

TOWN OF ARLINGTON, TENNESSEE

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

**TOWN OF ARLINGTON, TENNESSEE
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INTRODUCTORY SECTION

TOWN OF ARLINGTON, TENNESSEE
LIST OF PRINCIPAL OFFICIALS
June 30, 2014

ELECTED OFFICIALS

Mayor
Vice Mayor
Alderman
Alderman
Alderman
Alderman
Alderman

Mike Wissman
Harry McKee
Glenn Bascom, II
Oscar Brooks
Gerald McGee
Brian Thompson
Jeff McKee

APPOINTED OFFICIALS

Recorder, CMFO
Town Superintendent

Catherine Durant
Ed Haley

FINANCIAL SECTION

Members of:

American Institute of Certified Public Accountants
AICPA Center for Public Company Audit Firms
AICPA Governmental Audit Quality Center
AICPA Employee Benefit Plan Audit Quality Center
Tennessee Society of Certified Public Accountants
Kentucky Society of Certified Public Accountants



Certified Public Accountants
Offices in Tennessee & Kentucky

227 Oil Well Rd.
Jackson, TN 38305

Phone 731.427.8571
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www.atacpa.net

Independent Auditor's Report

Honorable Mike Wissman, Mayor
Members of the Board of Aldermen
Town of Arlington, 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 Town of Arlington, Tennessee (Town), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town'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 Town of Arlington, Tennessee, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund and the State Street Aid Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 1E and 5F to the financial statement, in order to comply with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, a prior period adjustment was made in the Sewer Fund to close out bond issuance cost to net position in the amount of \$123,585. Our opinion is not modified with respect to that matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-10 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The introductory section, supplementary and other information section, including the schedule of expenditures of federal awards, as required by *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary and other information section is the responsibility of management and was derived from and relates 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 supplementary and other information section is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The list of principal officials 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 December 31, 2014 on our consideration of the Town'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 Town's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Alexander Thompson Arnold PLLC".

Jackson, Tennessee
December 31, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Arlington, we offer readers of the Town of Arlington's financial statements this narrative overview and analysis of the financial activities of the Town of Arlington for the fiscal year ended June 30, 2014. Comparative analysis of key elements of total governmental funds and total enterprise funds has been provided. A prior year comparative analysis of government-wide data has been provided.

FINANCIAL HIGHLIGHTS

- The assets of the Town of Arlington exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$148.20 million (net position). Of this amount, \$20.34 million (unrestricted net position) may be used to meet the Town of Arlington's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the Town of Arlington's general fund reported an ending fund balance of \$11.33 million, a decrease of \$449 thousand in comparison with the prior year due primarily to the sanitation fund being separated from the general fund in the current year. Of the total fund balance, \$10.87 million is available for spending at the Town of Arlington's discretion (unassigned fund balance).
- The Town of Arlington's total bonds and notes payable increased by \$3.09 million during the current fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Town of Arlington's basic financial statements. The Town's basic financial statements are comprised of the following components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the financial statements
4. This report also contains required and supplementary and other 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 Town of Arlington's finances, in a manner similar to a private-sector business.

- The Statement of Net Position presents information on all of the Town of Arlington's assets, deferred outflows/inflows of resources, and liabilities, 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 Town of Arlington is improving or deteriorating.
- The Statement of Activities presents information showing how the Town of Arlington'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 compensated absences).

Both of the government-wide financial statements distinguish functions of the Town of Arlington 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 Town of Arlington include general government, public safety, public works, welfare, recreation, and debt service. The

MANAGEMENT'S DISCUSSION AND ANALYSIS

business-type activities of the Town of Arlington include Public Utilities (sewer). The government-wide financial statements can be found on pages 11 and 12 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 Town of Arlington, 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 Town of Arlington 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, the focus is on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources at the end of the fiscal year. Such information may be useful in evaluating the Government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of 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 Town of Arlington's near-term financing decisions. Both the Balance Sheet — Governmental Funds and the Statement of Revenues, Expenditures, and Changes in Fund Balances — Governmental Funds provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. The governmental fund financial statements and reconciliations can be found on pages 13 through 16 of this report.

Information is presented separately in the Balance Sheet — Governmental Funds and in the Statement of Revenues, Expenditures, and Changes in Fund Balances — Governmental Funds for the General Fund and State Street Aid Fund, which are considered to be major funds.

The Town of Arlington adopts an annual appropriated budget for each governmental fund. Budgetary comparisons of the major fund statements have been provided on pages 17 through 23 of this report for the General Fund and State Street Aid Fund and the nonmajor governmental fund on page 43 to demonstrate compliance with the budget.

Proprietary funds - Enterprise funds are used to report the functions presented as business-type activities in the government-wide financial statements. The Town of Arlington uses an enterprise fund to account for the Sewer Department.

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, which is considered a major fund of the Town of Arlington. The basic proprietary fund financial statements can be found on pages 24 through 27 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 28 through 40 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary and other information as listed in the table of contents as the introductory section and supplementary and other information which is presented for the purposes of additional analysis.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Position - As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Town of Arlington, assets exceeded liabilities and deferred inflows of resources by \$148.20 million at the close of the most recent fiscal year. Eighty-two percent (82%) of the Town's net position reflects its investment in capital assets (e.g. land, buildings, machinery, equipment and infrastructure), less any related debt used to acquire those assets that are still outstanding. The Town of Arlington uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Arlington'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.

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 21,337,921	\$21,033,942	\$ 9,442,273	\$11,338,353	\$ 30,780,194	\$32,372,295
Capital assets	115,205,039	28,942,913	24,872,558	22,597,748	140,077,597	51,540,661
Total assets	<u>136,542,960</u>	<u>49,976,855</u>	<u>34,314,831</u>	<u>33,936,101</u>	<u>170,857,791</u>	<u>83,912,956</u>
Long-term liabilities	4,594,330	1,027,205	13,443,927	14,311,926	18,038,257	15,339,131
Other liabilities	606,810	72,611	868,396	839,000	1,475,206	911,611
Total liabilities	<u>5,201,140</u>	<u>1,099,816</u>	<u>14,312,323</u>	<u>15,150,926</u>	<u>19,513,463</u>	<u>16,250,742</u>
Deferred inflows of resources	<u>3,147,407</u>	<u>3,086,413</u>	-	-	<u>3,147,407</u>	<u>3,086,413</u>
Net position:						
Net investment in capital assets	110,740,043	28,407,285	10,560,631	7,446,822	121,300,674	35,854,107
Restricted street aid	6,000,316	6,085,675	-	-	6,000,316	6,085,675
Restricted sanitation	556,095	437,159	-	-	556,095	437,159
Unrestricted	<u>10,897,959</u>	<u>10,860,507</u>	<u>9,441,877</u>	<u>11,338,353</u>	<u>20,339,836</u>	<u>22,198,860</u>
Total net position	<u>\$ 128,194,413</u>	<u>\$ 45,790,626</u>	<u>\$ 20,002,508</u>	<u>\$ 18,785,175</u>	<u>\$ 148,196,921</u>	<u>\$ 64,575,801</u>

An additional portion of the Town of Arlington's net position (\$6.56 million) represents resources that are subject to external restrictions on how they may be used. The remaining balance of net position representing unrestricted net position (\$20.34 million) may be used to meet the Town of Arlington's ongoing obligations to citizens and creditors. At the end of the current fiscal year, the Town of Arlington is able to report positive balances in all three categories of net position, both for the Town of Arlington as a whole, as well as for its total governmental and total business-type activities.

Statement of Activities – Revenues in governmental activities exceeded expenses by \$82.40 million. In the business-type activities, revenues exceeded expenses by \$1.34 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charges for services	\$ 1,793,478	\$ 1,008,429	\$ 2,676,245	\$ 1,880,183	\$ 4,469,723	\$ 2,888,612
Operating grants and contributions	78,723,255	368,235	-	-	78,723,255	368,235
Capital grants and contributions	3,395,065	667,126	-	-	3,395,065	667,126
General revenues:						
Property taxes	3,591,757	3,850,986	-	-	3,591,757	3,850,986
Other taxes	3,156,202	2,698,759	-	-	3,156,202	2,698,759
Other sources	142,835	110,448	56,950	81,279	199,785	191,727
Total revenues	<u>90,802,592</u>	<u>8,703,983</u>	<u>2,733,195</u>	<u>1,961,462</u>	<u>93,535,787</u>	<u>10,665,445</u>
Expenses:						
General government	2,974,714	2,233,908	-	-	2,974,714	2,233,908
Public safety	1,396,574	1,252,382	-	-	1,396,574	1,252,382
Highway and streets	820,093	799,994	-	-	820,093	799,994
Public works	740,077	644,240	-	-	740,077	644,240
Sanitation collection	823,898	670,496	-	-	823,898	670,496
Culture and recreation	605,043	454,050	-	-	605,043	454,050
Education	1,025,998	208,528	-	-	1,025,998	208,528
Debt service	12,408	6,789	-	-	12,408	6,789
Sewer	-	-	1,392,277	1,260,730	1,392,277	1,260,730
Total expenses	<u>8,398,805</u>	<u>6,270,387</u>	<u>1,392,277</u>	<u>1,260,730</u>	<u>9,791,082</u>	<u>7,531,117</u>
Increase in net position	<u>82,403,787</u>	<u>2,433,596</u>	<u>1,340,918</u>	<u>700,732</u>	<u>83,744,705</u>	<u>3,134,328</u>
Net position - beginning	45,790,626	43,357,030	18,785,175	18,084,443	64,575,801	61,441,473
Prior period adjustment	-	-	(123,585)	-	(123,585)	-
Net position - beginning - restated	<u>45,790,626</u>	<u>43,357,030</u>	<u>18,661,590</u>	<u>18,084,443</u>	<u>64,452,216</u>	<u>61,441,473</u>
Net position - ending	<u><u>\$ 128,194,413</u></u>	<u><u>\$ 45,790,626</u></u>	<u><u>\$ 20,002,508</u></u>	<u><u>\$ 18,785,175</u></u>	<u><u>\$ 148,196,921</u></u>	<u><u>\$ 64,575,801</u></u>

COMMENTS ON FUND FINANCIAL STATEMENTS

As noted earlier, the Town of Arlington uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds - The focus of the Town of Arlington's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Government's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund accounts for approximately 72.50% of governmental fund revenues. Accordingly this discussion will focus on the general fund. General fund balance was \$11.33 million at the end of the current fiscal year. Of that balance, \$10.87 million is available to meet the day-to-day needs of the Town.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Revenues in the general fund were up from the previous year by approximately \$1.07 million. The most significant changes in revenues and other financing sources in the general fund were:

- Real Property Taxes decreased by \$149 thousand.
- Personal Property Taxes decreased by \$39 thousand.
- Public Utility Taxes increased by \$32 thousand.
- In Lieu of tax payments – other governments decreased by \$113 thousand.
- Local Sales Taxes increased by \$100 thousand.
- Federal Grants increased by \$246 thousand.
- State Grants increased by \$657 thousand.
- State-Shared sales taxes increased by \$64 thousand.
- State-Shared Local Sales Tax increased by \$172 thousand.
- State Income Tax increased by \$53 thousand.
- Community development fees increased \$112 thousand.
- Street light fees increased \$84 thousand.
- Inspection fees increased \$84 thousand.
- Impact fees increased \$496 thousand.

All other revenues were within reasonable variances from last year. A budget comparison statement has been provided to demonstrate compliance with the budget.

Proprietary funds - The Town of Arlington's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net position of the proprietary fund at the end of the year amounted to \$9.44 million. The total growth in net position for this fund was \$1.34 million.

GENERAL FUND BUDGETARY HIGHLIGHTS

Final Budgeted and Actual Amounts

Actual revenues were over the budgeted amounts by \$677 thousand. Significant variances are as follows:

- Local sales tax was up \$133 thousand.
- Federal and state grants combined were up \$63 thousand.
- Intergovernmental (state shared taxes) were up \$378 thousand.
- Street light fees were up \$32 thousand.

Actual expenditures were under the final budgeted amount by \$567 thousand. Significant variances are as follows:

- General Government was under by \$103 thousand.
- Public Safety was under by \$98 thousand.
- Public Works was under by \$342 thousand.
- Parks & Library and Senior Center were under by \$22 thousand

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets - At the end of fiscal year 2014, the Town had invested \$140.08 million net of accumulated depreciation in a variety of capital assets and infrastructure. Infrastructure was valued at \$23.31 million net of accumulated depreciation. Assets accounted for under this approach include improvements to streets that the Town of Arlington is responsible for maintaining.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Long-term debt - At the end of the current fiscal year, the Town of Arlington had total debt outstanding of \$18.74 million. Of this amount, \$14.28 million consists of revenue bonds. An additional \$465 thousand is for capital outlay notes, while another \$4.00 million of the Town's debt represents a note for the benefit of the Arlington Board of Education.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

- Arlington's residential and commercial growth have kept at a steady rate over the last few years, but we are expecting an increase in home and multi-family construction in the next fiscal year, which will result in an increase in permit and development fee collection, as well as an increase in population.
- Arlington's new home construction continued at a constant rate, with 83 new housing starts for FY2013-2014. The rate of construction is anticipated to increase in the next fiscal year. There is an inventory of 75 available residential lots, a 10-month inventory. A 47-lot single-family residential subdivision was completed in the second quarter 2014, which provided additional inventory. Construction on three other residential subdivisions should begin in the second quarter 2015, resulting in 100 additional lots, plus construction of a 164-unit multi-family development has begun construction with expected occupation beginning in the second quarter 2015.
- Arlington has successfully opened its doors for a Municipal School System, housing two (2) elementary schools, a middle school, and the largest high school under one roof in the State of Tennessee. Educational instruction began August 2014.
- New industrial development for FY 2013-2014 included a 50,000 square foot expansion of Wright Medical Technology and a 32,000 square foot expansion of Maines paper and Food. Wright Medical recently sold a portion of its medical device company to Microport, who will maintain the corporate offices previously owned by Wright, as well as maintain two additional facilities in Arlington previously owned by Wright. Commercial growth includes a possible car wash in the third quarter 2015.
- The Town has continued to expand and improve its infrastructure. Completion of Milton Wilson Boulevard, improvements of Airline Road, and a sewer improvement project all provide access to lands for future residential and non-residential development.

All of these factors were considered in preparing the Town of Arlington's budget for the 2014/2015 fiscal year and will aid in the 2015/2016 budget preparation.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town of Arlington's finances for citizens, taxpayers, customers, investors, creditors and all others with an interest in the Town of Arlington's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town Recorder, Town of Arlington, 5854 Airline Road, P.O. Box 507, Arlington, TN 38002.

BASIC FINANCIAL STATEMENTS

TOWN OF ARLINGTON, TENNESSEE
STATEMENT OF NET POSITION
June 30, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 10,472,160	\$ 3,299,008	\$ 13,771,168
Investments	6,172,510	5,919,850	12,092,360
Receivables:			
Interest	2,131	558	2,689
Taxes (net of allowance for uncollectibles of \$5,167)	3,278,434	-	3,278,434
Accounts	137,910	301,415	439,325
Due (to) from other funds	78,558	(78,558)	-
Intergovernmental - nongrant	648,890	-	648,890
Grants	547,328	-	547,328
Capital assets not being depreciated:			
Land	12,783,168	231,762	13,014,930
Construction in process	1,613,397	-	1,613,397
Capital assets net of accumulated depreciation:			
Buildings and improvements	75,639,465	-	75,639,465
Machinery and equipment	1,856,736	-	1,856,736
Sewer plant	-	24,640,796	24,640,796
Infrastructure	23,312,273	-	23,312,273
Total assets	136,542,960	34,314,831	170,857,791
Liabilities			
Accounts payable	200,477	396	200,873
Long-term debt			
Due within one year	406,333	868,000	1,274,333
Due in more than one year	4,058,663	13,412,001	17,470,664
Unamortized bond premium	-	31,926	31,926
Accrued annual leave - long-term	75,489	-	75,489
Accrued landfill closing and postclosing costs	460,178	-	460,178
Total liabilities	5,201,140	14,312,323	19,513,463
Deferred Inflows of Resources			
Unavailable revenue - property taxes	3,147,407	-	3,147,407
Net Position			
Net investment in capital assets	110,740,043	10,560,631	121,300,674
Restricted for state street aid	6,000,316	-	6,000,316
Restricted for sanitation	556,095	-	556,095
Unrestricted	10,897,959	9,441,877	20,339,836
Total net position	\$ 128,194,413	\$ 20,002,508	\$ 148,196,921

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

TOWN OF ARLINGTON, TENNESSEE
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Primary government							
Governmental activities							
General government	\$ 2,974,714	\$ 814,321	\$ -	\$ 1,984,215	\$ (176,178)	\$ -	\$ (176,178)
Public safety	1,396,574	10,433	-	-	(1,386,141)	-	(1,386,141)
Highways and streets	820,093	-	368,789	1,410,850	959,546	-	959,546
Public works	740,077	-	-	-	(740,077)	-	(740,077)
Sanitation collection	823,898	919,818	-	-	95,920	-	95,920
Parks and recreation	605,043	41,598	10,000	-	(553,445)	-	(553,445)
Education	1,025,998	7,308	78,344,466	-	77,325,776	-	77,325,776
Interest on long-term debt	12,408	-	-	-	(12,408)	-	(12,408)
Total governmental activities	<u>8,398,805</u>	<u>1,793,478</u>	<u>78,723,255</u>	<u>3,395,065</u>	<u>75,512,993</u>	<u>-</u>	<u>75,512,993</u>
Business-type activities							
Sewer	1,392,277	2,676,245	-	-	-	1,283,968	1,283,968
Total primary government	<u>\$ 9,791,082</u>	<u>\$ 4,469,723</u>	<u>\$ 78,723,255</u>	<u>\$ 3,395,065</u>	<u>\$ 75,512,993</u>	<u>\$ 1,283,968</u>	<u>\$ 76,796,961</u>
General revenues							
					3,365,873	-	3,365,873
					225,884	-	225,884
					2,505,325	-	2,505,325
					93,423	-	93,423
					296,092	-	296,092
					144,117	-	144,117
					117,245	-	117,245
					74,414	-	74,414
					2,577	-	2,577
					65,844	56,950	122,794
					<u>6,890,794</u>	<u>56,950</u>	<u>6,947,744</u>
					82,403,787	1,340,918	83,744,705
					45,790,626	18,785,175	64,575,801
					-	(123,585)	(123,585)
					<u>45,790,626</u>	<u>18,661,590</u>	<u>64,452,216</u>
					<u>\$ 128,194,413</u>	<u>\$ 20,002,508</u>	<u>\$ 148,196,921</u>

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

TOWN OF ARLINGTON, TENNESSEE
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2014

	<u>General Fund</u>	<u>State Street Aid Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 7,234,736	\$ 2,765,022	\$ 472,402	\$ 10,472,160
Investments	3,540,786	2,631,724	-	6,172,510
Receivables:				
Interest	1,179	952	-	2,131
Taxes (net of allowance for uncollectibles of \$5,167)	3,278,434	-	-	3,278,434
Accounts - other	137,910	-	-	137,910
Due from other funds	-	56,692	83,693	140,385
Intergovernmental - nongrant	648,890	-	-	648,890
Grant receivable	-	547,328	-	547,328
Total assets	\$ 14,841,935	\$ 6,001,718	\$ 556,095	\$ 21,399,748
Liabilities, Deferred Inflows of Resources, and Fund Balances				
Liabilities				
Accounts payable	\$ 199,075	\$ 1,402	\$ -	\$ 200,477
Due to other funds	61,827	-	-	61,827
Total liabilities	<u>260,902</u>	<u>1,402</u>	<u>-</u>	<u>262,304</u>
Deferred inflows of resources				
Deferred revenue - property taxes	<u>3,246,279</u>	<u>-</u>	<u>-</u>	<u>3,246,279</u>
Fund balances				
Restricted for state street aid	-	6,000,316	-	6,000,316
Restricted for sanitation	-	-	556,095	556,095
Assigned:				
Impact fees	149,400	-	-	149,400
Public works building	315,329	-	-	315,329
Unassigned	<u>10,870,025</u>	<u>-</u>	<u>-</u>	<u>10,870,025</u>
Total fund balances	<u>11,334,754</u>	<u>6,000,316</u>	<u>556,095</u>	<u>17,891,165</u>
Total liabilities, deferred inflows of resources, and fund balances	\$ 14,841,935	\$ 6,001,718	\$ 556,095	\$ 21,399,748

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

TOWN OF ARLINGTON, TENNESSEE
RECONCILIATION OF THE BALANCE SHEET-GOVERNMENTAL
FUNDS TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION
June 30, 2014

Amounts reported for the governmental activities in the statement of net assets (Page 11) are different because:

Fund balances - total governmental funds (Page 13)	\$ 17,891,165
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in funds	115,205,039
Receivables not available to pay for current expenditures, therefore, are deferred in the funds (property taxes)	98,872
Long-term liabilities, including notes, leases payable, compensated absences, and landfill postclosing costs, are not due in the current period and, therefore, are not reported in the funds	<u>(5,000,663)</u>
Net position of governmental activities (Page 11)	<u>\$ 128,194,413</u>

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

TOWN OF ARLINGTON, TENNESSEE
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
For the Year Ended June 30, 2014

	General Fund	State Street Aid Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ 5,015,467	\$ -	\$ -	\$ 5,015,467
Licenses and permits	70,171	-	-	70,171
Intergovernmental	2,900,551	2,467,739	-	5,368,290
Charges for services	313,392	-	919,818	1,233,210
Other	718,279	31,253	1,997	751,529
Total revenues	<u>9,017,860</u>	<u>2,498,992</u>	<u>921,815</u>	<u>12,438,667</u>
Expenditures				
Current				
General government	1,593,784	-	-	1,593,784
Public safety	1,390,679	-	-	1,390,679
Highways and streets	742,003	3,573,459	-	4,315,462
Education	1,025,998	-	-	1,025,998
Sanitation collection	-	-	854,879	854,879
Parks and recreation	608,903	-	-	608,903
Capital outlay	2,532,832	10,892	-	2,543,724
Debt service:				
Principal	70,628	-	-	70,628
Interest	12,408	-	-	12,408
Total expenditures	<u>7,977,235</u>	<u>3,584,351</u>	<u>854,879</u>	<u>12,416,465</u>
Revenues over (under) expenditures	1,040,625	(1,085,359)	66,936	22,202
Other Financing Sources (Uses)				
Operating transfers in	-	1,000,000	489,159	1,489,159
Operating transfers out	(1,489,159)	-	-	(1,489,159)
Total other financing sources (uses)	<u>(1,489,159)</u>	<u>1,000,000</u>	<u>489,159</u>	<u>-</u>
Net changes in fund balances	<u>(448,534)</u>	<u>(85,359)</u>	<u>556,095</u>	<u>22,202</u>
Fund balances - beginning	11,783,288	6,085,675	-	17,868,963
Fund balances - ending	<u>\$ 11,334,754</u>	<u>\$ 6,000,316</u>	<u>\$ 556,095</u>	<u>\$ 17,891,165</u>

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

TOWN OF ARLINGTON, TENNESSEE
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

Amounts reported for the governmental activities in the statement of activities (Page 12) are different because:

Net change in fund balances - total governmental funds (Page 15)	\$	22,202
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		7,917,660
Contributed capital assets are considered as revenue on the statement of activities but are not considered revenues in the funds. This amount represents capital assets donated to the Town by outside parties.		78,344,466
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds (property taxes).		22,289
Some expenses reported in the statement of activities, such as accrued leave and landfill liability, do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		26,538
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources of governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Capital outlay note		70,628
Board of Education note payable		<u>(3,999,996)</u>
Change in net position of governmental activities (Page 12)	\$	<u>82,403,787</u>

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

**TOWN OF ARLINGTON, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND**

For the Year Ended June 30, 2014

Revenues	Budgeted Amounts		Actual	Variance Over (Under)
	Original	Final		
Taxes:				
Real property taxes	\$ 2,778,650	\$ 2,810,000	\$ 2,774,170	\$ (35,830)
Personal property taxes	250,600	253,164	252,043	(1,121)
Public utility taxes	241,050	290,716	317,371	26,655
Interest and penalties	20,000	71,070	74,414	3,344
In lieu of tax payments -				
Other governments	66,000	92,125	92,125	-
Local sales tax	1,000,000	1,000,000	1,132,932	132,932
Wholesale beer tax	210,000	200,000	207,126	7,126
Wholesale liquor tax	64,500	64,500	71,863	7,363
Franchise taxes	83,600	83,600	93,423	9,823
Total taxes	<u>4,714,400</u>	<u>4,865,175</u>	<u>5,015,467</u>	<u>150,292</u>
Licenses and permits:				
Licenses and permits	12,000	37,850	44,456	6,606
Planning commission submittals	8,500	20,646	21,746	1,100
Excavating permits	2,000	3,904	3,969	65
Total licenses and permits	<u>22,500</u>	<u>62,400</u>	<u>70,171</u>	<u>7,771</u>
Intergovernmental:				
Federal grants	-	1,028,000	915,592	(112,408)
State grant	-	-	175,600	175,600
TVA in lieu of tax	125,000	125,000	133,759	8,759
Business tax	95,000	130,354	144,117	13,763
State sales tax	700,000	700,000	863,782	163,782
State local sales tax	300,000	400,000	508,611	108,611
State income tax	-	-	99,675	99,675
State beer tax	5,750	5,750	5,721	(29)
State alcoholic beverage tax	6,000	7,429	11,382	3,953
State petroleum special fee	24,150	24,150	24,742	592
State telecommunications sales tax	-	-	1,237	1,237
State excise tax	1,500	16,300	16,333	33
Total intergovernmental	<u>1,257,400</u>	<u>2,436,983</u>	<u>2,900,551</u>	<u>463,568</u>
Charges for services:				
Refuse collection	800,000	-	-	-
Fire reports	-	-	10	10
Community development fees	-	112,400	112,400	-
Street light fees	-	52,554	84,109	31,555
Inspection fees	-	84,300	84,300	-
Park and recreation fees	12,500	31,370	32,573	1,203
Total charges for services	<u>812,500</u>	<u>280,624</u>	<u>313,392</u>	<u>32,768</u>

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

TOWN OF ARLINGTON, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance
	Original	Final		Over (Under)
Other:				
Other	15,200	30,319	34,910	4,591
Rent	6,700	6,700	6,801	101
City Court revenue	-	130	223	93
Sale of land and equipment	-	5,400	5,405	5
Interest earned	60,000	60,000	63,849	3,849
Insurance recovery	-	3,500	3,500	-
Impact fees	35,000	564,288	571,928	7,640
Library fines	16,500	16,500	21,663	5,163
Contributions	-	8,750	10,000	1,250
Total other	<u>133,400</u>	<u>695,587</u>	<u>718,279</u>	<u>22,692</u>
Total revenues	<u>6,940,200</u>	<u>8,340,769</u>	<u>9,017,860</u>	<u>677,091</u>

Expenditures

Current expenditures:

General government:

Salaries	421,000	421,000	393,000	(28,000)
OASI	33,000	33,000	33,484	484
Hospital and health insurance	47,000	35,000	32,964	(2,036)
Workmen's compensation	4,000	5,502	5,501	(1)
Other employer contributions	28,000	28,000	24,573	(3,427)
Board and committee members	61,000	61,000	61,000	-
Elections	25,000	68,400	68,396	(4)
Contractual services	45,000	45,000	41,329	(3,671)
Postage	4,500	4,500	4,416	(84)
Messenger and delivery services	2,000	2,000	1,776	(224)
Publication of legal notices	10,000	19,000	18,521	(479)
Memberships and registration fees	11,000	11,000	4,414	(6,586)
Public relations	17,000	17,000	14,717	(2,283)
Utility services	20,000	444,500	445,344	844
Telephone	10,500	13,002	14,354	1,352
Legal services	80,000	80,000	78,142	(1,858)
Accounting and auditing services	16,000	16,000	16,170	170
Architectural and engineering services	100,000	100,000	85,670	(14,330)
Planning services	40,000	70,930	74,450	3,520
Web site services	5,200	5,200	5,390	190
Data processing services	12,000	12,000	8,194	(3,806)
Other professional services	84,000	84,000	84,090	90
Repair and maintenance services	4,000	4,000	1,261	(2,739)
Repair and maintenance of buildings	20,000	20,000	8,357	(11,643)
Travel	5,000	5,000	3,416	(1,584)
Collection fees	25,000	25,000	20,280	(4,720)

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

TOWN OF ARLINGTON, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance
	Original	Budget		Over (Under)
Sundry	2,000	2,000	1,677	(323)
Operating supplies	16,200	16,200	11,082	(5,118)
Off site record storage	3,000	3,000	2,923	(77)
Insurance on buildings	4,500	4,500	4,456	(44)
Insurance - liability	9,500	9,500	8,919	(581)
Prizes and awards	700	700	-	(700)
Capital outlay	150,000	1,255,700	1,279,696	23,996
Machinery and equipment rent	9,500	9,500	9,235	(265)
Other machinery and equipment	15,000	15,000	1,045	(13,955)
Donations to Board of Education	-	30,500	5,238	(25,262)
Total general government	<u>1,340,600</u>	<u>2,976,634</u>	<u>2,873,480</u>	<u>(103,154)</u>
Fire protection and control:				
Salaries	830,000	830,000	847,011	17,011
OASI	63,000	63,000	60,824	(2,176)
Hospital and health insurance	125,000	105,000	104,844	(156)
Workmen's compensation	39,000	18,000	17,133	(867)
Employee education and training	10,000	10,000	1,375	(8,625)
Other employer contributions	48,000	48,000	47,300	(700)
Volunteer firemen	3,000	3,000	1,037	(1,963)
Contractual services	75,000	75,000	75,352	352
Membership fees, dues	8,000	8,000	3,178	(4,822)
Utility services	20,000	20,000	16,540	(3,460)
Telephone	8,000	8,000	8,400	400
Medical and dental	125,000	125,000	118,217	(6,783)
Repair and maintenance	65,000	65,000	17,511	(47,489)
Data processing	4,000	4,000	3,886	(114)
Travel	5,000	5,000	2,464	(2,536)
Operating supplies	12,500	12,500	6,437	(6,063)
Clothing and uniforms	11,500	11,500	8,691	(2,809)
Gas, oil and diesel	21,000	21,000	15,446	(5,554)
Insurance-building and liability	11,000	11,000	10,889	(111)
Insurance-vehicles and equipment	7,000	5,700	5,627	(73)
Capital outlay	25,000	40,000	34,146	(5,854)
Machinery and equipment rent	5,000	5,000	3,287	(1,713)
Other machinery and equipment	25,000	27,500	13,340	(14,160)
	<u>1,546,000</u>	<u>1,521,200</u>	<u>1,422,935</u>	<u>(98,265)</u>
Fire fighting:				
Supplies	2,100	2,100	1,890	(210)
Total public safety	<u>1,548,100</u>	<u>1,523,300</u>	<u>1,424,825</u>	<u>(98,475)</u>

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

TOWN OF ARLINGTON, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance
	Original	Final		Over (Under)
Highway and streets:				
Salaries	454,500	454,500	457,767	3,267
OASI	35,000	35,000	33,024	(1,976)
Hospital and health insurance	52,000	55,000	49,869	(5,131)
Workmen's compensation	26,000	13,500	13,461	(39)
Other employer contributions	27,000	27,000	29,292	2,292
Memberships, registration fees	3,000	3,000	2,339	(661)
Employee education and training	8,000	1,000	600	(400)
Utility services	6,000	7,500	8,109	609
Ambulance services	1,500	1,500	1,104	(396)
Other professional services	5,000	5,000	4,723	(277)
Telephone	8,000	10,000	10,411	411
Data processing	5,000	5,000	4,257	(743)
Repair and maintenance services	70,000	100,000	72,024	(27,976)
Operating supplies	13,500	11,500	11,450	(50)
Clothing and uniforms	7,000	7,000	7,013	13
Gas, oil and diesel	19,000	19,000	16,821	(2,179)
Fabricated materials	5,000	5,000	5,357	357
Insurance	13,000	10,000	9,817	(183)
Machinery and equipment rental	3,500	3,500	3,028	(472)
Other machinery and equipment	40,000	28,000	1,537	(26,463)
Capital outlay	78,000	1,228,000	945,889	(282,111)
Total highway and streets	<u>880,000</u>	<u>2,030,000</u>	<u>1,687,892</u>	<u>(342,108)</u>
Education:				
Salaries	-	397,000	422,059	25,059
OASI	-	32,000	32,652	652
Hospital and health insurance	-	24,000	16,392	(7,608)
Other employer contributions	-	26,000	37,610	11,610
Board and committee members	-	13,000	12,400	(600)
Contractual Services	-	160,500	180,956	20,456
Election officials, clerks, etc.	25,000	3,000	-	(3,000)
Postage	-	500	490	(10)
Publications	-	1,952	1,480	(472)
Memberships and registration fees	-	21,600	23,850	2,250
Legal services	200,000	195,000	158,166	(36,834)
Telephone	-	4,617	3,995	(622)
Utility services	-	60,000	52,063	(7,937)
Website services	-	5,000	3,858	(1,142)
Other professional services	375,000	26,000	27,304	1,304
Travel	5,000	12,691	9,751	(2,940)
Sundry	-	400	192	(208)

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

TOWN OF ARLINGTON, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance Over (Under)
	Original	Final		
Operating supplies	-	23,500	24,157	657
Gas, oil and diesel fuel	-	1,000	717	(283)
Insurance	-	10,500	17,906	7,406
Other machinery and equipment	-	7,900	-	(7,900)
Total education	<u>605,000</u>	<u>1,026,160</u>	<u>1,025,998</u>	<u>(162)</u>
 Sanitation:				
Collection fees	800,000	-	-	-
Other professional services	10,000	-	-	-
Memberships and registration fees	2,000	-	-	-
Repair and maintenance	40,000	-	-	-
Total sanitation	<u>852,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Parks and recreation:				
Salaries	175,000	209,400	202,900	(6,500)
OASI	13,000	15,300	14,162	(1,138)
Hospital and health insurance	32,000	34,000	33,648	(352)
Workmen's compensation	10,000	2,600	2,448	(152)
Postage	200	200	223	23
Other employer contributions	8,000	10,000	6,501	(3,499)
Contractual services	165,000	165,000	162,597	(2,403)
Data processing services	-	2,500	2,043	(457)
Public relations	15,000	15,000	18,267	3,267
Utility services	46,200	53,000	51,581	(1,419)
Telephone	5,500	7,500	7,902	402
Repair and maintenance	51,500	58,500	52,821	(5,679)
Sundry	1,200	1,200	844	(356)
Operating supplies	29,200	31,500	29,753	(1,747)
Gas, oil and diesel fuel	8,000	8,000	9,110	1,110
Insurance	9,200	9,200	7,736	(1,464)
Other machinery and equipment	37,000	31,500	6,367	(25,133)
Capital outlay	25,000	250,000	273,101	23,101
Total parks and recreation	<u>631,000</u>	<u>904,400</u>	<u>882,004</u>	<u>(22,396)</u>

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

**TOWN OF ARLINGTON, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND**

For the Year Ended June 30, 2014

	Budgeted Amounts			Variance Over (Under)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>(Under)</u>
Debt Service:				
Principal	71,000	71,000	70,628	(372)
Interest	<u>12,500</u>	<u>12,500</u>	<u>12,408</u>	<u>(92)</u>
Total debt service	<u>83,500</u>	<u>83,500</u>	<u>83,036</u>	<u>(464)</u>
 Total expenditures	 <u>5,940,200</u>	 <u>8,543,994</u>	 <u>7,977,235</u>	 <u>(566,759)</u>
 Revenues over (under) expenditures	 1,000,000	 (203,225)	 1,040,625	 1,243,850
Other financing sources (uses)				
Operating transfers out	<u>(1,000,000)</u>	<u>(1,052,000)</u>	<u>(1,489,159)</u>	<u>(437,159)</u>
 Net changes in fund balances	 <u>\$ -</u>	 <u>\$ (1,255,225)</u>	 <u>(448,534)</u>	 <u>\$ 806,691</u>
 Fund balance, July 1			 <u>11,783,288</u>	
 Fund balance, June 30			 <u>\$ 11,334,754</u>	

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

TOWN OF ARLINGTON, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
STATE STREET AID FUND

For the Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance Over (Under)
Revenues	Original	Final	Actual	(Under)
Intergovernmental:				
Gas 1989	\$ 45,000	\$ 45,000	\$ 34,422	\$ (10,578)
Gas 3 cent	84,000	84,000	63,886	(20,114)
Gasoline and motor fuel tax	171,000	171,000	214,486	43,486
Development bonds forfeited	100,000	450,000	300,000	(150,000)
Grant revenue	-	1,358,790	1,854,945	496,155
Total intergovernmental	<u>400,000</u>	<u>2,108,790</u>	<u>2,467,739</u>	<u>358,949</u>
Other:				
Interest earned	<u>20,000</u>	<u>27,832</u>	<u>31,253</u>	<u>3,421</u>
Total revenues	<u>420,000</u>	<u>2,136,622</u>	<u>2,498,992</u>	<u>362,370</u>
Expenditures				
Current:				
Public works:				
Highways and streets:				
Utilities	320,000	320,000	302,223	(17,777)
Repair and maintenance services	50,000	50,000	54,429	4,429
Repair and maintenance - streets	525,000	825,000	447,937	(377,063)
Gas, oil and diesel	15,000	15,000	15,502	502
Grant expenditures	1,275,000	2,838,227	-	(2,838,227)
Capital outlay, including grants	<u>250,000</u>	<u>25,000</u>	<u>2,764,260</u>	<u>2,739,260</u>
Total expenditures	<u>2,435,000</u>	<u>4,073,227</u>	<u>3,584,351</u>	<u>(488,876)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(2,015,000)</u>	<u>(1,936,605)</u>	<u>(1,085,359)</u>	<u>851,246</u>
Revenues over (under) expenditures	<u>(2,015,000)</u>	<u>(1,936,605)</u>	<u>(1,085,359)</u>	<u>851,246</u>
Other financing sources (uses)				
Operating transfers in	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>	<u>-</u>
Net changes in fund balance	<u>\$(1,015,000)</u>	<u>\$ (936,605)</u>	<u>(85,359)</u>	<u>\$ 851,246</u>
Fund balance, July 1			<u>6,085,675</u>	
Fund balance, June 30			<u>\$ 6,000,316</u>	

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

TOWN OF ARLINGTON, TENNESSEE
STATEMENT OF NET POSITION
PROPRIETARY FUND
June 30, 2014

	<u>Sewer Fund</u>
Assets	
Current assets	
Cash and cash equivalents	\$ 3,299,008
Investments	5,919,850
Receivables	
Interest	558
Accounts	<u>301,415</u>
Total current assets	<u>9,520,831</u>
Noncurrent assets	
Capital assets	
Land	231,762
Sewer plant	29,062,386
Less accumulated depreciation	<u>(4,421,590)</u>
Total capital assets (net of accumulated depreciation)	<u>24,872,558</u>
Total noncurrent assets	<u>24,872,558</u>
Total assets	<u>34,393,389</u>
Liabilities	
Current liabilities	
Accounts payable	396
Due to general fund	78,558
Bonds payable	<u>868,000</u>
Total current liabilities	<u>946,954</u>
Noncurrent liabilities	
Unamortized bond premium	31,926
Bonds payable	<u>13,412,001</u>
Total noncurrent liabilities	<u>13,443,927</u>
Total liabilities	<u>14,390,881</u>
Net position	
Net investment in capital assets	10,560,631
Unrestricted	<u>9,441,877</u>
Total net position	<u>\$ 20,002,508</u>

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

TOWN OF ARLINGTON, TENNESSEE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUND
For the Year Ended June 30, 2014

	Sewer Fund
Operating revenues	
Sewer service charges	\$ 1,519,939
Surcharges and inspection fees	1,156,306
Total operating revenues	2,676,245
Operating expenses	
Salaries	91,866
OASI	5,936
Hospital and health insurance	19,296
Workmen's compensation	4,895
Other employer contributions	5,524
Employee education and materials	125
Memberships and dues	7,630
Utility services	150,258
Telephone	4,005
Accounting and auditing	5,600
Other professional services	1,920
Contractual services	62,364
Repair and maintenance	110,399
Lab costs	8,704
Operating supplies	8,960
Gas, oil and diesel	4,160
Insurance	28,548
Depreciation	632,989
Total operating expenses	1,153,179
Operating income (loss)	1,523,066
Non-operating income (expense)	
Interest earned	56,950
Interest expense	(184,189)
Sale of equipment	(183)
Debt fees	(54,726)
Total non-operating revenues (expenses)	(182,148)
Change in net position	1,340,918
Total net position, beginning	18,785,175
Prior period adjustment - GASB 65 implementation	(123,585)
Total net position, restated	18,661,590
Total net position, ending	\$ 20,002,508

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

TOWN OF ARLINGTON, TENNESSEE
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2014

	<u>Sewer Fund</u>
Cash flows from operating activities:	
Cash received from consumers	\$ 2,617,743
Cash received from other funds	3,999
Cash paid to employees for services	(97,802)
Other operating payments	<u>(421,992)</u>
Net cash provided (used) by operating activities	<u>2,101,948</u>
Cash flows from capital and related financing activities:	
Principal paid on debt	(838,999)
Interest and debt fees paid	(238,915)
Disposal of capital assets	(183)
Construction and acquisition of plant	<u>(2,907,799)</u>
Net cash provided (used) by capital and related financing activities	<u>(3,985,896)</u>
Cash flows from investing activities:	
Purchase of investments	(5,919,850)
Proceeds from sale and maturities of investments	3,884,214
Interest and unrealized change in investments	<u>57,589</u>
Net cash provided (used) by investing activities	<u>(1,978,047)</u>
Net increase (decrease) in cash and cash equivalents	(3,861,995)
Cash and cash equivalents - beginning of year	<u>7,161,003</u>
Cash and cash equivalents - end of year	<u>3,299,008</u>

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

TOWN OF ARLINGTON, TENNESSEE
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2014

	<u>Sewer Fund</u>
Reconciliation of operating income to net cash provided (used) by operating activities	
Operating income (loss)	\$ 1,523,066
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	632,989
(Increase) decrease in accounts receivable	(58,502)
Increase (decrease) in payables	396
Increase (decrease) in due to other funds	<u>3,999</u>
Net cash provided (used) by operating activities	<u>\$ 2,101,948</u>

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

TOWN OF ARLINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Arlington, Tennessee (Town) operates under a Mayor-Alderman form of government and provides the following services as authorized by its charter: public safety, street maintenance, sanitation, public utilities and general administrative services.

The accounting policies of the Town conform to generally accepted accounting principles applicable to a government as defined in the *Statements of Governmental Accounting Standards Board (GASB)*. The following is a summary of the more significant accounting policies.

A. Reporting Entity

As required by generally accepted accounting principles, these financial statements present the entire reporting entity of the Town. Based on the criteria set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, the Town has no component units required to be reported.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statements of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of the interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statements Presentation

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 recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when

TOWN OF ARLINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, gross receipt taxes, sales taxes, grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Town reports the following major governmental funds:

The general fund is the government's primary operating fund. It accounts for all financial activities of the general government that are not required to be reported in another fund.

The state street aid fund accounts for street and road repair and maintenance.

The Town reports the following major proprietary fund:

The sewer fund accounts for the activities associated with the sewage treatment plant, sewage pumping stations and collection system.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's utility divisions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

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

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

Deposits and Investments

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with maturities of three months or less from the date of acquisition. State statutes authorize the Town to invest in certificates of deposit, obligations of the U.S. Treasury,

TOWN OF ARLINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

agencies and instrumentalities, obligations guaranteed by the U.S. government or its agencies, repurchase agreements and the state's investment pool.

Investments for the Town are reported at fair value. All investments at June 30, 2014 consisted of certificates of deposits.

Receivables and Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

Property tax receivables are shown net of an allowance for uncollectible. The allowance is recorded based on the past history of collections.

There is no allowance for uncollectible customer accounts recorded in the proprietary funds, based on past history of collections and management's analysis of current accounts. Bad debts in the proprietary funds are recorded by the direct write-off method.

Property taxes are levied and the tax bills are mailed annually on October 1. The taxes are due and payable from the following October through February in the year succeeding the tax levy. An unperfected lien attaches by statute to property on January 1 for unpaid taxes from the prior year's levy. Taxes uncollected by March 1, the year after due, are to be submitted to the Chancery Court for collection. Tax liens become perfected at the time the court enters judgment. Shelby County collects all property taxes for the Town and remits them by direct deposit monthly.

Capital Assets

Capital assets, including property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,500 for equipment and \$500 for land, \$5,000 for improvements other than buildings, and \$10,000 for infrastructure and buildings and an estimated useful life in excess of three years. All land, construction in progress, and works of art will be included. The sewer fund uses the same thresholds. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets of the Town are depreciated using the straight line method over the following useful lives:

Utility plant	
Buildings and improvements	20 - 40 years
Machinery and equipment	5 - 10 years
Infrastructure	10 - 25 years

TOWN OF ARLINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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 and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town currently has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The items that qualify for reporting as a deferred inflow of resources are unavailable revenue and are disclosed on pages 11, 13, and 34.

E. Impact of Recently Issued Accounting Pronouncements

In March 2012, the GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement is effective for financial periods beginning after December 15, 2012. The implementation of this statement resulted in a restatement of beginning net position for \$123,585 of unamortized debt issuance cost now required to be expensed. The implementation of GASB Statement 65 also resulted in the reclassification of deferred property taxes from a liability to a deferred inflow of resources – unavailable revenue-property taxes.

F. Net Position Flow Assumption

Sometimes the Town will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

**TOWN OF ARLINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS**

June 30, 2014

Fund Equity

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the Town is to honor constraints on the specific purpose for which amounts in the funds can be spent. Fund balance for governmental funds can consist of the following:

Nonspendable – Amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts that can be spent only for specific purposes because of the Town Charter, Town Code, state or federal laws or externally imposed conditions by grantors or creditors.

Committed – Amounts that can be used only for specific purposes determined by formal action by the Board of Alderman ordinance or resolution. To be reported as committed, amounts cannot be used for any other purpose unless the Town takes the same highest level action to remove or change the constraint.

Assigned – Amounts the Town intends to use for a specific purpose that are neither restricted or committed. Intent can be expressed by the Board of Alderman or by an official or body to which the Board of Alderman delegates the authority. No designations have been made at this time.

Unassigned – Amounts that are available for any purpose. Positive amounts are reported only in the general fund.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Town considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned or unassigned fund balances are available, the Town considers amounts to have been spent first out of committed funds, then assigned funds and finally unassigned funds, as needed, unless the Board of Alderman or the finance committee has provided otherwise in its commitment or assignment actions.

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Position

The governmental fund balance sheet 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 notes and leases payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$5,000,663 difference are as follows:

Long-term debt due within a year	\$ 406,333
Long-term debt due in more than a year	4,058,663
Compensated absences payable	75,489
Accrued postclosure care costs	<u>460,178</u>
Net adjustment to reduce fund balance - total government funds to arrive at net position - governmental activities	<u>\$ 5,000,663</u>

TOWN OF ARLINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

B. 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 reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities includes a reconciliation between net changes in fund balances - 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 outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense in the current period." The details of this \$7,917,660 difference are as follows:

Capital Outlay net of contributed capital	\$ 9,297,086
Amount costs of disposed assets exceeded accumulated depreciation	(2,828)
Depreciation expense	<u>(1,376,598)</u>
Net adjustment to reduce net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities	<u><u>\$ 7,917,660</u></u>

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. These include the general fund and the special revenue funds. The Board of Aldermen approves and appropriates the budgets for these funds annually. All annual appropriations lapse at fiscal year end.

As an extension of the formal budgetary process, the Board of Aldermen may transfer or appropriate additional funds for expenditures not anticipated at the time of budget adoption. The Town's policy is to not allow expenditures to exceed budgetary amounts at the total fund expenditure level without obtaining additional appropriation approval from the Board.

NOTE 4 - DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Investments were made up entirely of certificates of deposits with original maturities greater than three months for the fiscal year ended June 30, 2014.

Custodial Credit Risk

The Town's policies limit deposits and investments to those instruments allowed by applicable state laws and described in Note 1. State statutes require that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the value of uninsured deposits. The deposits must be collateralized by federal depository insurance or the Tennessee Bank Collateral Pool, by collateral held by the Town's agent in the Town's name, or by the Federal Reserve Banks acting as third party agents. State statutes also authorize the Town to invest in bonds, notes or treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations and federally chartered banks and savings and loan associations, repurchase agreements utilizing obligations of the United States

TOWN OF ARLINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

or its agencies as the underlying securities, and the state pooled investment fund. Statutes also require that securities underlying repurchase agreements must have a market value of at least equal to the amount of funds invested in the repurchase transaction. As of June 30, 2014, all deposits were fully collateralized or insured.

B. Receivables

Receivables as of June 30, 2014 for the government's individual major funds, including the applicable allowances for uncollectible accounts, are as follows:

	General	State Street Aid	Sewer	Total
Receivables				
Interest	\$ 1,179	\$ 952	\$ 558	\$ 2,689
Taxes	3,283,601	-	-	3,283,601
Accounts	137,910	-	301,415	439,325
Intergovernmental	648,890	-	-	648,890
Grants	-	547,328	-	547,328
Gross receivables	4,071,580	548,280	301,973	4,921,833
Less: allowance for uncollectibles	(5,167)	-	-	(5,167)
Net total receivables	<u>\$ 4,066,413</u>	<u>\$ 548,280</u>	<u>\$ 301,973</u>	<u>\$ 4,916,666</u>

Governmental funds report unavailable 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, various components of unavailable revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned/Unavailable	Total
	\$ 98,872	\$ -	\$ 98,872
2014 property tax assessment	-	3,147,407	3,147,407
Total deferred revenue for governmental funds	<u>\$ 98,872</u>	<u>\$ 3,147,407</u>	<u>\$ 3,246,279</u>

TOWN OF ARLINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

C. Capital Assets

Capital asset activity for the year ended June 30, 2014 was as follows:

	Beginning	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 1,372,303	\$ 11,410,865	\$ -	\$ 12,783,168
Construction in progress	1,130,977	2,772,668	2,290,248	1,613,397
Total capital assets, not being depreciated, net	<u>2,503,280</u>	<u>14,183,533</u>	<u>2,290,248</u>	<u>14,396,565</u>
Capital assets being depreciated:				
Buildings and improvements	4,746,811	72,736,854	-	77,483,665
Machinery and equipment	2,393,027	997,391	36,493	3,353,925
Infrastructure	25,887,584	2,014,022	-	27,901,606
Total capital assets being depreciated	<u>33,027,422</u>	<u>75,748,267</u>	<u>36,493</u>	<u>108,739,196</u>
Less: accumulated depreciation for:				
Buildings and improvements	(1,636,665)	(207,535)	-	(1,844,200)
Machinery and equipment	(1,359,619)	(171,235)	(33,665)	(1,497,189)
Infrastructure	(3,591,505)	(997,828)	-	(4,589,333)
Total accumulated depreciation	<u>(6,587,789)</u>	<u>(1,376,598)</u>	<u>(33,665)</u>	<u>(7,930,722)</u>
Total capital assets, being depreciated, net	<u>26,439,633</u>	<u>74,371,669</u>	<u>2,828</u>	<u>100,808,474</u>
Governmental activities, capital assets, net	<u>\$ 28,942,913</u>	<u>\$ 88,555,202</u>	<u>\$ 2,293,076</u>	<u>\$ 115,205,039</u>
Business-type Activities:				
Capital assets not being depreciated:	Beginning Balance	Increases	Decreases	Ending Balance
Land	\$ 231,762	\$ -	\$ -	\$ 231,762
Construction in progress	3,358,063	2,872,727	6,230,790	-
Total capital assets, not being depreciated	<u>3,589,825</u>	<u>2,872,727</u>	<u>6,230,790</u>	<u>231,762</u>
Capital assets being depreciated:				
Sewer plant	22,839,649	6,270,683	47,945	29,062,387
Total capital assets being depreciated	<u>22,839,649</u>	<u>6,270,683</u>	<u>47,945</u>	<u>29,062,387</u>
Less: accumulated depreciation for:				
Infrastructure	(3,831,726)	(632,989)	(43,124)	(4,421,591)
Total accumulated depreciation	<u>(3,831,726)</u>	<u>(632,989)</u>	<u>(43,124)</u>	<u>(4,421,591)</u>
Total capital assets being depreciated, net	<u>19,007,923</u>	<u>5,637,694</u>	<u>4,821</u>	<u>24,640,796</u>
Business-type activities capital assets, net	<u>\$ 22,597,748</u>	<u>\$ 8,510,421</u>	<u>\$ 6,235,611</u>	<u>\$ 24,872,558</u>

TOWN OF ARLINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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

Governmental activities:	
General government	\$ 73,980
Public safety	95,184
Public works	63,569
Street department	1,013,880
Parks department	129,985
Total depreciation expense - governmental activities	<u>\$ 1,376,598</u>
Business-type activities:	
Sewer	<u>\$ 632,989</u>

D. Interfund Transfers and Balances

The composition of interfund transfers as of June 30, 2014, is as follows:

Transfer from	Transfer to	Amount
General	State street aid	\$ 1,000,000
General	Sanitation	489,159
Total		<u>\$ 1,489,159</u>

Transfers are used to move revenues from the fund with collection authorization to the fund in which the related expenditures take place. In this case, funds were transferred from the general fund to the state street aid fund to cover additional capital outlay expenditures. Under TCA 68-211-874, the Town is required to account for its solid waste collection activities in a separate fund; therefore, they have reestablished the fund in the current year through a transfer in the amount of the prior year ending fund balance for sanitation from the general fund to the sanitation fund.

The composition of due to and due from other funds as of June 30, 2014, is as follows:

Due from	Due to	Amount
General Fund	State Street Aid	\$ 56,692
General Fund	Sanitation	5,135
Sewer Fund	Sanitation	78,558
		<u>\$ 140,385</u>

The balance due from the general fund to the state street aid fund is related to transfers to move revenues from the general fund to the fund in which it relates. The balance due from the general fund to the sanitation fund relates to the fund balance transfer to reestablish the sanitation fund. The balance due from the sewer fund to the sanitation fund relates to collections for sanitation services by the sewer fund.

**TOWN OF ARLINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS**

June 30, 2014

E. Long-term Debt

Long-term debt at June 30, 2014 is summarized as follows:

Revenue Bonds:

Adjustable Rate Pooled Financing Revenue Bonds, Series 2002
Tennessee County Loan Pool; the total amount of the
bond issue is for \$13,000,000; due in annual installments of
\$484,000 to \$1,023,000 through 2024;
interest at 4.5% at June 30, 2014 \$ 8,460,000

Adjustable Rate Pooled Financing Revenue Bonds, Series 2012
Tennessee County Loan Pool; the total amount of the
bond issue is for \$6,000,000; due in annual installments of
\$180,000 to \$335,000 through 2038;
interest at 2.00% at June 30, 2014 5,820,001

Note Payable:

Fire Equipment Acquisition Capital Outlay Note, Series 2012
Tennessee Municipal Bond Fund; the total amount of the
bond issue is for \$535,628; due in annual installments of
\$70,628 to \$82,000 through 2020;
interest at 2.48% at June 30, 2014 465,000

Arlington Board of Education Note payable to the Shelby County
Board of Education; the total amount of the note is \$3,999,996;
due in annual payments of \$333,333 through 2026. 3,999,996

Total \$ 18,744,997

The following is a summary of long-term debt transactions for the year ended June 30, 2014:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Bonds payable					
Revenue bonds 2002	\$ 9,119,000	\$ -	\$ 659,000	\$ 8,460,000	\$ 688,000
Revenue bonds 2012	6,000,000	-	179,999	5,820,001	180,000
Premium	31,926	-	-	31,926	1,303
Total bonds payable	<u>15,150,926</u>	<u>-</u>	<u>838,999</u>	<u>14,311,927</u>	<u>869,303</u>
Notes payable					
Note payable-capital outlay	535,628	-	70,628	465,000	73,000
Note payable-Board of Education	-	3,999,996	-	3,999,996	333,333
Total notes payable	<u>535,628</u>	<u>3,999,996</u>	<u>70,628</u>	<u>4,464,996</u>	<u>406,333</u>
Compensated absences	71,046	4,443	-	75,489	-
Landfill closing and post closing monitoring costs	491,159	-	30,981	460,178	-
Total long-term debt	<u>\$ 16,248,759</u>	<u>\$ 4,004,439</u>	<u>\$ 940,608</u>	<u>\$ 19,312,590</u>	<u>\$ 1,275,636</u>

TOWN OF ARLINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

The annual requirements to amortize all long-term debt and obligations outstanding, except accrued employee vacation and landfill closing and post-closing monitoring costs, at June 30, 2014, including interest payments of \$2,525,255, are as follows:

Year Ending June 30,	Total Principal	Total Interest	Total
2015	1,274,333	192,543	1,466,876
2016	1,312,333	185,132	1,497,465
2017	1,352,333	177,483	1,529,816
2018	1,397,333	169,556	1,566,889
2019	1,434,333	161,396	1,595,729
2020-2024	7,492,665	693,117	8,185,782
2025-2029	1,846,666	521,253	2,367,919
2030-2034	1,360,000	337,481	1,697,481
2035-2038	1,275,001	87,294	1,362,295
Total	<u>\$ 18,744,997</u>	<u>\$ 2,525,255</u>	<u>\$ 21,270,252</u>

Through June 30, 2013, debt expense associated with the above bond issues was recorded as other assets and was being amortized on a straight-line basis over the life of the issue. As of July 1, 2013, to comply with GASB Statement 65, the balance of the unamortized bond issues was expensed through net position as a prior period adjustment. See Note 5F for disclosure.

All significant debt covenants and restrictions as set forth in the bond agreements were complied with.

NOTE 5 – OTHER INFORMATION

A. Commitments

The Town closed its solid waste landfill facility in August 1991. State and federal laws and regulations require the Town to place a final cover on the landfill and to perform certain maintenance and monitoring functions at the site for 30 years after closure. All closure activities were complete as of June 30, 1999. Although the remaining costs of monitoring will be paid as they are incurred, generally accepted accounting principles require these costs to be reflected as a liability of the entity owning the landfill as of the date of closure. Accordingly, the Town has recorded these estimated costs as a long-term liability in the government-wide statements. These amounts are based on what it would cost to perform all post-closure care in 2007. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. Expenditures were \$30,981 for the year ended June 30, 2014.

B. Risk Management

The Town is exposed to various risks of losses related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town decided it was more economically feasible to join a public entity risk pool as opposed to purchasing commercial insurance for general liability, auto liability, errors and omissions, workers compensation and automobile physical damage coverage. The Town joined the Tennessee Municipal League Risk Pool (Pool), which is a public entity risk pool established in 1979 by the Tennessee Municipal League.

**TOWN OF ARLINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS**

June 30, 2014

The Town pays annual premiums to the Pool for its general liability, auto liability, real and personal property damage, workman's compensation and errors and omissions policies. The Pool provides the specified coverage and pays all claims from its member premiums charged or through its reinsurance policies. The Town's premiums are calculated based on its prior claims history.

It is the policy of the Town to purchase commercial insurance for the risks of employee dishonesty and excess liability. Settled claims have not exceeded this commercial coverage or the coverage provided by the Pool in any of the past three years.

C. Pension Plan

Effective on August 1, 2005 the Town adopted a governmental employer sponsored eligible deferred compensation plan titled Town of Arlington 457 Plan. Participants of the Plan must meet the Plan's eligibility requirements. Once an employee becomes a Participant, the Town will maintain an Individual Account for each employee. Each Plan Year, employee accounts will be adjusted to reflect contributions, gains, losses, etc. All contributions made to the Plan on an employee's behalf will be placed in a trust fund established to hold dollars for the benefit of all Participants. Each Participant's Individual Account will be used to track their share in the total trust fund.

For the year ended June 30, 2014, total employer contributions were \$78,014 and employee contributions were \$120,892 based on total covered wages of \$1,850,287.

D. Operating Lease Commitments

The Town has entered into operating leases which contain non-cancellation provisions. The annual requirements under these operating leases as of June 30, 2014, are as follows:

Years Ended June 30		
2015	\$	7,921
2016		3,211
Total	\$	<u>11,132</u>

E. Creation of Municipal School System

On July 16, 2013, a referendum was approved by the electorate of the Town to create a municipal school system to begin operation during the 2014-15 fiscal year. Financing for the school system was also approved by way of a half-cent increase in the local option sales tax in Arlington in 2012. On November 7, 2013, a school board for the municipal school system was elected. The Town had expenditures totaling \$1,025,998 during the year to get the system started. Additionally, per an agreement with Shelby County, Tennessee, the Board of Commissioners of Shelby County, and the Shelby County Board of Education, in return for the deeding of the property of the four schools on June 2, 2014, the Arlington Board of Education will pay the Shelby County Board of Education \$333,333 per calendar year for twelve years with the first payment paid by November 1, 2014 and the remaining payments by November 1 of each year following for a total of \$3,999,996. The deeded property is valued at \$82,344,462 as of June 30, 2014, resulting in capital contributions of \$78,344,466.

TOWN OF ARLINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

F. Prior Period Adjustment

As of June 30, 2014, a prior period adjustment was made in the Sewer Fund to close out bond issuance cost to net position in the amount of \$123,585. This adjustment was made to comply with GASB Statement 65, which states that all bond issuance cost must be recognized as an expense in the year incurred.

NOTE 6 – CONTINGENT LIABILITIES

On May 16, 1997 the Town signed an agreement with Memphis Light Gas and Water Division (MLGW) which included requirement for the Town to reimburse MLGW for certain water system development costs. This reimbursement is made monthly only to the extent that water system development fees are collected by the Town. This continues to accumulate as MLGW incurs development costs plus interest at 6% and is reduced only by the reimbursement from the development fees. The Town has no obligation to pay this liability beyond the amount of development fees collected. The balance of this contingent liability is \$1,967,850.

NOTE 7 – SUBSEQUENT EVENTS

Due to timing of state reimbursements for schools, the Town issued a revenue anticipation note in July 2014 in the amount of \$4,443,740 to loan to the Arlington Board of Education as a short term loan. The loan is to fund school expenditures for the 2014-2015 school year until state reimbursements are received. The loan is to be repaid by the Board of Education by June 30, 2015.

Additionally, in December 2014, the Town entered into a capital lease agreement on behalf of the Arlington Board of Education to obtain 350 Apple computers to be used by teachers in the Arlington Schools. The lease obligation of \$434,350 will be paid by the Arlington Board of Education over a 36 month period.

SUPPLEMENTARY AND OTHER INFORMATION SECTION

The other supplementary information section of this report includes information not required to be included in the Basic Financial Statements and is provided for the purpose of additional analysis.

TOWN OF ARLINGTON, TENNESSEE
BALANCE SHEET
OTHER GOVERNMENTAL FUND
June 30, 2014

	<u>Sanitation</u>
Assets	
Cash and cash equivalents	\$ 472,402
Due from other funds	<u>83,693</u>
Total assets	<u>\$ 556,095</u>
Fund Balance	
Restricted	\$ 556,095
Total fund balance	<u>\$ 556,095</u>

See independent auditor's report.

TOWN OF ARLINGTON, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - OTHER GOVERNMENTAL FUND
For the Fiscal Year Ended June 30, 2014

	Sanitation
Revenues:	
Charges for services	\$ 919,818
Interest	1,997
Total revenues	921,815
 Expenditures:	
Current:	
Public works	854,879
Total expenditures	854,879
Excess (deficiency) of revenues over (under) expenditures	66,936
 Other financing sources (uses):	
Operating transfers in	489,159
Total other financing sources (uses)	489,159
Net change in fund balance	556,095
Fund balance - beginning	-
Fund balance - ending	\$ 556,095

See independent auditor's report.

**TOWN OF ARLINGTON, TENNESSEE
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
SANITATION FUND**

For the Fiscal Year Ended June 30, 2014

Revenues	Budgeted Amounts		Actual	Variance Over (Under)
	Original	Final		
Charges for services:				
Refuse collection charges	\$ -	\$ 843,500	\$ 919,818	\$ 76,318
Other:				
Interest earned	-	1,780	1,997	217
Total revenues	-	845,280	921,815	76,535
 Expenditures				
Current expenditures:				
Public works:				
Solid waste collection:				
Contracted services	-	845,000	846,160	1,160
Landfill closure:				
Professional services	-	12,000	1,149	(10,851)
Repair and maintenance	-	40,000	7,570	(32,430)
Total expenditures	-	897,000	854,879	(42,121)
Excess (deficiency) of revenues over (under) expenditures	-	(51,720)	66,936	118,656
 Other financing sources (uses)				
Operating transfers in	-	52,000	489,159	437,159
Excess (deficiency) of revenues and other financing sources over (under) expenditures	\$ -	\$ 280	\$ 556,095	\$ 555,815
 Fund balance, July 1				
			-	
 Fund balance, June 30				
			\$ 556,095	

See independent auditor's report.

TOWN OF ARLINGTON, TENNESSEE
SCHEDULE OF PRINCIPAL AND INTEREST REQUIREMENTS
GENERAL OBLIGATION DEBT
June 30, 2014

Year Ended June 30,	Capital Outlay Note		Board of Education Note		Total Requirements		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2015	73,000	10,627	333,333	-	406,333	10,627	416,960
2016	75,000	8,792	333,333	-	408,333	8,792	417,125
2017	77,000	6,907	333,333	-	410,333	6,907	417,240
2018	78,000	4,985	333,333	-	411,333	4,985	416,318
2019	80,000	3,026	333,333	-	413,333	3,026	416,359
2020	82,000	1,017	333,333	-	415,333	1,017	416,350
2021	-	-	333,333	-	333,333	-	333,333
2022	-	-	333,333	-	333,333	-	333,333
2023	-	-	333,333	-	333,333	-	333,333
2024	-	-	333,333	-	333,333	-	333,333
2025	-	-	333,333	-	333,333	-	333,333
2026	-	-	333,333	-	333,333	-	333,333
	<u>\$ 465,000</u>	<u>\$ 35,354</u>	<u>\$ 3,999,996</u>	<u>\$ -</u>	<u>\$ 4,464,996</u>	<u>\$ 35,354</u>	<u>\$ 4,500,350</u>

See independent auditor's report.

TOWN OF ARLINGTON, TENNESSEE
SCHEDULE OF PRINCIPAL AND INTEREST REQUIREMENTS
PROPRIETARY FUNDS DEBT
June 30, 2014

Year Ended June 30,	Series 2002		Revenue Bonds Series 2012		Total Requirements		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2015	688,000	23,688	180,000	158,228	868,000	181,916	1,049,916
2016	719,000	21,762	185,000	154,578	904,000	176,340	1,080,340
2017	752,000	19,748	190,000	150,828	942,000	170,576	1,112,576
2018	786,000	17,643	200,000	146,928	986,000	164,571	1,150,571
2019	821,000	15,442	200,000	142,928	1,021,000	158,370	1,179,370
2020	858,000	13,143	200,000	138,928	1,058,000	152,071	1,210,071
2021	897,000	10,741	205,000	134,878	1,102,000	145,619	1,247,619
2022	937,000	8,229	210,000	130,728	1,147,000	138,957	1,285,957
2023	979,000	5,606	215,000	126,074	1,194,000	131,680	1,325,680
2024	1,023,000	2,864	220,000	120,909	1,243,000	123,773	1,366,773
2025	-	-	225,000	115,624	225,000	115,624	340,624
2026	-	-	230,000	110,221	230,000	110,221	340,221
2027	-	-	235,000	104,553	235,000	104,553	339,553
2028	-	-	240,000	98,615	240,000	98,615	338,615
2029	-	-	250,000	92,240	250,000	92,240	342,240
2030	-	-	255,000	85,423	255,000	85,423	340,423
2031	-	-	265,000	77,343	265,000	77,343	342,343
2032	-	-	270,000	67,980	270,000	67,980	337,980
2033	-	-	280,000	58,355	280,000	58,355	338,355
2034	-	-	290,000	48,380	290,000	48,380	338,380
2035	-	-	300,000	38,055	300,000	38,055	338,055
2036	-	-	315,000	27,293	315,000	27,293	342,293
2037	-	-	325,000	16,418	325,000	16,418	341,418
2038	-	-	335,001	5,528	335,001	5,528	340,529
	<u>\$ 8,460,000</u>	<u>\$ 138,866</u>	<u>\$ 5,820,001</u>	<u>\$ 2,351,035</u>	<u>\$ 14,280,001</u>	<u>\$ 2,489,901</u>	<u>\$ 16,769,902</u>

See independent auditor's report.

TOWN OF ARLINGTON, TENNESSEE
SCHEDULE OF CHANGES IN TAXES RECEIVABLE
For the Year Ended June 30, 2014

Tax Levy for Year	Tax Rate	Tax Levy	Beginning Outstanding Taxes	Additions and Adjustments	Collections	Ending Outstanding Taxes	Outstanding Taxes Filed With Trustee
2013	\$ 1.15	\$ 3,086,420	\$ -	\$ 3,130,078	\$ 3,039,618	\$ 90,460	\$ -
2012	1.15	3,191,116	108,112	390	76,462	32,040	32,040
2011	1.00	2,707,557	41,236	(1,196)	34,322	5,718	5,718
2010	1.00	2,677,703	26,319	(2,013)	21,481	2,825	2,825
2009	1.00	2,757,236	25,257	(2,011)	20,254	2,992	2,992
2008	1.00	2,336,905	18,648	(93)	16,969	1,586	1,586
2007	1.00	2,082,027	16,936	(342)	16,417	177	177
2006	1.00	1,867,780	17,092	(452)	16,416	224	224
2005	1.00	1,424,436	16,946	(227)	16,547	172	172
2004	1.00	1,106,070	55	-	55	-	-
			<u>\$ 270,601</u>	<u>\$ 3,124,134</u>	<u>\$ 3,258,541</u>	<u>\$ 136,194</u>	<u>\$ 45,734</u>

Above balances represented as follows:

Considered current receivables	\$ 32,155
Allowance for uncollectible accounts	5,167
Unavailable revenue	<u>98,872</u>

136,194

Tax levy due October 1, 2014 considered unavailable revenue

3,147,407

Total taxes receivable

\$ 3,283,601

See independent auditor's report.

TOWN OF ARLINGTON, TENNESSEE
SCHEDULE OF UTILITY RATES IN EFFECT
June 30, 2014

Sewer Rates

Residential, Commercial and Industrial:

	\$7.09
Each 100 cubic feet	\$2.68 per 100 cubic feet

Industrial Surcharge:

Biochemical oxygen demand from 250mg/l to 1644 lb/day	\$0.25 per pound of BOD
Biochemical oxygen demand from 1644 lb/day to 2000 lb/day	\$0.30 per pound of BOD
Biochemical oxygen demand in excess of 2000 lb/day	\$0.55 per pound of BOD
Suspended solids in excess of 250mg/l	\$0.20 per pound of SS

Number of customers at June 30, 2014:	<u>4,291</u>
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See independent auditor's report.

TOWN OF ARLINGTON, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE FINANCIAL ASSISTANCE
For the Fiscal Year Ended June 30, 2014

<u>Grantor/Pass Through Entity</u>		<u>State Grant Number</u>	<u>Expenditures</u>
Federal Financial Assistance:			
United States Department of Housing and Urban Development/Shelby County, Tennessee:			
CDBG - Disaster Recovery Programs - ADC.			
Town Hall & Douglas Detention Basins	14.218	CA-1416715	\$ 111,925
CDBG - Dixon Robinson Drainage	14.218	CA-148838	93,200
Sustainable Communities Regional Planning - Loosahatchie River Greenway Trail	14.703	CA-1416947	<u>37,592</u>
Total United States Department of Housing and Urban Development			<u>242,717</u>
United States Department of Transportation/ Tennessee Department of Transportation:			
Highway Planning and Construction	20.205	110103	52,192
Highway Planning and Construction	20.205	110104	211,179
Highway Planning and Construction	20.205	90129	817,643
Highway Planning and Construction	20.205	130014	<u>87,708</u>
Total United States Department of Transportation			<u>1,168,722</u>
United States Department of Homeland Security/ Department of Military, State of Tennessee			
Tennessee Emergency Management Agency:			
Hazard Mitigation	*97.039	34101-51812	<u>878,000</u>
Total Federal Assistance			<u>2,289,439</u>
State Financial Assistance:			
Tennessee Department of Transportation:			
Wright Medical Industrial Access Road	N/A	110384	<u>481,098</u>
Tennessee Department of Military - TEMA:			
Hazard Mitigation	N/A	34101-51812	<u>175,600</u>
Total state financial assistance			<u>656,698</u>
Total federal and state awards			<u>\$ 2,946,137</u>

* Denotes a major program.

Note 1:

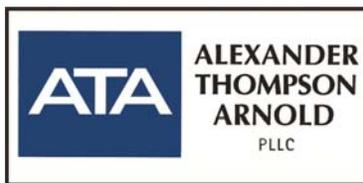
All expenditures reported are under the modified accrual basis of accounting whereby expenditures are recorded when the related liability is incurred.

See independent auditor's report.

INTERNAL CONTROL AND COMPLIANCE SECTION

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**Internal 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**

Honorable Mike Wissman, Mayor
Members of the Board of Aldermen
Town of Arlington, Tennessee

We have audited, in accordance with the 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 Town of Arlington, Tennessee (Town), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated December 31, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town'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 Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town'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*.

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 results 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.

Alexander Thompson Arnold PLLC

Jackson, Tennessee
December 31, 2014

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Independent Auditor's Report on Compliance For Each Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133

Honorable Mike Wissman, Mayor
Members of the Board of Aldermen
Town of Arlington, Tennessee

Report on Compliance for Each Major Federal Program

We have audited the Town of Arlington, Tennessee's (Town) 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 Town's major federal programs for the year ended June 30, 2014. The Town'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 Town'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 Town'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 Town's compliance.

Opinion on Each Major Federal Program

In our opinion, the Town 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, 2014.

Report on Internal Control Over Compliance

Management of the Town 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 Town'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 Town'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.

A handwritten signature in black ink that reads "Alexander Thompson Arnold PLLC". The signature is written in a cursive, flowing style.

Jackson, Tennessee
December 31, 2014

TOWN OF ARLINGTON, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2014

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements:

Unmodified

Internal control over financial reporting:

Material weaknesses identified?	_____ yes	_____ <u>X</u> no
Significant deficiencies identified?	_____ yes	_____ <u>X</u> none reported
Noncompliance material to financial statements noted?	_____ yes	_____ <u>X</u> no

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	_____ yes	_____ <u>X</u> no
Significant deficiencies identified?	_____ yes	_____ <u>X</u> none reported

Type of auditor's report issued on compliance
for major programs

Unmodified

Any audit findings disclosed that are required
to be reported in accordance with
Section .510(a) of OMB Circular A-133?

_____ yes	_____ <u>X</u> no
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Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
97.039	Hazard Mitigation Grant

Dollar threshold used to distinguish between
Type A and Type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

_____ <u>X</u> yes	_____ no
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TOWN OF ARLINGTON, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2014

SECTION II – FINANICAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None reported.

TOWN OF ARLINGTON, TENNESSEE
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2014

FINANCIAL STATEMENT FINDINGS

<u>Finding Number</u>	<u>Finding Title</u>	<u>Status</u>
2013-001	Special Revenue Fund Reporting	Corrected

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no prior findings reported.