

TOWN OF ATOKA, TENNESSEE

**FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2012**

TABLE OF CONTENTS

Page

INTRODUCTORY SECTION

Town Officials	1
----------------------	---

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT	2-3
---	------------

MANAGEMENT'S DISCUSSION AND ANALYSIS	4-11
---	-------------

BASIC FINANCIAL STATEMENTS

Government-wide Financial Statements

Statement of Net Assets	12
-------------------------------	----

Statement of Activities	13
-------------------------------	----

Fund Financial Statements

Balance Sheet - Governmental Funds	14
--	----

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	15
---	----

Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds	16
--	----

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	17
--	----

Statement of Net Assets – Proprietary (Water-Sewer) Fund	18-19
--	-------

Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary (Water-Sewer) Fund	20
---	----

Statement of Cash Flows - Proprietary (Water-Sewer) Fund	21 - 22
--	---------

Statement of Revenues, Expenditures, and Changes in Fund Balance - Actual and Budget - General Fund	23-24
--	-------

TABLE OF CONTENTS - CONTINUED

	Page
Notes to Financial Statements	25 - 41
REQUIRED SUPPLEMENTARY INFORMATION	
Retirement Plan - Analysis of Funding Progress	42
COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS	
Combining Balance Sheet - Nonmajor Governmental Funds	43
Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Nonmajor Governmental Funds	44
Statement of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual - State Street Aid	45
Statement of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual - Drug Fund	46
Statement of Revenues, Expenditures, and Changes in Fund Balance - General Fund	47-49
SCHEDULES	
Expenditures of Federal Awards	50
Expenditures of State Awards	51
Debt Service Requirements to Maturity	52-53
Property Taxes	54
Utility Rates and Number of Customers	55
AWWA Reporting Worksheet	56
Bonds of Principal Officials	57
Net Assets of Water-Sewer Fund	58-59
Revenues, Expenses, and Changes in Net Assets of Water-Sewer Fund	60

TABLE OF CONTENTS - CONTINUED

	Page
Cash Flows of Water-Sewer Fund	61-62
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	63-64
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	65-66
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	67-69
SUMMARY SCHEDULE OF PRIOR FINDINGS AND QUESTIONED COSTS	70

INTRODUCTORY SECTION

TOWN OF ATOKA, TENNESSEE
TOWN OFFICIALS
JUNE 30, 2012

Mayor

Daryl Walker

Aldermen

Barry Akin
Danny Feldmayer
Brett Giannini
Bobby Hutchison
Mike Joyner
Chris McConnell

Department Heads

Recorder
Police Chief
Fire Chief
Town Administrator
Public Works Director

Debbie Pickard
Jessie Poole
Alan Barkelew
Brian Koral
Daniel Lovett

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

The Honorable Daryl Walker, Mayor
Members of the Board of Aldermen
Town of Atoka, Tennessee
Atoka, 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 the Town of Atoka, Tennessee as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Town of Atoka, Tennessee's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2013 on our consideration of the Town of Atoka, Tennessee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That

report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Atoka, Tennessee's financial statements as a whole. The introductory section, combining and individual fund financial statements, and schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements of the Town of Atoka, Tennessee. The combining and individual fund financial statements and schedules and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.



**TOWN OF ATOKA, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

Our discussion and analysis of the Town of Atoka, Tennessee's (the "Town") financial performance provides an overview of the Town's financial activities for the fiscal year ended June 30, 2012. Please read it in conjunction with the Town's financial statements, which begin on page 12.

FINANCIAL HIGHLIGHTS

- The Town's total net assets increased by a total of 8.1 percent as a result of this year's operations. Net assets of our business-type activities (Water-Sewer Fund) increased approximately 8.2 percent, and net assets of our governmental activities increased 8.1 percent.
- During the year, the Town had revenues that were \$662,950 more than total expenses for governmental programs and activities.
- For the Town's business-type activities, revenues and contributions exceeded expenses by \$602,622.
- Total revenues in our governmental operations were approximately \$421,000 more than projected budgeted revenues for the year, and expenditures were approximately \$630,000 less than projected budgeted expenditures.
- The total net cost of running the Town of Atoka for the year ending June 30, 2012 (total cost of Business-type and governmental programs net of direct program revenues) was approximately \$1,690,000.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 12 - 13) provide information about the activities of the Town as a whole and present a longer-term view of the Town's finances. Fund financial statements begin on page 14. For governmental activities, these fund statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Town's operations in more detail than the government-wide statements by providing information about the Town's most significant funds. The remaining statements and other information provide financial information that is required by the state and other regulatory bodies.

REPORTING THE TOWN AS A WHOLE

Our analysis of the Town as a whole begins on page 6. One of the most important questions asked about its finances is "Is the Town as a whole better off or worse off as a result of this year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Town as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current

**TOWN OF ATOKA, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS- CONTINUED
YEAR ENDED JUNE 30, 2012**

year's revenues and expenses are taken into account regardless of when cash is received or paid, often into the future.

These two statements report the Town's net assets and changes in them. The Town's net assets - the difference between assets and liabilities - is one way to measure the Town's financial health, or financial position. Over time, increases or decreases in the Town's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Town's property tax base and the condition of the Town's roads, to assess the overall health of the Town.

In the Statement of Net Assets and the Statement of activities, we divide the Town into two kinds of activities:

- **Governmental activities** - Most of the Town's basic services are reported here, including general administration, police, fire, public works, and parks departments. Property taxes, sales taxes, and local grants finance most of these activities.
- **Business-type activities** - The Town charges a fee to customers to help it cover all or most of the cost of certain services it provides. The Town's Water-Sewer system is reported here.

REPORTING THE TOWN'S MOST SIGNIFICANT FUNDS

Our analysis of the Town's major funds begins on page 9. The fund financial statements provide detailed information about the most significant funds - not the Town as a whole. Some funds are required to be established by state law and by bond covenants. However, the Mayor and Board of Aldermen establish other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The Town's two kinds of funds - governmental and proprietary - use different accounting approaches.

- **Governmental funds** - Most of the Town's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The individual governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliations to the fund financial statements.
- **Proprietary funds** - When the Town charges customers for the services it provides - whether to outside customers or to other units of the Town - these services are generally reported in

TOWN OF ATOKA, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
YEAR ENDED JUNE 30, 2012

proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the Town's enterprise fund (Water-Sewer Fund) is the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash-flows, for proprietary funds.

THE TOWN AS A WHOLE

The Town's combined net assets increased from a year ago - increasing from \$15,539,000 to \$16,804,000. Looking at the net assets and net expenses of governmental and business-type activities separately, however, is necessary because state laws prohibit intermingling the assets, and each activity must stand on its own. Our analysis below focuses on the net assets (Table 1) changes from the prior year.

Table 1
Net Assets
(in Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 6,540	\$ 5,898	\$ 3,445	\$ 3,319	\$ 9,985	\$ 9,217
Capital assets	3,505	3,573	8,313	7,624	11,818	11,197
Total assets	<u>10,045</u>	<u>9,471</u>	<u>11,758</u>	<u>10,943</u>	<u>21,803</u>	<u>20,414</u>
Long-term debt	-	-	3,224	3,103	3,224	3,103
Other liabilities	1,167	1,256	608	516	1,775	1,772
Total liabilities ...	<u>1,167</u>	<u>1,256</u>	<u>3,832</u>	<u>3,619</u>	<u>4,999</u>	<u>4,875</u>
Net Assets						
Invested in capital assets, net of debt .	3,505	3,573	4,778	4,227	8,283	7,800
Restricted	494	345	-	3	494	348
Unrestricted	<u>4,879</u>	<u>4,297</u>	<u>3,148</u>	<u>3,094</u>	<u>8,027</u>	<u>7,391</u>
Total Net Assets	<u>\$ 8,878</u>	<u>\$ 8,215</u>	<u>\$ 7,926</u>	<u>\$ 7,324</u>	<u>\$ 16,804</u>	<u>\$ 15,539</u>

Table 2
Changes in Net Assets
(in Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Program revenues						
Charges for services	\$ 215	\$ 153	\$ 1,890	\$ 1,729	\$ 2,105	\$ 1,882
Operating grants and contributions	391	364	-	-	391	364
Capital grants	4	135	261	910	265	1,045

**TOWN OF ATOKA, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
YEAR ENDED JUNE 30, 2012**

**Table 2
Changes in Net Assets - Continued
(in Thousands)**

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
General revenues . . .						
Local taxes	\$ 2,161	\$ 2,007	\$ -	\$ -	\$ 2,161	\$ 2,007
Intergovernmental revenues	688	676	-	-	688	676
Gain (loss) on disposal of capital assets . .	(9)	-	-	-	(9)	
Other general revenues	82	67	33	44	115	111
Total revenues . .	<u>3,532</u>	<u>3,402</u>	<u>2,184</u>	<u>2,683</u>	<u>5,716</u>	<u>6,085</u>
Program expenses						
General government	419	306	-	-	419	306
Public safety	1,606	1,445	-	-	1,606	1,445
Highways and streets	538	287	-	-	538	287
Health, welfare recreation and education	299	127	-	-	299	127
Grants and contributions	7	4	-	-	7	4
Water-sewer	-	-	1,581	1,381	1,581	1,381
Total expenses . .	<u>2,869</u>	<u>2,169</u>	<u>1,581</u>	<u>1,381</u>	<u>4,450</u>	<u>3,550</u>
Increase (decrease) in net assets	<u>\$ 663</u>	<u>\$ 1,233</u>	<u>\$ 603</u>	<u>\$ 1,302</u>	<u>\$ 1,266</u>	<u>\$ 2,535</u>

GOVERNMENTAL ACTIVITIES - (TOWN AS A WHOLE)

To aid in the understanding of the Statement of Activities some additional explanation is given. Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenses, and Changes in Fund Balance. You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the Town's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants. Some of the individual line item revenues reported for each function are as follows:

FUNCTION

SPECIFIC REVENUES

General government

Charges for permits and various fees.

Public safety

Police fines and forfeitures; grants are listed under both operating grants and contributions and capital grants and contributions.

**TOWN OF ATOKA, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
YEAR ENDED JUNE 30, 2012**

FUNCTION**SPECIFIC REVENUES**

Highways and streets

Specific operating grants include gas taxes since the State of Tennessee imposes this tax, and gas taxes are reported as an operating grant specific to streets.

Health, welfare,
recreation and education

Grants are listed as operating grants and contributions.

All other governmental revenues are reported as General Revenues.

The cost of all governmental activities this year was \$2,869,352. However, as shown in the Statement of Activities on page 13, the amount that our taxpayers ultimately financed for these activities through Town taxes was only \$2,259,899 because some of the cost was paid by those who directly benefitted from the programs (\$215,000) or by other governments and organizations that subsidized certain programs with grants and contributions (\$394,000). The Town paid for the remaining "public benefit" portion of governmental activities.

Table 3 represents the cost of each of the Town's functions as well as each function's net cost which shows the financial burden that was placed on the Town's taxpayers by each of these functions.

**Table 3
Governmental Activities
(in Thousands)**

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
General government	\$ 419	\$ 306	\$ 398	\$ 282
Public safety	1,606	1,445	1,420	1,286
Highways and streets	538	287	207	(37)
Health, welfare, recreation and education	299	127	228	(18)
Grants and contributions	7	4	7	4
Totals	<u>\$ 2,869</u>	<u>\$ 2,169</u>	<u>\$ 2,260</u>	<u>\$ 1,517</u>

Business-type Activities

Revenues of the Town's Water-Sewer Fund increased by 8.4% from revenues of the prior year. Revenues and contributions in total, decreased by \$500,000 (19%) due primarily to prior year forgiveness of debt related to ARRA funding of a sewer expansion project. The Town's expenses during the current year increased by \$199,900 (15%).

**TOWN OF ATOKA, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
YEAR ENDED JUNE 30, 2012**

THE TOWN'S FUNDS

Governmental Activities

As the Town completed the year, its governmental funds (as presented in the balance sheet on page 14) reported a combined fund balance of \$5,370,222 which is an increase from last year's total of \$4,638,370. The chief reasons for this increase are given below. It must be pointed out that this increase in governmental fund balances (\$731,852) is different from the increase in net assets of governmental funds (\$662,950) because of two differences in the measurement basis of these funds. The measurement basis used in fund balances go to the immediate future - 60 days - to measure assets on hand or immediately realizable at June 30, 2012 and do not take into account governmental capital assets and depreciation, since in this basis capital asset acquisitions are considered expenditures when incurred, and the asset is not recognized as carrying value into future periods. Also, depreciation is not recognized since the assets were considered "expensed" when acquired. A detail explanation of these differences is given in the reconciliation on page 15.

The chief reasons for the increase in fund balances of \$731,852 from the year ending June 30, 2012 are that revenues were increased more than expenditures, and expenditures connected with highway improvements were delayed.

GOVERNMENTAL FUNDS BUDGETARY HIGHLIGHTS

The expenditures for the year were approximately \$630,000 below original budgeted expenditures. The most significant variances were expenditures connected with highways and streets that were delayed until future periods.

Revenues were approximately \$421,000 more than the original budget estimate of \$3,117,000 for General Fund, State Street Aid Fund and Drug Fund. The chief variance was higher than anticipated local taxes.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At year end, the Town had \$11,819,000 invested in capital assets, including police and fire equipment, buildings, park facilities, and water and sewer lines. (See Table 4 below.) This amount represents a net increase from last year of approximately \$622,000.

TOWN OF ATOKA, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
YEAR ENDED JUNE 30, 2012

CAPITAL ASSET AND DEBT ADMINISTRATION - CONTINUED

Table 4
Capital Assets at Year-end
(Net of Depreciation, in Thousands)

	<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>
Land	\$ 1,248	\$ 1,248	\$ 35	\$ 35	\$ 1,283	\$ 1,283
Construction in progress	-	-	-	3,264	-	3,264
Buildings and improvements	507	526	76	80	583	606
Equipment	385	322	97	132	482	454
Infrastructure	1,365	1,477	-	-	1,365	1,477
Water-Sewer System	-	-	8,106	4,113	8,106	4,113
Totals	<u>\$ 3,505</u>	<u>\$ 3,573</u>	<u>\$ 8,314</u>	<u>\$ 7,624</u>	<u>\$ 11,819</u>	<u>\$ 11,197</u>

This year's major additions for governmental activities included \$65,000 in equipment and \$121,000 in vehicles. Additions for business-type activities related primarily to the expansion of the Town's sewer system.

Debt

At year end the Town had \$3,377,413 in debt outstanding versus \$3,102,932 last year, a net increase of \$274,481 as shown in Table 5 - due to new debt assumed in connection with the sewer expansion project.

Table 5
Debt Outstanding at Year-end
(in Thousands)

	<u>Business-Type Activities</u>	
	<u>2012</u>	<u>2011</u>
Lease Obligation	\$ -	\$ 21
Revenue Bonds and Notes (backed by specific tax and fee revenues)	<u>3,377</u>	<u>3,082</u>
Totals	<u>\$ 3,377</u>	<u>\$ 3,103</u>

**TOWN OF ATOKA, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
YEAR ENDED JUNE 30, 2012**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

Revenues for our FY 2013 year governmental funds are projected at \$407,000 more than final revenues for our year ending June 30, 2012. The main reasons for this are state grant revenues expected to be received for the Meade Lake improvement project, plus higher local taxes.

Total budgeted expenditures for governmental funds are projected at approximately \$853,000 more than our prior year actual expenditures. The main reasons for this increase are that street improvements are expected to increase highways and streets expenditures by \$600,000 and overall personnel costs are expected to increase by \$250,000.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

TOWN OF ATOKA, TENNESSEE
STATEMENT OF NET ASSETS
JUNE 30, 2012

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash in bank	\$ 4,800,823	\$ 2,981,635	\$ 7,782,458
Investments - certificates of deposit	-	461,578	461,578
Taxes receivable, net	973,969	-	973,969
Accounts receivable, net	-	136,650	136,650
Receivables from other governments	351,009	-	351,009
Grants receivable	68,620	-	68,620
Receivable - other	84,614	-	84,614
Internal balances	261,789	(261,789)	-
Unamortized bond cost	-	7,152	7,152
Restricted Assets			
Cash for construction	-	119,450	119,450
Capital assets not being depreciated			
Land	1,248,246	35,000	1,283,246
Capital assets (net of accumulated depreciation)			
Buildings and improvements	506,827	75,817	582,644
Vehicles and equipment	384,733	97,171	481,904
Infrastructure	1,364,878	-	1,364,878
Utility plant in service	-	8,105,709	8,105,709
TOTAL ASSETS	<u>\$ 10,045,508</u>	<u>\$ 11,758,373</u>	<u>\$ 21,803,881</u>
LIABILITIES AND NET ASSETS			
LIABILITIES			
Accounts and contracts payable	\$ 144,983	\$ 404,114	\$ 549,097
Accrued expenses	59,361	7,767	67,128
Customer deposits	-	42,921	42,921
Deferred revenue - property tax	962,832	-	962,832
Bonds payable			
Due within one year	-	152,909	152,909
Due in more than one year	-	3,224,504	3,224,504
TOTAL LIABILITIES	<u>1,167,176</u>	<u>3,832,215</u>	<u>4,999,391</u>
NET ASSETS			
Invested in capital assets, net of related debt	3,504,684	4,778,054	8,282,738
Restricted for			
Street expenditures	302,903	-	302,903
Drug enforcement	123,017	-	123,017
Grant programs	68,620	-	68,620
Unrestricted	<u>4,879,108</u>	<u>3,148,104</u>	<u>8,027,212</u>
TOTAL NET ASSETS	<u>8,878,332</u>	<u>7,926,158</u>	<u>16,804,490</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 10,045,508</u>	<u>\$ 11,758,373</u>	<u>\$ 21,803,881</u>

See notes to financial statements

**TOWN OF ATOKA, TENNESSEE
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012**

FUNCTIONS/PROGRAMS	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Governmental activities							
General government	\$ 419,259	\$ 21,306	\$ -	\$ -	\$ (397,953)	\$ -	\$ (397,953)
Public safety	1,606,174	150,343	32,327	3,850	(1,419,654)	-	(1,419,654)
Highways and streets	538,120	-	330,952	-	(207,168)	-	(207,168)
Health, welfare, recreation and education	298,799	43,423	27,252	-	(228,124)	-	(228,124)
Grants and contributions	7,000	-	-	-	(7,000)	-	(7,000)
TOTAL GOVERNMENTAL ACTIVITIES	2,869,352	215,072	390,531	3,850	(2,259,899)	-	(2,259,899)
Business-type activities							
Water-sewer system	1,581,208	1,889,961	-	260,822	-	569,575	569,575
TOTAL BUSINESS-TYPE ACTIVITIES	1,581,208	1,889,961	-	260,822	-	569,575	569,575
TOTAL GOVERNMENT	\$ 4,450,560	\$ 2,105,033	\$ 390,531	\$ 264,672	(2,259,899)	569,575	(1,690,324)
GENERAL REVENUES							
Taxes							
					1,431,350	-	1,431,350
Sales taxes					992,359	-	992,359
Property taxes					298,708	-	298,708
Alcoholic beverage taxes					96,900	-	96,900
TVA taxes					22,318	-	22,318
Cable TV taxes					7,376	-	7,376
Income and excise taxes					522	-	522
Telecommunications taxes					(9,186)	-	(9,186)
Gain (loss) on disposal of capital assets					53,096	33,047	86,143
Investment earnings					29,406	-	29,406
Miscellaneous					2,922,849	33,047	2,955,896
TOTAL GENERAL REVENUES							
CHANGE IN NET ASSETS							
					662,950	602,622	1,265,572
NET ASSETS							
Balance at July 1, 2011					8,215,382	7,323,536	15,538,918
Balance at June 30, 2012					\$ 8,878,332	\$ 7,926,158	\$ 16,804,490

See notes to financial statements

TOWN OF ATOKA, TENNESSEE
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2012

	<u>GENERAL FUND</u>	<u>OTHER GOVERN- MENTAL FUNDS</u>	<u>TOTAL GOVERN- MENTAL FUNDS</u>
ASSETS			
Cash and cash equivalents	\$ 4,414,201	\$ 386,622	\$ 4,800,823
Taxes receivable, net	973,969	-	973,969
Receivables from other governments	312,407	38,602	351,009
Grants receivable	68,620	-	68,620
Receivable - other	83,918	696	84,614
Due from other funds	<u>261,789</u>	<u>-</u>	<u>261,789</u>
TOTAL ASSETS	<u>\$ 6,114,904</u>	<u>\$ 425,920</u>	<u>\$ 6,540,824</u>
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable	\$ 144,983	\$ -	\$ 144,983
Accrued liabilities	59,361	-	59,361
Deferred revenue	<u>966,258</u>	<u>-</u>	<u>966,258</u>
TOTAL LIABILITIES	<u>1,170,602</u>	<u>-</u>	<u>1,170,602</u>
FUND BALANCE			
Restricted			
Street expenditures	-	302,903	302,903
Drug enforcement	-	123,017	123,017
Grant programs	68,620	-	68,620
Assigned			
Parks and recreation	256,690	-	256,690
Fire department	207,065	-	207,065
Unassigned	<u>4,411,927</u>	<u>-</u>	<u>4,411,927</u>
TOTAL FUND BALANCE	<u>4,944,302</u>	<u>425,920</u>	<u>5,370,222</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 6,114,904</u>	<u>\$ 425,920</u>	<u>\$ 6,540,824</u>

See notes to financial statements

**TOWN OF ATOKA, TENNESSEE
RECONCILIATION OF THE BALANCE SHEET OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012**

	<u>TOTAL GOVERNMENTAL FUNDS</u>
TOTAL FUND BALANCE	
TOTAL GOVERNMENTAL FUNDS	\$ 5,370,222
 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 governmental funds balance sheet.	3,504,684
Deferred revenues are not available to pay for current period expenditures and therefore are deferred in the governmental funds balance sheet	<u>3,426</u>
 NET ASSETS OF GOVERNMENTAL ACTIVITIES	 <u><u>\$ 8,878,332</u></u>

See notes to financial statements

TOWN OF ATOKA TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012

	<u>GENERAL FUND</u>	<u>OTHER GOVERN- MENTAL FUNDS</u>	<u>TOTAL GOVERN- MENTAL FUNDS</u>
REVENUES			
Local taxes	\$ 2,161,270	\$ -	\$ 2,161,270
Licenses and permits	21,306	-	21,306
Intergovernmental revenues	852,806	221,280	1,074,086
Fines and forfeits	60,680	89,663	150,343
Miscellaneous revenues	<u>129,694</u>	<u>860</u>	<u>130,554</u>
TOTAL REVENUES	<u>3,225,756</u>	<u>311,803</u>	<u>3,537,559</u>
EXPENDITURES			
General government	413,149	-	413,149
Public safety	1,565,799	47,590	1,613,389
Highways and streets	374,504	192,228	566,732
Health, welfare, recreation, and education	298,080	-	298,080
Grants and contributions	<u>7,000</u>	<u>-</u>	<u>7,000</u>
TOTAL EXPENDITURES	<u>2,658,532</u>	<u>239,818</u>	<u>2,898,350</u>
EXCESS OF REVENUES OVER EXPENDITURES	567,224	71,985	639,209
OTHER FINANCING SOURCES			
Insurance recoveries	<u>83,918</u>	<u>8,725</u>	<u>92,643</u>
TOTAL OTHER FINANCING SOURCES	<u>83,918</u>	<u>8,725</u>	<u>92,643</u>
NET CHANGE IN FUND BALANCE	651,142	80,710	731,852
FUND BALANCE			
Balance at July 1, 2011	<u>4,293,160</u>	<u>345,210</u>	<u>4,638,370</u>
Balance at June 30, 2012	<u>\$ 4,944,302</u>	<u>\$ 425,920</u>	<u>\$ 5,370,222</u>

See notes to financial statements

**TOWN OF ATOKA, TENNESSEE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012**

NET CHANGE IN FUND BALANCE -
TOTAL GOVERNMENTAL FUNDS \$ 731,852

**AMOUNTS REPORTED FOR GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF ACTIVITIES
ARE DIFFERENT BECAUSE:**

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital outlays capitalized	184,970
Depreciation expense	(155,972)

In the statement of activities, the gain/loss on the disposition of capital assets is reported, whereas in the governmental funds, the proceeds from the disposition increase financial resources. Thus the change in net assets differs from the change in fund balance by the net cost of the capital assets. (97,318)

Some revenues will not be collected for several months after the Town's fiscal year end and are reported as deferred revenues in the funds. This is the net difference between the amounts deferred in the current and prior year. (582)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 662,950

TOWN OF ATOKA, TENNESSEE
STATEMENT OF NET ASSETS
PROPRIETARY (WATER-SEWER) FUND
JUNE 30, 2012

ASSETS**CURRENT ASSETS**

Cash and cash equivalents	\$ 2,981,635
Investments - certificates of deposit	461,578
Accounts receivable, net	<u>136,650</u>
TOTAL CURRENT ASSETS	<u>3,579,863</u>

NONCURRENT ASSETS**Restricted Assets**

Cash for construction	<u>119,450</u>
Total Restricted Assets	<u>119,450</u>

Capital Assets**Not being depreciated**

Land	<u>35,000</u>
------------	---------------

Being depreciated

Buildings and improvements	98,847
Vehicles and equipment	274,427
Utility plant in service	10,250,216
Less accumulated depreciation	<u>(2,344,793)</u>
Total Capital Assets, Net of	
Accumulated Depreciation	<u>8,278,697</u>

Other Assets

Unamortized debt expense	<u>7,152</u>
TOTAL NONCURRENT ASSETS	<u>8,440,299</u>

TOTAL ASSETS	<u>\$ 12,020,162</u>
---------------------------	-----------------------------

TOWN OF ATOKA, TENNESSEE
STATEMENT OF NET ASSETS
PROPRIETARY (WATER-SEWER) FUND - CONTINUED
JUNE 30, 2012

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts and contracts payable	\$ 284,664
Accrued expenses	7,767
Due to other funds	261,789
Current portion of revenue bonds payable	152,909
Customer deposits	<u>42,921</u>
TOTAL CURRENT LIABILITIES	<u>750,050</u>

CURRENT LIABILITIES PAYABLE

FROM RESTRICTED ASSETS

Accounts and contracts payable	<u>119,450</u>
--------------------------------------	----------------

NONCURRENT LIABILITIES

Long term revenue bonds, less current portion	<u>3,224,504</u>
TOTAL LIABILITIES	<u>4,094,004</u>

NET ASSETS

Invested in capital assets, net of related debt	4,778,054
Unrestricted	<u>3,148,104</u>
TOTAL NET ASSETS	<u>7,926,158</u>

TOTAL LIABILITIES AND NET ASSETS	<u>\$ 12,020,162</u>
---	-----------------------------

See notes to financial statements

TOWN OF ATOKA, TENNESSEE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY (WATER-SEWER) FUND
YEAR ENDED JUNE 30, 2012

OPERATING REVENUES

Metered sales and service	\$ 1,749,843
Connection fees	68,265
Tap fees	20,050
Penalties	32,685
Other operating income	<u>19,118</u>
TOTAL OPERATING REVENUES	<u>1,889,961</u>

OPERATING EXPENSES

Salaries and wages	298,571
Fringes	84,682
Maintenance services and supplies	121,331
Water purchased	413,114
Sewer fees	192,724
Office supplies	22,285
Utilities	53,842
Insurance	14,855
Depreciation	258,765
Amortization	1,985
Miscellaneous	<u>61,030</u>
TOTAL OPERATING EXPENSES	<u>1,523,184</u>

OPERATING INCOME 366,777

NONOPERATING REVENUES (EXPENSES)

Interest income	33,047
Interest expense	<u>(58,024)</u>
TOTAL NONOPERATING	
REVENUES (EXPENSES)	<u>(24,977)</u>

INCOME BEFORE CAPITAL CONTRIBUTIONS 341,800

CAPITAL CONTRIBUTIONS 260,822

CHANGE IN NET ASSETS 602,622

NET ASSETS

Balance at July 1, 2011	<u>7,323,536</u>
Balance at June 30, 2012	<u><u>\$ 7,926,158</u></u>

See notes to financial statements

**TOWN OF ATOKA, TENNESSEE
STATEMENT OF CASH FLOWS
PROPRIETARY (WATER - SEWER) FUND
YEAR ENDED JUNE 30, 2012**

**CASH FLOWS FROM
OPERATING ACTIVITIES**

Cash received from customers	\$ 1,863,235
Cash payments to suppliers	(895,337)
Cash payments to employees for services	(297,903)
Cash payments for taxes	<u>(21,992)</u>
Net cash provided by operating activities	<u>648,003</u>

**CASH FLOWS FROM NONCAPITAL
FINANCING ACTIVITIES**

Increase in due to other funds	<u>64,509</u>
Net cash provided by noncapital financing activities	<u>64,509</u>

**CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES**

Purchase of capital assets	(1,056,372)
Proceeds from long-term debt	652,055
Payments on principal of long-term debt	(95,793)
Payments on principal under capital lease obligation	(20,959)
Interest and fee payments on long-term debt	<u>(59,028)</u>
Net cash (used) by capital and related financing activities	<u>(580,097)</u>

**CASH FLOWS FROM
INVESTING ACTIVITIES**

Interest received	<u>29,482</u>
Net cash provided by investing activities	<u>29,482</u>

**NET INCREASE IN CASH AND
CASH EQUIVALENTS**

161,897

**CASH AND CASH EQUIVALENTS -
JULY 1, 2011**

2,939,188

**CASH AND CASH EQUIVALENTS -
JUNE 30, 2012**

\$ 3,101,085

See notes to financial statements

TOWN OF ATOKA, TENNESSEE
STATEMENT OF CASH FLOWS
PROPRIETARY (WATER -SEWER) FUND - CONTINUED
YEAR ENDED JUNE 30, 2012

**RECONCILIATION OF ENDING CASH AND
CASH EQUIVALENTS TO LINE ITEMS
IN STATEMENT OF NET ASSETS**

Unrestricted cash and cash equivalents	\$ 2,981,635
Restricted cash and cash equivalents	
Construction	<u>119,450</u>
Cash and cash equivalents	<u>\$ 3,101,085</u>

**RECONCILIATION OF OPERATING
INCOME TO NET CASH PROVIDED
BY OPERATING ACTIVITIES**

Operating income	\$ 366,777
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	258,765
Amortization	1,985
(Increase) decrease in accounts receivable	(26,726)
Increase (decrease) in accounts payable	46,534
Increase (decrease) in accrued expenses	<u>668</u>
Total adjustments	<u>281,226</u>
Net cash provided by operating activities	<u>\$ 648,003</u>

**NONCASH INVESTING, CAPITAL
AND FINANCING ACTIVITIES**

Liabilities incurred for acquisition of capital assets	\$ 277,679
Capital contribution - forgiveness of debt	\$ 260,822
Interest credited to certificates of deposit	\$ 3,565

See notes to financial statements

TOWN OF ATOKA, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - ACTUAL AND BUDGET - GENERAL FUND
YEAR ENDED JUNE 30, 2012

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>OVER (UNDER) BUDGET</u>
REVENUES				
Local taxes	\$1,859,600	\$1,859,600	\$2,161,270	\$ 301,670
Licenses and permits	14,400	14,400	21,306	6,906
Intergovernmental revenues .	1,103,071	1,103,071	852,806	(250,265)
Fines and forfeitures	69,600	69,600	60,680	(8,920)
Miscellaneous revenues	30,000	30,000	129,694	99,694
TOTAL REVENUES ..	<u>3,076,671</u>	<u>3,076,671</u>	<u>3,225,756</u>	<u>149,085</u>
EXPENDITURES				
General government				
Legislative	42,420	42,420	35,679	(6,741)
Judicial	10,800	10,800	9,783	(1,017)
Finance and administration .	303,767	303,767	299,659	(4,108)
Planning and inspection	72,621	72,621	68,028	(4,593)
Total general government	<u>429,608</u>	<u>429,608</u>	<u>413,149</u>	<u>(16,459)</u>
Public safety				
Police	1,219,242	1,219,242	1,206,163	(13,079)
Fire	378,145	396,145	359,636	(36,509)
Total public safety	<u>1,597,387</u>	<u>1,615,387</u>	<u>1,565,799</u>	<u>(49,588)</u>
Highways and Streets				
Streets	<u>932,302</u>	<u>932,302</u>	<u>374,504</u>	<u>(557,798)</u>
Total highways and streets	<u>932,302</u>	<u>932,302</u>	<u>374,504</u>	<u>(557,798)</u>
Health, welfare, recreation, and education				
Parks and recreation	<u>209,000</u>	<u>279,000</u>	<u>298,080</u>	<u>19,080</u>
Total health, welfare, recreation, and education	<u>209,000</u>	<u>279,000</u>	<u>298,080</u>	<u>19,080</u>
Grants and contributions				
Donations	<u>7,900</u>	<u>7,900</u>	<u>7,000</u>	<u>(900)</u>
Total grants and contributions	<u>7,900</u>	<u>7,900</u>	<u>7,000</u>	<u>(900)</u>

See notes to financial statements

TOWN OF ATOKA, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - ACTUAL AND BUDGET - GENERAL FUND - CONTINUED
YEAR ENDED JUNE 30, 2012

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>OVER (UNDER) BUDGET</u>
EXPENDITURES - CONTINUED				
TOTAL EXPENDITURES	<u>\$ 3,176,197</u>	<u>\$ 3,264,197</u>	<u>\$ 2,658,532</u>	<u>\$ (605,665)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(99,526)	(187,526)	567,224	754,750
OTHER FINANCING SOURCES				
Insurance recoveries	<u>-</u>	<u>-</u>	<u>83,918</u>	<u>83,918</u>
TOTAL OTHER FINANCING SOURCES	<u>-</u>	<u>-</u>	<u>83,918</u>	<u>83,918</u>
NET CHANGE IN FUND BALANCE	(99,526)	(187,526)	651,142	838,668
FUND BALANCE				
Balance at July 1, 2011	<u>4,293,160</u>	<u>4,293,160</u>	<u>4,293,160</u>	<u>-</u>
Balance at June 30, 2012	<u>\$ 4,193,634</u>	<u>\$ 4,105,634</u>	<u>\$ 4,944,302</u>	<u>\$ 838,668</u>

See notes to financial statements

**TOWN OF ATOKA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Atoka, Tennessee, (the "Town") operates under an Aldermen-Mayor form of government and provides the following services as authorized by its charter: public safety (police and fire), highways and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

The accounting policies of the Town conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

SCOPE OF REPORTING ENTITY - The Town's financial statements include the accounts of all Town operations. The criteria for including organizations as component units within the Town's reporting entity include whether:

- The organization is legally separate (can sue and be sued in their own name).
- The Town holds the corporate powers of the organization.
- The Town appoints a voting majority of the organization's board.
- The Town is able to impose its will on the organization.
- The organization has the potential to impose a financial benefit/burden on the Town.
- There is fiscal dependency by the organization on the Town.

Based on the aforementioned criteria, the Town has no component units. Local schools are County owned and operated, and there are no other related entities or agencies whereby the Town is considered to exercise financial accountability.

The Town's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements. Governments are also required to follow Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) pronouncements issued through November 30, 1989, unless they conflict with GASB pronouncements. Although the Town has the option to apply FASB ASC pronouncements issued after that date to its business-type activities, the Town has chosen not to do so.

BASIS OF PRESENTATION - The Town's basis of presentation differs as to whether government-wide or fund financial statements are presented.

GOVERNMENT-WIDE FINANCIAL STATEMENTS - In the government-wide Statement of Net Assets, both the governmental and business-type activities columns are presented on a consolidated basis by column and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Town's net assets are reported in three parts - invested in capital assets, net of related debt;

**TOWN OF ATOKA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2012**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

GOVERNMENT-WIDE FINANCIAL STATEMENTS - CONTINUED

restricted net assets; and unrestricted net assets. All interfund balances are eliminated in the government-wide Statement of Net Assets.

The government-wide Statement of Activities reports both the gross and net cost of each of the Town's governmental functions and business-type activities. The functions are also supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses including depreciation by related program revenues, operating, and capital grants. Program revenues must be directly associated with the governmental function or a business-type activity. Operating grants include operating-specific and discretionary grants while the capital grants column reflects capital specific grants.

The net costs by function or business-type activity are normally covered by general revenue such as property, sales, or gas taxes, intergovernmental revenues and interest income.

The Town does not allocate indirect costs but specific costs are charged to each department as this government-wide focus is more on the sustainability of the Town as an entity and the change in the Town's net assets resulting from the current year's activities.

FUND FINANCIAL STATEMENTS - Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Town or meets the following criteria:

- Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- Total assets, liabilities, revenues or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined; or
- The Town officials may select any other fund not meeting the above criteria as a major fund if the officials believe the fund is of particular importance to financial statement users.

Based on the above-mentioned criteria, Town officials believe that the only major funds for the Town are the General Fund and the Water-Sewer Fund.

TOWN OF ATOKA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

FUND FINANCIAL STATEMENTS - CONTINUED

The Town had the following funds at year end:

GOVERNMENTAL FUNDS

General Fund - The General Fund is the primary operating fund of the Town and is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for certain purposes. For the current year the following were in existence:

State Street Aid Fund, used to account for the Town's share of gas tax revenues supplied by the State of Tennessee. Expenditures are restricted for the use of streets and sidewalks, including street lights.

Drug Fund, used to account for the Town's share of certain drug-related fines, and can be used only for police-related expenditures.

PROPRIETARY FUND - The Proprietary or Enterprise Fund is used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the Town of Atoka Water-Sewer Fund.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING - Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied.

Measurement Focus - On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined below:

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

- All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources at the end of the period.

**TOWN OF ATOKA TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2012**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING - CONTINUED

- The proprietary fund utilizes an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

Basis of Accounting - In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities (generally 60 days after year-end). Expenditures (including capital outlay) are recorded when the related fund liability is incurred.

The proprietary fund utilizes the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Operating revenues in the proprietary fund are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

INTERFUND TRANSACTIONS - During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from other funds” or “due to other funds” on the statement of net assets. Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). Interfund receivables and payables between funds are eliminated in the statement of net assets.

**TOWN OF ATOKA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2012**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

BUDGETS AND BUDGETARY ACCOUNTING - Municipalities are required by state statute to adopt budgets for the general fund and special revenue funds. The Town utilizes the following procedures in establishing the budgetary data reflected in the financial statements:

1. The budget of the Town of Atoka is legally enacted through passage of an ordinance which reflects the total appropriated amounts for each department of each fund. The Mayor is authorized to transfer budgeted amounts within departments.
2. Formal budgetary integration is employed as a management control device during the year for the general and special revenue funds.
3. Budgets for the general and special revenue funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).

Encumbrance accounting is not used since it is not legally required.

INVENTORIES AND INTERPERIOD ALLOCATIONS - Inventories are considered expenditures at the time of purchase. Insurance and expenditures for services which extend over more than one period are accounted for similarly.

CASH FLOWS - All short-term investments having an original maturity date no longer than three (3) months are considered cash equivalents for purposes of reporting cash flows.

DEPOSITS - Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. Although the Town has not formally adopted a policy regarding collateralization of deposits, the Town follows collateralization requirements of State of Tennessee (the "State") statutes.

INVESTMENTS - State statutes authorize the Town to invest in obligations of the U.S. Treasury, agencies, instrumentalities and obligations guaranteed as to principal and interest by the United States or any of its agencies, repurchase agreements, the Tennessee local government investment pool, certificates of deposit at state and federally chartered banks and savings and loan association, money market funds approved by the state director of local finance, and the Town's own bonds or notes. The Town has not adopted a formal investment policy that limits its interest rate or credit risk.

**TOWN OF ATOKA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2012**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

RECEIVABLES - Receivables result primarily from unpaid billings for service to customers, local taxes from businesses and individuals, and intergovernmental revenues due from other government entities. Receivables are reported net of an allowance for uncollectible accounts and revenues are reported net of uncollectibles. Allowances are reported when accounts are proven, or estimated, to be uncollectible. The only allowances deemed necessary were related to property taxes and utility billings.

PROPERTY TAXES - Under authority of state and local law the Town annually levies a property tax on all taxable real and personal property within its boundaries. The tax is levied on property as of each January 1 and becomes a lien on that date; taxes are payable as of October 1 and become delinquent on the following February 28. Delinquent property taxes are filed with the Chancery Court on the first day of April each year.

COMPENSATED ABSENCES - Vacation pay for employees is accrued as an expense at the time the employees have a vested right to receive it. Vacation pay is considered a current liability, as it lapses each year. Sick leave is not accrued as employees do not have vested rights to receive it.

AMORTIZATION - Bond costs in the Water-Sewer Fund are amortized over the applicable terms of maturity of each issuance on a straight-line basis.

CAPITAL ASSETS AND DEPRECIATION - The accounting treatment over property, plant, and equipment (Capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements. The Town does not have a formal capitalization policy, but generally only assets with an individual cost of at least \$4,500 and an estimated useful life in excess of one year are capitalized.

Government-wide Statements - In the government-wide financial statements, capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the assets acquired prior to June 30, 1997.

Prior to July 1, 2003, governmental funds' infrastructure assets were not capitalized. These assets in accordance with GASB standards, are subject only to prospective reporting (reporting from July 1, 2003 forward).

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

TOWN OF ATOKA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

CAPITAL ASSETS AND DEPRECIATION - CONTINUED

Buildings and improvements	30-40 years
Vehicles and equipment	7-10 years
Water-sewer system	33 years
Infrastructure	40-50 years

Fund Financial Statements - In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

RESTRICTED ASSETS - Certain cash and investments are classified as restricted assets because they are maintained in separate bank accounts and their use is limited by external parties. The Town elects to use restricted assets before unrestricted assets when the situation arises where either can be used. In governmental funds, the Town's policy is to first apply the expenditure toward restricted fund balance and then to other less-restrictive classifications - committed and then assigned fund balances before using unassigned fund balances.

LONG-TERM DEBT - The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. Long-term debt consists of bonds payable.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest are reported as expenditures.

GOVERNMENT-WIDE NET ASSETS - Equity is classified in the government-wide statements as net assets and displayed in three components:

- Invested in capital assets, net of related debt - Consists of 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. Debt related to unspent proceeds or other restricted cash is excluded from the determination.

**TOWN OF ATOKA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2012**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

GOVERNMENT-WIDE NET ASSETS - CONTINUED

- Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation, less any related liabilities.
- Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

GOVERNMENTAL FUND BALANCE - Equity is classified as fund balance and displayed in the following five components, if applicable:

Nonspendable - Amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - Consists of fund balance for which constraints are placed thereon by outside sources or external parties, such as lenders grantors, contributors, laws, regulations, and enabling legislation, including self-imposed legal mandates, less any related liabilities.

Committed - Amounts that can be used only for specific purposes determined by a formal action by the Town's Board of Mayor and Aldermen's highest level of decision-making authority (passage of an ordinance).

Assigned - Assignment of fund balances are done by authority of the Board of Mayor and Aldermen.

Unassigned - All amounts not included in other spendable classifications.

NOTE 2 - DEPOSITS

As of June 30, 2012, the Town's bank balances of cash deposits were entirely insured by either federal depository insurance or by the Bank Collateral Pool of The State of Tennessee.

NOTE 3 - RECEIVABLES AND DEFERRED REVENUE

Receivables as of June 30, 2012, including the applicable allowances for the uncollectible accounts are as follows:

TOWN OF ATOKA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2012

NOTE 3 - RECEIVABLES AND DEFERRED REVENUE - CONTINUED

	<u>GENERAL</u>	<u>STATE STREET AID FUND</u>	<u>DRUG FUND</u>	<u>WATER AND SEWER FUND</u>	<u>TOTAL</u>
Receivables					
Property taxes	\$ 1,013,694	\$ -	\$ -	\$ -	\$ 1,013,694
Accounts	-	-	-	138,527	138,527
Grants	68,620	-	-	-	68,620
Receivable from other governments	312,407	38,602	-	-	351,009
Other	83,918	-	696	-	84,614
Gross receivables	<u>1,478,639</u>	<u>38,602</u>	<u>696</u>	<u>138,527</u>	<u>1,656,464</u>
Less: Allowance for doubtful accounts	<u>(39,725)</u>	<u>-</u>	<u>-</u>	<u>(1,877)</u>	<u>(41,602)</u>
Net receivables	<u>\$ 1,438,914</u>	<u>\$ 38,602</u>	<u>\$ 696</u>	<u>\$ 136,650</u>	<u>\$ 1,614,862</u>

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

	<u>GOVERNMENT- WIDE FINANCIAL STATEMENTS</u>	<u>FUND FINANCIAL STATEMENTS</u>
GENERAL FUND		
Property taxes receivable	\$ 962,832	\$ 962,832
State income tax	-	3,426
	<u>\$ 962,832</u>	<u>\$ 966,258</u>

NOTE 4 - CAPITAL ASSETS

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

	<u>BALANCE JULY 1, 2011</u>	<u>ADDITIONS</u>	<u>TRANSFERS/ RETIREMENTS</u>	<u>BALANCE JUNE 30, 2012</u>
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated				
Land	<u>\$ 1,248,246</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,248,246</u>
Other capital assets				
Buildings and improvements	736,220	-	-	736,220
Equipment	405,557	64,198	(35,324)	434,431
Vehicles	652,600	120,772	(51,753)	721,619
Infrastructure	<u>1,557,608</u>	<u>-</u>	<u>(78,951)</u>	<u>1,478,657</u>

TOWN OF ATOKA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2012

NOTE 4 - CAPITAL ASSETS - CONTINUED

	<u>BALANCE JULY 1, 2011</u>	<u>ADDITIONS</u>	<u>TRANSFERS/ RETIREMENTS</u>	<u>BALANCE JUNE 30, 2012</u>
GOVERNMENTAL ACTIVITIES - CONTINUED				
Total other capital assets at historical cost	\$ 3,351,985	\$ 184,970	\$ (166,028)	\$ 3,370,927
Less accumulated depreciation				
Buildings and improvements	(210,081)	(19,312)	-	(229,393)
Equipment	(261,355)	(38,808)	26,901	(273,262)
Vehicles	(475,063)	(60,855)	37,863	(498,055)
Infrastructure	(80,728)	(36,997)	3,946	(113,779)
Total accumulated depreciation	(1,027,227)	(155,972)	68,710	(1,114,489)
Other capital assets, net	2,324,758	28,998	(97,318)	2,256,438
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 3,573,004</u>	<u>\$ 28,998</u>	<u>\$ (97,318)</u>	<u>\$ 3,504,684</u>
DEPRECIATION EXPENSE WAS CHARGED TO GOVERNMENTAL ACTIVITIES FUNCTIONS AS FOLLOWS				
General government		\$ 6,110		
Public safety		77,550		
Public works		44,195		
Health, welfare, recreation and education		28,117		
TOTAL GOVERNMENTAL ACTIVITIES DEPRECIATION EXPENSE		<u>\$ 155,972</u>		
	<u>BALANCE JULY 1, 2011</u>	<u>ADDITIONS</u>	<u>TRANSFERS/ RETIREMENTS</u>	<u>BALANCE JUNE 30, 2012</u>
BUSINESS-TYPE ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 35,000	\$ -	\$ -	\$ 35,000
Construction in progress	3,264,165	437,699	(3,701,864)	-
Total	3,299,165	437,699	(3,701,864)	35,000
Other capital assets				
Buildings	98,847	-	-	98,847
Vehicles and equipment	277,927	-	(3,500)	274,427
Water distribution system	2,086,905	479,149	-	2,566,054

TOWN OF ATOKA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2012

NOTE 4 - CAPITAL ASSETS - CONTINUED

	<u>BALANCE JULY 1, 2011</u>	<u>ADDITIONS</u>	<u>TRANSFERS/ RETIREMENTS</u>	<u>BALANCE JUNE 30, 2012</u>
BUSINESS-TYPE ACTIVITIES - CONTINUED				
Other capital assets - Continued				
Sewer plant in operation	\$ 1,237,119	\$ 31,960	\$ -	\$ 1,269,079
Sewer lines	<u>2,713,219</u>	<u>3,701,864</u>	<u>-</u>	<u>6,415,083</u>
Total other capital assets at historical cost	<u>6,414,017</u>	<u>4,212,973</u>	<u>(3,500)</u>	<u>10,623,490</u>
Less accumulated depreciation				
Buildings	(19,240)	(3,790)	-	(23,030)
Vehicles and equipment	(145,863)	(34,893)	3,500	(177,256)
Water distribution system	(569,141)	(64,460)	-	(633,601)
Sewer plant in operation	(551,545)	(31,499)	-	(583,044)
Sewer lines	<u>(803,739)</u>	<u>(124,123)</u>	<u>-</u>	<u>(927,862)</u>
Total accumulated depreciation	<u>(2,089,528)</u>	<u>(258,765)</u>	<u>3,500</u>	<u>(2,344,793)</u>
Net depreciable assets	<u>4,324,489</u>	<u>3,954,208</u>	<u>-</u>	<u>8,278,697</u>
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 7,623,654</u>	<u>\$ 4,391,907</u>	<u>\$ (3,701,864)</u>	<u>\$ 8,313,697</u>

**DEPRECIATION EXPENSE WAS
CHARGED TO BUSINESS-TYPE
ACTIVITIES FUNCTIONS AS FOLLOWS**

Water-sewer	<u>\$ 258,765</u>
-------------------	-------------------

NOTE 5 - INTERFUND BALANCES

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

Due to/from other funds		
<u>Fund Due From</u>	<u>Fund due to</u>	<u>Amount</u>
Water and Sewer Fund (major)	General Fund (major)	<u>\$ 261,789</u>

Due to and due from balances result from the time lag between dates that interfund goods and services were provided and payments between funds were made. These amounts are expected to be paid in the subsequent fiscal year.

TOWN OF ATOKA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2012

NOTE 6 -LONG TERM DEBT

Business activities:

Water and Sewer Revenue Bonds, Series 1999 - The original bond in the amount of \$250,000 was issued on July 26, 2000 and is to be paid in monthly installments of \$1,248 beginning July 10, 2000 and maturing on June 10, 2037. The interest rate on this bond is 5.13%. The balance of the bond at June 30, 2012 was \$213,945.

Water and Sewer Revenue and Tax Bonds, Series 2000 - The original bond in the amount of \$121,000 was issued on August 25, 2000 and is to be paid in monthly installments of \$635 beginning September 10, 2000 and maturing on March 10, 2038. The interest rate on this bond is 5.50%. The balance of the bond at June 30, 2012 was \$104,853.

Water and Sewer Revenue and Tax Bonds, TN Municipal Bond Fund, Series 2004 - The original bond in the amount of \$941,698 was issued on August 17, 2006 and is to be paid in annual installments of principal ranging from \$698 to \$57,000 beginning May 25, 2007 and maturing on May 25, 2033. Interest is paid annually at a variable rate (as determined by the Securities Industry and Financial Markets Association (SIFMA) rate) of .54% as of June 30, 2012. The balance of the bond at June 30, 2012 was \$800,698.

Pooled Financing Revenue Bonds, TN Municipal Bond Fund, Series 2008 - The original bond in the amount of \$1,000,000 was issued on January 23, 2009 and is to be paid in annual installments of principal ranging from \$17,000 to \$64,000 beginning May 25, 2010 and maturing on May 25, 2037. Interest is paid monthly at a variable rate (as determined by the Securities Industry and Financial Markets Association (SIFMA) rate) of .54% as of June 30, 2012. The balance of this bond at June 30, 2012 was \$169,136.

State Revolving Fund Loan 2009 - The original loan in the amount of \$3,798,000 was authorized on February 11, 2010 and is to be paid in monthly installments of \$10,934 beginning February 1, 2012 and maturing on February 1, 2032. The loan is to be partially repaid with American Reinvestment and Recovery Act (ARRA) funds in the amount of \$1,899,000. A portion of this ARRA funding totaling \$1,519,200 represents principal forgiveness. Interest is paid monthly at a fixed rate of 1.44%. The total proceeds of the loan have not been fully drawn as of June 30, 2012. The balance of this loan at June 30, 2012 was \$2,088,781, net of ARRA forgiveness of \$1,419,916.

TOWN OF ATOKA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2012

NOTE 6 -LONG TERM DEBT - CONTINUED

Business activities - continued:

The following is a summary of total future debt service requirements for the Town:

Year ending June 30,	Business Type	
	Principal	Interest
2013	\$ 152,909	\$ 53,127
2014	156,687	51,094
2015	160,501	49,016
2016	164,357	46,884
2017	169,253	44,702
2018-2022	832,387	189,117
2023-2027	866,685	128,969
2028-2032	769,366	59,796
2033-2037	99,568	15,074
2038	5,700	134
	<u>\$3,377,413</u>	<u>\$637,913</u>

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

	BALANCE JULY 1, 2011	ADDITIONS	REDUCTIONS	BALANCE JUNE 30, 2012	DUE WITHIN ONE YEAR
Business-type Activities:					
Capital Lease Obligation	\$ 20,959	\$ -	\$ 20,959	\$ -	\$ -
Water Revenue Bonds, Series 1973	4,000	-	4,000	-	-
Water and Sewer Revenue and Tax Series 1999	217,847	-	3,902	213,945	4,373
Water and Sewer Revenue and Tax Bonds, Series 2000	106,652	-	1,799	104,853	1,901
Water and Sewer Revenue and Tax Bonds TN Municipal Bond Fund, Series 2004	826,698	-	26,000	800,698	27,000
Pooled Financing Revenue Bonds, TN Municipal Bond Fund, Series 2008	188,136	-	19,000	169,136	20,000
State Revolving Fund Loan Loan 2009	1,738,640	652,055	301,914	2,088,781	99,635
Totals	<u>\$ 3,102,932</u>	<u>\$ 652,055</u>	<u>\$ 377,574</u>	<u>\$ 3,377,413</u>	<u>\$ 152,909</u>

TOWN OF ATOKA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2012

NOTE 7 - RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town considers it to be more economically feasible to participate in a public entity risk pool as opposed to purchasing commercial insurance. As such, the Town participates in the Tennessee Municipal League Risk Management Pool (TML), which is a public entity risk pool consisting of member political subdivisions of the State of Tennessee. The Town pays an annual premium to the TML pool for its insurance coverage. Each political subdivision that has participated in the TML pool is subject to assessment if the funds it paid as premiums are insufficient to meet the obligations of the TML pool. The TML pool may reinsure through the Local Government Reinsurance Fund of Tennessee or a commercial insurance company.

Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years. There was no significant reduction in the amount of coverage provided during this year.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

The Town does not operate any water producing plant and equipment, but purchases water for its customers from two suppliers, an adjacent utility district and an adjacent City. The current contract term with the utility district is for ten years beginning January 22, 2008. Either party may terminate the contract by providing a notice of termination three years in advance. The current contract term with the adjacent city is for twenty years beginning June 1, 1996. The Town may terminate the contract by providing a notice of the termination six months in advance.

In the normal course of operations, the Town receives grant funds from various federal and state agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

The Town is a party to a wastewater treatment agreement (as amended November 1989) with the adjacent City of Munford and Town of Brighton which was entered into in connection with the construction of joint wastewater facilities. Each party paid for their proportionate share of construction costs and is carrying such costs as capital assets on their books and records. The City of Munford maintains and operates the joint facilities. The City of Munford bills the other two towns for their share of joint maintenance and operation expenses. The Town was billed \$118,968 by the City of Munford under this agreement for the year ended June 30, 2012. No party has the right to cancel or amend the agreement. The duration of the agreement is indefinite and continuing.

**TOWN OF ATOKA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2012**

NOTE 8 - COMMITMENTS AND CONTINGENCIES- CONTINUED

The Town had been named as a defendant along with other individuals, businesses, and governmental entities in a combination of two lawsuits arising from an auto accident on Highway 51. In one lawsuit, the plaintiff filed a Notice of Voluntary Dismissal as to the Town. This lawsuit is considered closed. The Town is denying all liability associated with the auto accident and is actively defending its position in the remaining lawsuit. The ultimate outcome of the remaining lawsuit is unknown at this time.

The Town is a defendant in a lawsuit with a former employee in a matter regarding breach of employment contract and retaliatory discharge. The Town is actively defending its position in the case, and the ultimate outcome of the lawsuit is unknown at this time.

NOTE 9 - SUBSEQUENT EVENTS

In October 2012, the Town entered into a contract with a local Company for waste disposal for its citizens. The contract term is for five years beginning January 1, 2013. If, during the contract term, either party alleges breach of contract against the other, the alleged party has 60 days to remedy the breach. If the party remains in breach after that period, the other party has the option to terminate the contract.

In October 2012, the Town was awarded a Local Parks and Recreation Fund Grant in the amount of \$500,000. The grant, which contains a 50% match requirement, will be used for park and recreation improvements.

In October 2012, the Town was awarded a Federal Emergency Management Agency Grant in the amount of \$1,316,659. The grant, which contains a \$164,586 match requirement, will be used to construct a safe room as part of Town Hall.

NOTE 10 - RETIREMENT PLAN

Employees of the Town are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years

TOWN OF ATOKA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2012

NOTE 10 - RETIREMENT PLAN - CONTINUED

of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as the Town participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

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

The Town requires employees to contribute 5.0 percent of earnable compensation. The Town is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2011 was 7.29% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the Town is established and may be amended by the TCRS Board of Trustees.

For the year ending June 30, 2012, the Town's annual pension cost of \$83,927 to TCRS was equal to the Town's required and actual contributions. The required contribution was determined as part of the July 1, 2009 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected 3.0 percent annual rate of inflation, (c) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5 percent annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten-year period. The Town's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2009 was 11 years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

TREND INFORMATION

<u>FISCAL YEAR ENDING</u>	<u>ANNUAL PENSION COST (APC)</u>	<u>PERCENTAGE OF APC CONTRIBUTED</u>	<u>NET PENSION OBLIGATION</u>
June 30, 2012	\$ 83,927	100.00%	\$ 0.00
June 30, 2011	\$ 76,865	100.00%	\$ 0.00
June 30, 2010	\$ 71,542	100.00%	\$ 0.00

TOWN OF ATOKA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2012

NOTE 10 - RETIREMENT PLAN - CONTINUED

As of July 1, 2011, the most recent actuarial valuation date, the plan was 82.45% percent funded. The actuarial accrued liability (AAL) for benefits was \$1.3 million, and the actuarial value of assets was \$1.07 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.23 million. The covered payroll (annual payroll of active employees covered by the plan) was \$1.0 million, and the ratio of the UAAL to the covered payroll was 22.90%.

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

(Dollar amounts in thousands)

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF PLAN ASSETS (a)	ACTUARIAL ACCRUED LIABILITY (AAL) -ENTRY AGE (b)	UNFUNDED AAL (UAAL) (b)-(a)	FUNDED RATIO (a/b)	COVERED PAYROLL (c)	UAAL AS A PERCENTAGE OF COVERED PAYROLL ((b-a)/(c))
July 01, 2011	\$ 1,074	\$ 1,303	\$ 229	82.45%	\$ 998	22.90%
July 01, 2009	\$ 629	\$ 726	\$ 97	86.63%	\$ 944	10.28%
July 01, 2007	\$ 444	\$ 552	\$ 108	80.43%	\$ 656	16.46%

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF ATOKA, TENNESSEE
RETIREMENT PLAN - ANALYSIS OF FUNDING PROGRESS
JUNE 30, 2012

SCHEDULE OF FUNDING PROGRESS

(dollar amounts in thousands)

<u>ACTUARIAL VALUATION DATE</u>	<u>ACTUARIAL VALUE OF PLAN ASSETS (A)</u>	<u>ACTUARIAL ACCRUED LIABILITY (AAL) - ENTRY AGE (B)</u>	<u>UNFUNDED AAL (UAAL) (B) - (A)</u>	<u>FUNDED RATIO (A) / (B)</u>	<u>ANNUAL COVERED PAYROLL (C)</u>	<u>UAAL AS A PERCENTAGE OF COVERED PAYROLL ((b) - (b)) / (c)</u>
July 01, 2011	\$ 1,074	\$ 1,303	\$ 229	82.45 %	\$ 998	22.90 %
July 01, 2009	\$ 629	\$ 726	\$ 97	86.63 %	\$ 944	10.28 %
July 01, 2007	\$ 444	\$ 552	\$ 108	80.43 %	\$ 656	16.46 %

COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS

**TOWN OF ATOKA, TENNESSEE
COMBINING BALANCE SHEET –
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2012**

	<u>STATE STREET AID FUND</u>	<u>DRUG FUND</u>	<u>TOTAL NONMAJOR GOVERN- MENTAL FUNDS</u>
ASSETS			
Cash	\$ 264,301	\$ 122,321	\$ 386,622
Due from State of Tennessee	38,602	-	38,602
Receivable - other	<u>-</u>	<u>696</u>	<u>696</u>
TOTAL ASSETS	<u><u>\$ 302,903</u></u>	<u><u>\$ 123,017</u></u>	<u><u>\$ 425,920</u></u>
FUND BALANCE			
Restricted			
Street expenditures	302,903	-	302,903
Drug enforcement	<u>-</u>	<u>123,017</u>	<u>123,017</u>
TOTAL FUND BALANCE	<u><u>\$ 302,903</u></u>	<u><u>\$ 123,017</u></u>	<u><u>\$ 425,920</u></u>

TOWN OF ATOKA, TENNESSEE
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012

	<u>STATE STREET AID FUND</u>	<u>DRUG FUND</u>	<u>TOTAL NONMAJOR GOVERN- MENTAL FUNDS</u>
REVENUES			
Intergovernmental revenues			
Gas and motor fuel tax	\$ 148,966	\$ -	\$ 148,966
1989 gas tax	23,972	-	23,972
Gas 3 cent	44,492	-	44,492
State grants	<u>-</u>	<u>3,850</u>	<u>3,850</u>
Total intergovernmental revenues	<u>217,430</u>	<u>3,850</u>	<u>221,280</u>
 Fines and forfeitures	 <u>-</u>	 <u>89,663</u>	 <u>89,663</u>
 Miscellaneous revenues	 <u>-</u>	 <u>860</u>	 <u>860</u>
TOTAL REVENUES	<u>217,430</u>	<u>94,373</u>	<u>311,803</u>
EXPENDITURES			
Public safety			
Supplies	-	125	125
Fixed charges	-	6,620	6,620
Capital outlay	<u>-</u>	<u>40,845</u>	<u>40,845</u>
Total public safety	<u>-</u>	<u>47,590</u>	<u>47,590</u>
 Highways and streets			
Contractual services	<u>192,228</u>	<u>-</u>	<u>192,228</u>
Total highways and streets	<u>192,228</u>	<u>-</u>	<u>192,228</u>
TOTAL EXPENDITURES	<u>192,228</u>	<u>47,590</u>	<u>239,818</u>
EXCESS OF REVENUES OVER EXPENDITURES	25,202	46,783	71,985
OTHER FINANCING SOURCES			
Insurance proceeds	<u>-</u>	<u>8,725</u>	<u>8,725</u>
TOTAL OTHER FINANCING SOURCES	<u>-</u>	<u>8,725</u>	<u>8,725</u>
NET CHANGE IN FUND BALANCE	25,202	55,508	80,710
FUND BALANCE			
Balance at July 1, 2011	<u>277,701</u>	<u>67,509</u>	<u>345,210</u>
Balance at June 30, 2012	<u>\$ 302,903</u>	<u>\$ 123,017</u>	<u>\$ 425,920</u>

TOWN OF ATOKA, TENNESSEE
STATE STREET AID FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2012

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>OVER (UNDER) BUDGET</u>
REVENUES				
Gas and motor fuel tax	\$ -	\$ -	\$ 148,966	\$ 148,966
1989 gas tax	-	-	23,972	23,972
Gas 3 cent	-	-	44,492	44,492
TOTAL REVENUES	<u>-</u>	<u>-</u>	<u>217,430</u>	<u>217,430</u>
EXPENDITURES				
Highways and streets				
Streets	<u>147,934</u>	<u>209,000</u>	<u>192,228</u>	<u>(16,772)</u>
TOTAL EXPENDITURES	<u>147,934</u>	<u>209,000</u>	<u>192,228</u>	<u>(16,772)</u>
EXCESS OF REVENUES OVER EXPENDITURES	(147,934)	(209,000)	25,202	234,202
FUND BALANCE				
Balance at July 1, 2011	<u>277,701</u>	<u>277,701</u>	<u>277,701</u>	<u>-</u>
Balance at June 30, 2012	<u>\$ 129,767</u>	<u>\$ 68,701</u>	<u>\$ 302,903</u>	<u>\$ 234,202</u>

TOWN OF ATOKA, TENNESSEE
DRUG FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2012

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>OVER (UNDER) BUDGET</u>
REVENUES				
Intergovernmental revenues . . .	\$ 3,850	\$ 3,850	\$ 3,850	\$ -
Fines and forfeitures	35,550	35,550	89,663	54,113
Other revenues	600	600	860	260
TOTAL REVENUES	<u>40,000</u>	<u>40,000</u>	<u>94,373</u>	<u>54,373</u>
EXPENDITURES				
Public safety				
Police	40,000	55,000	47,590	(7,410)
TOTAL EXPENDITURES	<u>40,000</u>	<u>55,000</u>	<u>47,590</u>	<u>(7,410)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES . . .	-	(15,000)	46,783	61,783
OTHER FINANCING SOURCES				
Insurance proceeds	-	-	8,725	8,725
TOTAL OTHER FINANCING SOURCES	<u>-</u>	<u>-</u>	<u>8,725</u>	<u>8,725</u>
NET CHANGE IN FUND BALANCE	-	(15,000)	55,508	70,508
FUND BALANCE				
Balance at July 1, 2011	67,509	67,509	67,509	-
Balance at June 30, 2012	<u>\$ 67,509</u>	<u>\$ 52,509</u>	<u>\$ 123,017</u>	<u>\$ 70,508</u>

TOWN OF ATOKA, TENNESSEE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE
YEAR ENDED JUNE 30, 2012

REVENUES

Local taxes	
Property taxes	\$ 992,359
Local sales tax	862,418
Wholesale beer tax	185,518
Liquor distributors tax	98,657
Cable TV tax	22,318
	<u>2,161,270</u>
Licenses and permits	<u>21,306</u>
Intergovernmental revenues	
State sales tax	569,454
State income tax	6,852
State beer tax	4,117
State transportation - PSA	17,214
State mixed drink tax	10,416
State excise tax	1,106
TVA tax	96,900
State reimbursements	9,600
County grants	22,727
Federal grants	89,972
State grants	24,448
	<u>852,806</u>
Fines and forfeitures	<u>60,680</u>
Miscellaneous	
Interest income	52,236
Donations	9,140
Parks and recreation	43,423
Miscellaneous	24,895
	<u>129,694</u>
TOTAL REVENUES	<u>3,225,756</u>

EXPENDITURES

General government	
Legislative	
Personal services	23,719
Contractual services	11,960
	<u>35,679</u>

TOWN OF ATOKA, TENNESSEE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - CONTINUED
YEAR ENDED JUNE 30, 2012

EXPENDITURES - CONTINUED

General government - continued

Judicial

Personal services	\$ 3,600
Contractual services	6,183
	<u>9,783</u>

Finance and Administration

Personal services	132,313
Contractual services	103,551
Supplies	40,881
Fixed charges	22,915
	<u>299,659</u>

Planning and inspection

Personal services	37,446
Contractual services	18,916
Supplies	9,813
Fixed charges	1,853
	<u>68,028</u>

Total general government	<u>413,149</u>
--------------------------------	----------------

Public safety

Police

Personal services	938,170
Contractual services	88,536
Supplies	109,886
Fixed charges	47,072
Capital outlay	22,499
	<u>1,206,163</u>

Fire

Contractual services	320,378
Supplies	5,183
Fixed charges	6,454
Capital Outlay	27,621
	<u>359,636</u>

Total public safety	<u>1,565,799</u>
---------------------------	------------------

Highways and streets

Streets

Personal services	56,801
Supplies	237,912
Fixed charges	6,984
Capital outlay	72,807
Total highways and streets	<u>374,504</u>

**TOWN OF ATOKA, TENNESSEE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - CONTINUED
YEAR ENDED JUNE 30, 2012**

EXPENDITURES - CONTINUED

Health, welfare, recreation, and education

Parks and recreation

Personal services	\$ 104,757
Contractual services	9,991
Supplies	140,390
Fixed charges	15,543
Capital outlay	<u>27,399</u>
Total health, welfare, recreation and education	<u>298,080</u>

Grants and contributions

Grants and contributions	<u>7,000</u>
Total grants and contributions	<u>7,000</u>
TOTAL EXPENDITURES	<u>2,658,532</u>

EXCESS OF REVENUES OVER

EXPENDITURES 567,224

OTHER FINANCING SOURCES

Insurance recoveries	<u>83,918</u>
TOTAL OTHER FINANCING SOURCES	<u>83,918</u>

NET CHANGE IN FUND BALANCE 651,142

FUND BALANCE

Balance at July 1, 2011	<u>4,293,160</u>
Balance at June 30, 2012	<u><u>\$4,944,302</u></u>

SCHEDULES

**TOWN OF ATOKA, TENNESSEE
EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2012**

FEDERAL GRANT/PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH GRANTOR'S NUMBER	RECEIVABLE (DEFERRED)/ RESTRICTED BALANCE AT JULY 1, 2011	RECEIPTS	DISBURSE- MENTS	RECEIVABLE (DEFERRED)/ RESTRICTED BALANCE AT JUNE 30, 2012
<u>CASH FEDERAL AWARDS</u>						
U.S. Environmental Protection Agency Passed through State of Tennessee Capitalization Grants for Clean Water State Revolving Funds						
Loan	66.458	N/A	\$ -	\$ (326,028)	\$ 326,028	\$ -
ARRA Loan	66.458	N/A	-	(65,205)	65,205	-
ARRA Principal Forgiveness	66.458	N/A	-	(260,822)	260,822	-
			-	(652,055)	652,055	-
U.S. Department of Homeland Security Passed through State of Tennessee Public Assistance Disaster Grant	97.036	34101-11612	-	(24,612)	24,612	-
U.S. Department of Transportation (ARRA) Passed through State of Tennessee Highway Planning and Construction Grant	20.205	STP-9900(27)	-	-	65,360	65,360
TOTAL CASH FEDERAL AWARDS			\$ -	\$ (676,667)	\$ 742,027	\$ 65,360

Note: Significant Accounting Policies

All of the federal awards are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures are recorded when the related fund liability is incurred.

**TOWN OF ATOKA, TENNESSEE
EXPENDITURES OF STATE AWARDS
YEAR ENDED JUNE 30, 2012**

<u>PROGRAM TITLE</u>	<u>GRANTOR'S NUMBER</u>	<u>RECEIVABLE (DEFERRED)/ RESTRICTED BALANCE AT JULY 1, 2011</u>	<u>RECEIPTS</u>	<u>DISBURSE- MENTS</u>	<u>RECEIVABLE (DEFERRED)/ RESTRICTED BALANCE AT JUNE 30, 2012</u>
<u>CASH STATE AWARDS</u>					
Department of Transportation					
Highway Safety Grant (FY 11)	K8-11-23	\$ -	\$ (3,850)	\$ 3,850	-
Total Department of Transportation		-	-	-	-
Department of Military					
Public Assistance Disaster Grant (FY 10)	34101-00711	-	-	3,260	3,260
Public Assistance Disaster Grant (FY 11)	34101-11612	-	(3,077)	3,077	-
		-	(3,077)	6,337	3,260
Department of Environment and Conservation					
Tennessee Recreation Initiative Program (FY 12)	GG-12-35925-00	-	(18,112)	18,112	-
TOTAL CASH STATE AWARDS		\$ -	\$ (25,039)	\$ 28,299	\$ 3,260

TOWN OF ATOKA, TENNESSEE
DEBT SERVICE REQUIREMENTS TO MATURITY - CONTINUED
JUNE 30, 2012

YEAR ENDED	WATER AND SEWER REVENUE BOND SERIES 1999		WATER AND SEWER REVENUE BOND SERIES 2000		WATER AND SEWER REVENUE BOND SERIES 2004	
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2013	\$ 4,373	\$ 10,603	\$ 1,901	\$ 5,719	\$ 27,000	\$ 4,324
2014	4,599	10,377	2,008	5,612	28,000	4,178
2015	4,836	10,140	2,121	5,499	29,000	4,027
2016	5,086	9,890	2,241	5,379	30,000	3,870
2017	5,347	9,629	2,367	5,253	32,000	3,708
2018	5,626	9,350	2,501	5,119	33,000	3,535
2019	5,912	9,064	2,642	4,978	34,000	3,357
2020	6,217	8,759	2,791	4,829	35,000	3,174
2021	6,537	8,439	2,948	4,672	37,000	2,985
2022	6,874	8,102	3,114	4,506	38,000	2,785
2023	7,237	7,739	3,290	4,330	40,000	2,580
2024	7,600	7,376	3,476	4,144	41,000	2,364
2025	7,990	6,986	3,672	3,948	43,000	2,142
2026	8,402	6,574	3,879	3,741	45,000	1,910
2027	8,835	6,141	4,098	3,522	47,000	1,667
2028	9,289	5,687	4,329	3,291	48,000	1,413
2029	9,767	5,209	4,573	3,047	50,000	1,153
2030	10,270	4,706	4,831	2,789	52,000	884
2031	10,799	4,177	5,104	2,516	54,000	603
2032	11,355	3,621	5,391	2,229	57,000	312
2033	11,945	3,031	5,695	1,925	698	3
2034	12,553	2,423	6,017	1,603	-	-
2035	13,167	1,809	6,356	1,264	-	-
2036	13,779	1,197	6,715	905	-	-
2037	15,550	387	7,093	527	-	-
2038	-	-	5,700	134	-	-
	<u>\$ 213,945</u>	<u>\$ 161,416</u>	<u>\$ 104,853</u>	<u>\$ 91,481</u>	<u>\$ 800,698</u>	<u>\$ 50,974</u>

TOWN OF ATOKA, TENNESSEE
DEBT SERVICE REQUIREMENTS TO MATURITY - CONTINUED
JUNE 30, 2012

YEAR ENDED	WATER AND SEWER REVENUE BOND SERIES 2008		STATE REVOLVING FUND LOAN 2009		GRAND TOTALS
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	
2013	\$ 20,000	\$ 913	\$ 99,635	\$ 31,568	\$ 206,036
2014	21,000	805	101,080	30,122	207,781
2015	22,000	692	102,544	28,658	209,517
2016	23,000	573	104,030	27,172	211,241
2017	24,000	449	105,539	25,663	213,955
2018	25,000	319	107,069	24,133	215,652
2019	27,000	184	108,620	22,582	218,339
2020	7,136	39	110,195	21,007	199,147
2021	-	-	111,792	19,410	193,783
2022	-	-	113,413	17,789	194,583
2023	-	-	115,058	16,145	196,379
2024	-	-	116,724	14,478	197,162
2025	-	-	118,417	12,785	198,940
2026	-	-	120,133	11,069	200,708
2027	-	-	121,874	9,328	202,465
2028	-	-	123,641	7,561	203,211
2029	-	-	125,434	5,768	204,951
2030	-	-	127,252	3,950	206,682
2031	-	-	56,331	880	134,410
2032	-	-	-	-	79,908
2033	-	-	-	-	23,297
2034	-	-	-	-	22,596
2035	-	-	-	-	22,596
2036	-	-	-	-	22,596
2037	-	-	-	-	23,557
2038	-	-	-	-	5,834
	<u>\$ 169,136</u>	<u>\$ 3,974</u>	<u>\$ 2,088,781</u>	<u>\$ 330,068</u>	<u>\$ 4,015,326</u>

**TOWN OF ATOKA, TENNESSEE
PROPERTY TAXES
YEAR ENDED JUNE 30, 2012**

<u>YEAR OF LEVY</u>	<u>BALANCE JULY1,2011</u>	<u>ASSESSMENT</u>	<u>ADJUSTMENTS/ ABATEMENTS</u>	<u>COLLECTIONS</u>	<u>BALANCE JUNE 30, 2012</u>
2012	\$ -	\$ 962,832	\$ -	\$ -	\$ 962,832
2011	958,446	-	4,076	(929,666)	32,856
2010	45,534	-	312	(33,483)	12,363
2009	12,222	-	-	(9,908)	2,314
2008	3,862	-	-	(2,208)	1,654
2007	1,949	-	-	(742)	1,207
2006	424	-	-	(149)	275
2005	<u>193</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>193</u>
	\$1,022,630	<u>\$ 962,832</u>	<u>\$ 4,388</u>	<u>\$ (976,156)</u>	1,013,694
Allowance for uncollectible property taxes	<u>(51,060)</u>				<u>(39,725)</u>
Net receivables	<u>\$ 971,570</u>				<u>\$ 973,969</u>

<u>YEAR OF LEVY</u>	<u>ASSESSED VALUATION</u>	<u>TAX RATE PER \$100</u>	<u>ASSESSMENTS</u>
2011	\$ 172,693,140	\$ 0.56	\$ 958,446
2010	167,159,060	0.56	927,732
2009	157,468,810	0.56	873,935
2008	121,213,857	0.70	848,497
2007	109,202,777	0.70	764,419
2006	94,977,349	0.60	569,864
2005	81,149,771	0.60	486,899
2004	70,355,071	0.60	422,130
2003	63,453,666	0.60	380,722
2002	54,793,268	0.10	224,652

Delinquent Property Taxes

Uncollected taxes for years prior to 2005 have been charged off for financial reporting purposes. Such amounts are not significant. Uncollected taxes for tax years prior to 2010 have been turned over to Chancery Court for collection.

**TOWN OF ATOKA, TENNESSEE
UTILITY RATES AND NUMBER OF CUSTOMERS
JUNE 30, 2012**

Water Rates

Inside City limits

First 1,000 gallons	\$ 10.00
Over 1,000 gallons	\$3.50 per 1,000 gallons

Outside City limits

First 1,000 gallons	\$ 12.88
Over 1,000 gallons	\$4.70 per 1,000 gallons

The Town had 2,780 water customers as of June 30, 2012.

Sewer Rates

Inside City limits

Minimum	\$ 6.88
Per 1,000 gallons	\$ 3.50

Outside City limits

Minimum	\$ 8.91
Per 1,000 gallons	\$ 3.50

The City had 2,306 water customers as of June 30, 2012.

AWWA WLCC Free Water Audit Software: Reporting Worksheet

Copyright © 2010, American Water Works Association. All Rights Reserved.

WAS v4.2

[Back to Instructions](#)
[Click to access definition](#)
Water Audit Report for: **TOWN OF ATOKA**Reporting Year: **2012** **7/2011 - 6/2012**

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

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

WATER SUPPLIED

[Click here to enter grading in column 'E'](#)

Volume from own sources:	1	n/a	0.000	Million gallons (US)/yr (MG/yr)
Master meter error adjustment (enter positive value):	2	10	1.800	under-registered MG/yr
Water imported:	2	10	214.200	MG/yr
Water exported:	2	n/a	0.000	MG/yr
WATER SUPPLIED:			216.000	MG/yr

AUTHORIZED CONSUMPTION

Billed metered:	2	10	207.170	MG/yr
Billed unmetered:	2	n/a		MG/yr
Unbilled metered:	2	n/a		MG/yr
Unbilled unmetered:	2	10	0.200	MG/yr
AUTHORIZED CONSUMPTION:			207.370	MG/yr

Click here: [2](#)
for help using option buttons below

Pcnt: ☐ Value: ☐ 0.200

Use buttons to select percentage of water supplied OR value

WATER LOSSES (Water Supplied - Authorized Consumption): 8.630 MG/yr

Apparent Losses

Unauthorized consumption:	2	9	0.200	MG/yr
Customer metering inaccuracies:	2	9	0.519	MG/yr
Systematic data handling errors:	2	7	0.500	MG/yr
Apparent Losses:			1.219	

Pcnt: ☐ Value: ☐ 0.200

0.25% ☒ ☐

Choose this option to enter a percentage of billed metered consumption. This is NOT a default value.

Real Losses (Current Annual Real Losses or CARL)

Real Losses = Water Losses - Apparent Losses:	2		7.411	MG/yr
WATER LOSSES:			8.630	MG/yr

NON-REVENUE WATER

NON-REVENUE WATER: 8.830 MG/yr

* Total Water Loss = Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

Length of mains:	2	10	55.5	miles
Number of active AND inactive service connections:	2	9	2,900	
Connection density:			52	conn./mile main
Average length of customer service line:	2	9	40.0	ft. (pipe length between curbstop and customer meter or property boundary)
Average operating pressure:	2	9	78.0	psi

COST DATA

Total annual cost of operating water system:	2	9	\$354,831	\$/Year
Customer retail unit cost (applied to Apparent Losses):	2	8	\$3.50	\$/1000 gallons (US)
Variable production cost (applied to Real Losses):	2	10	\$2.00	\$/Million gallons

PERFORMANCE INDICATORS

Financial Indicators

Non-revenue water as percent by volume of Water Supplied:	4.1%
Non-revenue water as percent by cost of operating system:	1.2%
Annual cost of Apparent Losses:	\$4,267
Annual cost of Real Losses:	\$15

Operational Efficiency Indicators

Apparent Losses per service connection per day:	1.15	gallons/connection/day
Real losses per service connection per day:	7.00	gallons/connection/day
Real Losses per length of main per day:	N/A	
Real Losses per service connection per day per psi pressure:	0.09	gallons/connection/day/psi
Unavoidable Annual Real Losses (UARL):	25.62	million gallons/year
From Above, Real Losses = Current Annual Real Losses (CARL):	7.41	million gallons/year
Infrastructure Leakage Index (ILI) (CARL/UARL):	0.29	

* only the most applicable of these two indicators will be calculated

WATER AUDIT DATA VALIDITY SCORE:

***** YOUR SCORE IS: 94 out of 100 *****

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

PRIORITY AREAS FOR ATTENTION:

Based on the information provided, audit accuracy can be improved by addressing the following components:

- 1: Systematic data handling errors
- 2: Customer retail unit cost (applied to Apparent Losses)
- 3: Customer metering inaccuracies

[For more information, click here to see the Grading Matrix worksheet](#)

**TOWN OF ATOKA, TENNESSEE
BONDS OF PRINCIPAL OFFICIALS
JUNE 30, 2012**

<u>NAME</u>	<u>POSITION</u>	<u>SPECIFIC BOND</u>
Daryl Walker	Mayor	\$ 41,945
Debbie Pickard (CMFOA designee)	Recorder	41,945
Juanita Ayers	Clerk	41,945
Natalie Taube	Clerk	41,945

TOWN OF ATOKA, TENNESSEE
NET ASSETS OF WATER - SEWER FUND
JUNE 30, 2012

	<u>WATER</u>	<u>SEWER</u>	<u>COMBINED</u>
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$1,377,606	\$1,604,029	\$ 2,981,635
Investments - certificates of deposit	230,789	230,789	461,578
Accounts receivable, net	<u>74,888</u>	<u>61,762</u>	<u>136,650</u>
TOTAL CURRENT ASSETS	<u>1,683,283</u>	<u>1,896,580</u>	<u>3,579,863</u>
NONCURRENT ASSETS			
Restricted Assets			
Cash for construction	<u>-</u>	<u>119,450</u>	<u>119,450</u>
Total Restricted Assets	<u>-</u>	<u>119,450</u>	<u>119,450</u>
Capital Assets			
Not being depreciated			
Land	<u>17,500</u>	<u>17,500</u>	<u>35,000</u>
Being depreciated			
Buildings and improvements	49,424	49,423	98,847
Vehicles and equipment	137,214	137,213	274,427
Utility plant in operation	2,566,054	7,684,162	10,250,216
Less accumulated depreciation	<u>(733,744)</u>	<u>(1,611,049)</u>	<u>(2,344,793)</u>
Total Capital Assets, Net of			
Accumulated Depreciation	<u>2,018,948</u>	<u>6,259,749</u>	<u>8,278,697</u>
Other Assets			
Unamortized bond cost	<u>3,576</u>	<u>3,576</u>	<u>7,152</u>
TOTAL NONCURRENT ASSETS	<u>2,040,024</u>	<u>6,400,275</u>	<u>8,440,299</u>
TOTAL ASSETS	<u>\$3,723,307</u>	<u>\$8,296,855</u>	<u>\$ 12,020,162</u>

TOWN OF ATOKA, TENNESSEE
NET ASSETS OF WATER - SEWER FUND - CONTINUED
JUNE 30, 2012

	<u>WATER</u>	<u>SEWER</u>	<u>COMBINED</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts and contracts payable	\$ 79,870	\$ 204,794	\$ 284,664
Accrued expenses	3,883	3,884	7,767
Due to other funds	130,894	130,895	261,789
Current portion of revenue bonds payable	26,637	126,272	152,909
Customer deposits	<u>21,461</u>	<u>21,460</u>	<u>42,921</u>
TOTAL CURRENT LIABILITIES	<u>262,745</u>	<u>487,305</u>	<u>750,050</u>
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS			
Accounts and contracts payable	<u>-</u>	<u>119,450</u>	<u>119,450</u>
NONCURRENT LIABILITIES			
Long term revenue bonds, less current portion	<u>617,680</u>	<u>2,606,824</u>	<u>3,224,504</u>
TOTAL LIABILITIES	<u>880,425</u>	<u>3,213,579</u>	<u>4,094,004</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,392,131	3,385,923	4,778,054
Unrestricted	<u>1,450,751</u>	<u>1,697,353</u>	<u>3,148,104</u>
TOTAL NET ASSETS	<u>2,842,882</u>	<u>5,083,276</u>	<u>7,926,158</u>
TOTAL LIABILITIES AND NET ASSETS			
	<u>\$ 3,723,307</u>	<u>\$ 8,296,855</u>	<u>\$ 12,020,162</u>

**TOWN OF ATOKA, TENNESSEE
REVENUES, EXPENSES AND CHANGES
IN NET ASSETS OF WATER - SEWER FUND
YEAR ENDED JUNE 30, 2012**

	<u>WATER</u>	<u>SEWER</u>	<u>COMBINED</u>
OPERATING REVENUES			
Metered sales and service	\$ 903,151	\$ 846,692	\$ 1,749,843
Connection fees	56,595	11,670	68,265
Tap fees	-	20,050	20,050
Penalties	16,343	16,342	32,685
Other	9,559	9,559	19,118
TOTAL OPERATING REVENUES	<u>985,648</u>	<u>904,313</u>	<u>1,889,961</u>
OPERATING EXPENSES			
Operating and transmission salaries	149,286	149,285	298,571
Fringes	42,341	42,341	84,682
Maintenance services and supplies	60,665	60,666	121,331
Water purchased	413,114	-	413,114
Sewer fees	-	192,724	192,724
Office supplies	11,143	11,142	22,285
Utilities	26,921	26,921	53,842
Insurance	7,428	7,427	14,855
Depreciation	83,802	174,963	258,765
Amortization	993	992	1,985
Miscellaneous	30,515	30,515	61,030
TOTAL OPERATING EXPENSES	<u>826,208</u>	<u>696,976</u>	<u>1,523,184</u>
OPERATING INCOME	<u>159,440</u>	<u>207,337</u>	<u>366,777</u>
NONOPERATING REVENUES (EXPENSES)			
Interest income	16,524	16,523	33,047
Interest expense	(14,528)	(43,496)	(58,024)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>1,996</u>	<u>(26,973)</u>	<u>(24,977)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	<u>161,436</u>	<u>180,364</u>	<u>341,800</u>
CAPITAL CONTRIBUTIONS	<u>-</u>	<u>260,822</u>	<u>260,822</u>
CHANGE IN NET ASSETS	161,436	441,186	602,622
NET ASSETS			
Balance at July 1, 2012	<u>2,681,446</u>	<u>4,642,090</u>	<u>7,323,536</u>
Balance at June 30, 2012	<u>\$ 2,842,882</u>	<u>\$ 5,083,276</u>	<u>\$ 7,926,158</u>

**TOWN OF ATOKA, TENNESSEE
CASH FLOWS OF WATER - SEWER FUND
YEAR ENDED JUNE 30, 2012**

	<u>WATER</u>	<u>SEWER</u>	<u>COMBINED</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 968,976	\$ 894,259	\$ 1,863,235
Cash payments to suppliers	(541,212)	(354,125)	(895,337)
Cash payments to employees for services	(148,952)	(148,951)	(297,903)
Cash payments for taxes	(10,996)	(10,996)	(21,992)
Net cash provided by operating activities	<u>267,816</u>	<u>380,187</u>	<u>648,003</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Increase in due to other funds	<u>32,254</u>	<u>32,255</u>	<u>64,509</u>
Net cash provided by noncapital financing activities	<u>32,254</u>	<u>32,255</u>	<u>64,509</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of capital assets	(479,150)	(577,222)	(1,056,372)
Proceeds from long-term debt	-	652,055	652,055
Payments on principal of long-term debt	(27,350)	(68,443)	(95,793)
Payments on principal under capital lease obligation	(10,480)	(10,479)	(20,959)
Interest and fee payments on long-term debt	(15,030)	(43,998)	(59,028)
Net cash (used) by capital and related financing activities	<u>(532,010)</u>	<u>(48,087)</u>	<u>(580,097)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	<u>14,741</u>	<u>14,741</u>	<u>29,482</u>
Net cash provided by investing activities	<u>14,741</u>	<u>14,741</u>	<u>29,482</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(217,199)	379,096	161,897
CASH AND CASH EQUIVALENTS - JULY 1, 2011	<u>1,594,805</u>	<u>1,344,383</u>	<u>2,939,188</u>
CASH AND CASH EQUIVALENTS - JUNE 30, 2012	<u>\$ 1,377,606</u>	<u>\$ 1,723,479</u>	<u>\$ 3,101,085</u>

TOWN OF ATOKA, TENNESSEE
CASH FLOWS OF WATER - SEWER FUND - CONTINUED
YEAR ENDED JUNE 30, 2012

	<u>WATER</u>	<u>SEWER</u>	<u>COMBINED</u>
RECONCILIATION OF ENDING CASH AND CASH EQUIVALENTS TO LINE ITEMS IN STATEMENT OF NET ASSETS			
Unrestricted cash and cash equivalents	\$ 1,377,606	\$ 1,604,029	\$ 2,981,635
Restricted cash and cash equivalents			
Construction	<u>-</u>	<u>119,450</u>	<u>119,450</u>
Cash and cash equivalents	<u>\$ 1,377,606</u>	<u>\$ 1,723,479</u>	<u>\$ 3,101,085</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income	\$ 159,440	\$ 207,337	\$ 366,777
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation	83,802	174,963	258,765
Amortization	992	993	1,985
(Increase) decrease in accounts receivable	(16,672)	(10,054)	(26,726)
Increase (decrease) in accounts payable ..	39,920	6,614	46,534
Increase (decrease) in accrued expenses ..	<u>334</u>	<u>334</u>	<u>668</u>
Total adjustments	<u>108,376</u>	<u>172,850</u>	<u>281,226</u>
Net cash provided by operating activities	<u>\$ 267,816</u>	<u>\$ 380,187</u>	<u>\$ 648,003</u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES			
Liabilities incurred for acquisition of capital assets	\$ -	\$ 277,679	\$ 277,679
Capital contribution - forgiveness of debt ...	\$ -	\$ 260,822	\$ 260,822
Interest credited to certificates of deposit	\$ 1,783	\$ 1,782	\$ 3,565

**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**

The Honorable Daryl Walker, Mayor
Members of the Board of Aldermen
Town of Atoka, 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 the Town of Atoka, Tennessee as of and for the year ended June 30, 2012, which collectively comprise the Town of Atoka, Tennessee's basic financial statements and have issued our report thereon dated March 18, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of the Town of Atoka, Tennessee is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town of Atoka, 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 Town of Atoka, Tennessee's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Atoka, 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 weakness have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a

prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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 deficiency described in the accompanying Schedule of Findings and Questioned Costs (Item 2010-03) to be a material weakness.

COMPLIANCE AND OTHER MATTERS

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

We noted a certain matter that we reported to management and those charged with governance in a separate letter dated March 18, 2013.

The Town of Atoka, Tennessee's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Town of Atoka, Tennessee's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Mayor and Board of Aldermen, Tennessee Comptroller of the Treasury, 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.

A handwritten signature in black ink, appearing to read "Whitehead Jenkins & Davis, PLLC". The signature is written in a cursive, flowing style.

Covington, Tennessee
March 18, 2013

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Honorable Daryl Walker, Mayor
Members of the Board of Aldermen
Town of Atoka, Tennessee

COMPLIANCE

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

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

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

INTERNAL CONTROL OVER COMPLIANCE

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

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

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

This report is intended solely for the information and use of management, Board of Mayor and Aldermen, Tennessee Comptroller of the Treasury, 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.

A handwritten signature in cursive script, reading "Whitson Jenkins, Esq.", written in dark ink.

**TOWN OF ATOKA, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012**

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of the Town of Atoka, Tennessee.
2. A significant deficiency disclosed during the audit of the financial statements is reported in the Report on Compliance and Internal Control at pages 63 and 64 and in this Schedule of Findings and Questioned Costs. The significant deficiency is reported as a material weakness.
3. No instances of noncompliance material to the financial statements of the Town of Atoka, Tennessee, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies in internal control over major federal programs were disclosed during the audit.
5. The auditor's report on compliance for the major federal award programs of the Town of Atoka, Tennessee expresses an unqualified opinion on all major federal programs.
6. There were no audit findings that are required to be reported in accordance with section 510(a) of OMB Circular A-133.
7. The program tested as a major program was: U.S. Environmental Protection Agency - Capitalization Grants for Clean Water State Revolving Funds (CFDA #66.458 and ARRA #66.458).
8. The threshold for distinguishing between Type A and B programs was \$300,000.
9. The Town of Atoka, Tennessee was determined not to be a low-risk auditee.

**TOWN OF ATOKA, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
YEAR ENDED JUNE 30, 2012**

FINDINGS - FINANCIAL STATEMENT AUDIT

Material Weakness

Item No. 2010-03: Adjustment of General Ledger Account Balances

Condition: A material transaction of the General Fund relating to insurance expense and accounts payable was not recorded and necessitated an adjustment of the Town's financial statements. The Town's general ledger account balances are adjusted at year-end by an outside CPA.

Criteria: The financial statements should be fairly stated and free of material misstatement before commencement of the audit.

Effect: A material audit adjustment was made to the Town's records.

Recommendation: We recommend Town officials ensure that all material transactions are recorded and properly classified in the Town's records before being submitted for audit.

Client response: We will continue our efforts to ensure that all material transactions are provided to our outside CPA for proper accounting and recording in the general ledger at year-end before commencement of the audit.

**TOWN OF ATOKA, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
YEAR ENDED JUNE 30, 2012**

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM

None

**TOWN OF ATOKA, TENNESSEE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
AND QUESTIONED COSTS
YEAR ENDING JUNE 30, 2012**

Items Corrected

Item No. 2011-01: Actual Expenditures Exceeded Budget

Item No. 2011-02: Filing of Data Collection Form

Item not corrected - Repeated in Schedule of Findings and Questioned Costs

Item No. 2010-03: Adjustment of General Ledger Account Balances