contributed by the Systems that is based on years of service. Payments in the amount of \$2,548 were made during the year ended June 30, 2012. The Systems intend to continue their policy of funding OPEB liabilities on a pay-as-you-go basis and to not pre-fund any unfunded annual required contribution as determined under GASB statement 45.

FUNDING POLICY-GENERAL GOVERNMENT

Retirees are not required to make any contributions. The benefits of the postretirement benefit plans are unfunded, and no assets have been segregated and restricted to provide for postretirement medical benefits. For the year ended June 30, 2012, the City contributed \$48,224 to fund premiums for retirees receiving benefits.

ANNUAL OPEB COST, NET OPEB OBLIGATION AND FUNDED STATUS

Both plans' annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of OPEB cost for the year, the amount actually contributed to the plans, and changes in the net OPEB obligation:

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF SHELBYVILLE, TENNESSEE

June 30, 2012

NOTE J - OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

	<u>SPWS</u>	<u>General Government</u>
Annual required contribution	\$ 18,189	\$ 149,430
Interest on net OPEB obligation	1,275	6,264
Adjustment to annual required contribution	<u>(1,990)</u>	<u>(10,496)</u>
Annual OPEB cost (expense)	17,474	145,198
Contributions made	<u>(4,434)</u>	<u>(48,224)</u>
Increase in net OPEB obligation	13,040	96,974
Net OPEB obligation, beginning of year	<u>28,333</u>	<u>208,791</u>
Net OPEB obligation, end of year	<u>\$ 41,373</u>	<u>\$ 305,765</u>

The government's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation are as follows:

General Government:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2010	\$ 91,785	27.2%	\$ 146,321
June 30, 2011	91,785	31.9%	208,791
June 30, 2012	145,198	33.2%	305,765

Enterprise Funds:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2010	\$ 19,821	39.4%	\$ 13,739
June 30, 2011	19,491	25.1%	28,333
June 30, 2012	17,474	25.4%	41,373

As of July 1, 2011, the most recent actuarial valuation dates, both plans were 0% funded.

ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF SHELBYVILLE, TENNESSEE

June 30, 2012

NOTE J - OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

The actuarial accrued unfunded liability (UAAL) for benefits at June 30, 2012, as well as actuarial methods and assumptions for both plans, was as follows:

	<u>Systems</u>	<u>General Government</u>
Actuarial valuation date	7/01/2011	7/01/2011
UAAL	\$ 152,076	\$ 1,089,405
Covered payroll	\$ 3,608,384	\$ 5,588,802
Ratio of UAAL to covered payroll	4.48%	19.5%
Actuarial valuation method	Projected unit credit	Projected unit credit
Amortization period	30 yrs	30 yrs
Actuarial assumptions:		
Discount rate	4.5%	3.0%
Projected salary increases	not available	not available

The actuarial assumptions include an annual medical cost trend rate. For the Systems the medical cost trend rate is 8% initially reduced by the decrements to an ultimate rate of 5% after three years. For the general government the medical cost trend rate is 5%. The valuations did not include an investment rate of return on plan assets as there were no plan assets at the valuation date. The UAAL is being amortized as a level percentage of projected payroll on an open basis.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historic pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

NOTE K - RETIREMENT HEALTH SAVINGS PROGRAM

The City's general government sponsors a retiree health savings plan for all full-time employees who have completed one year of service. The general government contributes 2% of each eligible employee's annual salary to the plan. Employees are vested 50% in employer contributions after 3 years of service, 60% after 4 years, 75% after 5 years, 90% after 6 years, and 100% after 7 years of service. Employees are eligible to receive benefits at retirement, age 60, or immediately upon separation from service. Eligible benefits consist of all medical expenses eligible under IRC Section 213 other than direct long-term care expenses. Effective February, 2008, employees may no longer contribute to the plan. Total employer contributions for the plan year were \$38,201.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF SHELBYVILLE, TENNESSEE

June 30, 2012

NOTE L - JOINT VENTURES

The City of Shelbyville and Bedford County jointly fund the Argie Cooper Public Library (the Library), which operates under Tennessee state law and the rules and regulations of the Highland Rim Regional Library. The Library is governed by a voluntary, fourteen member Board of Directors, seven appointed by the County and seven by the City. The City has control over budgeting and financing of the joint venture only to the extent of representation by the seven board members appointed. The City contributed \$130,500 to the operations of the Library during the year ended June 30, 2012. Complete financial statements of the Argie Cooper Public Library can be obtained at 100 South Main Street, Shelbyville, Tennessee 37160.

Bedford Railroad Authority (the Authority) was created by Bedford County and the cities of Shelbyville and Wartrace, Tennessee, to provide for the continuation of rail service on a section of existing rail spur line located within Bedford County between the cities of Shelbyville and Wartrace. The Authority is governed by a board of directors including the County Mayor, the Mayor of each city, and members selected by the governing bodies of each county and city who are members of the Authority. For the year ended June 30, 2012, no funds had been contributed by the City of Shelbyville to this organization. Complete financial statements of Bedford Railroad Authority can be obtained at 366 Riverbend Road, Shelbyville, Tennessee 37160.

Summary financial information as of June 30, 2012, of these organizations is shown below.

	<u>Bedford Railroad</u>	<u>Argie Cooper Public Library</u>
Total assets	\$ 3,732,454	\$ 494,182
Total liabilities	<u>42,673</u>	<u>18,932</u>
Net assets	<u>\$ 3,689,781</u>	<u>\$ 475,250</u>
Revenues	\$ 444,327	\$ 295,987
Expenditures	<u>390,929</u>	<u>317,546</u>
Increase (decrease) in net assets	<u>\$ 53,398</u>	<u>\$ (21,559)</u>

NOTE M - NONEXCHANGE TRANSACTION

The City receives shared revenue from the State of Tennessee for a tax the state assesses on the earnings of certain financial institutions. The City is required to recognize receivables and deferred revenues as the banks earn the income. However, the banks file at different times of the year, and it is difficult to follow state statutes' guidance concerning what time period is being filed on. Therefore, the receivable and deferred revenue at June 30, 2012, are not reasonably estimable and are not included in these financial statements. During the year ended June 30, 2012, the City received \$97,781 from the State of Tennessee for this shared revenue.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF SHELBYVILLE, TENNESSEE

June 30, 2012

NOTE N - DEFINED CONTRIBUTION PLAN

The City's general government participates in a defined contribution plan, City of Shelbyville Employees Defined Contribution and 401(k) Plan (Plan). The Plan was established November 1, 1985, and is administered externally by a plan administrator. Plan provisions are established or amended by council resolution. The Plan covers all employees between twenty-one and sixty-four years of age having completed one year of service. For employees hired prior to July 1, 2004, participation in the plan is voluntary. For employees hired after June 30, 2004, the City contributes an amount equal to 5% of such employees' annual compensation. Employees have the option to invest in group annuity contracts or agreements with financial service providers that offer a wide variety of investment options. Employees are vested 50% after 3 years of service, 60% after 4 years, 75% after five years, 90% after six years, and 100% after 7 years of service. The Plan is qualified under section 401(k) of the Internal Revenue Code. Total employee contributions for the plan year were \$183,759. Employer contributions totaled \$95,503. Employees who retire at or after age 65 are entitled to a joint and survivor annuity, a lump sum payment, installment payments or an annuity purchase.

NOTE O - DEFERRED COMPENSATION PLAN

Effective January 1, 2012, the general government offers employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan allows employees to defer a portion of their salary until future years. Compensation deferred under this plan is not available to employees or their beneficiaries until termination, retirement, death, or unforeseeable emergency. The general government has contracted with ICMA Retirement Corporation to administer the Plan. The assets of the Plan are held in trust for the exclusive benefit of the employees and their beneficiaries. Employer contributions to the Plan totaled \$2,599 for the year ended June 30, 2012.

The Systems also offer employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan was adopted in November 1997. Participation in the plan is optional for employees who may defer a portion of their salary until future years. Deferred compensation is not available to employees until termination, retirement, death, or financial hardship. The financial statements of the Section 457 plan are not reported in these financial statements since the Systems do not have any administrative involvement nor does it perform the investing function for the plan. The amounts deferred are held in trust for the exclusive benefit of employees and is not accessible by the Systems or their creditors. No employer contributions were made for the year ended June 30, 2012.

NOTE P - RESTRICTED NET ASSETS

Net assets of governmental funds restricted by enabling legislation to specific purposes include limited purpose state gasoline and motor fuel taxes and fines and forfeitures from drug related offenses together totaling \$202,343.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF SHELBYVILLE, TENNESSEE

June 30, 2012

NOTE Q - SEIZED MONEY HELD FOR DISPOSITION

As mandated by the State, the City opened a checking account titled "Police Evidence Account" in which seized money awaiting disposition is deposited. When City officers seize money, it is booked as evidence using the police department's normal procedures and then turned over to the City Treasurer for deposit into the above referenced account. A seizure hearing is conducted by the State of Tennessee Department of Safety to determine if the funds were seized pursuant to the applicable sections of Tennessee Code Annotated. The Department of Safety then issues an Order of Delegation and Forfeiture for disposition of the seized funds. The funds are deposited into the Police Drug Fund's regular checking account if the Department of Safety orders that the property be forfeited to the seizing agency. If the Department of Safety orders the return of the funds to the original holder, a check is issued to that individual from the Police Evidence Account. At June 30, 2012, \$2,112 is included in the Police Drug fund as seized money held for disposition.

NOTE R - INTERFUND TRANSFERS

The composition of interfund transfers for the year ended June 30, 2012, is as follows:

<u>Transfers in:</u>	<u>Transfers out:</u>
	<u>Power fund</u>
General fund	<u>\$ 567,875</u>

During the year the power fund remits in lieu taxes to the general fund on a monthly basis. There were no one-time transfers during the year ended June 30, 2012.

NOTE S - INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of June 30, 2012, is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Power	Water	\$ 1,564
Power	Sewerage	76
Power	State Street Aid	23,034
Power	General	51,739
Water	Power	114,647
Water	Sewerage	63
Sewerage	Power	90,821
Sewerage	Water	4,346
Total		<u>\$ 286,290</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF SHELBYVILLE, TENNESSEE

June 30, 2012

NOTE T - GRANTS

The City participates in a number of programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the City may be required to reimburse the grantor government. As of June 30, 2012, significant amounts of grant expenditures have not been audited, but the City believes that disallowed expenditures discovered in subsequent audits, if any, will not have a material effect on any of the individual funds or the overall financial position of the City.

NOTE U - BUDGET RESERVE

As of June 30, 2012 the council had identified \$200,000 of the unassigned fund balance as a "budget reserve." The purpose of these funds is to have money available to cover cash needs in the event of a revenue shortfall or unanticipated large expenditure in any budget year. There are no formal constraints placed on the use of these funds and the council may use the funds or add to the funds at their discretion.

NOTE V - CONTINGENCY

The City is named as a defendant in a federal lawsuit brought by plaintiffs alleging \$10,000,000 in damages for violation of their constitutional rights to due process concerning their application for a special exemption use permit for a rock quarry and crusher. The City's insurer has taken the position that a policy exclusion applies to any damages. A potential range of loss cannot be determined at this time.

NOTE W - RISK MANAGEMENT

The City has exposure to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The general government obtains insurance coverage covering these risks through a public risk entity pool (Pool) established by the Tennessee Municipal League. The Pool limits the maximum net loss that can arise from large risks or risks in concentrated areas of exposure by reinsuring certain levels of risks with various reinsurance companies. In general, such reinsurance contracts limit the Pool's retention on individual occurrences as follows: workers' compensation - \$750,000; general liability, personal injury liability, errors and omissions liability and auto liability - \$700,000; property and crime coverage - \$300,000. Failure to perform on the part of the commercial insurance companies could result in additional assessments to the members of the Pool. No estimate of any possible future assessments has been made. The amounts of settlements have not exceeded insurance coverage for any of the past three fiscal years.

The general government continues to carry commercial insurance for all other risks of loss, including disability and employee health and accident. Settled claims from these losses have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF SHELBYVILLE, TENNESSEE

June 30, 2012

NOTE W - RISK MANAGEMENT (Continued)

The Systems are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Systems purchase commercial insurance for claims and for all other risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

REQUIRED SUPPLEMENTARY INFORMATION

POST-EMPLOYMENT BENEFITS

SCHEDULE OF FUNDING PROGRESS

CITY OF SHELBYVILLE, TENNESSEE

June 30, 2012

Shelbyville Power, Water and Sewerage Systems medical plan

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) – (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage Of Covered Payroll ((b-a)/c)
July 1, 2009	\$ -	\$ 158,132	\$ 158,132	0.0%	\$3,397,441	5.66%
July 1, 2010	-	158,132	158,132	0.0%	3,397,441	5.66%
July 1, 2011	-	152,076	152,076	0.0%	3,608,384	4.48%

City of Shelbyville post-employment health benefits plan

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) – (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage Of Covered Payroll ((b-a)/c)
July 1, 2008	\$ -	\$844,222	\$ 844,222	0.0%	\$4,150,784	20.34%
July 1, 2009	-	827,525	827,525	0.0%	4,125,775	20.06%
July 1, 2011	-	1,089,405	1,089,405	0.0%	5,588,802	19.50%

REQUIRED SUPPLEMENTARY INFORMATION

PENSION BENEFITS

SCHEDULE OF FUNDING PROGRESS

CITY OF SHELBYVILLE, TENNESSEE

June 30, 2012

Retirement Plan for Full-Time Employees of the City of Shelbyville, Tennessee
(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) – (b)	Unfunded AAL (UAAL) (b) – (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage Of Covered Payroll ((b-a)/c)
July 1, 2010	\$4,603	\$9,437	\$4,834	49.0%	\$4,346	111.24%
July 1, 2011	5,678	9,954	4,277	57.0	3,820	111.96
July 1, 2012	6,242	9,852	3,610	63.0	3,353	107.65

SUPPLEMENTAL INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Special revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

State Street Aid Fund - This fund is used to account for the government's share of gasoline and motor vehicle fuel tax revenues that are legally restricted for street-related purposes.

Hotel/ Motel Fund - This fund is used to account for the privilege tax levied upon the privilege of occupancy in any hotel by each transient which is legally restricted for specific purposes.

Police Drug Fund - This fund is used to account for the government's use of fines from drug offenses and forfeited cash and the proceeds from the sale of property forfeited to the city.

Police Equipment Fund - This fund is used to account for court fines collected and used to purchase equipment for the police department.

Capital Projects Funds

Greenway Fund - This fund is used to account for grants funding the construction of a recreational walkway trail.

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
CITY OF SHELBYVILLE, TENNESSEE**

For the year ended June 30, 2012

	Special Revenue Funds					Capital Projects Fund	Total Nonmajor Governmental Funds
	State Street Aid	Hotel/ Motel	Police Drug	Police Equipment	Greenway		
Assets:							
Cash in bank	\$ 119,316	\$ 11,133	\$ 21,686	\$ 63,331	\$ 30,000	\$	\$ 245,466
Intergovernmental receivable	86,500	-	-	-	-		86,500
Other assets	31	-	-	-	-		31
Taxes receivable	-	18,065	-	-	-		18,065
Total assets	\$ 205,847	\$ 29,198	\$ 21,686	\$ 63,331	\$ 30,000	\$	\$ 350,062
Liabilities:							
Accounts payable	\$ -	\$ 29,198	\$ 44	\$ -	\$ -	\$	\$ 29,242
Funds held in trust	-	-	2,112	-	-		2,112
Due to proprietary funds	23,034	-	-	-	-		23,034
Total liabilities	23,034	29,198	2,156	-	-		54,388
Fund balances:							
Nonspendable	-	-	-	-	-		-
Restricted	182,813	-	19,530	63,331	-		265,674
Committed	-	-	-	-	-		-
Assigned	-	-	-	-	30,000		30,000
Total fund balances	182,813	-	19,530	63,331	30,000		295,674
Total liabilities and fund balances	\$ 205,847	\$ 29,198	\$ 21,686	\$ 63,331	\$ 30,000	\$	\$ 350,062

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
CITY OF SHELBYVILLE, TENNESSEE

For the year ended June 30, 2012

	Special Revenue Funds				Capital Projects Fund		Total Nonmajor Governmental Funds
	State Street Aid	Hotel/ Motel	Police Drug	Police Equipment	Greenway		
Revenues:							
Intergovernmental	\$ 531,814	-	\$ -	-	-	\$	\$ 531,814
Taxes	-	138,570	-	-	-		138,570
Interest income	1,137	-	155	-	-		1,292
Fines and forfeitures	-	-	15,960	16,731	-		32,691
Total revenues	532,951	138,570	16,115	16,731	-		704,367
Expenditures:							
Public works	561,550	-	-	-	-		561,550
Public safety	-	-	21,940	398	-		22,338
Industrial development	-	138,570	-	-	-		138,570
Total expenditures	561,550	138,570	21,940	398	-		722,458
Excess of revenues over (under) expenditures	(28,599)	-	(5,825)	16,333	-		(18,091)
Other financing sources (uses):							
Transfers in - general fund	-	-	-	-	-		-
Transfers out - general fund	-	-	-	-	-		-
Net change in fund balances	(28,599)	-	(5,825)	16,333	-		(18,091)
Fund balances - July 1, 2011	211,412	-	25,355	46,998	30,000		313,765
Fund balances - June 30, 2012	\$ 182,813	\$ -	\$ 19,530	\$ 63,331	\$ 30,000	\$	\$ 295,674

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - STATE STREET AID SPECIAL REVENUE FUND**

CITY OF SHELBYVILLE, TENNESSEE

For the year ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget - Favorable (Unfavorable)
Revenues:				
Apportionment of gasoline tax from State of Tennessee	\$ 440,614	\$ 531,814	\$ 531,814	\$ -
Interest income	750	1,137	1,137	-
	<u>441,364</u>	<u>532,951</u>	<u>532,951</u>	<u>-</u>
Expenditures:				
Street lighting	294,518	276,781	276,781	-
Street maintenance	156,000	268,104	268,104	-
Construction materials	-	1,095	1,095	-
Street marking	15,000	439	439	-
Salt expense	25,000	15,131	15,131	-
	<u>490,518</u>	<u>561,550</u>	<u>561,550</u>	<u>-</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (49,154)</u>	<u>\$ (28,599)</u>	<u>(28,599)</u>	<u>\$ -</u>
Fund balance - July 1, 2011			211,412	
Fund balance - June 30, 2012			<u>\$ 182,813</u>	

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - HOTEL/ MOTEL SPECIAL REVENUE FUND**

CITY OF SHELBYVILLE, TENNESSEE

For the year ended June 30, 2012

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance with Final Budget - Favorable (Unfavorable)
Revenues:				
Taxes	\$ 125,354	\$ 138,570	\$ 138,570	\$ -
Interest income	-	-	-	-
TOTAL REVENUES	<u>125,354</u>	<u>138,570</u>	<u>138,570</u>	<u>-</u>
Expenditures:				
Payments to Chamber of Commerce	122,690	135,660	135,660	-
Accounting services	2,664	2,910	2,910	-
TOTAL EXPENDITURES	<u>125,354</u>	<u>138,570</u>	<u>138,570</u>	<u>-</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund balance - July 1, 2011			-	
Fund balance - June 30, 2012			<u>\$ -</u>	

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - POLICE DRUG SPECIAL REVENUE FUND**

CITY OF SHELBYVILLE, TENNESSEE

For the year ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget - Favorable (Unfavorable)
Revenues:				
Court fines	\$ -	\$ 4,607	\$ 4,607	\$ -
Forfeitures	-	11,353	11,353	-
Interest income	251	155	155	-
Miscellaneous	-	6,500	-	(6,500)
TOTAL REVENUES	<u>251</u>	<u>22,615</u>	<u>16,115</u>	<u>(6,500)</u>
Expenditures:				
Drug dog expense	800	8,230	8,230	-
Maintenance and repairs - vehicle	-	210	210	-
Miscellaneous	-	500	500	-
Capital outlay	-	13,000	13,000	-
TOTAL EXPENDITURES	<u>800</u>	<u>21,940</u>	<u>21,940</u>	<u>-</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (549)</u>	<u>\$ 675</u>	<u>(5,825)</u>	<u>\$ (6,500)</u>
Fund balance - July 1, 2011			<u>25,355</u>	
Fund balance - June 30, 2012			<u>\$ 19,530</u>	

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - POLICE EQUIPMENT SPECIAL REVENUE FUND**

CITY OF SHELBYVILLE, TENNESSEE

For the year ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget - Favorable (Unfavorable)
Revenues:				
Court fines	\$ -	\$ 2,610	\$ 2,610	\$ -
Forfeitures	-	14,121	14,121	-
TOTAL REVENUES	<u>-</u>	<u>16,731</u>	<u>16,731</u>	<u>-</u>
Expenditures:				
Employee education and training	-	398	398	-
Capital outlay	-	-	-	-
TOTAL EXPENDITURES	<u>-</u>	<u>398</u>	<u>398</u>	<u>-</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ -</u>	<u>\$ 16,333</u>	<u>16,333</u>	<u>\$ -</u>
Fund balance - July 1, 2011			46,998	
Fund balance - June 30, 2012			<u>\$ 63,331</u>	

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GREENWAY CAPITAL PROJECTS FUND**

CITY OF SHELBYVILLE, TENNESSEE

For the year ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget - Favorable (Unfavorable)
Revenues:				
Federal grants	\$ -	\$ -	\$ -	\$ -
Allocated donations	-	-	-	-
TOTAL REVENUES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures:				
Phase II costs	-	-	-	-
Phase III costs	-	-	-	-
Phase V costs	-	-	-	-
Phase VI costs	-	-	-	-
Other costs	-	-	-	-
TOTAL EXPENDITURES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	-	-	-
Other financing sources:				
Transfers in (out) - general fund	-	-	-	-
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund balance - July 1, 2011			30,000	
Fund balance - June 30, 2012			<u>\$ 30,000</u>	

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE

CITY OF SHELBYVILLE, TENNESSEE

Year ended June 30, 2012

Grantor Agency	CFDA Number	Contract Number	Beginning Accrued	Cash Receipts	Expenditures	Ending Accrued
<u>FEDERAL AWARDS</u>						
Department of Transportation (1)	20.205	STP-M-9314(6)	\$ -	\$ -	\$ 42,800	\$ 42,800
Department of the Interior (2)	15.904	GG1032861	-	1,900	1,900	-
Department of Economic and Community Dev. (3)	81.128	GG-13-3441	65,992	65,992	-	-
	TOTAL FEDERAL AWARDS		65,992	67,892	44,700	42,800
<u>STATE FINANCIAL ASSISTANCE</u>						
TN Dept. of Transportation	N/A	AERO-M12-258	-	-	8,537	8,537
TN Dept. of Transportation	N/A	AERO-M11-158	7,478	12,753	5,275	-
TN Dept. of Transportation	N/A	CMA-1396	-	88,223	88,223	-
TN Dept. of Economic and Community Dev.	N/A	GG-10-31639	27,738	5,870	60,609	82,477
	TOTAL STATE FINANCIAL ASSISTANCE		35,216	106,846	162,644	91,014
	TOTAL FEDERAL AND STATE AWARDS		\$ 101,208	\$ 174,738	\$ 207,344	\$ 133,814

Note 1: This Schedule of Expenditures of Federal Awards and State Financial Assistance summarizes the expenditures of City of Shelbyville under programs of the federal and state governments for the year ended June 30, 2012. The schedule is presented using the modified accrual basis of accounting.

- (1) - Federal funds passed through the State of Tennessee, Department of Transportation
- (1) - Federal funds passed through the State of Tennessee, Tennessee Historical Commission
- (1) - Federal funds passed through the State of Tennessee, Department of Economic and Community Development

SCHEDULE OF LONG-TERM DEBT, PRINCIPAL AND INTEREST REQUIREMENTS BY FISCAL YEAR - ALL FUNDS
CITY OF SHELBYVILLE, TENNESSEE

For the year ended June 30, 2012

Fiscal Year Ending June 30,	Capital Outlay Note Series 2002		Capital Outlay Note SRF 2003-172		Water Refunding Bonds Series 2003		Water Revenue Bonds Series 2007		Water Revenue Bonds Series 2011		Capital Outlay Note T-hangers		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 190,000	\$ 4,513	\$ 207,276	\$ 58,080	\$ 130,000	\$ 7,135	\$ 55,000	\$ 102,708	\$ 40,000	\$ 74,455	\$ 106,143	\$ 7,881	\$ 728,419	\$ 254,772
2014	-	-	210,828	54,528	135,000	2,430	55,000	100,507	40,000	73,905	103,969	2,522	544,797	233,892
2015	-	-	214,440	50,916	-	-	60,000	98,208	180,000	72,255	-	-	454,440	221,379
2016	-	-	218,112	47,244	-	-	60,000	95,807	180,000	69,555	-	-	458,112	212,606
2017	-	-	221,856	43,500	-	-	60,000	93,407	185,000	66,817	-	-	466,856	203,724
2018	-	-	225,648	39,708	-	-	65,000	90,826	190,000	63,768	-	-	480,648	194,302
2019	-	-	229,524	35,832	-	-	65,000	88,062	190,000	60,205	-	-	484,524	184,099
2020	-	-	233,448	31,908	-	-	70,000	85,194	200,000	56,305	-	-	503,448	173,407
2021	-	-	237,444	27,912	-	-	75,000	82,114	200,000	52,105	-	-	512,444	162,131
2022	-	-	241,524	23,832	-	-	75,000	78,926	205,000	47,445	-	-	521,524	150,203
2023	-	-	245,652	19,704	-	-	80,000	75,632	210,000	42,360	-	-	535,652	137,696
2024	-	-	249,864	15,492	-	-	85,000	72,126	215,000	36,940	-	-	549,864	124,558
2025	-	-	254,148	11,208	-	-	85,000	68,514	220,000	31,175	-	-	559,148	110,897
2026	-	-	258,504	6,852	-	-	90,000	64,794	230,000	24,985	-	-	578,504	96,631
2027	-	-	262,819	2,429	-	-	95,000	60,863	235,000	18,357	-	-	592,819	81,649
2028	-	-	-	-	-	-	95,000	56,827	240,000	11,350	-	-	335,000	68,177
2029	-	-	-	-	-	-	100,000	52,683	250,000	3,875	-	-	350,000	56,558
2030	-	-	-	-	-	-	105,000	48,248	-	-	-	-	105,000	48,248
2031	-	-	-	-	-	-	110,000	43,518	-	-	-	-	110,000	43,518
2032	-	-	-	-	-	-	115,000	38,568	-	-	-	-	115,000	38,568
2033	-	-	-	-	-	-	120,000	33,368	-	-	-	-	120,000	33,368
2034	-	-	-	-	-	-	125,000	27,917	-	-	-	-	125,000	27,917
2035	-	-	-	-	-	-	130,000	22,243	-	-	-	-	130,000	22,243
2036	-	-	-	-	-	-	135,000	16,313	-	-	-	-	135,000	16,313
2037	-	-	-	-	-	-	145,000	10,013	-	-	-	-	145,000	10,013
2038	-	-	-	-	-	-	150,000	3,375	-	-	-	-	150,000	3,375
	\$ 190,000	\$ 4,513	\$ 3,511,087	\$ 469,145	\$ 265,000	\$ 9,565	\$ 2,405,000	\$ 1,610,761	\$ 3,210,000	\$ 805,857	\$ 210,112	\$ 10,403	\$ 9,791,199	\$ 2,910,244

UNCOLLECTED DELINQUENT TAXES FILED IN ACCORDANCE WITH APPLICABLE LAWS

CITY OF SHELBYVILLE, TENNESSEE

Year ended June 30, 2012

During the year ended June 30, 2012, the City turned over \$166,599 of 2010 property taxes receivable to the clerk and master in accordance with applicable laws.

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - SOLID WASTE FUND**

CITY OF SHELBYVILLE, TENNESSEE

For the year ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget - Favorable (Unfavorable)
Revenues:				
Collection fees - transfer station	\$ 504	\$ 1,003	\$ 1,003	\$ -
Interest income	-	-	-	-
TOTAL REVENUES	<u>504</u>	<u>1,003</u>	<u>1,003</u>	<u>-</u>
Expenditures:				
Salaries	326,605	343,463	342,569	894
Payroll taxes and administration	189,027	214,270	210,783	3,487
Postage	12	-	-	-
Freight	300	1,739	1,739	-
Utilities	2,748	2,677	2,677	-
Repairs and maintenance	36,292	29,543	29,543	-
Landfill services	133,260	127,679	127,679	-
State maintenance fee	1,500	1,500	1,500	-
Office supplies and materials	360	-	-	-
Expendable materials	350	1,107	1,107	-
Chemicals	1,230	296	296	-
Uniforms	2,692	2,288	2,288	-
Gasoline and oil	58,446	45,356	45,356	-
Tools	100	5,790	5,790	-
Miscellaneous	-	200	200	-
Capital outlay	500,000	281,987	281,987	-
Depreciation	29,409	33,655	-	33,655
TOTAL EXPENDITURES	<u>1,282,331</u>	<u>1,091,550</u>	<u>1,053,514</u>	<u>38,036</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,281,827)	(1,090,547)	(1,052,511)	38,036
Other financing sources:				
Transfers in - general fund	781,827	781,828	1,059,432	277,604
NET CHANGE IN FUND BALANCE	<u>\$ (500,000)</u>	<u>\$ (308,719)</u>	<u>6,921</u>	<u>\$ 315,640</u>
Fund balance - July 1, 2011			-	
Fund balance - June 30, 2012			<u>\$ 6,921</u>	

The above schedule is presented to demonstrate compliance with TCA 68-211-874.

UTILITY RATE STRUCTURE AND NUMBER OF CUSTOMERS

CITY OF SHELBYVILLE, TENNESSEE

Year ended June 30, 2012

POWER SYSTEM:

RESIDENTIAL

Customer charge	\$ 10.61
Energy charge	\$ 0.09218 per KWH
First 1,000 KWH per month	\$ 102.79

COMMERCIAL

GSA (less than 50 KW):

If customer's currently effective contract demand, if any, or its highest billing demand during the latest 12 month period is not more than 50 KW and the customer's monthly energy takings for any month during such period do not exceed 15,000 kilowatt hours:

Customer charge	\$ 15.77
Energy charge	\$ 0.10245 per KWH

GSA (from 50 KW to 1000 KW):

If customer's currently effective contract demand, if any, or its highest billing demand during the latest 12 month period is greater than 50 KW but not more than 1,000 KW and the customer's monthly energy takings for any month during such period exceed 15,000 kilowatt hours:

Consumer charge	\$ 46.20
Demand charge:	
First 50 kilowatt hours per month	NO CHARGE
Over 50 kilowatt hours per month	\$ 12.62 per KW
Energy charge:	
First 15,000 kilowatt hours per month	\$ 0.10393 per KWH
Over 15,000 kilowatt hours per month	\$ 0.06206 per KWH

GSA3 (Greater than 1,000 KW contract or highest 12 month measured KW greater than 1,000 KW but measured KW for month is less than 1,000 KW):

Customer charge	\$163.67
Demand charge:	
First 1,000 kilowatt hours per month	\$ 11.42 per KW
Over 1,000 kilowatt hours per month	\$ 11.53 per KW
Energy charge – all KWH	\$ 0.06537 per KWH

UTILITY RATE STRUCTURE AND NUMBER OF CUSTOMERS (Continued)

CITY OF SHELBYVILLE, TENNESSEE

Year ended June 30, 2012

GSA3 (Greater than 1,000 KW contract or highest 12 month measured KW greater than 1,000 KW but measured KW for month is less than 1,000 KW)
(must be eligible for small manufacturing credit):

Customer charge	\$163.67
Demand charge:	
First 1,000 kilowatt hours per month	\$ 10.04 per KW
Over 1,000 kilowatt hours per month	\$ 9.90 per KW
Energy charge – all KWHR	\$ 0.05997 per KWH

MSB (Greater than 5,000 KW contract or highest 12 month measured KW greater than 5,000 KW and SIC is 20-39 but measured KW for month is less than 5,000 KW)

Customer charge	\$1,850.00
Demand charge:	
All KW On-Peak	\$ 16.45 per KW
All KW Off-Peak	\$ 4.00 per KW
Energy charge	
First 425 KWH/KW On-Peak (all KWHR)	\$ 0.08177 per KWHR
First 425 KWH/KW Off-Peak	\$ 0.04748 per KWHR
(example 425 * KW compared to measured KWHR)	
Next 195 KWH/KW Off-Peak	\$ 0.02882
Additional KWH Off-Peak	\$ 0.01297
Facilities Rental (Delivery Point less than 46 KV)	\$ 0.93 per KW
Equipment Rental	1.5% of installed cost per month

SMSB (Greater than 5,000 KW contract or highest 12 month measured KW greater than 5,000 KW and SIC is 20-39 but measured KW for month is less than 5,000 KW)

Customer charge	\$1,850.00
Demand charge:	
All KW	\$ 18.74 per KW
Energy charge	
All KWHR	\$ 0.04217 per KWHR
Facilities Rental (Delivery Point less than 46 KV)	\$ 0.93 per KW
Equipment Rental	1.5% of installed cost per month

SECURITY LIGHTS

175 watt mercury vapor	\$ 7.26
400 watt mercury vapor (Flood or Cobra head)	14.13
200 watt high pressure sodium	9.94
250 watt high pressure sodium	11.43
100 watt high pressure sodium	6.85

UTILITY RATE STRUCTURE AND NUMBER OF CUSTOMERS (Continued)

CITY OF SHELBYVILLE, TENNESSEE

Year ended June 30, 2012

WATER SYSTEM:

Residential, Commercial and Industrial

	<u>Inside City</u>	<u>Outside City</u>
First 2,000 gallons	\$ 11.40 minimum charge	\$ 15.20 minimum charge
Next 8,000 gallons	4.30 per 1,000 gallons	6.00 per 1,000 gallons
Next 10,000 gallons	2.75 per 1,000 gallons	3.85 per 1,000 gallons
Next 30,000 gallons	2.40 per 1,000 gallons	3.30 per 1,000 gallons
Next 50,000 gallons	2.15 per 1,000 gallons	3.00 per 1,000 gallons
Over 100,000 gallons	2.05 per 1,000 gallons	2.65 per 1,000 gallons

Utility Districts

Flat Creek Water Co-op -
 First 6,000,000 gallons
 Over 6,000,000 gallons

Inside Rate
 \$2.75 per 1,000 gallons

An additional \$.05 per 1,000 gallons for Duck River Agency charge is included in billing, but is not reflected in the above rates.

Sprinkler Connections

Valve heads or fire hydrants	\$23.60 per month
City fire hydrants	10.30 per month

SEWERAGE SYSTEM:

	<u>Inside City</u>	<u>Outside City</u>
First 2,000 gallons	\$16.70 minimum charge	\$21.50 minimum charge
Next 8,000 gallons	7.40 per 1,000 gallons	9.55 per 1,000 gallons
Next 10,000 gallons	5.75 per 1,000 gallons	7.00 per 1,000 gallons
Next 30,000 gallons	5.10 per 1,000 gallons	6.15 per 1,000 gallons
Next 50,000 gallons	4.75 per 1,000 gallons	5.75 per 1,000 gallons
Over 100,000 gallons	4.40 per 1,000 gallons	5.50 per 1,000 gallons

Average number of customers for fiscal year 2011:

Power System	9,712
Water System	8,769
Sewerage System	7,962

SCHEDULE OF UNACCOUNTED FOR WATER

CITY OF SHELBYVILLE, TENNESSEE

Year ended June 30, 2012

(All amounts in gallons)

A Water Treated and Purchased:		
B	Water Pumped (potable)	1,401,139,000
C	Water Purchased	-
D	Total Water Treated and Purchased	1,401,139,000
E Accounted for Water:		
F	Water sold:	1,075,963,000
G	Metered for consumption	38,094,100
H	Fire department usage	454,610
I	Flushing	28,692,010
J	Tank Cleaning/ Filling	821,100
K	Street cleaning	22,250
L	Bulk Sales	-
M	Water bill adjustments	32,100
N	Total Accounted for Water	1,144,079,170
O	Unaccounted for Water	257,059,830
P	Percent unaccounted for water	18.3465 %
Q	Other (explain)	
	Not applicable	

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

SCHEDULE OF CHANGES IN PROPERTY TAXES RECEIVABLE-BY LEVY YEAR

CITY OF SHELBYVILLE, TENNESSEE

Year ended June 30, 2012

<u>Tax Year</u>	<u>Balance June 30, 2011</u>	<u>Taxes Levied</u>	<u>Collections</u>	<u>Discoveries and Adjustments</u>	<u>Balance June 30, 2012</u>
2012	\$ -	\$5,994,310	\$ -	\$ -	\$5,994,310
2011	5,977,985	-	(5,493,132)	20,379	505,232
2010	432,243	-	(297,159)	4,326	139,410
2009	132,070	-	(114,753)	1,586	18,903
2008	24,943	-	(17,472)	4,076	11,547
2007	9,124	-	(2,350)	(161)	6,613
2006	4,726	-	(356)	-	4,370
2005	5,716	-	(317)	-	5,399
2004	1,643	-	(371)	-	1,272
2003	803	-	(316)	-	487
2002	274	-	-	-	274
2001	950	-	-	-	950
2000	1,818	-	-	-	1,818
	<u>\$6,592,295</u>	<u>\$5,994,310</u>	<u>\$(5,926,226)</u>	<u>\$ 30,206</u>	<u>\$6,690,585</u>
Less estimated uncollectible accounts					<u>(22,551)</u>
Net receivable balance June 30, 2012					<u>\$6,668,034</u>

NOTES: All uncollected taxes for years prior to 2011 have been turned over to the Clerk and Master for collection.

PROPERTY TAX RATES AND ASSESSMENTS – LAST TEN YEARS

CITY OF SHELBYVILLE, TENNESSEE

Year ended June 30, 2012

<u>Tax Year</u>	<u>Total Assessed Value</u>	<u>Tax Rate</u>	<u>Levy</u>
2012	\$ 354,545,784	\$ 1.65	\$ 5,850,117
2011	346,455,651	1.65	5,716,613
2010	340,979,371	1.41	4,807,791
2009	353,220,696	1.41	4,980,363
2008	346,666,837	1.41	4,887,976
2007	348,923,684	1.41	4,919,810
2006	340,454,422	1.41	4,800,354
2005	275,559,867	1.47	4,050,746
2004	278,210,070	1.47	4,089,758
2003	255,914,025	1.47	3,937,016

INTERNAL CONTROL AND COMPLIANCE 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***

Honorable Mayor and City Councilmembers
City of Shelbyville
Shelbyville, Tennessee

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Shelbyville, Tennessee, as of and for the year ended June 30, 2012, which collectively comprise the City of Shelbyville, Tennessee's basic financial statements and have issued our report thereon dated March 1, 2013. Our report was modified to include a reference to other auditors. 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. Other auditors audited the financial statements of the Shelbyville Power, Water, and Sewerage System, as described in our report on City of Shelbyville, Tennessee's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

Management of City of Shelbyville, Tennessee is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered City of Shelbyville, 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 Shelbyville's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Shelbyville, 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, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 to be material weaknesses. (2011-1, 2011-2, 2011-4, 2011-5, 2012-1, 2012-2)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Shelbyville, 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings as item 2011-3.

City of Shelbyville, Tennessee's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit City of Shelbyville, Tennessee's response and, accordingly, we express no opinion on it.

This report is intended for the information of management, the State Comptroller's office, the City Council, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Winnett Associates, LLC

March 1, 2013

SCHEDULE OF FINDINGS
CITY OF SHELBYVILLE, TENNESSEE

June 30, 2012

Prior Year

Finding 2011-1: The State of Tennessee requires municipalities to comply with the *Internal Control and Compliance Manual for Tennessee Municipalities*. Title 4, Chapter 2, Section 1, requires the accounting records of the City to use fund accounting in accordance with generally accepted accounting principles (GAAP). The following is a listing of accounting practices noted during the audit that do not meet this requirement:

- 1) Depreciation was recorded in the general fund and the solid waste fund. GAAP do not allow depreciation to be recorded in either the general fund or special revenue funds.
- 2) The balances of long-term debt including accrued vacation, note payable, and postretirement medical benefits were recorded in the general fund. GAAP does not allow for the balances of long-term debt to be recorded in any governmental funds.
- 3) The City's records include a self-balancing set of accounts used to record the balances of capital assets and related depreciation expense and accumulated depreciation. These accounts included current year capital outlays. GAAP require capital outlays be recorded in the general fund, capital projects funds or special revenue funds. Fund accounting does not allow the recording of capital asset balances in any fund.
- 4) Activity in accrued vacation was recorded in the general fund. Accrued vacation is part of long-term debt and should be only included in the government-wide presentation.
- 5) Postretirement medical plan expenses meant to record the net OPEB obligation were included in the general fund. These expenses should only be included in the government-wide presentation.

Status: Conditions continue to exist.

Recommendation: Recent changes to the *Internal Control and Compliance Manual for Tennessee Municipalities* have clarified that the use of fund accounting in accordance with GAAP applies to activity "posted throughout the year." Accordingly, we recommend ceasing the use of the above practices as soon as practicable.

Management Response: As the new financial and management staff in FY 2012, we have great concerns over this repeated finding. We agree the use of the practices cited above should end and are making every effort to revise and implement practices in accordance with governmental standards. For the FY 2013 period, the budget and financial reports should be in full compliance and this finding completely addressed.

Finding 2011-2: Accounting principles address the recording of amounts related to grants. Additionally, the State of Tennessee Department of Audit, *Audit Manual* requires that a Schedule of Expenditures of Federal Awards and State Financial Assistance be included in annual audited financial statements. No one individual has been assigned the responsibility for assuring that all grant activity is properly recorded. As a result, although not required based on materiality, adjustments were identified during the audit, and management requested they be recorded.

SCHEDULE OF FINDINGS (Continued)
CITY OF SHELBYVILLE, TENNESSEE

June 30, 2012

Prior Year (Continued)

Status: The City Treasurer has been designated as the financial manager coordinator; however, audit adjustments were necessary to properly record receivables and payables relative to current year grant activity. Applicable grants for the fiscal year ended June 30, 2012, included the airport taxiway grant, airport tractor grant, railroad spur grant and STP grant.

Recommendation: City personnel should take advantage of opportunities to gain experience and knowledge for proper accounting of grant activity. To aid in this we suggest City personnel draft the state required Schedule of Expenditures of Federal Awards and State Financial Assistance as part of year-end closing procedures.

Management Response: Since January 1, 2012 (mid-year of this audit period,) the City has revised it's grant reporting and administrations procedures. The City Recorder's office has been designated the administrative coordinator for grants, and the City Treasurer will be the financial management coordinator. This change has been reviewed with the City Management staff and is currently being followed. This finding should not be repeated for FY 2013 audit.

Finding 2011-3: *Tennessee Code Annotated* section 6-56-203 requires the City to adopt and operate under an annual budget. Budget ordinances are adopted for the original budget as well as another to amend the budget to reflect actual revenues and expenditures. These ordinances include a detail of expenditures by department. Included in the line item details were expenditures entitled "depreciation." It is our understanding from conversations with representatives of the State of Tennessee, Department of Municipal Audit, that it is not appropriate to budget depreciation. Additionally, audit adjustments resulted in expenditures exceeding the amount appropriated in the general government department.

Status: The condition above continues to exist as both the original and final budgets included line items for depreciation, and audit adjustments resulted in expenditures exceeding appropriations for the general government department.

Recommendation: Depreciation should be removed from future budgets, and all expenditures should be authorized either in the original budget or an amendment to that budget.

Management Response: We agree. Beginning with the FY 2013 budget as adopted, depreciation will no longer be an expenditure line in the budget. We also agree that all expenditures should be budgeted or that the budget be amended to reflect these expenses. This finding should not be repeated for FY 2013 audit.

Finding 2011-4: Accounting standards require a net pension obligation, if present, to be recorded in the government-wide statement of net assets. However, the City's net pension obligation is not included in the City's accounting records. It appears the City does not have a procedure in place to determine and record its net pension obligation liability.

Status: This condition continues to exist. The City did record the net pension obligation as of June 30, 2011 (\$164,120) but did not adjust this figure to the applicable balance as of June 30, 2012 (\$299,996).

SCHEDULE OF FINDINGS (Continued)
CITY OF SHELBYVILLE, TENNESSEE

June 30, 2012

Prior Year (Continued)

Recommendation: We recommend adding a step to your monthly, or year end, checklist as appropriate to determine and record the net pension obligation.

Management Response: We agree. We record quarterly entries for our pension obligations but starting with FY 2013 we will be adding a step in our year-end process to identify any adjustments needed and to record these prior to the audit for that year. This finding should not be repeated in FY 2013 audit.

Finding 2011-5: While auditing the general fund, we noted that the fund balance account balances did not agree to the prior year audited financial statements. City personnel were unable to identify the differences and several audit adjustments were necessary to correct the fund balances.

Status: This condition continues to exist.

Recommendation: We suggest a procedure be added to balance the general fund's equity account prior to the audit.

Management Response: We agree. We have now added a step in our year-end process for FY 2013 to balance the general funds equity account and adjust as needed prior to the audit process. With the implantation of the changes to the budgeting process in FY 2013 this finding should be eliminated going forward.

Current Year

Finding 2012-1: Accounting principles require all capital assets to be recorded as part of the government-wide presentation. During our audit we identified assets exceeding the capitalization policy that were not included in the listing of capital assets. For the most part these appeared to be overlooked because they were located in funds other than the general fund.

Recommendation: Reviewing capital outlays recorded in all funds should be added to the routine procedure of reconciling capital outlays to capital asset additions.

Management Response: We agree. We have established internal procedures to identify and record assets as purchased, transferred or deemed surplus. This finding should not be repeated in FY 2013 audit.

Finding 2012-2: While performing our audit procedures we noted land with a recorded cost of \$125,170 had been sold but not removed from the capital asset records.

Recommendation: We suggest a procedure be added requiring accounting personnel to identify capital asset sales by examining general ledger accounts that record asset sales.

Management Response: We agree. We have established a new procedure. This finding should not be repeated in FY 2013 audit.