



**ANNUAL FINANCIAL REPORT  
YEAR ENDED JUNE 30, 2015**

**CITY OF RED BANK, TENNESSEE**  
**ANNUAL FINANCIAL REPORT**  
**YEAR ENDED JUNE 30, 2015**

**Randall Smith, City Manager**

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**CITY OF RED BANK, TENNESSEE**  
**City Officials**  
**June 30, 2015**

Mayor ..... John Roberts

Vice-Mayor ..... Eddie Pierce

Commissioner..... Terry Pope

Commissioner..... Ed LeCompte

Commissioner..... Rick Causer

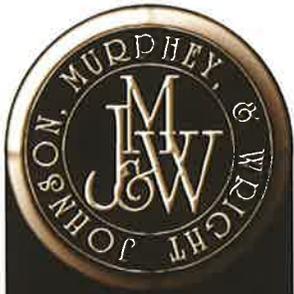
City Judge..... Johnny Houston

City Manager..... Randall Smith

City Recorder ..... Ruth Rohen

Finance Director, CMFO..... John Alexander

## **II. FINANCIAL SECTION**



Certified Public  
Accountants

301 N. Market  
Chattanooga, TN  
37405

Office: 423-756-1170  
Fax: 423-756-1436  
www.jmw-cpa.com

Members  
American Institute  
of Certified  
Public Accountants

Paul Johnson, III, CPA

Brian T. Wright, CPA

Karen Hutcherson, CPA

Marianne Greene, CPA

## INDEPENDENT AUDITOR'S REPORT

To the Mayor and Commissioners  
City of Red Bank, Tennessee

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Red Bank, Tennessee, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Red Bank, Tennessee, as of June 30, 2015, and, the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Changes in Red Bank's Net Pension Liability (Asset) and Related Ratios Based on Participation in the Public Employee Pension Plan of TCRS and Schedule of Red Bank's Contributions Based on Participation in the Public Employee Pension Plan of TCRS 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.

### Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Red Bank, Tennessee's basic financial statements. The Introductory Section, non-major governmental fund financial statements and financial schedules, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The 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 basic financial statements.

The non-major governmental fund financial statements, financial 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the non-major governmental fund financial statements, financial schedules and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

To the Mayor and Commissioners  
City of Red Bank, Tennessee  
Page Three

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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2015, on our consideration of the City of Red Bank, Tennessee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Red Bank, Tennessee's internal control over financial reporting and compliance.

*Johnson, Murphy & Wright, P.C.*

Chattanooga, Tennessee  
November 12, 2015

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Red Bank, Tennessee, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Red Bank, Tennessee for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with the City's financial statements.

### **Financial Highlights**

The assets and deferred outflows of the City of Red Bank, Tennessee exceeded its liabilities and deferred inflows at June 30, 2015, by \$12,404,417 (net position). Of this amount, \$4,755,019 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.

The City's governmental activities operated at a deficit of \$(238,220). The City's business-type activities operated at a surplus of \$41,758.

As of the close of the current fiscal year, the City of Red Bank, Tennessee's governmental funds reported combined ending fund balances of \$6,052,139.

At the end of the current fiscal year, unassigned fund balance for the General Fund was \$5,522,977, or 64.51%, of total General Fund expenditures.

As of the close of the current fiscal year, the City of Red Bank, Tennessee's enterprise funds reported combined ending net position of \$351,823. Of that balance, \$246,919, or 70.18%, is unrestricted.

The implementation of GASB 68 requires that net pension liabilities be recorded on the Statement of Net Position. During the year of implementation, beginning net positions on the statements were adjusted to account for this change.

### **Overview of the Financial Statements**

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

### **Government-wide Financial Statements**

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

The *Statement of Net Position* presents information on all of the City of Red Bank, Tennessee's assets, deferred outflows, liabilities, and deferred inflows with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Red Bank, Tennessee is improving or deteriorating.

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

Both of the government-wide financial statements distinguish functions of the City of Red Bank, Tennessee that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Red Bank, Tennessee includes general government, public safety, public works, state street aid and public welfare and recreation. The business-type activities of the City of Red Bank, Tennessee include the Sewer Fund and the Stormwater Fund.

The government-wide financial statements can be found on pages 15 through 17 of this report.

### **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Red Bank, Tennessee, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Red Bank, Tennessee can be divided into two categories: governmental funds and proprietary funds.

### **Governmental Funds**

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund Balance Sheet and governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between the governmental funds and governmental activities.

The City of Red Bank, Tennessee maintains four individual governmental funds. Information is presented separately in the governmental fund Balance Sheet and in the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund, which is considered to be a major fund. Data from the non-major governmental funds is combined into a single aggregated presentation. Individual fund data for the non-major governmental funds is provided in the form of combining statements later in this report beginning on page 62.

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

The basic governmental fund financial statements can be found on pages 18 through 27 of this report.

### **Proprietary Funds**

The City of Red Bank, Tennessee maintains one type of proprietary fund: enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Red Bank, Tennessee uses enterprise funds to account for its sewer and stormwater operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Sewer Fund and Stormwater Fund, both of which are considered to be major funds of the City of Red Bank, Tennessee.

The basic proprietary fund financial statements can be found on pages 28 through 31 of this report.

### Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 32 through 57 of this report.

### Required Supplementary Information other than MD&A

The schedules related to the Tennessee Consolidated Retirement System are presented as Required Supplementary Information other than MD&A.

### Other Information

The combining statements referred to earlier in connection with the non-major governmental funds can be found on pages 62 and 63 of this report.

### Financial Analysis of the City as a Whole

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Red Bank, Tennessee, assets and deferred outflows exceeded liabilities and deferred inflows by \$12,404,417 at the close of this fiscal year.

The largest portion of the City of Red Bank, Tennessee's net position (57.40%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment and infrastructure), less any debt used to acquire those assets that is still outstanding. The City of Red Bank, Tennessee uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City of Red Bank, Tennessee's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

### City of Red Bank, Tennessee's Net Position

	Governmental Activities		Business-type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Capital assets	\$ 8,226,295	\$ 7,799,663	\$ 104,904	\$ 115,777	\$ 8,331,199	\$ 7,915,440
Other assets	8,844,300	9,695,518	2,799,424	3,256,594	11,643,724	12,952,112
Total assets	\$ 17,070,595	\$ 17,495,181	\$ 2,904,328	\$ 3,372,371	\$ 19,974,923	\$ 20,867,552
Deferred outflows of resources	\$ 304,307	\$ -	\$ 11,309	\$ -	\$ 315,616	\$ -
Long-term liabilities	\$ 1,667,243	\$ 1,835,572	\$ 2,007,750	\$ 3,029,996	\$ 3,674,993	\$ 4,865,568
Other liabilities	439,001	54,145	531,249	1,408	970,250	55,553
Total liabilities	\$ 2,106,244	\$ 1,889,717	\$ 2,538,999	\$ 3,031,404	\$ 4,645,243	\$ 4,921,121
Deferred inflows of resources	\$ 3,216,064	\$ 2,573,000	\$ 24,815	\$ -	\$ 3,240,879	\$ 2,573,000
Net investment in capital assets	\$ 7,015,332	\$ 6,575,949	\$ 104,904	\$ 115,777	\$ 7,120,236	\$ 6,691,726
Restricted	529,162	551,694	-	-	529,162	551,694
Unrestricted	4,508,100	5,904,821	246,919	225,190	4,755,019	6,130,011
Total net position	\$ 12,052,594	\$ 13,032,464	\$ 351,823	\$ 340,967	\$ 12,404,417	\$ 13,373,431

4.27%, or \$529,162, of the City of Red Bank, Tennessee's net position represent resources that are subject to external restrictions on how they may be used. The remaining \$4,755,019 of unrestricted net position may be used to meet the government's ongoing obligations to its citizens and creditors.

At June 30, 2015, the City of Red Bank, Tennessee is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

## Governmental Activities

Governmental activities decreased the City of Red Bank, Tennessee's net position by \$(238,220).

The City of Red Bank, Tennessee's main revenue sources for 2015 were property tax and local sales tax. These taxes helped to grow the City's net position since related expense for this revenue is very low.

The table below provides a summary of the City's net position broken down by governmental and business-type activities. The 2015 beginning net position was adjusted due to the implementation of GASB 68.

### City of Red Bank, Tennessee's Changes in Net Position

	Governmental Activities		Business-type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program revenues:						
Charges for services	\$ 1,275,650	\$ 1,345,442	\$ 320,122	\$ 255,995	\$ 1,595,772	\$ 1,601,437
Operating grants and contributions	434,370	430,507	99,783	139,578	534,153	570,085
Capital grants and contributions	596,642	71,909	-	-	596,642	71,909
General revenues:						
Property taxes	2,510,862	2,487,855	-	-	2,510,862	2,487,855
Other taxes	2,826,947	2,754,368	-	-	2,826,947	2,754,368
Other	121,621	73,615	2,143	678	123,764	74,293
Total revenues	<u>7,766,092</u>	<u>7,163,696</u>	<u>422,048</u>	<u>396,251</u>	<u>8,188,140</u>	<u>7,559,947</u>
Expenses:						
General government	1,887,844	1,498,999	-	-	1,887,844	1,498,999
Public safety	2,706,265	2,677,056	-	-	2,706,265	2,677,056
Public works	2,949,068	1,571,651	-	-	2,949,068	1,571,651
State street aid	233,434	182,635	-	-	233,434	182,635
Public welfare and recreation	192,485	214,730	-	-	192,485	214,730
Interest on long-term debt	35,216	28,029	-	-	35,216	28,029
Sewer	-	-	99,783	139,697	99,783	139,697
Stormwater	-	-	280,507	253,930	280,507	253,930
Total expenses	<u>8,004,312</u>	<u>6,173,100</u>	<u>380,290</u>	<u>393,627</u>	<u>8,384,602</u>	<u>6,566,727</u>
Increase (decrease) in net position	( 238,220)	990,596	41,758	2,624	( 196,462)	993,220
Net position - beginning	<u>12,290,814</u>	<u>12,041,868</u>	<u>310,065</u>	<u>338,343</u>	<u>12,600,879</u>	<u>12,380,211</u>
Net position - ending	<u>\$ 12,052,594</u>	<u>\$ 13,032,464</u>	<u>\$ 351,823</u>	<u>\$ 340,967</u>	<u>\$ 12,404,417</u>	<u>\$ 13,373,431</u>

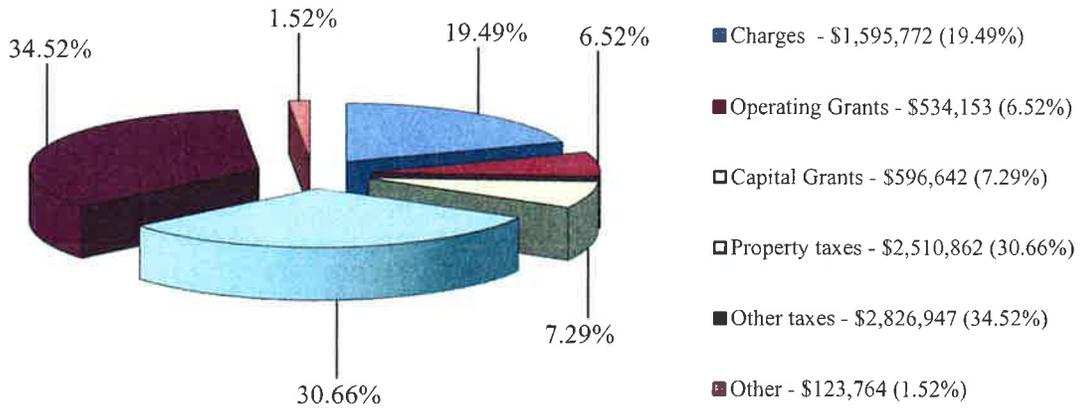
Net position for governmental activities decreased \$(238,220), or (1.94)%, largely due to the following key factors:

Capital expenditures increased significantly in the street department.

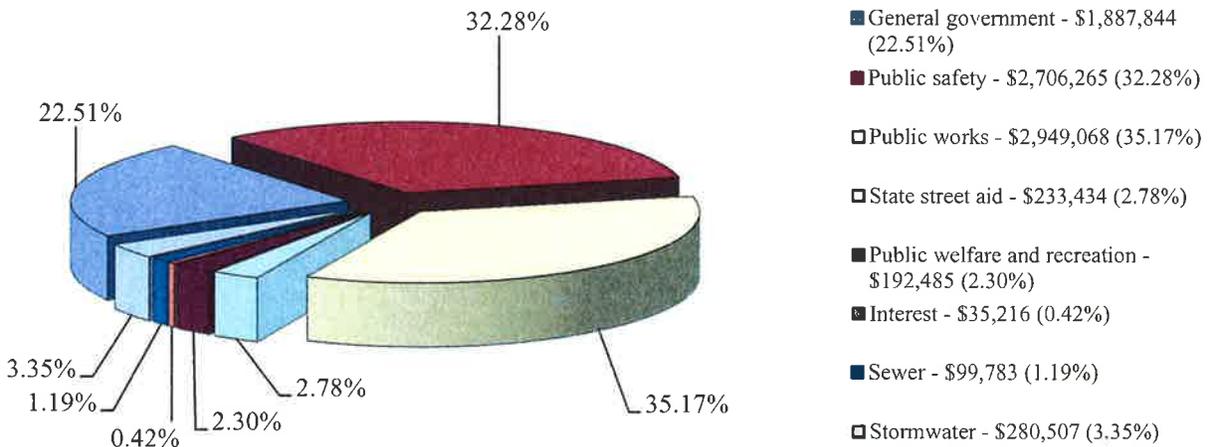
Net position for business-type activities increased by \$41,758, or 13.47%. Revenues were up slightly while expenses were down slightly.

The graphs below summarize the \$8,188,140 of city-wide revenues by source and the associated \$8,384,602 of expense by program. The graphs combine data from both governmental and business-type activities.

### City-Wide Sources of Revenue

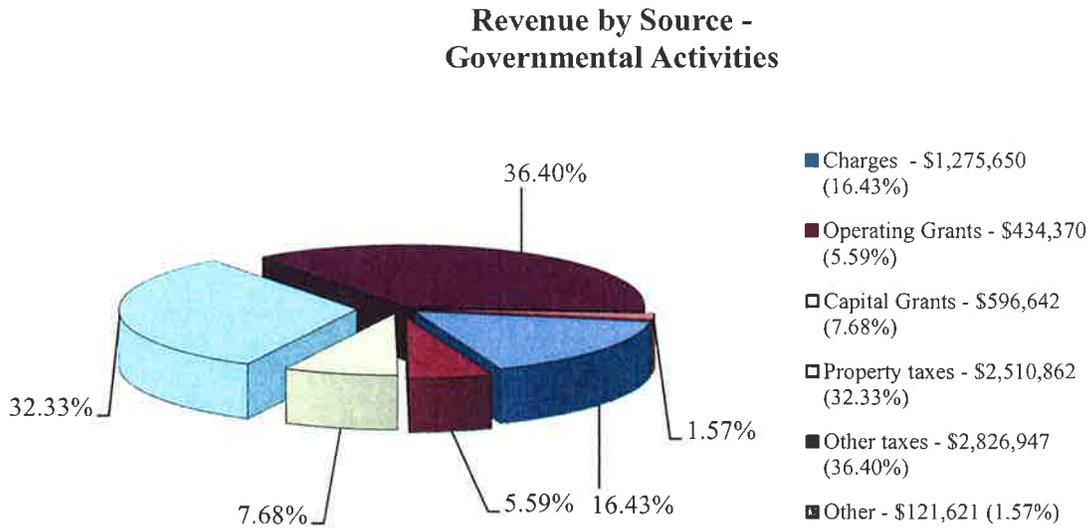


### City-Wide Program Expenses

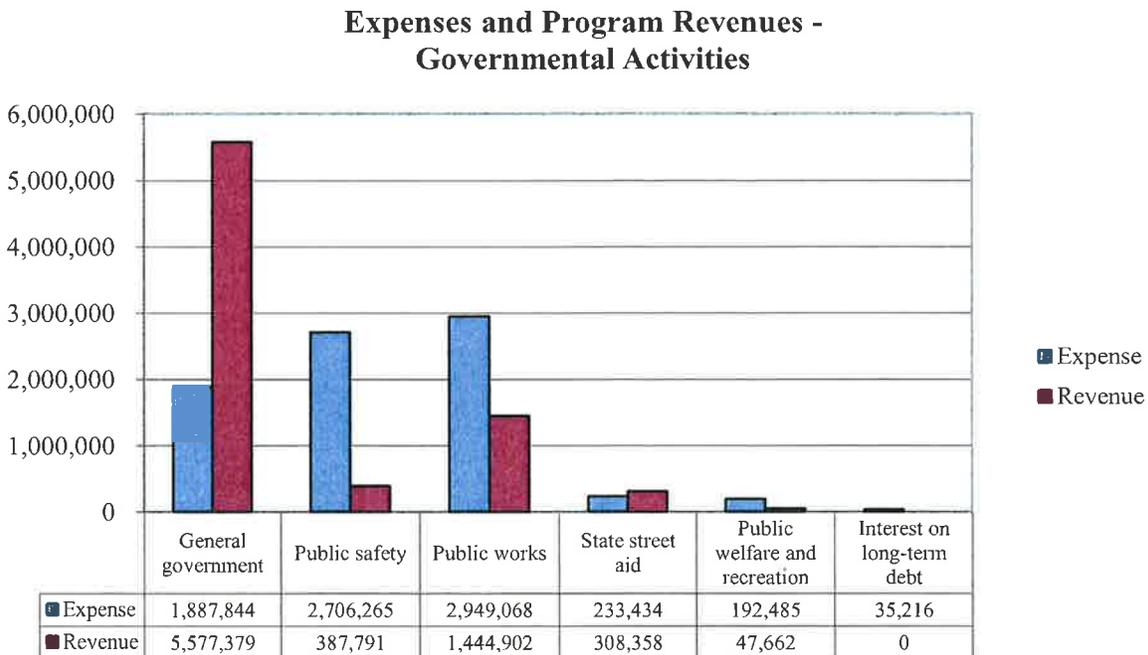


**Governmental Activities**

Governmental activities accounted for revenues of \$7,766,092. The following graph summarizes the revenue by source.



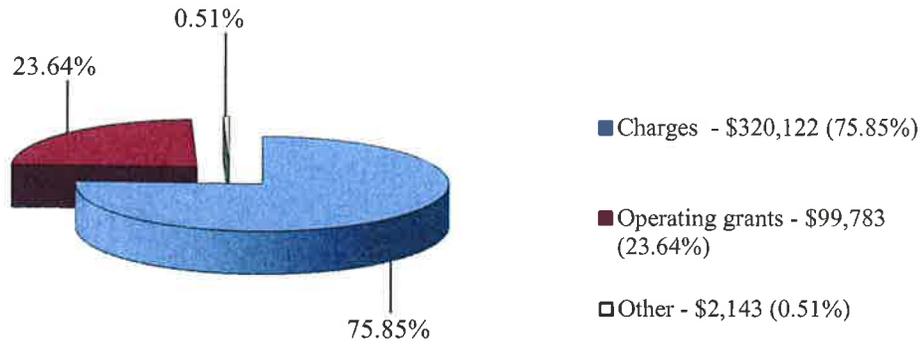
The following graph summarizes the revenue and related expense for each government program of the City. The difference between expense and revenue is the financial burden placed on the City's taxpayers for each program.



**Business-type Activities**

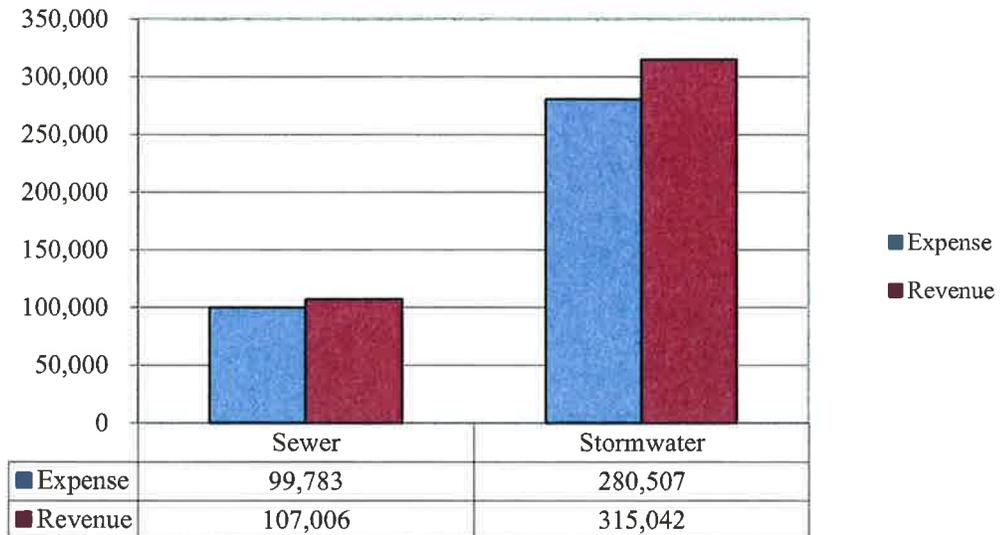
Business-type activities accounted for revenues of \$422,048. The following graph summarizes the revenue by source.

**Revenue by Source - Business-Type Activities**



The following graph summarizes the revenue and related expense of operating the sewer and stormwater systems.

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



## **Financial Analysis of the City's Funds**

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

### **Governmental Funds**

The focus of the City of Red Bank, Tennessee's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Red Bank, Tennessee's financial requirements. The unassigned fund balance may serve as a useful measure of a government's net resources available at the end of the fiscal year for future unforeseen emergencies.

As of the end of the current fiscal year, the City of Red Bank, Tennessee's governmental funds reported combined ending fund balances of \$6,052,139. The fund balance decreased by \$(916,899), which was largely due to the increase in capital outlay expenditures. Key factors are as follows:

Revenues in the General Fund were up \$562,132, representing an 8.21% increase from the prior year.

General Fund's capital outlay expenditures increased by \$2,020,434 from the prior year, representing a 330.06% increase.

State Street Aid Fund intergovernmental revenues increased by \$307,608 from the prior year.

The General Fund is the chief operating fund of the City of Red Bank, Tennessee. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$5,522,977. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance to total General Fund expenditures. Unassigned fund balance represents 64.51% of total fund expenditures.

### **Proprietary Funds**

The City of Red Bank, Tennessee's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position at the end of the year amounted to \$19,879 for the Sewer Fund and \$227,040 for the Stormwater Fund.

### General Fund Budgetary Highlights

Differences between the original budget and the final amended budget netted to \$(706,494). The details are listed below:

There was a \$1,039,072 increase in the budget for revenues, due largely to an increased budget for federal grants of \$956,678.

There was a \$177,182 increase in the budget for the general government expenditures, due largely to an increased budget of \$150,000 for a legal settlement.

There was a \$31,204 increase in the budget for public safety expenditures, due largely to an increased budget of \$22,627 for police salaries.

There was a \$59,109 increase in the budget for public works expenditures, due largely to an increased budget of \$44,581 for street department salaries.

There was a \$5,764 increase in the budget for public welfare and recreation expenditures due to an increased budget of \$5,764 for contract services.

There was a \$1,734,241 increase in the budget for capital outlay expenditures, due largely to the increased budget of the street department of \$927,672 and \$301,378 for solid waste.

There was a \$261,934 increase in the budget for proceeds from debt issuance, due to a new TML bond.

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

### Capital Assets and Debt Administration

#### City of Red Bank, Tennessee's Capital Assets (Net of Depreciation)

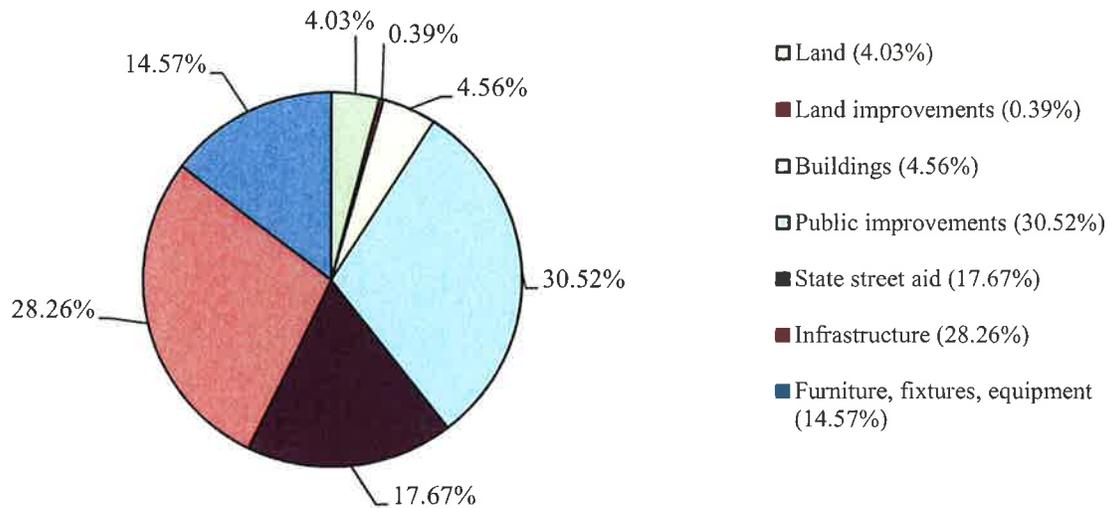
	Governmental Activities	Business-type Activities	Total
Land	\$ 335,742	\$ -	\$ 335,742
Land improvements	-	32,257	32,257
Buildings	380,265	-	380,265
Public improvements	2,542,630	-	2,542,630
State street aid	1,471,835	-	1,471,835
Infrastructure	2,354,128	-	2,354,128
Furniture, fixtures and equipment	<u>1,141,695</u>	<u>72,647</u>	<u>1,214,342</u>
Total capital assets	<u>\$ 8,226,295</u>	<u>\$ 104,904</u>	<u>\$ 8,331,199</u>

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

2015 brush truck	\$ 125,678
2015 garbage truck	\$ 175,700
2015 Ford F-750 dump truck	\$ 78,518
City Hall - court area addition	\$ 57,865
11 police cameras	\$ 55,706

Additional information on the City of Red Bank, Tennessee's capital assets can be found in Note 8 on pages 42 and 43 of this report.

### City-Wide Capital Assets

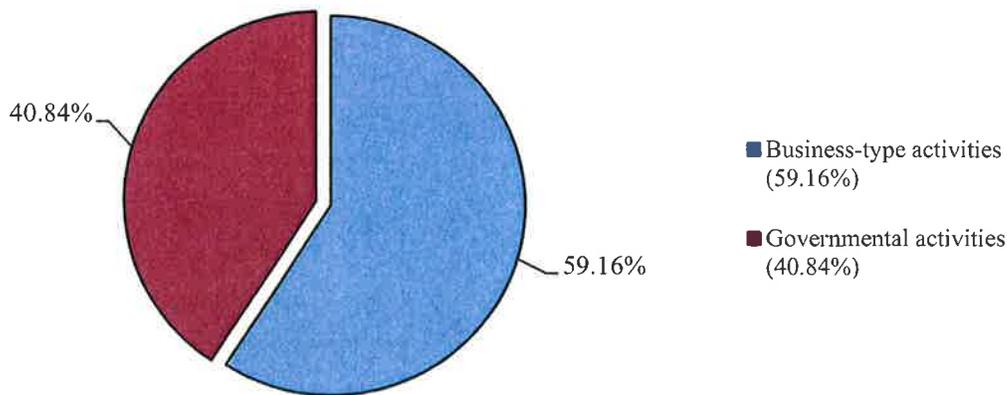


### City of Red Bank, Tennessee's Outstanding Debt

At the end of the current fiscal year, the City of Red Bank, Tennessee had total long-term debt outstanding of \$4,269,873. Of that amount, \$871,325 is due in the next fiscal year.

	Governmental Activities	Business-type Activities	Total
Bonds payable	\$ 742,000	\$ -	\$ 742,000
Notes payable	648,963	2,512,044	3,161,007
Landfill closure and post-closure	107,800	-	107,800
Accrued leave	244,856	14,210	259,066
Current portion	( 341,763)	( 529,562)	( 871,325)
Total long-term debt	<u>\$ 1,401,856</u>	<u>\$ 1,996,692</u>	<u>\$ 3,398,548</u>

### Long-Term Debt By Activity



Additional information on outstanding debt can be found in Note 10 on pages 44 through 47 of this report.

## **Currently Known Conditions Effecting Future Years**

The City of Red Bank continues to see a resurgence of residential and commercial economic activity throughout the City, resulting in increases in two of our major sources of revenue; local sales tax and property tax.

Local sales taxes, which account for nearly 20% of budgeted revenues, reached an historic level for the 3<sup>rd</sup> straight year, surpassing the 2014 Consumer Price Index by nearly 5%. We expect this growth trend to continue with a recently opened Bojangle's restaurant and the pending opening of a Weigels convenience store. Commercial properties that were dormant for an extended period of time, and nearing the end of their economic lives, are being repurposed and occupied. An investor plans to add storage units on a very limited use property along Dayton Boulevard near an exit off US Highway 27. A second investor purchased the Echols Furniture property and has converted the building into his primary business location and a multi-use office space. Thirty new homes have been built in the south end of the City with an average per unit value of \$315,000, adding close to \$32,000 in property taxes. Plans for an additional 80 single family housing units are also in the works off Ashmore Avenue and along Stringers Ridge, which is also located in the south end of the City. Property taxes presently account for 40% of budgeted revenues.

The City expects the transfer of eleven acres of property that formerly held the Red Bank Middle School to take place in fiscal year 2016. The transfer of ownership had been held up by legal and environmental obligations on the part of Hamilton County. Plans for this property, located in the heart of the City, lean towards a mixed use area of small businesses, restaurants and private residences around a 3 acre park. Though development on this site may be a few years away, it is expected to be a major economic boost to an increasingly vibrant community.

The City is in negotiations with a private company to locate their business in Red Bank. This business would repurpose an existing vacant building and bring in 150 to 200 new jobs. We will know of their decision in the first quarter of 2016. This project should increase property tax revenue as well as the economic condition of some of our citizens.

Additionally, the City has worked with the Trust for Public Land to extend the existing Stringers Ridge Trail from North Chattanooga into our White Oak Park. This trail extension should bring increased activity and result in increased sales tax revenue.

The City of Red Bank is located within Hamilton County. The county is the location of a Volkswagen vehicle manufacturing plant and an assortment of ancillary supplier plants. Volkswagen was recently found to have violated the United States air emissions quality standards by using software to mislead monitoring devices. This incident has had a major financial impact on Volkswagen, and could possibly affect their long term ability to continue as a going concern.

Volkswagen's decision to locate in Hamilton County was an economic boom to the regional area; as well as for the State of Tennessee. Volkswagen and their suppliers provided thousands of jobs along with new housing construction and a growth in unrelated business opportunities. The City of Red Bank is feeling the spillover effects of such activity. All public and private stakeholders are greatly concerned about the long term fallout of the emission issue. Volkswagen had plans to open an SUV manufacturing line at the Hamilton County site. They are declaring they intend to continue with those plans. A great deal of recent economic growth and prosperity hinges on Volkswagen, and the stakeholders harbor great concern over the company's fate.

## **Request for Information**

This financial report is designed to provide a general overview of the City of Red Bank, Tennessee's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information may be addressed to the City of Red Bank, Tennessee, 3117 Dayton Boulevard, Red Bank, TN 37415.

## **BASIC FINANCIAL STATEMENTS**

**CITY OF RED BANK, TENNESSEE**  
**Statement of Net Position**  
**June 30, 2015**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business- type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Current assets			
Cash	\$ 4,265,815	\$ 226,630	\$ 4,492,445
Investments	713,696	-	713,696
Property tax receivable - net	2,742,881	-	2,742,881
Accounts receivable - net	568,748	61,117	629,865
Due from grantor	552,793	-	552,793
Internal balances	367	(367)	-
Notes receivable - WWTA	-	529,562	529,562
Total current assets	<u>8,844,300</u>	<u>816,942</u>	<u>9,661,242</u>
Non-current assets			
Other assets			
Notes receivable - WWTA	-	1,982,482	1,982,482
Capital assets			
Land	335,742	-	335,742
Other capital assets - net of accumulated depreciation	7,890,553	104,904	7,995,457
Total capital assets	<u>8,226,295</u>	<u>104,904</u>	<u>8,331,199</u>
Total non-current assets	<u>8,226,295</u>	<u>2,087,386</u>	<u>10,313,681</u>
<b>TOTAL ASSETS</b>	<u>\$ 17,070,595</u>	<u>\$ 2,904,328</u>	<u>\$ 19,974,923</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows related to pensions	\$ 304,307	\$ 11,309	\$ 315,616
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	\$ 19,206	\$ 16	\$ 19,222
Accrued liabilities	78,032	1,671	79,703
Bonds payable - due in one year	237,000	-	237,000
Notes payable - due in one year	97,063	529,562	626,625
Landfill closure and post-closure cost - due in one year	7,700	-	7,700
Total current liabilities	<u>439,001</u>	<u>531,249</u>	<u>970,250</u>
Non-current liabilities			
Bonds payable	505,000	-	505,000
Notes payable	551,900	1,982,482	2,534,382
Landfill closure and post-closure cost	100,100	-	100,100
Accrued leave	244,856	14,210	259,066
Net pension liability	265,387	11,058	276,445
Total non-current liabilities	<u>1,667,243</u>	<u>2,007,750</u>	<u>3,674,993</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 2,106,244</u>	<u>\$ 2,538,999</u>	<u>\$ 4,645,243</u>

(Continued)

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

**CITY OF RED BANK, TENNESSEE**  
**Statement of Net Position (Continued)**  
**June 30, 2015**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business- type Activities</b>	<b>Total</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred revenue - property tax	\$ 2,620,500	\$ -	\$ 2,620,500
Deferred inflows related to pensions	595,564	24,815	620,379
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>\$ 3,216,064</b>	<b>\$ 24,815</b>	<b>\$ 3,240,879</b>
<b>NET POSITION</b>			
Net investment in capital assets	\$ 7,015,332	\$ 104,904	\$ 7,120,236
Restricted for:			
Non-recurring police expenses	55,391	-	55,391
State street aid expenses	466,612	-	466,612
Impound expenses	7,159	-	7,159
Unrestricted	4,508,100	246,919	4,755,019
<b>TOTAL NET POSITION</b>	<b>\$ 12,052,594</b>	<b>\$ 351,823</b>	<b>\$ 12,404,417</b>

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

**CITY OF RED BANK, TENNESSEE**  
**Statement of Activities**  
**Year Ended June 30, 2015**

<b>Functions/Programs</b>	<b>Net (Expense) Revenue and Changes In Net Position</b>						
	<b>Expenses</b>	<b>Program Revenues</b>			<b>Primary Government</b>		
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Primary Government:</b>							
Governmental activities:							
General government	\$ 1,887,844	\$ 91,568	\$ 26,381	\$ -	\$ (1,769,895)	\$ -	\$ (1,769,895)
Public safety	2,706,265	279,330	33,900	74,561	(2,318,474)	-	(2,318,474)
Public works	2,949,068	900,302	66,481	478,119	(1,504,166)	-	(1,504,166)
State street aid	233,434	750	307,608	-	74,924	-	74,924
Public welfare and recreation	192,485	3,700	-	43,962	(144,823)	-	(144,823)
Interest on long-term debt	35,216	-	-	-	(35,216)	-	(35,216)
Total governmental activities	<u>8,004,312</u>	<u>1,275,650</u>	<u>434,370</u>	<u>596,642</u>	<u>(5,697,650)</u>	<u>-</u>	<u>(5,697,650)</u>
Business-type activities:							
Sewer	99,783	7,191	99,783	-	-	7,191	7,191
Stormwater	280,507	312,931	-	-	-	32,424	32,424
Total business-type activities	<u>380,290</u>	<u>320,122</u>	<u>99,783</u>	<u>-</u>	<u>-</u>	<u>39,615</u>	<u>39,615</u>
Total primary government	<u>\$ 8,384,602</u>	<u>\$ 1,595,772</u>	<u>\$ 534,153</u>	<u>\$ 596,642</u>	<u>(5,697,650)</u>	<u>39,615</u>	<u>(5,658,035)</u>
General revenues:							
Unrestricted:							
Property tax					2,510,862	-	2,510,862
Minimum business tax					81,323	-	81,323
Local sales tax					1,119,140	-	1,119,140
Alcoholic beverage tax					298,759	-	298,759
Franchise tax					178,866	-	178,866
In lieu of tax					97,100	-	97,100
Other state taxes					1,051,759	-	1,051,759
Interest					19,460	440	19,900
Other					102,161	1,703	103,864
Total general revenues					<u>5,459,430</u>	<u>2,143</u>	<u>5,461,573</u>
Change in net position					(238,220)	41,758	(196,462)
Net position - beginning (see Note 18)					<u>12,290,814</u>	<u>310,065</u>	<u>12,600,879</u>
Net position - end					<u>\$ 12,052,594</u>	<u>\$ 351,823</u>	<u>\$ 12,404,417</u>

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

**CITY OF RED BANK, TENNESSEE**  
**Governmental Funds**  
**Balance Sheet**  
**June 30, 2015**

	<b>General Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>			
Cash	\$ 3,786,742	\$ 479,073	\$ 4,265,815
Investments	713,694	2	713,696
Property tax receivable - net	2,742,881	-	2,742,881
Accounts receivable - net	512,379	56,369	568,748
Due from grantor	552,793	-	552,793
Due from other funds	6,649	-	6,649
<b>TOTAL ASSETS</b>	<b>\$ 8,315,138</b>	<b>\$ 535,444</b>	<b>\$ 8,850,582</b>
<b>LIABILITIES</b>			
Accounts payable	\$ 19,206	\$ -	\$ 19,206
Accrued liabilities	78,032	-	78,032
Due to other funds	-	6,282	6,282
<b>TOTAL LIABILITIES</b>	<b>\$ 97,238</b>	<b>\$ 6,282</b>	<b>\$ 103,520</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred revenue - property tax	\$ 2,694,923	\$ -	\$ 2,694,923
<b>FUND BALANCES</b>			
Restricted	\$ -	\$ 529,162	\$ 529,162
Unassigned	5,522,977	-	5,522,977
<b>TOTAL FUND BALANCES</b>	<b>\$ 5,522,977</b>	<b>\$ 529,162</b>	<b>\$ 6,052,139</b>

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

**CITY OF RED BANK, TENNESSEE**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Statement of Net Position**  
**June 30, 2015**

Total fund balances per governmental funds balance sheet	\$ 6,052,139
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	8,226,295
Long-term liabilities, including bonds payable, notes payable, landfill closure and post-closure costs, and accrued leave are not due and payable in the current period and, therefore, are not reported in the funds.	(1,743,619)
Some of the City's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	74,423
Pension liabilities, including deferred inflows and deferred outflows, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(556,644)</u>
Net position of governmental activities	<u>\$ 12,052,594</u>

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

**CITY OF RED BANK, TENNESSEE**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**June 30, 2015**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Taxes	\$ 4,311,950	\$ -	\$ 4,311,950
License and permits	55,690	750	56,440
Intergovernmental	1,746,294	307,608	2,053,902
Charges for services	936,180	-	936,180
Fines and forfeitures	227,014	51,181	278,195
Other revenues	<u>128,111</u>	<u>26,226</u>	<u>154,337</u>
<b>TOTAL REVENUES</b>	<u>7,405,239</u>	<u>385,765</u>	<u>7,791,004</u>
<b>EXPENDITURES</b>			
<b>Current expenditures</b>			
General government	1,781,971	-	1,781,971
Public safety	2,560,453	28,567	2,589,020
Public works	1,209,072	-	1,209,072
State street aid	-	173,417	173,417
Public welfare and recreation	125,471	-	125,471
<b>Capital outlay</b>	2,632,582	94,403	2,726,985
<b>Debt service</b>	<u>251,991</u>	<u>111,910</u>	<u>363,901</u>
<b>TOTAL EXPENDITURES</b>	<u>8,561,540</u>	<u>408,297</u>	<u>8,969,837</u>
Excess (deficiency) of revenues over (under) expenditures	(1,156,301)	(22,532)	(1,178,833)
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from debt issuance	<u>261,934</u>	<u>-</u>	<u>261,934</u>
Net changes in fund balances	(894,367)	(22,532)	(916,899)
<b>Fund balances - beginning</b>	<u>6,417,344</u>	<u>551,694</u>	<u>6,969,038</u>
<b>Fund balances - end</b>	<u>\$ 5,522,977</u>	<u>\$ 529,162</u>	<u>\$ 6,052,139</u>

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

**CITY OF RED BANK, TENNESSEE**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes**  
**in Fund Balances of the Governmental Funds to the Statement of Activities**  
**Year Ended June 30, 2015**

Net changes in fund balances for total governmental funds	\$ (916,899)
Governmental funds report capital outlay as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeds depreciation in the current period.	426,632
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	(24,912)
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.	336,385
Bonds issued are reported as a financial resource in the governmental funds. However, this is reported as an increase in long-term liabilities in the Statement of Net Position. During the current year additional loan proceeds were drawn on bonds payable.	(261,934)
Accrued leave reported in the Statement of Activities does not require the use of current financial resources and, therefore, is not reported as expenditures in governmental funds.	17,502
Pension expense for the prior year is not reported in the governmental funds but is reported in the Statement of Activities. Current year pension contributions are reported as an expense in the governmental funds but are not reported in the Statement of Activities.	<u>185,006</u>
Change in net position of governmental activities	<u>\$ (238,220)</u>

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

**CITY OF RED BANK, TENNESSEE**  
**General Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**Year Ended June 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Taxes				
Property tax	\$ 2,406,091	\$ 2,406,091	\$ 2,535,774	\$ 129,683
Minimum business tax	75,900	75,900	81,323	5,423
Local sales tax	1,000,000	1,000,000	1,119,140	119,140
Alcoholic beverage tax	265,000	265,000	298,759	33,759
Franchise tax	160,000	160,000	178,866	18,866
Occupancy tax	-	-	988	988
In lieu of tax	60,000	60,000	97,100	37,100
Total taxes	<u>3,966,991</u>	<u>3,966,991</u>	<u>4,311,950</u>	<u>344,959</u>
License and permits				
Privilege license	3,000	3,000	2,550	(450)
Wrecker permits	400	400	300	(100)
Building license and permits	30,900	30,900	52,840	21,940
Total license and permits	<u>34,300</u>	<u>34,300</u>	<u>55,690</u>	<u>21,390</u>
Intergovernmental				
State sales tax	790,000	790,000	883,549	93,549
State beer tax	5,000	5,000	5,572	572
State mixed drink tax	1,800	1,800	2,744	944
State income tax	24,000	24,000	23,869	(131)
State city streets and transportation system	22,500	22,500	23,768	1,268
TVA in lieu of tax	125,000	125,000	135,037	10,037
Federal grants	-	912,716	601,722	(310,994)
State grants	-	43,962	52,633	8,671
Police supplemental	21,000	21,000	17,400	(3,600)
Total intergovernmental	<u>989,300</u>	<u>1,945,978</u>	<u>1,746,294</u>	<u>(199,684)</u>
Charges for service				
Administrative services	21,000	21,000	21,000	-
Garbage fees	895,000	895,000	900,302	5,302
Rent of facilities	14,400	14,400	14,878	478
Total charges for service	<u>930,400</u>	<u>930,400</u>	<u>936,180</u>	<u>5,780</u>
Fines and forfeitures				
Court fines and costs	171,300	171,300	227,014	55,714

(Continued)

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

**CITY OF RED BANK, TENNESSEE**

**General Fund**

**Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Continued)**  
**Year Ended June 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Other revenues				
Penalties	\$ -	\$ -	\$ 5,330	\$ 5,330
Miscellaneous	-	1,500	13,360	11,860
Sale of assets	-	-	49,949	49,949
Insurance recoveries and refund	-	-	16,225	16,225
Fees and commissions	-	-	3,700	3,700
Interest	10,250	10,250	13,166	2,916
Donations	-	80,894	26,381	(54,513)
Total other revenues	<u>10,250</u>	<u>92,644</u>	<u>128,111</u>	<u>35,467</u>
<b>TOTAL REVENUES</b>	<u>6,102,541</u>	<u>7,141,613</u>	<u>7,405,239</u>	<u>263,626</u>
<b>EXPENDITURES</b>				
<b>Current expenditures</b>				
General government				
Financial administration				
Salaries	295,726	299,017	307,690	(8,673)
Payroll tax	23,174	23,426	23,600	(174)
Employee benefits	666,192	680,502	602,244	78,258
Contract services	122,992	122,992	143,730	(20,738)
Dues and subscriptions	15,800	15,800	19,966	(4,166)
Election	9,180	9,180	2,242	6,938
Insurance	202,650	202,650	248,724	(46,074)
Legal settlement	-	150,000	150,000	-
Miscellaneous	8,100	8,100	9,899	(1,799)
Office supplies and expenses	8,050	8,050	9,138	(1,088)
Operating supplies	4,200	4,200	5,940	(1,740)
Professional services	74,370	74,370	89,980	(15,610)
Repairs and maintenance	136,619	136,619	19,385	117,234
Telephone	5,620	5,620	5,934	(314)
Training	3,100	3,100	2,743	357
Travel	3,700	3,700	3,892	(192)
Utilities	20,200	20,200	18,026	2,174
Total financial administration	<u>1,599,673</u>	<u>1,767,526</u>	<u>1,663,133</u>	<u>104,393</u>

(Continued)

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

**CITY OF RED BANK, TENNESSEE**

**General Fund**

**Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Continued)**  
**Year Ended June 30, 2015**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance</b>
	<b>Original</b>	<b>Final</b>		
<b>EXPENDITURES (Continued)</b>				
<b>Current expenditures (Continued)</b>				
General government (Continued)				
Judicial				
Salaries	\$ 80,744	\$ 89,410	\$ 94,484	\$ (5,074)
Payroll tax	6,177	6,840	7,215	(375)
Employee benefits	4,456	4,456	6,990	(2,534)
Contract services	-	-	3,398	(3,398)
Miscellaneous	-	-	365	(365)
Office supplies and expenses	800	800	359	441
Operating supplies	1,980	1,980	4,305	(2,325)
Telephone	1,435	1,435	942	493
Training	500	500	136	364
Travel	370	370	644	(274)
Total judicial	<u>96,462</u>	<u>105,791</u>	<u>118,838</u>	<u>(13,047)</u>
Total general government	<u>1,696,135</u>	<u>1,873,317</u>	<u>1,781,971</u>	<u>91,346</u>
Public safety				
Police department				
Salaries	1,110,270	1,132,897	1,143,638	(10,741)
Payroll tax	84,936	86,856	81,569	5,287
Employee benefits	134,010	136,556	131,423	5,133
Contract services	172,292	172,292	169,210	3,082
Dues and subscriptions	2,000	2,000	1,071	929
Insurance	2,000	2,000	2,700	(700)
Office supplies and expenses	950	950	1,317	(367)
Operating supplies	21,400	21,400	19,790	1,610
Professional services	2,500	2,500	1,299	1,201
Repairs and maintenance	17,000	17,000	18,739	(1,739)
Telephone	15,000	15,000	9,655	5,345
Training	12,500	12,500	14,862	(2,362)
Travel	8,000	8,000	6,860	1,140
Uniforms	15,900	15,900	17,094	(1,194)
Vehicle	81,000	81,000	54,073	26,927
Total police department	<u>1,679,758</u>	<u>1,706,851</u>	<u>1,673,300</u>	<u>33,551</u>

(Continued)

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

**CITY OF RED BANK, TENNESSEE**

**General Fund**

**Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Continued)**

**Year Ended June 30, 2015**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance</b>
	<b>Original</b>	<b>Final</b>		
<b>EXPENDITURES (Continued)</b>				
<b>Current expenditures (Continued)</b>				
Public safety (Continued)				
Fire department				
Salaries	\$ 626,535	\$ 628,716	\$ 622,516	\$ 6,200
Payroll tax	47,930	48,097	46,190	1,907
Employee benefits	51,392	51,655	49,807	1,848
Contract services	25,533	25,533	24,518	1,015
Dues and subscriptions	925	925	1,108	(183)
Fire hydrant rental	2,752	2,752	2,294	458
Insurance	7,272	7,272	40	7,232
Office supplies and expenses	1,000	1,000	558	442
Operating supplies	17,425	17,425	19,377	(1,952)
Repairs and maintenance	32,200	32,200	35,429	(3,229)
Telephone	4,980	4,980	4,214	766
Training	12,050	12,050	6,173	5,877
Travel	2,500	2,500	1,569	931
Uniforms	27,075	28,575	22,903	5,672
Utilities	24,300	24,300	18,240	6,060
Vehicle	31,500	31,500	32,217	(717)
Total fire department	<u>915,369</u>	<u>919,480</u>	<u>887,153</u>	<u>32,327</u>
Total public safety	<u>2,595,127</u>	<u>2,626,331</u>	<u>2,560,453</u>	<u>65,878</u>

(Continued)

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

**CITY OF RED BANK, TENNESSEE**

**General Fund**

**Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Continued)**

**Year Ended June 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
<b>EXPENDITURES (Continued)</b>				
<b>Current expenditures (Continued)</b>				
Public works				
Street department				
Salaries	\$ 440,876	\$ 485,457	\$ 490,782	\$ (5,325)
Payroll tax	34,232	37,642	36,556	1,086
Employee benefits	58,294	63,675	60,175	3,500
Contract services	228,113	228,113	72,519	155,594
Insurance	2,000	2,000	3,475	(1,475)
Office supplies	3,800	3,800	3,763	37
Operating supplies	42,400	42,400	21,979	20,421
Repairs and maintenance	16,750	16,750	11,113	5,637
Telephone	3,500	3,500	3,079	421
Training	1,500	1,500	1,518	(18)
Travel	380	380	-	380
Uniforms	1,300	1,300	320	980
Utilities	10,200	10,200	8,262	1,938
Vehicle	55,400	55,400	47,338	8,062
Total street department	<u>898,745</u>	<u>952,117</u>	<u>760,879</u>	<u>191,238</u>
Solid waste				
Salaries	240,303	245,095	237,706	7,389
Payroll tax	18,383	18,750	17,260	1,490
Employee benefits	114,240	114,818	112,094	2,724
Contract services	32,268	32,268	25,000	7,268
Insurance	1,000	1,000	32	968
Miscellaneous	150	150	233	(83)
Office supplies and expenses	500	500	-	500
Operating supplies	16,950	16,950	8,153	8,797
Repairs and maintenance	6,000	6,000	789	5,211
Telephone	150	150	252	(102)
Uniforms	800	800	-	800
Utilities	500	500	456	44
Vehicle expense	70,000	70,000	46,218	23,782
Total solid waste	<u>501,244</u>	<u>506,981</u>	<u>448,193</u>	<u>58,788</u>
Total public works	<u>1,399,989</u>	<u>1,459,098</u>	<u>1,209,072</u>	<u>250,026</u>

(Continued)

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

**CITY OF RED BANK, TENNESSEE**

**General Fund**

**Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Continued)**  
**Year Ended June 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
<b>EXPENDITURES (Continued)</b>				
<b>Current expenditures (Continued)</b>				
Public welfare and recreation				
Animal control				
Contract services	\$ 59,071	\$ 59,071	\$ 59,071	\$ -
Parks and recreation				
Contract services	2,500	8,264	7,993	271
Operating supplies	4,600	4,600	3,534	1,066
Repairs and maintenance	14,800	14,800	9,852	4,948
Utilities	63,375	63,375	45,021	18,354
Total parks and recreation	<u>85,275</u>	<u>91,039</u>	<u>66,400</u>	<u>24,639</u>
Total public welfare and recreation	<u>144,346</u>	<u>150,110</u>	<u>125,471</u>	<u>24,639</u>
<b>Capital outlay</b>				
General government	3,500	220,673	251,187	(30,514)
Police department	27,120	230,538	241,119	(10,581)
Fire department	15,100	50,700	53,958	(3,258)
Street department	1,001,250	1,928,922	1,613,660	315,262
Solid waste	170,840	472,218	453,775	18,443
Parks and recreation	-	49,000	18,883	30,117
Total capital outlay	<u>1,217,810</u>	<u>2,952,051</u>	<u>2,632,582</u>	<u>319,469</u>
<b>Debt service</b>				
Principal and interest	<u>266,435</u>	<u>266,435</u>	<u>251,991</u>	<u>14,444</u>
<b>TOTAL EXPENDITURES</b>	<u>7,319,842</u>	<u>9,327,342</u>	<u>8,561,540</u>	<u>765,802</u>
Excess (deficiency) of revenues over (under) expenditures	(1,217,301)	(2,185,729)	(1,156,301)	1,029,428
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from debt issuance	<u>-</u>	<u>261,934</u>	<u>261,934</u>	<u>-</u>
Net changes in fund balances	(1,217,301)	(1,923,795)	(894,367)	1,029,428
<b>Fund balances - beginning</b>	<u>6,417,344</u>	<u>6,417,344</u>	<u>6,417,344</u>	<u>-</u>
<b>Fund balances - end</b>	<u>\$ 5,200,043</u>	<u>\$ 4,493,549</u>	<u>\$ 5,522,977</u>	<u>\$ 1,029,428</u>

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

**CITY OF RED BANK, TENNESSEE**  
**Proprietary Funds**  
**Statement of Net Position**  
**June 30, 2015**

	<b>Enterprise Funds</b>		<b>Totals</b>
	<b>Sewer Fund</b>	<b>Stormwater Fund</b>	
<b>ASSETS</b>			
Current assets			
Cash	\$ 19,879	\$ 206,751	\$ 226,630
Accounts receivable - net	-	61,117	61,117
Notes receivable - WWTA	529,562	-	529,562
Total current assets	<u>549,441</u>	<u>267,868</u>	<u>817,309</u>
Non-current assets			
Other assets			
Notes receivable - WWTA	1,982,482	-	1,982,482
Capital assets			
Other capital assets - net of accumulated depreciation	-	104,904	104,904
Total non-current assets	<u>1,982,482</u>	<u>104,904</u>	<u>2,087,386</u>
<b>TOTAL ASSETS</b>	<u>\$ 2,531,923</u>	<u>\$ 372,772</u>	<u>\$ 2,904,695</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows related to pensions	\$ -	\$ 11,309	\$ 11,309
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	\$ -	\$ 16	\$ 16
Accrued liabilities	-	1,671	1,671
Due to other funds	-	367	367
Notes payable - due in one year	529,562	-	529,562
Total current liabilities	<u>529,562</u>	<u>2,054</u>	<u>531,616</u>
Non-current liabilities			
Notes payable	1,982,482	-	1,982,482
Accrued leave	-	14,210	14,210
Net pension liability	-	11,058	11,058
Total non-current liabilities	<u>1,982,482</u>	<u>25,268</u>	<u>2,007,750</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 2,512,044</u>	<u>\$ 27,322</u>	<u>\$ 2,539,366</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows related to pensions	\$ -	\$ 24,815	\$ 24,815
<b>NET POSITION</b>			
Net investment in capital assets	\$ -	\$ 104,904	\$ 104,904
Unrestricted	19,879	227,040	246,919
<b>TOTAL NET POSITION</b>	<u>\$ 19,879</u>	<u>\$ 331,944</u>	<u>\$ 351,823</u>

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

**CITY OF RED BANK, TENNESSEE**  
**Proprietary Funds**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**Year Ended June 30, 2015**

	<u>Enterprise Funds</u>		<u>Totals</u>
	<u>Sewer Fund</u>	<u>Stormwater Fund</u>	
<b>OPERATING REVENUES</b>			
Rent of facilities	\$ 7,191	\$ -	\$ 7,191
Stormwater fees	-	311,507	311,507
Other	-	1,424	1,424
Total operating revenues	<u>7,191</u>	<u>312,931</u>	<u>320,122</u>
<b>OPERATING EXPENSES</b>			
Stormwater collection	-	239,955	239,955
Administration	-	29,679	29,679
Depreciation	-	10,873	10,873
Total operating expenses	<u>-</u>	<u>280,507</u>	<u>280,507</u>
Operating income (loss)	<u>7,191</u>	<u>32,424</u>	<u>39,615</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Interest earnings	32	408	440
Sale of assets	-	1,703	1,703
Intergovernmental revenue	99,783	-	99,783
Interest expense	(99,783)	-	(99,783)
Total non-operating revenues (expenses)	<u>32</u>	<u>2,111</u>	<u>2,143</u>
Changes in net position	7,223	34,535	41,758
<b>Net position - beginning (see Note 18)</b>	<u>12,656</u>	<u>297,409</u>	<u>310,065</u>
<b>Net position - end</b>	<u>\$ 19,879</u>	<u>\$ 331,944</u>	<u>\$ 351,823</u>

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

**CITY OF RED BANK, TENNESSEE**  
**Proprietary Funds**  
**Statement of Cash Flows**  
**Year Ended June 30, 2015**

	<u>Enterprise Funds</u>		<u>Totals</u>
	<u>Sewer Fund</u>	<u>Stormwater Fund</u>	
<b>Cash Flows from Operating Activities</b>			
Receipts from customers	\$ 7,191	\$ 287,121	\$ 294,312
Payments to suppliers	-	(183,332)	(183,332)
Payments to employees	-	(100,596)	(100,596)
Net cash provided (used) by operating activities	<u>7,191</u>	<u>3,193</u>	<u>10,384</u>
<b>Cash Flows from Noncapital Financing Activities</b>			
Sale of assets	-	1,703	1,703
<b>Cash Flows from Investing Activities</b>			
Interest income	32	408	440
Net increase (decrease) in cash	7,223	5,304	12,527
Cash - beginning	12,656	201,447	214,103
Cash - end	<u>\$ 19,879</u>	<u>\$ 206,751</u>	<u>\$ 226,630</u>
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</b>			
Operating income (loss)	\$ 7,191	\$ 32,424	\$ 39,615
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation	-	10,873	10,873
2014 pension contribution	-	11,749	11,749
Increase (decrease) in net pension liability	-	(31,593)	(31,593)
Increase (decrease) in deferred inflows related to pensions	-	24,815	24,815
(Increase) decrease in deferred outflows related to pensions	-	(11,309)	(11,309)
(Increase) decrease in accounts receivable - net	-	(25,810)	(25,810)
Increase (decrease) in accrued liabilities	-	263	263
Increase (decrease) in accounts payable	-	16	16
Increase (decrease) in due to other funds	-	(430)	(430)
Increase (decrease) in accrued leave	-	(7,805)	(7,805)
Total adjustments	<u>-</u>	<u>(29,231)</u>	<u>(29,231)</u>
Net cash provided (used) by operating activities	<u>\$ 7,191</u>	<u>\$ 3,193</u>	<u>\$ 10,384</u>

(Continued)

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

**CITY OF RED BANK, TENNESSEE**  
**Proprietary Funds**  
**Statement of Cash Flows**  
**Year Ended June 30, 2015**

	<u>Enterprise Funds</u>		<u>Totals</u>
	<u>Sewer Fund</u>	<u>Stormwater Fund</u>	
<b>Non-cash Investing and Financing Activities</b>			
Debt payments made on behalf of the Sewer Fund by HCWWTA (Note 20)			
Principal	\$ 495,937	\$ -	\$ 495,937
Interest	99,783	-	99,783
Total	<u>\$ 595,720</u>	<u>\$ -</u>	<u>\$ 595,720</u>

Non-cash transaction during year ended June 30, 2007, when Hamilton County Water and Wastewater Treatment Authority (HCWWTA) bought Red Bank's sewer system, as part of the sale, HCWWTA agreed to pay the principal and interest on the City's debt of the sewer system. During year ended June 30, 2015, HCWWTA paid \$495,937 in principal and \$99,783 in interest directly to the payees.

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

**CITY OF RED BANK, TENNESSEE**  
**Notes to Financial Statements**  
**June 30, 2015**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

**A. Reporting Entity**

In evaluating how to define the reporting entity, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP and GASB issued Statement No. 14, *The Financial Reporting Entity*. This statement requires that the financial statements present the City of Red Bank, Tennessee (the primary government) and any component units. Component units generally are legally separate entities for which a primary government is financially accountable. Financial accountability ordinarily involves meeting one of the following criteria: the primary government is accountable for the potential component unit (i.e., the primary government appoints the voting majority of its board and the primary government is able to impose its will upon the potential component unit); or there is a possibility that the potential component unit may provide specific financial benefits or impose specific financial burdens on the primary government.

Based on the foregoing criteria, there are no entities, which meet the above criteria for inclusion in the City of Red Bank, Tennessee's financial statements.

**B. Basic Financial Statements**

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

**Government-wide Statements**

The Statement of Net Position and Statement of Activities display information about the primary government. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. In the government-wide Statement of Net Position, both the governmental and business-type activities columns (a) are presented on a consolidated basis for column, and (b) are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### B. Basic Financial Statements (Continued)

#### Government-wide Statements (Continued)

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

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

#### Fund Financial Statements

The fund financial statements provide information about the City's funds, including its governmental funds and enterprise funds. Separate statements for each fund category are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The City reports the following major governmental fund:

#### General Fund

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

The City reports the following major enterprise funds:

#### Sewer Fund

This fund is used to account for the provision of sewer services to the City.

#### Stormwater Fund

This fund is used to account for the provision of stormwater services to the City.

### C. Measurement Focus - Basis of Accounting

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

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### C. Measurement Focus - Basis of Accounting (Continued)

Government fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Property taxes, sales taxes, franchise taxes, gasoline taxes, wholesale beer taxes, income taxes, mixed drink taxes, and in-lieu of taxes are susceptible to accrual. Licenses and permits, fines and forfeitures, gross receipts taxes and excise taxes are recorded as revenue when received in cash because they are generally not measurable until actually received. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operation. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

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

### D. Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements.

During April and May, budget requests from departments are submitted to the City Manager. Budget items submitted are discussed at these regularly scheduled meetings and in special work session meetings in June. Subsequently the budget is enacted through vote of the Commissioners, with an operative date of July 1.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### D. Budgets and Budgetary Accounting (Continued)

Formal budgets are adopted for the General Fund and Special Revenue Funds on a basis consistent with accounting principles generally accepted in the United States of America (GAAP). Budgets for Enterprise Funds are adopted by the Commissioners for a management tool. Therefore, no adjustments are necessary to convert to the actual GAAP data from the budgetary basis. These formal budgets are adopted on a departmental basis. The Finance Director is authorized to transfer budgeted amounts between departments within any fund. However, any revision that alters the total expenditures of any fund must be approved by the Board of Commissioners.

Budgeted amounts reflected in the accompanying final budget and actual comparison are as originally adopted in accordance with GAAP, or as amended by the Commissioners throughout the year. All appropriations which are not expended lapse at year-end.

During the year, supplementary appropriations were necessary. The effect of the amendments netted to \$(715,293) in the governmental funds and \$(13,656) in the enterprise funds.

### E. Cash and Cash Equivalents

Cash consists of cash-on-hand and cash-on-deposit with financial institutions. For purposes of reporting cash on the Statement of Cash Flows, the City considers unrestricted highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Cash is reported on the Statement of Net Position as "Cash". At June 30, 2015, the City had no cash equivalents.

### F. Investments

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

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

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

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

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

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

- The Local Government Investment Pool created by Title 9.

### G. Property Taxes

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

Property taxes are recognized on the modified accrual basis on the governmental fund financial statements. Proper allowances are made for estimated uncollectible accounts and delinquent accounts when necessary. The tax rate for the 2015 levy is \$1.35 per \$100 of assessed valuation, and the tax rate for the 2014 levy is \$1.35 per \$100 of assessed valuation.

Property taxes for the 2015 levy are considered to be owed to the City as of the lien date on January 1, 2015. Therefore, the entire 2015 levy was recorded as a receivable and deferred revenue as of June 30, 2015.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**H. Interfund Transactions**

**Interfund Receivables and Payables**

Short-term advances between funds are not eliminated but accounted for in the appropriate interfund receivable and payable accounts classified as due to other funds and due from other funds in the fund financial statements, and are subject to elimination upon consolidation. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

**Transactions between Funds**

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

**I. Prepayment of Expenditures**

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

**J. Inventories**

Supplies and materials are recorded as expenditures/expenses at the time items are purchased and are not inventoried at year-end due to lack of materiality.

**K. Restricted Assets**

Certain resources can be classified as restricted assets on the Statement of Net Position because their use is limited. At year-end, there were no restricted assets to be reported.

**L. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., primary roads, secondary roads, drainage), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extended assets’ lives are not capitalized.

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

<u>Asset Class</u>	<u>Years</u>
Buildings	10-50
Public improvements	5-50
State street aid	5-40
Infrastructure	50
Furniture, fixtures and equipment	3-10

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**L. Capital Assets (Continued)**

Capital assets of the proprietary funds are accounted for in the proprietary fund and are stated at cost or estimated fair value when original cost is not available. Major additions are capitalized while maintenance and repairs, including the cost of minor items of property, are expensed as incurred. Upon disposal of such assets, the accounts are relieved of the related costs and accumulated depreciation, and resulting gains or losses are reflected in income. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets. The estimated useful lives are as follows:

Land improvements	20 years
Plant in service	20 years
Equipment	10 years

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

**M. Deferred Outflows/Inflows of Resources**

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. Currently, the Entity has only one type of item that qualifies for reporting in this category: deferred outflows related to pensions.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. Currently, the City has two types of items that qualify for reporting in this category: deferred revenue - property taxes and deferred inflows related to pensions.

**N. Compensated Absences**

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

**O. Long-term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the Statement of Net Position.

**P. Pensions**

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

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Q. Net Position

Net position is the residual of all elements presented in the Statement of Financial Position (i.e., assets + deferred outflows - liabilities - deferred inflows). Net investment in capital assets represent capital assets reduced by accumulated depreciation and by any outstanding debt related to the acquisition, construction or improvement of those assets. Restricted net position represents restricted assets reduced by any related outstanding debt.

### R. Fund Balance

Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* established standards for fund balance classifications for state and local governments and requires that resources be classified for accounting reporting purposes into the following fund balances:

**Nonspendable:** The City cannot spend these amounts due to form.

**Restricted:** The State or other sources can restrict funds to specific purposes by externally imposing restrictions or imposing by law through constitutional provisions or enabling legislation.

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

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

**Unassigned:** Amounts not classified as nonspendable, restricted, committed, or assigned.

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

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

### S. Estimates

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

### T. Events Occurring after Reporting Date

The City has evaluated events and transactions that occurred between June 30, 2015, and November 12, 2015, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

## NOTE 2 - DEPOSITS AND INVESTMENTS

### Deposits

Custodial credit risk is the risk that in the event of a bank failure the City's deposits may not be returned to it. The City does not have a deposit or investment policy for custodial credit risk, however, the State of Tennessee requires its governmental entities to either meet the deposit and collateralization regulations under TCA Title 9, Chapter 4, Parts 1 and 4, or as provided in the collateral pool. As of June 30, 2015, the carrying amount of the City's deposits was \$5,181,645, and the bank balance was \$5,319,221. None of the City's bank balance was exposed to custodial credit risk as uninsured or uncollateralized due to the fact that all of its deposits and investments are in a financial institution that is a participant in the State of Tennessee collateral pool or are fully collateralized.

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

Cash	\$ 4,492,445
Investments	<u>713,696</u>
	5,206,141
Less: petty cash	( 24,393)
Less: LGIP	<u>( 103)</u>
Total	<u>\$ 5,181,645</u>

### Investments

The City's investments are carried at fair value, and consist of investments in the State of Tennessee Local Government Investment Pool (LGIP) and a certificate-of-deposit. The LGIP is considered a 2a-7 like account (SEC designation) and is only required to be reported at amortized cost. Because the fund is valued at a constant dollar, the City's position in the pool is equal to its account balance (fair value) as of June 30, 2015. The LGIP is not rated. The City's investments are listed on the Statement of Net Position as follows:

LGIP	\$ 103
Certificate-of-deposit	<u>713,593</u>
Total	<u>\$ 713,696</u>

The City does not have any derivative instruments as defined by GASB statement No. 53.

**NOTE 3 - PROPERTY TAXES RECEIVABLE - NET**

Property taxes receivable as of June 30, 2015, consists of the following:

<u>Year of Levy</u>	
2015	\$ 2,620,500
2014	144,990
2013	60,425
2012	52,936
2011	15,113
2010	20,751
2009	2,842
2008	<u>12,474</u>
	2,930,031
Less: allowance for uncollectibles	<u>( 187,150)</u>
Property taxes receivable - net	<u>\$ 2,742,881</u>

**NOTE 4 - ACCOUNTS RECEIVABLE - NET**

Accounts receivable - net at June 30, 2015, consists of the following:

	<u>General Fund</u>	<u>State Street Aid Fund</u>	<u>Stormwater Fund</u>	<u>Total</u>
State shared revenue receivables	\$ 378,069	\$ -	\$ -	\$ 378,069
Local beer and liquor tax	30,639	-	-	30,639
Court fines	154,275	-	-	154,275
Franchise tax	45,635	-	-	45,635
Stormwater tax	-	-	98,283	98,283
State street aid	-	56,369	-	56,369
Sanitation fee	8,668	-	-	8,668
Less: allowance for doubtful accounts	<u>(104,907)</u>	<u>-</u>	<u>( 37,166)</u>	<u>( 142,073)</u>
Total	<u>\$ 512,379</u>	<u>\$ 56,369</u>	<u>\$ 61,117</u>	<u>\$ 629,865</u>

**NOTE 5 - DUE FROM GRANTOR**

Due from other governments at June 30, 2015, consists of the following:

Department of Transportation	\$ 491,605
Department of Justice	17,226
Department of Environment and Conservation	<u>43,962</u>
Total	<u>\$ 552,793</u>

**NOTE 6 - INTERNAL BALANCES**

Internal balances at June 30, 2015, consist of the following:

<u>Due to:</u>	<u>Due from:</u>		<u>Total</u>
	<u>State Street Aid Fund</u>	<u>Stormwater Fund</u>	
General Fund	<u>\$ 6,282</u>	<u>\$ 367</u>	<u>\$ 6,649</u>

Internal balance represents amounts paid by the General Fund on behalf of the State Street Aid Fund and Stormwater Fund that are to be reimbursed in the next fiscal year.

**NOTE 7 - NOTE RECEIVABLE - WWTA**

The note receivable from the Waste Water Treatment Authority (WWTA) of Hamilton County, Tennessee, represents future amounts due to the City to pay off the long-term debt that was left in the City's name after the City sold the sewer system to the WWTA.

Future notes receivable receipts are as follows:

2016	\$ 529,562
2017	478,652
2018	443,364
2019	460,284
2020	477,852
2021	<u>122,330</u>
	2,512,044
Less: current portion	<u>( 529,562)</u>
 Total	 <u>\$ 1,982,482</u>

**NOTE 8 - CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2015, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 335,742	\$ -	\$ -	\$ 335,742
Total capital assets not being depreciated	<u>335,742</u>	<u>-</u>	<u>-</u>	<u>335,742</u>
Capital assets being depreciated:				
Buildings	790,961	114,069	-	905,030
Public improvements	3,047,923	28,791	-	3,076,714
State street aid	1,973,068	70,567	-	2,043,635
Infrastructure	2,810,741	-	-	2,810,741
Furniture, fixtures and equipment	<u>3,558,417</u>	<u>736,678</u>	<u>( 322,851)</u>	<u>3,972,244</u>
Total capital assets being depreciated	<u>12,181,110</u>	<u>950,105</u>	<u>( 322,851)</u>	<u>12,808,364</u>
Less accumulated depreciation for:				
Buildings	498,960	25,805	-	524,765
Public improvements	456,189	77,895	-	534,084
State street aid	511,784	60,016	-	571,800
Infrastructure	400,399	56,214	-	456,613
Furniture, fixtures and equipment	<u>2,849,857</u>	<u>303,543</u>	<u>( 322,851)</u>	<u>2,830,549</u>
Total accumulated depreciation	<u>4,717,189</u>	<u>523,473</u>	<u>( 322,851)</u>	<u>4,917,811</u>
Total capital assets being depreciated - net	<u>7,463,921</u>	<u>426,632</u>	<u>-</u>	<u>7,890,553</u>
Governmental activities capital assets - net	<u>\$7,799,663</u>	<u>\$ 426,632</u>	<u>\$ -</u>	<u>\$ 8,226,295</u>

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

General government	\$ 22,622
Public safety	204,654
Public works	169,164
State street aid	60,017
Public welfare and recreation	<u>67,016</u>
 Total	 <u>\$ 523,473</u>

**NOTE 8 - CAPITAL ASSETS (Continued)**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-type activities:</b>				
Capital assets being depreciated:				
Land improvements	\$ 35,841	\$ -	\$ -	\$ 35,841
Plant in service	33,920	-	-	33,920
Equipment	<u>110,129</u>	<u>-</u>	<u>-</u>	<u>110,129</u>
Total capital assets being depreciated	<u>179,890</u>	<u>-</u>	<u>-</u>	<u>179,890</u>
Less accumulated depreciation for:				
Land improvements	1,792	1,792	-	3,584
Plant in service	33,920	-	-	33,920
Equipment	<u>28,401</u>	<u>9,081</u>	<u>-</u>	<u>37,482</u>
Total accumulated depreciation	<u>64,113</u>	<u>10,873</u>	<u>-</u>	<u>74,986</u>
Total capital assets being depreciated - net	<u>115,777</u>	<u>(10,873)</u>	<u>-</u>	<u>104,904</u>
Business-type activities capital assets - net	<u>\$ 115,777</u>	<u>\$ (10,873)</u>	<u>\$ -</u>	<u>\$ 104,904</u>

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

Sewer	\$ -
Stormwater	<u>10,873</u>
Total	<u>\$ 10,873</u>

The City did not acquire any intangible assets that would require reporting under GASB Statement No. 51.

**NOTE 9 - DEFERRED OUTFLOWS RELATED TO PENSIONS**

Deferred outflows related to pensions at June 30, 2015, consists of the following:

2015 contribution	<u>\$ 315,616</u>
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**NOTE 10 - LONG-TERM DEBT**

**A. Governmental Debt**

Long-term debt, which consists of a bond payable, notes payable, accrued leave, landfill closure and post-closure cost, is summarized as follows:

	<u>Principal Balance</u>
Tennessee Municipal Bond Fund, Series 1997, issued in the original amount of \$2,401,000 for landfill capping/ a new fire hall/ and street paving, payable in varying amounts including interest at variable interest rates, due May, 2018	\$ 540,000
Capital outlay note, Series 2012, issued in the original amount of \$337,880 for a fire truck, payable in varying annual installments of approximately \$46,743, including interest at 2.31%, due October, 2019	219,000
Capital outlay note, Series 2012, issued in the original amount of \$42,556 for two (2) police cars, payable in varying annual installments of approximately \$11,042, including interest at 2.22%, due June, 2015	-
Capital outlay note, Series 2013, issued in the original amount of \$40,176 for police cars, payable in varying annual installments of approximately \$14,144, including interest at 2.10%, due May 2016	13,363
Tennessee Municipal Bond Fund, Series 2014, issued in the original amount of \$261,934 for construction, payable in varying annual installments of approximately \$70,548, including interest at 2.37%, due June, 2018	202,000
TML capital outlay note, Series 2012, issued in the original amount of \$500,000 for highway and street improvements, payable in varying annual installments of approximately \$55,595, including interest at 2.90%, due August 2024	416,600
Accrued leave	244,856
Landfill closure and post-closure cost	<u>107,800</u>
	1,743,619
Less: current portion of governmental long-term debt	<u>( 341,763)</u>
Total governmental long-term debt	<u>\$ 1,401,856</u>

**NOTE 10 - LONG-TERM DEBT (Continued)**

**A. Governmental Debt (Continued)**

A summary of changes in governmental long-term debt for the year ended June 30, 2015, are as follows:

	Balance			Balance	Amount Due
	July 1, 2014	Additions	Retirements	June 30, 2015	Within
					One Year
TML Bond Fund	\$ 702,000	\$ -	\$(162,000)	\$ 540,000	\$ 171,000
Capital outlay note 2012, due 2019	260,000	-	( 41,000)	219,000	42,000
Capital outlay note 2012, due 2015	10,639	-	( 10,639)	-	-
Capital outlay note 2013, due 2016	26,775	-	( 13,412)	13,363	13,363
TML Bond Fund, 2014	-	261,934	( 59,934)	202,000	66,000
TML capital outlay note 2012, due 2024	458,300	-	( 41,700)	416,600	41,700
Accrued leave	262,358	-	( 17,502)	244,856	-
Landfill closure and post- closure cost	115,500	-	( 7,700)	107,800	7,700
	<u>\$1,835,572</u>	<u>\$261,934</u>	<u>\$(353,887)</u>	1,743,619	<u>\$ 341,763</u>
Less: current portion of governmental long-term debt				<u>( 341,763)</u>	
Total governmental long-term debt				<u>\$1,401,856</u>	

Interest paid during the year ended June 30, 2015, on governmental long-term debt was \$35,216.

Governmental debt service requirements to maturity, including interest of \$83,163 is as follows:

Year ended			Total
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Requirements</u>
2016	\$ 334,063	\$ 21,123	\$ 355,186
2017	331,700	17,082	348,782
2018	342,700	13,292	355,992
2019	86,700	9,431	96,131
2020	87,700	7,171	94,871
2021-2025	<u>208,100</u>	<u>15,064</u>	<u>223,164</u>
Total	<u>\$ 1,390,963</u>	<u>\$ 83,163</u>	<u>\$ 1,474,126</u>

\*\*TML Bond Fund - Interest on the bonds is variable and paid each month at the prime rate. Because the total interest obligation cannot be determined, only the principal payments are included in the preceding table. The preceding table does not take into account accrued leave or landfill closure and post-closure cost due to the nature of these items.

For the governmental activities, compensated absences are generally liquidated by the General Fund.

**NOTE 10 - LONG-TERM DEBT (Continued)**

**B. Business-Type Debt**

**Sewer Fund:**

Long-term debt payable by the Sewer Fund, which consists of notes payable, is summarized as follows:

	<u>Principal Balance</u>
Note to Tennessee Department of Health and Environment, for sewer improvements, payable in monthly installments of \$11,138, including interest at 7.65%, through July, 2017.	\$ 169,798
Note to Tennessee Department of Environment and Conservation, for sewer improvements, to be repaid in variable annual installments through September, 2021, with interest payable monthly at a variable rate, currently 3.75%.	<u>2,342,246</u>
	2,512,044
Less: current portion of sewer long-term debt	<u>( 529,562)</u>
<b>Total sewer long-term debt</b>	<b><u>\$ 1,982,482</u></b>

A summary of changes in Sewer Fund long-term debt for the year ended June 30, 2015, are as follows:

	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2015</u>	<u>Amount Due Within One Year</u>
Note - Tennessee Dept. of Health and Environment	\$ 269,507	\$ -	\$ ( 99,709)	\$ 169,798	\$ 118,202
Note - Tennessee Dept. of Environment and Conservation	<u>2,738,474</u>	<u>-</u>	<u>(396,228)</u>	<u>2,342,246</u>	<u>411,360</u>
	<u>\$ 3,007,981</u>	<u>\$ -</u>	<u>\$ (495,937)</u>	2,512,044	<u>\$ 529,562</u>
Less: current portion of sewer long-term debt				<u>( 529,562)</u>	
<b>Total sewer long-term debt</b>				<b><u>\$ 1,982,482</u></b>	

Interest paid during the year ended June 30, 2015, on sewer long-term debt was \$99,783.

Sewer debt service requirements to maturity, including interest of \$261,641 is as follows:

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2016	\$ 529,562	\$ 94,865	\$ 624,427
2017	478,652	70,895	549,547
2018	443,364	48,840	492,204
2019	460,284	31,920	492,204
2020	477,852	14,352	492,204
2021	<u>122,330</u>	<u>769</u>	<u>123,099</u>
	<u>\$ 2,512,044</u>	<u>\$ 261,641</u>	<u>\$ 2,773,685</u>

**NOTE 10 - LONG-TERM DEBT (Continued)**

**B. Business-Type Debt (Continued)**

**Stormwater Fund:**

Long-term debt payable by the Stormwater Fund, which consists of accrued leave, is summarized as follows:

Accrued leave	\$ 14,210
Less: current portion	<u>( - )</u>
Total stormwater long-term debt	<u>\$ 14,210</u>

A summary of changes in Stormwater Fund long-term debt for the year ended June 30, 2015 are as follows:

	Balance July 1, 2014	Additions	Retirements	Balance June 30, 2015	Amount Due Within One Year
Accrued leave	\$ 22,015	<u>\$</u>	\$ ( 7,805)	\$ 14,210	<u>\$ -</u>
Less: current portion				<u>( - )</u>	
Total stormwater long-term debt				<u>\$ 14,210</u>	

Stormwater debt service requirements are not presented due to the nature of accrued leave.

**NOTE 11 - LANDFILL CLOSURE AND POST-CLOSURE**

On December 10, 1996, the City received a letter from the Chattanooga Environmental Field Office of the Department of Environmental and Conservation relative to notice of violation of the Water Quality Act due to leachate contamination from the City's closed landfill. The City is required to environmentally cap the landfill. State and federal laws and regulations require the City to perform certain maintenance and monitoring functions at the site for thirty years after closure. The City has complied with these laws and the landfill was closed on August 17, 2000. The cost of closure totaled approximately \$1,925,846. The current estimated cost for post-closure care is \$7,700 per year. The City has complied with Environmental Protection Agency rules regarding financial assurance relative to projected closure and post-closure care costs. The total current cost has been estimated subject to changes resulting from inflation, deflation, technology or changes in applicable laws or regulations.

Maturities of the estimated landfill obligation included in long-term debt are as follows:

Year Ended <u>June 30:</u>	<u>Amount</u>
2016	\$ 7,700
2017	7,700
2018	7,700
2019	7,700
2020	7,700
2021-2025	38,500
2026-2029	<u>30,800</u>
Total	<u>\$ 107,800</u>

**NOTE 12 - NET PENSION LIABILITY**

Net pension liability at June 30, 2015, consists of the following:

Net pension liability at July 1, 2013	\$ 1,066,275
Employer contributions made during 2014	( 293,723)
Pension expense	124,272
Actuarial experience different than assumption	( 136,260)
Amortization of actuarial experience	19,466
Investment earnings greater than assumption	( 629,481)
Amortization of investment earnings	<u>125,896</u>
Total	<u>\$ 276,445</u>

**NOTE 13 - DEFERRED REVENUE - PROPERTY TAX**

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

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Property taxes	<u>\$ 74,423</u>	<u>\$ 2,620,500</u>	<u>\$ 2,694,923</u>

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

**NOTE 14 - DEFERRED INFLOWS RELATED TO PENSIONS**

Deferred inflows related to pension at June 30, 2015, consists of the following:

Deferred inflows for actuarial experience	\$ 136,260
Amortization of deferred inflows for actuarial experience	( 19,466)
Deferred inflows for investment earnings	629,481
Amortization of deferred inflows for investment earnings	<u>( 125,896)</u>
Total	<u>\$ 620,379</u>

**NOTE 15 - NET POSITION RESTRICTIONS**

The City can restrict net position to be maintained for specific purposes. The nature and purpose of these restrictions are explained as follows:

Drug funds in the amount of \$55,391 are legally restricted for non-recurring police expenditures.

State street aid funds in the amount of \$466,612 are legally restricted for state street aid expenditures.

Impound funds in the amount of \$7,159 are restricted for impound related expenditures.

## NOTE 16 - FUND BALANCES

Fund balances are as follows:

Restricted: Drug funds in the amount of \$55,391 are legally restricted for non-recurring police expenditures. State street aid funds in the amount of \$466,612 are legally restricted for state street aid expenditures. Impound funds in the amount of \$7,159 are restricted for impound related expenditures.

Unassigned: In accordance with generally accepted accounting principles, the General Fund is the only fund at the Town that reports amounts for unassigned fund balance. This classification represents fund balance that is not nonspendable and has not been committed to specific purposes within the General Fund.

## NOTE 17 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

The governmental fund balance includes a reconciliation between fund balance - total governmental funds and net position - governmental activities as reported in the government-wide Statement of Net Position. One element of that reconciliation explains that, "Long-term liabilities, including bonds payable, notes payable, landfill closure and post-closure costs, and accrued leave are not due and payable in the current period and, therefore, are not reported in the funds". The details of this \$(1,743,619) difference are as follows:

Bonds payable	\$( 742,000)
Notes payable	( 648,963)
Landfill closure and post-closure cost	( 107,800)
Accrued leave	<u>( 244,856)</u>
Net adjustment	<u>\$(1,743,619)</u>

Another element of that reconciliation states that, "Pension liabilities, including deferred inflows and deferred outflows, are not due and payable in the current period and, therefore, are not reported in the funds." The details of this \$(556,644) difference are as follows:

Deferred outflows related to pensions	\$ 304,307
Net pension liability	( 265,387)
Deferred inflows related to pensions	<u>( 595,564)</u>
Net adjustment	<u>\$( 556,644)</u>

**NOTE 17 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)**

Explanation of certain differences between the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances and the government-wide Statement of Activities:

The governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances includes a reconciliation between net changes in fund balances for total governmental funds and changes in net position of governmental activities as reported in the government-wide Statement of Activities. One element of that reconciliation explains that, "Governmental funds report capital outlay as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense". The details of this \$426,632 difference are as follows:

Capital outlay	\$ 950,105
Depreciation expense	<u>(523,473)</u>
Net adjustment	<u>\$ 426,632</u>

Another element of that reconciliation states that, "Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position". The details of this \$336,385 difference are as follows:

Bonds payable	\$ 221,934
Notes payable	106,751
Landfill closure and post-closure cost	<u>7,700</u>
Net adjustment	<u>\$ 336,385</u>

Another element of that reconciliation states that, "Pension expense for the prior year is not reported in the governmental funds but is reported in the Statement of Activities. Current year pension contributions are reported as an expense in the governmental funds but are not reported in the Statement of Activities." The details of this \$185,006 difference are as follows:

Pension expense	\$ ( 119,301)
Contributions	<u>304,307</u>
Net adjustment	<u>\$ 185,006</u>

**NOTE 18 - GASB STATEMENT 68 IMPLEMENTATION ADJUSTMENT**

GASB Statement 68 requires net pension liabilities to be recorded on the Statement of Net Position. During the year of implementation, beginning net position on the Statement of Activities is adjusted as follows:

Governmental Activities:

June 30, 2014 ending net position	\$ 13,032,464
June 30, 2014 net pension liability	( 1,023,624)
June 30, 2014 contributions	<u>281,974</u>
Beginning net position as listed on Statement of Activities	<u>\$ 12,290,814</u>

**NOTE 18 - GASB STATEMENT 68 IMPLEMENTATION ADJUSTMENT (Continued)**

Beginning net position for the business-type funds are adjusted on the individual funds' financial statements as follows:

Stormwater Fund:	
June 30, 2014 ending net position	\$ 328,311
June 30, 2014 net pension liability	( 42,651)
June 30, 2014 contributions	<u>11,749</u>
Beginning net positon as listed on the financial statements	<u>\$ 297,409</u>

**NOTE 19 - LITIGATION AND CLAIMS**

The City is currently the defendant in various legal actions which are being vigorously defended. It is the overall impression of management that these suits are defendable cases.

During the year ended June 30, 2015, the City paid \$150,000 to settle a lawsuit.

**NOTE 20 - OPERATING LEASE**

The City has entered into a 60 month operating lease for two (2) copiers through MSA. Future minimum lease payments are as follows:

Year ended	
<u>June 30, 2015</u>	
2016	\$ 1,919
2017	1,919
2018	1,919
2019	1,919
2020	<u>1,439</u>
Total	<u>\$ 9,115</u>

**NOTE 21 - TRANSFER OF SEWER SYSTEM**

On March 1, 2004, the City of Red Bank, Tennessee, transferred the City's sewer system to the Hamilton County Water and Wastewater Treatment Authority (HCWWTA). The HCWWTA is organized under the Water and Wastewater Treatment Authority Act of the State of Tennessee. Under the Act, Hamilton County is authorized to form the HCWWTA and other local governments in Hamilton County may join the HCWWTA at their discretion.

**NOTE 22 - SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

Non-cash transaction during year ended June 30, 2007, when Hamilton County Water and Wastewater Treatment Authority (HCWWTA) bought Red Bank's sewer system, as part of the sale, HCWWTA agreed to pay the principal and interest on the City's debt of the sewer system. During year ended June 30, 2015, HCWWTA paid \$495,937 in principal and \$99,783 in interest directly to the payees.

**NOTE 23 - POST EMPLOYEE BENEFITS OTHER THAN PENSIONS**

The City does not have any post employee benefits other than the pension disclosed in Note 27.

**NOTE 24 - COMPLIANCE WITH FINANCE RELATED LEGAL AND CONTRACTUAL PROVISIONS**

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

**NOTE 25 - RISK MANAGEMENT POOL**

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

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

Coverages are as follows:

Buildings and personal property	\$ 9,921,792	
Workmen's compensation	\$ 300,000	per accident
	\$ 700,000	policy limit
	\$ 300,000	per person
General and personal injury liability	\$ 300,000	per person
	\$ 700,000	per occurrence
	\$ 300,000	per property
	\$ 1,000,000	each other loss - per occurrence
Automobile liability	\$ 300,000	per person
	\$ 700,000	per occurrence
	\$ 300,000	per property

**The responsibilities of the City are as follows:**

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

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

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

## **NOTE 25 - RISK MANAGEMENT POOL (Continued)**

### **The responsibilities of the City are as follows: (Continued)**

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

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

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

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

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

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

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

### **The responsibilities of TML are as follows:**

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

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

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

The City has not compiled a record of the claims paid up to the applicable deductible for the prior or current fiscal year. The City is not aware of any claims which the City is liable for (up to the applicable deductible) which were outstanding and unpaid at June 30, 2015. No provision has been made in the financial statements for the year ended June 30, 2015, for any estimate of potential unpaid claims.

## **NOTE 26 - DEFERRED COMPENSATION PLAN**

The City offers all employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. Participation in the plan is optional for full-time employees with one year of service. Employees can contribute additional funds to the plan through an elective deferred compensation arrangement up to the Section 457 limits. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The plan assets are held in a qualifying trust for the benefit of each participant. A third-party provider administers the plan and trust. The plan assets are not subject to the claims of the City's general creditors and are not considered assets of the City.

## NOTE 27 - PENSION PLAN

### General Information about the Pension Plan

#### **Plan description**

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

#### **Benefits provided**

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

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

#### **Employees covered by benefit terms**

At the measurement date of June 30, 2014, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	37
Inactive employees entitled to but not yet receiving benefits	89
Active employees	<u>58</u>
	<u>184</u>

#### **Contributions**

Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Red Bank makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2015, employer contributions for Red Bank were \$315,616 based on a rate of 12.04 percent of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept Red Bank's state shared taxes if required employer contributions are not remitted. The employer's actuarially determined contribution (ADC) and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

## NOTE 27 - PENSION PLAN (Continued)

### Net Pension Liability (Asset)

Red Bank's net pension liability (asset) was measured as of June 30, 2014, and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date.

#### **Actuarial assumptions**

The total pension liability as of June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used in the June 30, 2014 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

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

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

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

**NOTE 27 - PENSION PLAN (Continued)**

**Net Pension Liability (Asset) (Continued)**

**Discount rate**

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

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

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Pension Liability (Asset) (a) - (b)</u>
Balances at 6/30/13	\$ 8,031,803	\$ 6,965,528	\$ 1,066,275
Changes for the year:			
Service cost	184,273	-	184,273
Interest	605,436	-	605,436
Differences between expected and actual experience	( 136,260)	-	( 136,260)
Contributions - employer	-	293,723	( 293,723)
Contributions - employees	-	-	-
Net investment income	-	1,152,047	( 1,152,047)
Benefit payments, including refunds of employee contributions	( 287,182)	( 287,182)	-
Administrative expense	-	( 2,491)	2,491
Net changes	<u>366,267</u>	<u>1,156,097</u>	<u>( 789,830)</u>
Balance at 6/30/14	<u>\$ 8,398,070</u>	<u>\$ 8,121,625</u>	<u>\$ 276,445</u>

**Sensitivity of the net pension liability (asset) to changes in the discount rate**

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

	<u>1% Decrease (6.5%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Red Bank's net pension liability (asset)	\$ 1,452,898	\$ 276,445	\$ ( 699,464)

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

**Pension expense**

For the year ended June 30, 2015, Red Bank recognized pension expense of \$124,272.

**NOTE 27 - PENSION PLAN (Continued)**

**Pension Expense (Income) and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)**

**Deferred outflows of resources and deferred inflows of resources**

For the year ended June 30, 2015, Red Bank reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actuarial experience	\$ -	\$ 116,794
Net difference between projected and actual earnings on pension plan investments	-	503,585
Contributions subsequent to the measurement date of June 30, 2014	<u>\$ 315,616</u>	<u>(not applicable)</u>
Total	<u>\$ 315,616</u>	<u>\$ 620,379</u>

The amount shown above for “Contributions subsequent to the measurement date of June 30, 2014,” will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Year Ended June 30:**

2016	\$ (145,362)
2017	\$ (145,362)
2018	\$ (145,362)
2019	\$ (145,362)
2020	\$ ( 19,466)
Thereafter	\$ ( 19,466)

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

**Payable to the Pension Plan**

At June 30, 2015, Red Bank reported a payable of \$276,445 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2015.

**REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A**

**CITY OF RED BANK, TENNESSEE**  
**Schedule of Changes in Red Bank's Net Pension Liability (Asset) and Related Ratios**  
**Based on Participation in the Public Employee Pension Plan of TCRS**  
**June 30, 2015**

**Last Fiscal Year Ending June 30**

	<b>2014</b>
<u>Total pension liability</u>	
Service cost	\$ 184,273
Interest	605,436
Changes in benefit terms	-
Differences between actual and expected experience	(136,260)
Change of assumptions	-
Benefit payments, including refunds of employee contributions	<u>(287,182)</u>
Net change in total pension liability	366,267
Total pension liability - beginning	<u>8,031,803</u>
Total pension liability - ending (a)	<u>\$ 8,398,070</u>
<u>Plan fiduciary net position</u>	
Contributions - employer	\$ 293,723
Contributions - employee	-
Net investment income	1,152,047
Benefit payments, including refunds of employee contributions	(287,182)
Administrative expense	<u>(2,491)</u>
Net change in plan fiduciary net position	1,156,097
Plan fiduciary net position - beginning	<u>6,965,528</u>
Plan fiduciary net position - ending (b)	<u>\$ 8,121,625</u>
Net Pension Liability (Asset) - ending (a) - (b)	<u>\$ 276,445</u>
Plan fiduciary net position as a percentage of total pension liability	96.71%
Covered-employee payroll	\$ 2,429,467
Net pension liability (asset) as a percentage of covered-employee payroll	11.38%

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

**CITY OF RED BANK, TENNESSEE**  
**Schedule of Red Bank's Contributions Based on Participation**  
**in the Public Employee Pension Plan of TCRS**  
**June 30, 2015**

**Last Fiscal Year Ending June 30**

	<u>2014</u>	<u>2015</u>
Actuarially determined contribution	\$ 293,723	\$ 315,616
Contributions in relation to the actuarially determined contribution	<u>293,723</u>	<u>315,616</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 2,429,467	\$ 2,621,134
Contributions as a percentage covered-employee payroll	12.09%	12.04%

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

**CITY OF RED BANK, TENNESSEE**  
**Schedule of Red Bank's Contributions Based on Participation**  
**in the Public Employee Pension Plan of TCRS (Continued)**  
**June 30, 2015**

**Notes to Schedule**

Valuation date: Actuarially determined contribution rates for 2015 were calculated based on the July 1, 2013 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Frozen initial liability
Amortization method	Level dollar, closed (not to exceed 20 years)
Remaining amortization period	14 years
Asset valuation	10-year smoothed within a 20 percent corridor to market value
Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of investment expense, including inflation
Retirement age	Pattern of retirement determined by experience study
Mortality	Customized table based on actual experience including an adjustment for some anticipated improvement
Cost of living adjustment	2.5 percent

**OTHER SUPPLEMENTARY INFORMATION**

## NON-MAJOR GOVERNMENTAL FUNDS

### Special Revenue Funds

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

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

**Impound Fund:** This fund is used to account for impound related revenues and expenditures of the City.

**State Street Aid Fund:** This fund is used to account for the expenditures of the City's streets that is funded by tax revenues from the gasoline and motor fuels tax received from the State of Tennessee and other general tax revenue transferred from the General Fund.

**CITY OF RED BANK, TENNESSEE**  
**Non-major Governmental Funds**  
**Combining Balance Sheet**  
**June 30, 2015**

	<u>Special Revenue</u>			<u>Total Non-major Governmental Funds</u>
	<u>Drug Fund</u>	<u>Impound Fund</u>	<u>State Street Aid Fund</u>	
<b>ASSETS</b>				
Cash	\$ 55,391	\$ 7,159	\$ 416,523	\$ 479,073
Investments	-	-	2	2
Accounts receivable	-	-	56,369	56,369
<b>TOTAL ASSETS</b>	<u>\$ 55,391</u>	<u>\$ 7,159</u>	<u>\$ 472,894</u>	<u>\$ 535,444</u>
<b>LIABILITIES</b>				
Due to other funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,282</u>	<u>\$ 6,282</u>
<b>FUND BALANCES</b>				
Restricted	<u>\$ 55,391</u>	<u>\$ 7,159</u>	<u>\$ 466,612</u>	<u>\$ 529,162</u>

**CITY OF RED BANK, TENNESSEE**  
**Non-Major Governmental Funds**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Year Ended June 30, 2015**

	<u>Special Revenue</u>			<u>Total Non-major Governmental Funds</u>
	<u>Drug Fund</u>	<u>Impound Fund</u>	<u>State Street Aid Fund</u>	
<b>REVENUES</b>				
License and permits	\$ -	\$ -	\$ 750	\$ 750
Intergovernmental	-	-	307,608	307,608
Fines and forfeitures	50,101	1,080	-	51,181
Other revenues	<u>9,379</u>	<u>5,408</u>	<u>11,439</u>	<u>26,226</u>
<b>TOTAL REVENUES</b>	<u>59,480</u>	<u>6,488</u>	<u>319,797</u>	<u>385,765</u>
<b>EXPENDITURES</b>				
<b>Current Expenditures</b>				
Public safety	24,366	4,201	-	28,567
State street aid	-	-	173,417	173,417
<b>Capital Outlay</b>	13,755	10,081	70,567	94,403
<b>Debt Service</b>	<u>-</u>	<u>-</u>	<u>111,910</u>	<u>111,910</u>
<b>TOTAL EXPENDITURES</b>	<u>38,121</u>	<u>14,282</u>	<u>355,894</u>	<u>408,297</u>
Excess (deficiency) of revenues over (under) expenditures	21,359	(7,794)	(36,097)	(22,532)
<b>Fund balances - beginning</b>	<u>34,032</u>	<u>14,953</u>	<u>502,709</u>	<u>551,694</u>
<b>Fund balances - end</b>	<u>\$ 55,391</u>	<u>\$ 7,159</u>	<u>\$ 466,612</u>	<u>\$ 529,162</u>

**CITY OF RED BANK, TENNESSEE**

**Drug Fund**

**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual  
Year Ended June 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Fines and forfeitures				
Drug fines	\$ 25,000	\$ 25,000	\$ 50,101	\$ 25,101
Other revenues				
Impound charges	500	500	1,135	635
Sale of assets	9,000	9,000	3,392	(5,608)
Insurance recoveries	-	-	4,784	4,784
Interest earnings	225	225	68	(157)
Total other revenues	<u>9,725</u>	<u>9,725</u>	<u>9,379</u>	<u>(346)</u>
<b>TOTAL REVENUES</b>	<u>34,725</u>	<u>34,725</u>	<u>59,480</u>	<u>24,755</u>
<b>EXPENDITURES</b>				
<b>Current Expenditures</b>				
Public safety				
Contract services	2,850	2,850	-	2,850
Drug enforcement	2,500	2,500	4,000	(1,500)
Miscellaneous	100	100	105	(5)
Repairs and maintenance	1,000	1,000	6,049	(5,049)
Operating supplies	14,500	14,500	13,712	788
Telephone	975	975	-	975
Training	1,500	1,500	500	1,000
Vehicle	1,300	1,300	-	1,300
Total public safety	<u>24,725</u>	<u>24,725</u>	<u>24,366</u>	<u>359</u>
<b>Capital Outlay</b>				
Equipment	<u>10,000</u>	<u>16,799</u>	<u>13,755</u>	<u>3,044</u>
<b>TOTAL EXPENDITURES</b>	<u>34,725</u>	<u>41,524</u>	<u>38,121</u>	<u>3,403</u>
Excess (deficiency) of revenues over (under) expenditures	-	(6,799)	21,359	28,158
<b>Fund balances - beginning</b>	<u>34,032</u>	<u>34,032</u>	<u>34,032</u>	<u>-</u>
<b>Fund balances - end</b>	<u>\$ 34,032</u>	<u>\$ 27,233</u>	<u>\$ 55,391</u>	<u>\$ 28,158</u>

**CITY OF RED BANK, TENNESSEE**  
**Impound Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**Year Ended June 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Fines and forfeitures				
Impound fees	\$ 7,000	\$ 7,000	\$ 1,080	\$ (5,920)
Other revenues				
Sale of equipment	2,500	2,500	5,408	2,908
<b>TOTAL REVENUES</b>	<u>9,500</u>	<u>9,500</u>	<u>6,488</u>	<u>(3,012)</u>
<b>EXPENDITURES</b>				
<b>Current Expenditures</b>				
Public safety				
Contract services	3,500	3,500	1,095	2,405
Operating supplies	8,000	8,000	3,036	4,964
Miscellaneous	-	-	70	(70)
Total public safety	<u>11,500</u>	<u>11,500</u>	<u>4,201</u>	<u>7,299</u>
<b>Capital Outlay</b>				
Equipment	<u>1,000</u>	<u>3,000</u>	<u>10,081</u>	<u>(7,081)</u>
<b>TOTAL EXPENDITURES</b>	<u>12,500</u>	<u>14,500</u>	<u>14,282</u>	<u>218</u>
Excess (deficiency) of revenues over (under) expenditures	(3,000)	(5,000)	(7,794)	(2,794)
<b>Fund balances - beginning</b>	<u>14,953</u>	<u>14,953</u>	<u>14,953</u>	<u>-</u>
<b>Fund balances - end</b>	<u>\$ 11,953</u>	<u>\$ 9,953</u>	<u>\$ 7,159</u>	<u>\$ (2,794)</u>

**CITY OF RED BANK, TENNESSEE**  
**State Street Aid Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**Year Ended June 30, 2015**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
License and permits				
Building permits	\$ -	\$ -	\$ 750	\$ 750
Intergovernmental				
State highway and street	295,000	295,000	307,608	12,608
Other revenues				
Insurance recoveries	-	-	8,720	8,720
Sale of assets	-	-	1,823	1,823
Interest earnings	500	500	896	396
Total other revenues	500	500	11,439	10,939
<b>TOTAL REVENUES</b>	<b>295,500</b>	<b>295,500</b>	<b>319,797</b>	<b>24,297</b>
<b>EXPENDITURES</b>				
<b>Current Expenditures</b>				
State street aid				
Highways and street maintenance				
Street lighting (electricity)	85,000	85,000	80,222	4,778
Repairs and maintenance	18,000	18,000	10,613	7,387
Street resurfacing	38,161	38,161	53,642	(15,481)
Miscellaneous	64	64	271	(207)
Operating supplies	28,000	28,000	24,069	3,931
Professional services	10,000	10,000	4,600	5,400
Total state street aid	179,225	179,225	173,417	5,808
<b>Capital Outlay</b>				
Public works				
Equipment	65,000	65,000	70,567	(5,567)
<b>Debt Service</b>				
Principal and interest	116,275	116,275	111,910	4,365
<b>TOTAL EXPENDITURES</b>	<b>360,500</b>	<b>360,500</b>	<b>355,894</b>	<b>4,606</b>
Excess (deficiency) of revenues over (under) expenditures	(65,000)	(65,000)	(36,097)	28,903
<b>Fund balances - beginning</b>	<b>502,709</b>	<b>502,709</b>	<b>502,709</b>	<b>-</b>
<b>Fund balances - end</b>	<b>\$ 437,709</b>	<b>\$ 437,709</b>	<b>\$ 466,612</b>	<b>\$ 28,903</b>

**CITY OF RED BANK, TENNESSEE**  
**Schedule of Expenditures of Federal and State Awards**  
**Year Ended June 30, 2015**

<u>Federal Grantor/Pass-through Agency</u>	<u>Federal CFDA Number</u>	<u>State Grant/ Project Number</u>	<u>(Accrued) Deferred Grant Revenues July 1, 2014</u>	<u>Grant Receipts</u>	<u>Grant Expenditures</u>	<u>(Accrued) Deferred Grant Revenues June 30, 2015</u>
<b>FEDERAL ASSISTANCE PROGRAMS</b>						
Department of Transportation						
Impaired Driving Enforcement Program	20.607	Z14GHS283	\$ (1,631)	\$ 17,945	\$ 16,314	\$ -
Impaired Driving Enforcement Program	20.607	Z15GHS289	-	710	18,212	(17,502)
Transportation Enhancement	20.205	33LPLM-FO-077	(1,444)	3,441	1,997	-
Transportation Enhancement	20.205	33LPLM-FO-080	(6,100)	8,119	2,019	-
Transportation Enhancement	20.205	33LPLM-F3-079	-	-	457,713	(457,713)
Transportation Enhancement	20.205	33LPLM-F1-081	-	-	16,390	(16,390)
Total Department of Transportation			<u>(9,175)</u>	<u>30,215</u>	<u>512,645</u>	<u>(491,605)</u>
Department of Homeland Security						
Homeland Security	97.067	EMW-2013-SS-00008	(49,548)	84,548	35,000	-
Homeland Security	97.067	EMW-2013-SS-00008	-	5,035	5,035	-
Federal Emergency Management Agency	97.004	FEMA-1974-DR-TN	-	6,615	6,615	-
Federal Emergency Management Agency	97.004	FEMA-1974-DR-TN	-	27,427	27,427	-
Total Department of Homeland Security			<u>(49,548)</u>	<u>123,625</u>	<u>74,077</u>	<u>-</u>
Department of Justice						
Justice Assistance	16.607		(2,226)	-	-	(2,226)
Justice Assistance	16.607	25334	-	-	15,000	(15,000)
Total Department of Justice			<u>(2,226)</u>	<u>-</u>	<u>15,000</u>	<u>(17,226)</u>
<b>Total Federal Assistance Programs</b>			<u>(60,949)</u>	<u>153,840</u>	<u>601,722</u>	<u>(508,831)</u>

(Continued)

**CITY OF RED BANK, TENNESSEE**  
**Schedule of Expenditures of Federal and State Awards (Continued)**  
**Year Ended June 30, 2015**

<u>Federal Grantor/Pass-through Agency</u>	<u>Federal CFDA Number</u>	<u>State Grant/Project Number</u>	<u>(Accrued) Deferred Grant Revenues July 1, 2014</u>	<u>Grant Receipts</u>	<u>Grant Expenditures</u>	<u>(Accrued) Deferred Grant Revenues June 30, 2015</u>
<b>STATE ASSISTANCE PROGRAMS</b>						
Tennessee Emergency Management Agency		FEMA 1974-DR-TN	\$ -	\$ 6,942	\$ 6,942	\$ -
Department of Environment and Conservation						
Clean Tennessee Energy Grant Program		32701-02004	-	-	43,962	(43,962)
Recycling Rebate Funds		Unavailable	-	1,729	1,729	-
Total Department of Environment and Conservation			-	1,729	45,691	(43,962)
<b>Total State Assistance Programs</b>			-	8,671	52,633	(43,962)
<b>TOTAL FEDERAL AND STATE ASSISTANCE</b>			\$ (60,949)	\$ 162,511	\$ 654,355	\$ (552,793)

**CITY OF RED BANK, TENNESSEE**  
**Notes to the Schedule of Expenditures of Federal and State Awards**  
**Year Ended June 30, 2015**

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal and State Awards includes the federal and state grant activity of the City of Red Bank, Tennessee and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations.

**CITY OF RED BANK, TENNESSEE**  
**Solid Waste Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**Year Ended June 30, 2015**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Charges for services				
Garbage fees	\$ 895,000	\$ 895,000	\$ 900,302	\$ 5,302
Intergovernmental				
Federal grants	-	-	27,427	27,427
State grants	-	-	8,671	8,671
Total intergovernmental	-	-	36,098	36,098
Other revenues				
Penalties	-	-	5,330	5,330
Sale of assets	-	-	23,703	23,703
Interest earnings	250	250	445	195
Total other revenues	250	250	29,478	29,228
<b>TOTAL REVENUES</b>	<b>895,250</b>	<b>895,250</b>	<b>965,878</b>	<b>70,628</b>
<b>EXPENDITURES</b>				
<b>Current expenditures</b>				
Public works				
Salaries	240,303	245,095	237,706	7,389
Payroll tax	18,383	18,750	17,260	1,490
Employee benefits	114,240	114,818	112,094	2,724
Contract services	32,268	32,268	25,000	7,268
Insurance	1,000	1,000	32	968
Miscellaneous	150	150	233	(83)
Office supplies and expenses	500	500	-	500
Operating supplies	16,950	16,950	8,153	8,797
Repairs and maintenance	6,000	6,000	789	5,211
Telephone	150	150	252	(102)
Uniforms	800	800	-	800
Utilities	500	500	456	44
Vehicle expense	70,000	70,000	46,218	23,782
Total public works	501,244	506,981	448,193	58,788
<b>Capital outlay</b>				
Sanitation department	170,840	472,218	453,775	18,443

(Continued)

**CITY OF RED BANK, TENNESSEE**

**Solid Waste Fund**

**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Continued)**  
**Year Ended June 30, 2015**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance</b>
	<b>Original</b>	<b>Final</b>		
<b>EXPENDITURES</b>				
<b>Debt service</b>				
Principal and interest	\$ 61,889	\$ 61,889	\$ 57,524	\$ 4,365
<b>TOTAL EXPENDITURES</b>	<u>733,973</u>	<u>1,041,088</u>	<u>959,492</u>	<u>81,596</u>
Excess (deficiency) of revenues over (under) expenditures	161,277	(145,838)	6,386	152,224
<b>Fund balances - beginning</b>	<u>368,495</u>	<u>368,495</u>	<u>368,495</u>	<u>-</u>
<b>Fund balances - end</b>	<u>\$ 529,772</u>	<u>\$ 222,657</u>	<u>\$ 374,881</u>	<u>\$ 152,224</u>

**CITY OF RED BANK, TENNESSEE**  
**Sewer Fund**  
**Schedule of Revenues, Expenses and Changes in Net Position - Budget and Actual**  
**Year Ended June 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
<b>OPERATING REVENUES</b>				
Rent of facilities	\$ 7,191	\$ 7,191	\$ 7,191	\$ -
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Interest earnings	-	-	32	32
Intergovernmental revenue	624,524	624,524	99,783	(524,741)
Interest expense	(624,524)	(624,524)	(99,783)	524,741
Total non-operating revenues (expenses)	-	-	32	32
Changes in net position	7,191	7,191	7,223	32
<b>Net position - beginning</b>	<u>12,656</u>	<u>12,656</u>	<u>12,656</u>	<u>-</u>
<b>Net position - end</b>	<u>\$ 19,847</u>	<u>\$ 19,847</u>	<u>\$ 19,879</u>	<u>\$ 32</u>

**CITY OF RED BANK, TENNESSEE**  
**Stormwater Fund**  
**Schedule of Revenues, Expenses and Changes in Net Position - Budget and Actual**  
**Year Ended June 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
<b>OPERATING REVENUES</b>				
Stormwater fees	\$ 231,500	\$ 231,500	\$ 311,507	\$ 80,007
Other	-	-	1,424	1,424
Total operating revenues	<u>231,500</u>	<u>231,500</u>	<u>312,931</u>	<u>81,431</u>
<b>OPERATING EXPENSES</b>				
Stormwater collection				
Salaries	97,899	109,305	100,596	8,709
Payroll taxes	7,489	8,362	8,006	356
Employee benefits	51,244	52,621	41,697	10,924
Insurance	1,000	1,000	282	718
Contract services	91,185	91,185	83,085	8,100
Operating supplies	850	850	520	330
Training	250	250	-	250
Uniforms	450	450	-	450
Vehicle expense	11,000	11,000	5,769	5,231
Total stormwater collection	<u>261,367</u>	<u>275,023</u>	<u>239,955</u>	<u>35,068</u>
Administration				
Administration fees	21,080	21,080	21,000	80
Supplies	11,025	11,025	8,679	2,346
Total administration	<u>32,105</u>	<u>32,105</u>	<u>29,679</u>	<u>2,426</u>
Depreciation	-	-	10,873	(10,873)
Total operating expenses	<u>293,472</u>	<u>307,128</u>	<u>280,507</u>	<u>26,621</u>
Operating income (loss)	<u>(61,972)</u>	<u>(75,628)</u>	<u>32,424</u>	<u>108,052</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Interest earnings	525	525	408	(117)
Sale of assets	-	-	1,703	1,703
Total non-operating revenues (expenses)	<u>525</u>	<u>525</u>	<u>2,111</u>	<u>1,586</u>
Changes in net position	(61,447)	(75,103)	34,535	109,638
Net position - beginning (see Note 18)	<u>297,409</u>	<u>297,409</u>	<u>297,409</u>	<u>-</u>
Net position - end	<u>\$ 235,962</u>	<u>\$ 222,306</u>	<u>\$ 331,944</u>	<u>\$ 109,638</u>

**CITY OF RED BANK, TENNESSEE**  
**General Fund**  
**Schedule of Property Taxes Receivable**  
**June 30, 2015**

<u>Year of Levy</u>	
2015	\$ 2,620,500
2014	144,990
2013	60,425
2012	52,936
2011	15,113
2010	20,751
2009	2,842
2008	12,474
2007	<u>-</u>
Total property taxes receivable	2,930,031
Less: allowance for uncollectibles	<u>(187,150)</u>
Net property taxes receivable	<u>\$ 2,742,881</u>

**CITY OF RED BANK, TENNESSEE**  
**General Fund**  
**Schedule of Changes in Property Taxes Receivable**  
**Year Ended June 30, 2015**

<u>Year of Levy</u>	<u>Taxes Receivable June 30, 2014</u>	<u>Levy</u>	<u>Pickups (Releases)</u>	<u>Collections</u>	<u>Taxes Receivable June 30, 2015</u>
2015	\$ -	\$ 2,620,500	\$ -	\$ -	\$ 2,620,500
2014	2,573,000	-	(1,172)	(2,426,838)	144,990
2013	157,531	-	-	(97,106)	60,425
2012	83,823	-	-	(30,887)	52,936
2011	40,908	-	-	(25,795)	15,113
2010	23,645	-	-	(2,894)	20,751
2009	3,023	-	-	(181)	2,842
2008	12,971	-	-	(497)	12,474
2007	-	-	229	(229)	-
	<u>\$ 2,894,901</u>	<u>\$ 2,620,500</u>	<u>\$ (943)</u>	<u>\$ (2,584,427)</u>	<u>\$ 2,930,031</u>

**CITY OF RED BANK, TENNESSEE**  
**General Fund**  
**Schedule of Debt Service Requirements**  
**June 30, 2015**

**Tennessee Municipal Bond  
Fund\*\***

<b>Maturing June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total Requirements</b>
2016	\$ 171,000	\$ -	\$ 171,000
2017	180,000	-	180,000
2018	<u>189,000</u>	<u>-</u>	<u>189,000</u>
Total	<u>\$ 540,000</u>	<u>\$ -</u>	<u>\$ 540,000</u>

\*\*TML Bond Fund - Interest on the bonds is variable and paid each month at the prime rate and, therefore, cannot be estimated.

**CITY OF RED BANK, TENNESSEE**  
**General Fund**  
**Schedule of Debt Service Requirements**  
**June 30, 2015**

**Fire Truck Capital Outlay Note**  
**Series 2012**

<b>Maturing June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total Requirements</b>
2016	\$ 42,000	\$ 4,574	\$ 46,574
2017	43,000	3,592	46,592
2018	43,000	2,599	45,599
2019	45,000	1,582	46,582
2020	46,000	531	46,531
<b>Total</b>	<b>\$ 219,000</b>	<b>\$ 12,878</b>	<b>\$ 231,878</b>

**CITY OF RED BANK, TENNESSEE**  
**General Fund**  
**Schedule of Debt Service Requirements**  
**June 30, 2015**

**Police Car Capital Outlay Note**  
**Series 2013**

<u>Maturing</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Requirements</u>
2016	<u>\$ 13,363</u>	<u>\$ 285</u>	<u>\$ 13,648</u>
Total	<u>\$ 13,363</u>	<u>\$ 285</u>	<u>\$ 13,648</u>

**CITY OF RED BANK, TENNESSEE**  
**General Fund**  
**Schedule of Debt Service Requirements**  
**June 30, 2015**

**Tennessee Municipal Bond Fund**  
**Series 2014**

<b><u>Maturing</u></b> <b><u>June 30,</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b> <b><u>Requirements</u></b>
2016	\$ 66,000	\$ 4,787	\$ 70,787
2017	67,000	3,223	70,223
2018	<u>69,000</u>	<u>1,635</u>	<u>70,635</u>
Total	<u>\$ 202,000</u>	<u>\$ 9,645</u>	<u>\$ 211,645</u>

**CITY OF RED BANK, TENNESSEE**  
**State Street Aid Fund**  
**Schedule of Debt Service Requirements**  
**June 30, 2015**

**TML Capital Outlay Note**  
**Series 2012**

<b><u>Maturing June 30,</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total Requirements</u></b>
2016	\$ 41,700	\$ 11,477	\$ 53,177
2017	41,700	10,267	51,967
2018	41,700	9,058	50,758
2019	41,700	7,849	49,549
2020	41,700	6,640	48,340
2021	41,700	5,430	47,130
2022	41,700	4,221	45,921
2023	41,700	3,012	44,712
2024	41,700	1,802	43,502
2025	<u>41,300</u>	<u>599</u>	<u>41,899</u>
<b>Total</b>	<b><u>\$ 416,600</u></b>	<b><u>\$ 60,355</u></b>	<b><u>\$ 476,955</u></b>

**CITY OF RED BANK, TENNESSEE**  
**Sewer Fund**  
**Schedule of Debt Service Requirements**  
**June 30, 2015**

**Tennessee Department of Health  
and Environment**

<b>Maturing</b>			<b>Total</b>
<b>June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Requirements</b>
2016	\$ 118,202	\$ 14,021	\$ 132,223
2017	<u>51,596</u>	<u>5,747</u>	<u>57,343</u>
Total	<u>\$ 169,798</u>	<u>\$ 19,768</u>	<u>\$ 189,566</u>

**CITY OF RED BANK, TENNESSEE**  
**Sewer Fund**  
**Schedule of Debt Service Requirements**  
**June 30, 2015**

**Tennessee Department of  
Environment and Conservation**

<u>Maturing June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2016	\$ 411,360	\$ 80,844	\$ 492,204
2017	427,056	65,148	492,204
2018	443,364	48,840	492,204
2019	460,284	31,920	492,204
2020	477,852	14,352	492,204
2021	<u>122,330</u>	<u>769</u>	<u>123,099</u>
Total	<u>\$2,342,246</u>	<u>\$ 241,873</u>	<u>\$ 2,584,119</u>

**CITY OF RED BANK, TENNESSEE**  
**Schedule of Rates**  
**June 30, 2015**

**Analysis of Tax Rates and Assessments**

<u>Tax Year</u>	<u>Rates per \$100</u>	<u>Assessment</u>	<u>Levy</u>
2015	\$1.35	\$ 194,111,111	\$ 2,620,500
2014	\$1.35	\$ 194,072,268	\$ 2,619,976
2013	\$1.35	\$ 189,746,620	\$ 2,573,154
2012	\$1.35	\$ 187,028,872	\$ 2,524,890
2011	\$1.10	\$ 189,363,636	\$ 2,083,000
2010	\$1.10	\$ 188,418,182	\$ 2,072,600
2009	\$1.26	\$ 161,746,032	\$ 2,038,000
2008	\$1.26	\$ 164,418,651	\$ 2,071,675
2007	\$1.26	\$ 161,741,111	\$ 2,037,938
2006	\$1.26	\$ 159,398,651	\$ 2,008,423

**Delinquent Taxes Filed**

The City has filed uncollected delinquent taxes.

**CITY OF RED BANK, TENNESSEE**  
**Schedule of Insurance**  
**June 30, 2015**

**TML POOL:**

Buildings and personal property	\$ 9,921,792	
Workmen's compensation	\$ 300,000	per accident
	\$ 700,000	policy limit
	\$ 300,000	per person
General and personal injury liability	\$ 300,000	per person
	\$ 700,000	per occurrence
	\$ 300,000	per property
	\$ 1,000,000	each other loss - per occurrence
Automobile liability	\$ 300,000	per person
	\$ 700,000	per occurrence
	\$ 300,000	per property

**OFFICIAL BONDS**

City Recorder	\$ 100,000
City Manager	\$ 100,000
City Financial Director	\$ 100,000

### **III. SINGLE AUDIT SECTION**



Certified Public  
Accountants

301 N. Market  
Chattanooga, TN  
37405

Office: 423-756-1170  
Fax: 423-756-1436  
www.jmw-cpa.com

Members  
American Institute  
of Certified  
Public Accountants

Paul Johnson, III, CPA

Brian T. Wright, CPA

Karen Hutcherson, CPA

Marianne Greene, CPA

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Mayor and Commissioners  
City of Red Bank, Tennessee

We have audited 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Red Bank, Tennessee as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Red Bank, Tennessee's basic financial statements, and have issued our report thereon dated \_\_\_\_\_, 2015.

**Internal Control over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as 2015-001 that we consider to be a significant deficiency.

To the Mayor and Commissioners  
City of Red Bank, Tennessee  
Page Two

**Compliance and Other Matters**

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

**Response to Findings**

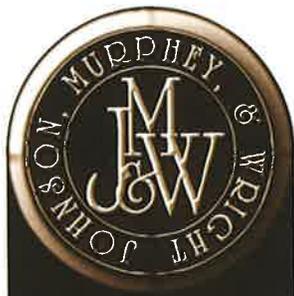
The City of Red Bank, Tennessee's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The City of Red Bank, Tennessee's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

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

*Johnson, Murspley & Wright, P.C.*

Chattanooga, Tennessee  
November 12, 2015



Certified Public  
Accountants

301 N. Market  
Chattanooga, TN  
37405

Office: 423-756-1170  
Fax: 423-756-1436  
www.jmw-cpa.com

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**INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY OMB CIRCULAR A-133**

To the Mayor and Commissioners  
City of Red Bank, Tennessee

**Report on Compliance for Each Major Federal Program**

We have audited the City of Red Bank, 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 the City of Red Bank, Tennessee's major federal programs for the year ended June 30, 2015. The City of Red Bank, Tennessee's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the City of Red Bank, Tennessee's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the City of Red Bank, 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Red Bank, Tennessee's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the City of Red Bank, Tennessee complied, in all material respects, with the types of 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, 2015.

To the Mayor and Commissioners  
City of Red Bank, Tennessee  
Page Two

**Report on Internal Control over Compliance**

Management of the City of Red Bank, Tennessee is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Red Bank, Tennessee's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 the City of Red Bank, 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Johnson, Murpley & Wright, P.C.*

Chattanooga, Tennessee  
November 12, 2015

**CITY OF RED BANK, TENNESSEE**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2015**

**SUMMARY OF AUDITOR'S RESULTS**

**Opinion on Financial Statements:**

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

**Internal Control Reportable Conditions:**

One instance of internal control reportable conditions was disclosed.

**Material Noncompliance:**

No instances of material noncompliance were disclosed.

**Internal Control Deficiencies over Major Programs:**

None disclosed.

**Opinion on Compliance for Major Programs:**

Unqualified opinion.

**Findings Disclosed under OMB Circular A-133 Section .510(a):**

None disclosed.

**Major Programs:**

U.S. Department of Transportation 20.205

**Dollar Threshold Level between Type A and Type B Programs:**

\$300,000

**Low-Risk Auditee under OMB Circular A-133 Section .530:**

No

**CITY OF RED BANK, TENNESSEE**  
**Schedule of Findings and Questioned Costs (Continued)**  
**June 30, 2015**

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

**INTERNAL CONTROL:**

**Finding 2015-001 - Approvals and documentation (Repeat 2014-001)**

**Criteria:**

Government Auditing Standards Chapter A.06(h) states that “inadequate controls for the safeguarding of assets” is a control deficiency.

**Condition:**

- 1) Not all time sheets had proper approvals.
- 2) Preprinted cash receipt numbers do not match numbers assigned in computer system for court fines. This makes it difficult to account for all receipt numbers per Title 5, Chapter 15, Section 7 of the Internal Control and Compliance Manual of Tennessee Municipalities (ICCMTM). Court fine receipts numbers, amount paid and date paid are not always recorded on the tickets. In addition, the back of the tickets are not always completed with the disposition by the court. Since the City uses a computer system (docket), the Judge cannot sign a computer docket as to the disposition in compliance with Title 5, Chapter 15, Section 19 of the ICCMTM. Therefore, the Judge should sign the disposition on the ticket, or sign a copy of the printed docket with all of the dispositions listed.

**Cause:**

- 1) A time sheet policy was not followed so that every time sheet is initialed as approved by the employee.
- 2) An approval and documentation policy for court fines is not being followed so that the receipt numbers can be accounted for and the tickets or docket are filled out completely.

**Effect:**

Without following proper procedures for time sheets, improper payments could be expensed to the City. Without following proper procedures for court fines, revenues may not be accounted for correctly.

**Management’s Response:**

We concur. We will make every effort to correct these issues in the future.

**CITY OF RED BANK, TENNESSEE**  
**Schedule of Prior Audit Findings**  
**June 30, 2015**

**INTERNAL CONTROLS:**

**2014-001 - Approvals and documentation**  
Still in effect

**COMPLIANCE:**

**2014-002 - Enterprise fund operating at a loss**  
Corrected