

CITY OF PIKEVILLE, TENNESSEE

ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2009

I. INTRODUCTORY SECTION

CITY OF PIKEVILLE, TENNESSEE
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June 30, 2009

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CITY OF PIKEVILLE, TENNESSEE
City Officials
June 30, 2009

MayorGreg Johnson

Alderman..... Senia Anderson

Alderman..... Reed Sells

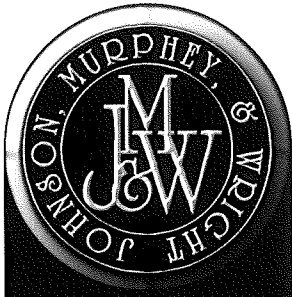
Alderman..... Bill Swearingen

Alderman..... Charles Young

City Recorder Debra Barnett

City Attorney..... Edward Boring

II. FINANCIAL SECTION



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Accountants

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INDEPENDENT AUDITOR'S REPORT

Mayor and Aldermen
City of Pikeville, Tennessee
Pikeville, Tennessee

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the major fund and the aggregate remaining fund information of the City of Pikeville, Tennessee, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements, as listed in the Table of Contents. These financial statements are the responsibility of the City of Pikeville, Tennessee's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the major fund, and the aggregate remaining fund information of the City of Pikeville, Tennessee as of June 30, 2009, and the respective changes in financial position and cash flows, and where applicable, the respective budgetary comparison for the General Fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Accounting Standards*, we have also issued our report dated January 26, 2010, on our consideration of the City of Pikeville, Tennessee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Mayor and Aldermen
City of Pikeville, Tennessee
Page Two

The Management's Discussion and Analysis on pages 3 through 14 and the Required Supplementary Information on page 50 are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Pikeville, Tennessee's basic financial statements. The Introductory Section, Combining and Individual Non-major Fund Financial Statements and Schedules and Supplemental Information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Combining and Individual Non-major Fund Financial Statements and Schedules and the Supplemental Information Section have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Introductory Section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Johnson, Murphey & Wright, P.C.

Chattanooga, Tennessee
January 26, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Pikeville, Tennessee, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Pikeville, Tennessee for the fiscal year ended June 30, 2009. We encourage readers to consider the information presented here in conjunction with the City's financial statements.

FINANCIAL HIGHLIGHTS

The assets of the City of Pikeville, Tennessee exceeded its liabilities at June 30, 2009, by \$10,610,243 (net assets). Of this amount, \$2,557,511 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.

The City's governmental activities operated at a surplus of \$338,560. The City's business-type activities operated at a deficit of \$(81,293).

As of the close of the current fiscal year, the City of Pikeville, Tennessee's governmental funds reported combined ending fund balances of \$938,197, of that amount \$1,208 is restricted for use on investigations of drug related violations and drug prevention programs. Also, \$5,031 is designated for specific purposes. The Mayor and Aldermen designate this amount for future park improvements. The remaining 99.34%, or \$931,958, is available for spending at the City's discretion.

At the end of the current fiscal year, unreserved and undesignated fund balance for the General Fund was \$919,512, or 51.57% of total General Fund expenditures.

As of the close of the current fiscal year, the City of Pikeville, Tennessee's enterprise funds reported combined ending net assets of \$8,643,247. Of that balance, \$1,597,426, or 18.48%, is unrestricted. \$7,045,821, or 81.52%, of net assets is invested in capital assets.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

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

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

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

The government-wide financial statements can be found on pages 15 and 16 of this report.

Fund Financial Statements

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

Governmental Funds

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

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

The City of Pikeville, Tennessee maintains three individual governmental funds. Information is presented separately in the governmental fund Balance Sheet and in the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund which is considered to be a major fund. Data from the other two governmental funds are combined into a single aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements in this report beginning on page 52.

The City of Pikeville, Tennessee adopts an annual appropriated budget for its governmental funds. A budgetary comparison statement has been provided for all governmental funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 17 through 24 of this report.

Proprietary Funds

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

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

The basic proprietary fund financial statements can be found on pages 25 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 30 through 49 of this report.

Other Information

Non-major fund statements and schedules can be found on pages 52 through 55 of this report.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Pikeville, Tennessee, assets exceeded liabilities by \$10,610,243 at the close of this fiscal year.

The largest portion of the City of Pikeville, Tennessee's net assets (75.88%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment and infrastructure, etc.), less any related debt used to acquire those assets that is still outstanding. The City of Pikeville, Tennessee uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City of Pikeville, Tennessee's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets, less than .02%, or \$1,208, represents resources that are subject to external restrictions on how they may be used. The remaining 24.10% of unrestricted net assets may be used to meet the government's ongoing obligations to its citizens and creditors; however, the Mayor and Aldermen for future park improvements have designated \$5,031 of unrestricted net assets.

At June 30, 2009, the City of Pikeville, Tennessee is able to report positive balances in all categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The table below provides a summary of the City's net assets broken down by governmental and business type activities.

City of Pikeville, Tennessee's Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Current and other assets	\$ 1,269,679	\$ 945,983	\$ 1,722,839	\$ 2,305,192	\$ 2,992,518	\$ 3,251,175
Capital assets	<u>1,838,676</u>	<u>969,556</u>	<u>10,090,336</u>	<u>10,369,364</u>	<u>11,929,012</u>	<u>11,338,920</u>
Total assets	<u>\$ 3,108,355</u>	<u>\$ 1,915,539</u>	<u>\$ 11,813,175</u>	<u>\$ 12,674,556</u>	<u>\$ 14,921,530</u>	<u>\$ 14,590,095</u>
Non-current liabilities	\$ 841,015	\$ 72,151	\$ 3,094,512	\$ 3,316,414	\$ 3,935,527	\$ 3,388,565
Other liabilities	<u>300,344</u>	<u>214,952</u>	<u>75,416</u>	<u>633,602</u>	<u>375,760</u>	<u>848,554</u>
Total liabilities	<u>\$ 1,141,359</u>	<u>\$ 287,103</u>	<u>\$ 3,169,928</u>	<u>\$ 3,950,016</u>	<u>\$ 4,311,287</u>	<u>\$ 4,237,119</u>
Net assets:						
Invested in capital assets - net of related debt	\$ 1,005,703	\$ 906,950	\$ 7,045,821	\$ 7,110,229	\$ 8,051,524	\$ 8,017,179
Restricted	1,208	1,428	-	-	1,208	1,428
Unrestricted	<u>960,085</u>	<u>720,058</u>	<u>1,597,426</u>	<u>1,614,311</u>	<u>2,557,511</u>	<u>2,334,369</u>
Total net assets	<u>\$ 1,966,996</u>	<u>\$ 1,628,436</u>	<u>\$ 8,643,247</u>	<u>\$ 8,724,540</u>	<u>\$ 10,610,243</u>	<u>\$ 10,352,976</u>

Changes in Net Assets

Governmental activities increased the City's net assets by \$338,560, while business-type activities decreased the City's net assets by \$(81,293). The City can only use the net assets obtained through business-type activities to finance the continuing operations of the water and sewer and natural gas systems.

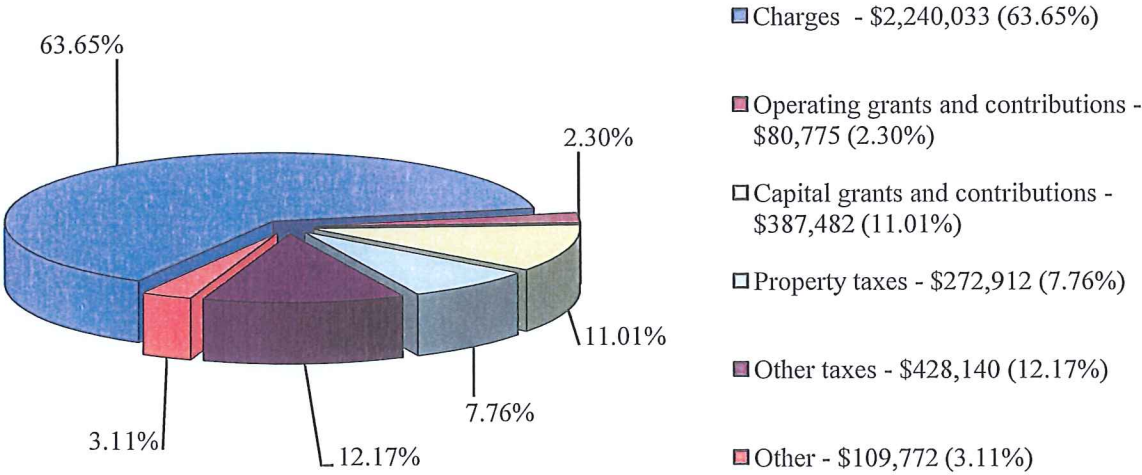
The table below provides a summary of the City's net assets broken down by governmental and business-type activities.

City of Pikeville, Tennessee's Changes in Net Assets

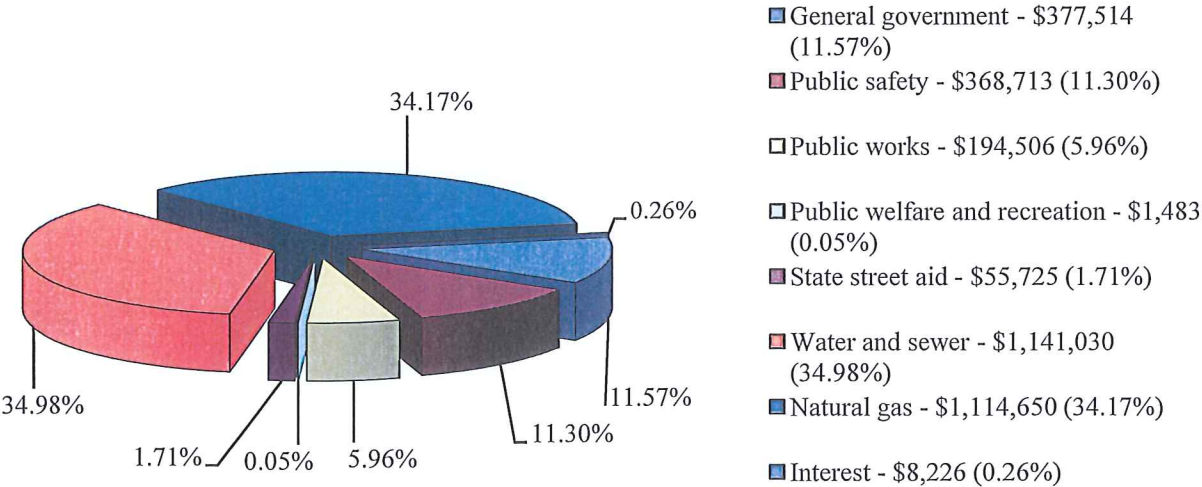
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Revenues:						
Program revenues:						
Charges for services	\$ 206,717	\$ 228,858	\$ 2,033,316	\$ 1,921,141	\$ 2,240,033	\$ 2,149,999
Operating grants and contributions	80,775	102,184	-	-	80,775	102,184
Capital grants and contributions	298,562	7,670	88,920	3,151,287	387,482	3,158,957
General revenues:						
Property taxes	272,912	187,245	-	-	272,912	187,245
Other taxes	428,140	451,724	-	-	428,140	451,724
Other income	57,621	42,307	52,151	49,077	109,772	91,384
Loss on sale	-	(137,147)	-	-	-	(137,147)
Total revenues	<u>1,344,727</u>	<u>882,841</u>	<u>2,174,387</u>	<u>5,121,505</u>	<u>3,519,114</u>	<u>6,004,346</u>
Expenses:						
General government	377,514	393,578	-	-	377,514	393,578
Natural gas	-	-	1,114,650	1,005,251	1,114,650	1,005,251
Public safety	368,713	259,458	-	-	368,713	259,458
Public works	194,506	153,298	-	-	194,506	153,298
Public welfare and recreation	1,483	15,215	-	-	1,483	15,215
State street aid	55,725	107,614	-	-	55,725	107,614
Water and sewer	-	-	1,141,030	991,354	1,141,030	991,354
Interest on long-term debt	8,226	-	-	-	8,226	-
Total expenses	<u>1,006,167</u>	<u>929,163</u>	<u>2,255,680</u>	<u>1,996,605</u>	<u>3,261,847</u>	<u>2,925,768</u>
Change in net assets	338,560	(46,322)	(81,293)	3,124,900	257,267	3,078,578
Net assets - beginning	<u>1,628,436</u>	<u>1,674,758</u>	<u>8,724,540</u>	<u>5,599,640</u>	<u>10,352,976</u>	<u>7,274,398</u>
Net assets - end	<u>\$ 1,966,996</u>	<u>\$ 1,628,436</u>	<u>\$ 8,643,247</u>	<u>\$ 8,724,540</u>	<u>\$ 10,610,243</u>	<u>\$ 10,352,976</u>

The graphs below summarize the \$3,519,114 of city-wide revenues by source, and the associated \$3,261,847 of expense by program. The graph combines data from both governmental and business-type activities.

City-Wide Sources of Revenue



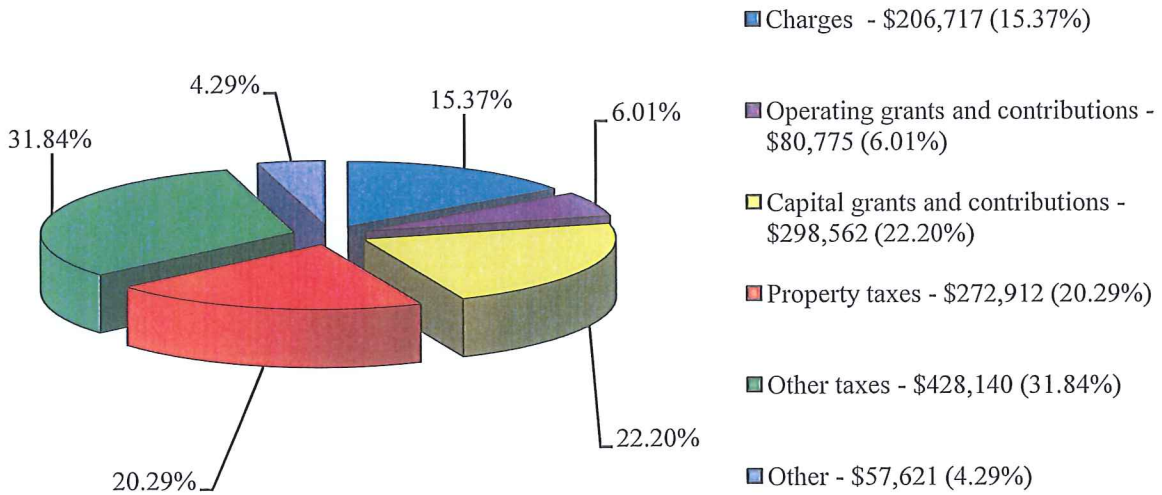
City-Wide Program Expenses



Governmental Activities

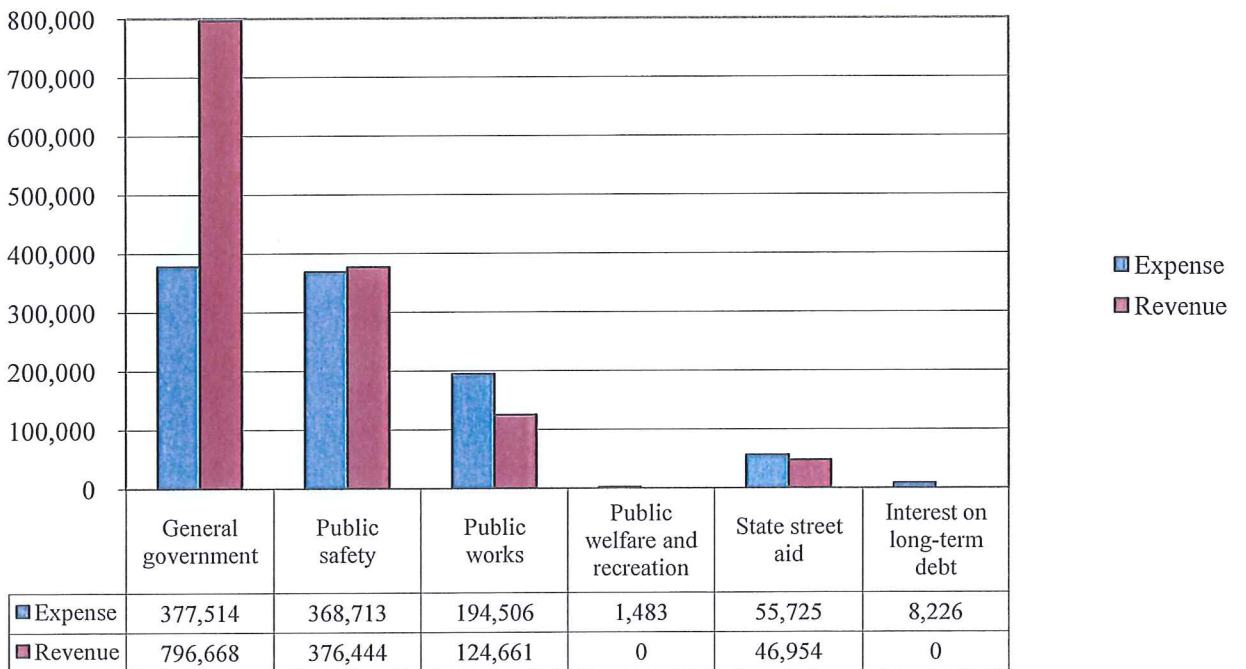
Governmental activities accounted for revenues of \$1,344,727. The following graph summarizes the revenue by source.

**Revenue by Source -
Governmental Activities**



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

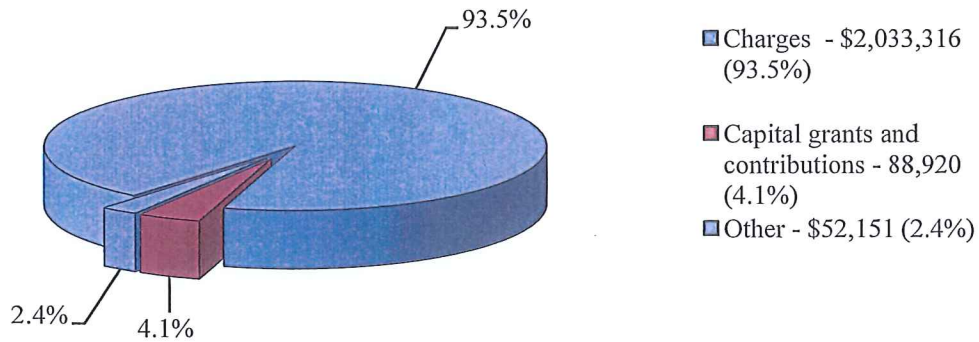
**Expenses and Program Revenues -
Governmental Activities**



Business-type activities

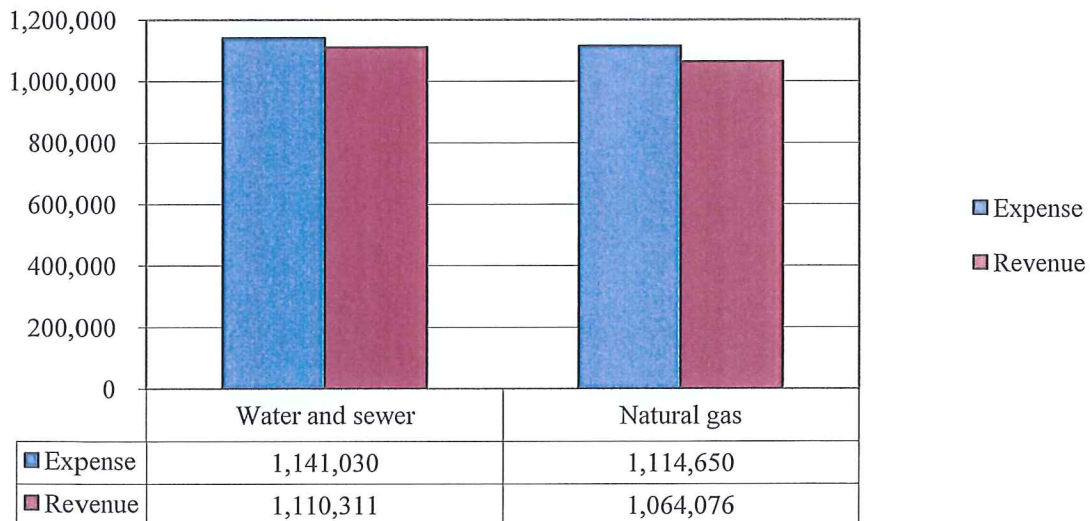
Business-type activities accounted for revenues of \$2,174,387. The following graph summarizes the revenue by source.

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



The following graph summarizes the revenue and related expense of operating the water and sewer and natural gas systems.

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



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

Governmental Funds

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

As of the end of the current fiscal year, the City of Pikeville, Tennessee's governmental funds reported combined ending fund balances of \$938,197. Approximately 98.01% of this total amount, \$919,512, constitutes unreserved and undesignated fund balance. The Mayor and Aldermen have designated \$5,031 for future park improvements.

The General Fund is the chief operating fund of the City of Pikeville, Tennessee. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$924,543. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total General Fund expenditures. Unreserved fund balance represents 51.85% of total General Fund expenditures.

Proprietary Funds

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

Unrestricted net assets at the end of the year amounted to \$712,187 for the Water and Sewer Fund and \$885,239 for the Natural Gas Fund.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were approximately \$192,900, and are listed below:

General Fund budgeted revenues increased \$1,030,100.

General Fund budgeted expenditures increased \$837,200.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

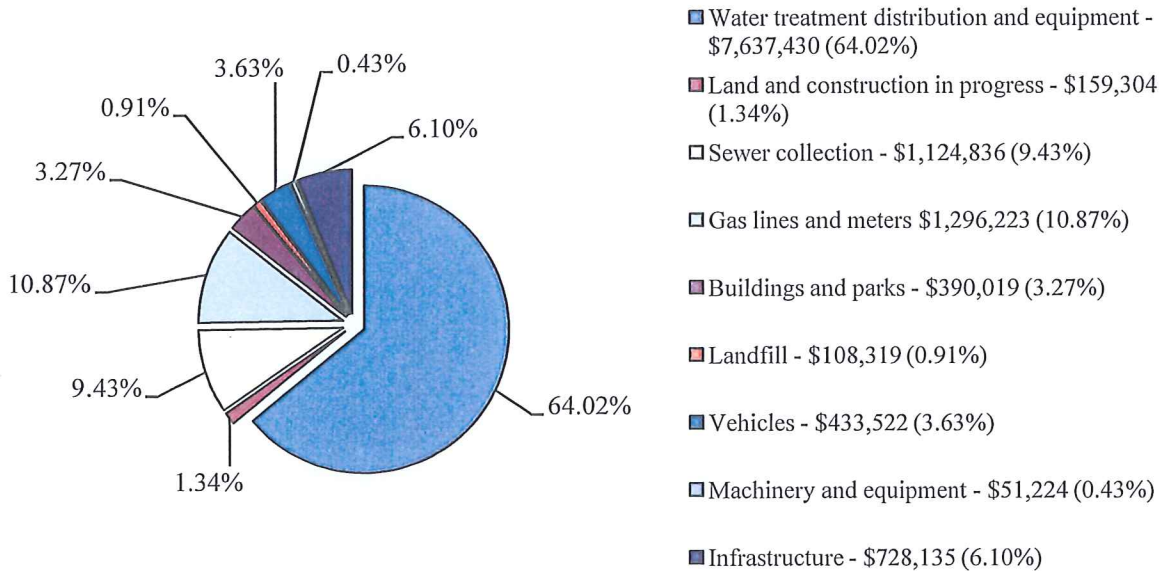
The table below summarizes the City's investment in capital assets and is broken down by governmental and business-type activities.

**City of Pikeville, Tennessee's Capital Assets
(Net of Depreciation)**

	Governmental Activities	Business-type Activities	Total
Land	\$ 127,457	\$ 31,847	\$ 159,304
Buildings and parks	390,019	-	390,019
Machinery and equipment	51,224	-	51,224
Vehicles	433,522	-	433,522
Landfill	108,319	-	108,319
Water treatment and distribution and equipment	-	7,637,430	7,637,430
Sewer collection and treatment	-	1,124,836	1,124,836
Gas lines and meters	-	1,296,223	1,296,223
Infrastructure	<u>728,135</u>	-	<u>728,135</u>
Total capital assets	<u>\$1,838,676</u>	<u>\$ 10,090,336</u>	<u>\$ 11,929,012</u>

The following graph provides a breakdown of which assets make up the largest portion of the City's total investment in capital assets. The graph combines assets used in both governmental and business-type activities.

City-Wide Capital Assets



Additional information on the City of Pikeville, Tennessee's capital assets can be found in Note 7 on page 39.

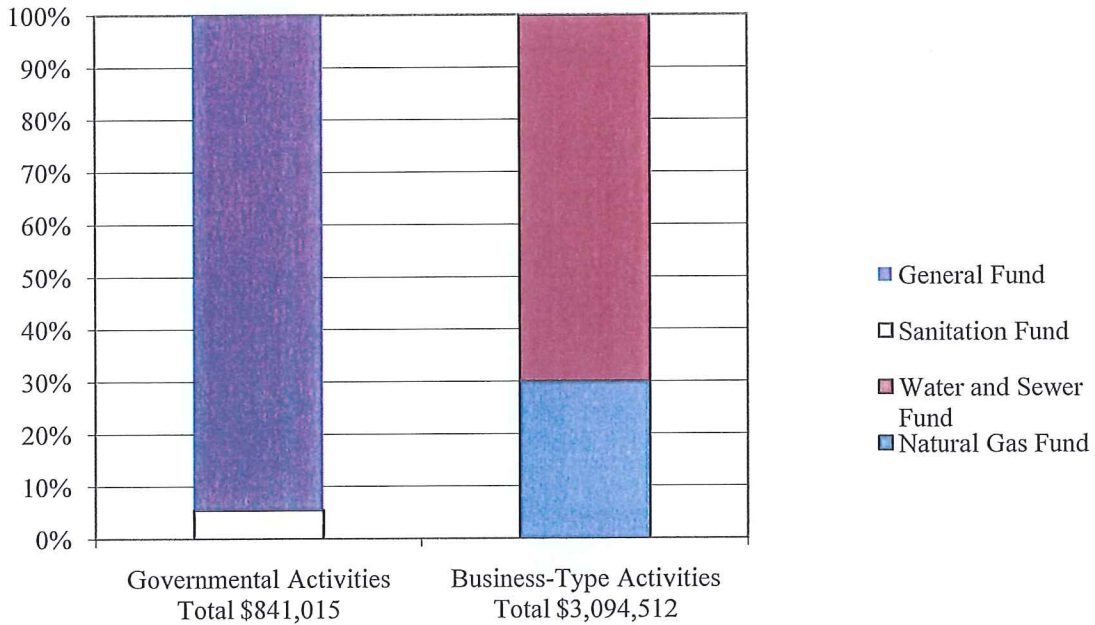
City of Pikeville, Tennessee's Outstanding Debt

At the end of the current fiscal year, the City of Pikeville, Tennessee had total long-term debt outstanding of \$3,935,527. Of that amount, \$261,531 is due in the next fiscal year. The table below summarizes outstanding debt broken down by governmental and business type activities.

	Governmental Activities	Business-type Activities	Total
Revenue and tax bonds	\$ 750,096	\$ 1,042,000	\$ 1,792,096
Capital outlay notes	17,345	2,040,528	2,057,873
Capital leases	36,084	-	36,084
Landfill post-closure costs	29,448	-	29,448
Compensated absences	8,042	11,984	20,026
	841,015	3,094,512	3,935,527
Less current portion	(36,038)	(225,493)	(261,531)
Total long-term debt	\$ 804,977	\$ 2,869,019	\$ 3,673,996

As shown in the graph below, approximately 94.44% of governmental activities debt is related to the General Fund and 5.56% to the Sanitation Fund. Business-type debt can be attributed approximately 69.87% to the Water and Sewer Fund and 30.13% to the Natural Gas Fund.

% of Total Long-Term Debt By Fund



Additional information on outstanding debt can be found in Note 9 on page 40 through 43 of this report.

Currently Known Conditions Effecting Future Years

The City of Pikeville, Tennessee is actively engaged in several projects that effect future years. The City has recently received a SAFER Grant for the Fire Department in the amount of \$139,000 for insurance and training. In addition, the City is receiving \$2,170,000 USDA monies for water upgrades and \$500,000 CDBG for sewer upgrades.

Requests for Information

This financial report is designed to provide a general overview of the City of Pikeville, Tennessee's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information may be addressed to the City of Pikeville, Tennessee, P. O. Box 225, Pikeville, TN 37367.

BASIC FINANCIAL STATEMENTS

CITY OF PIKEVILLE, TENNESSEE
Statement of Net Assets
June 30, 2009

	Primary Government		
	Governmental Activities	Business- type Activities	Total
ASSETS			
Current Assets			
Cash	\$ 773,285	\$ 584,959	\$ 1,358,244
Investments	100,000	866,498	966,498
Accounts receivable - net	77,705	194,334	272,039
Property taxes receivable - net	304,491	-	304,491
Due from other governments	15,000	-	15,000
Internal balances	(802)	802	-
Inventory	-	38,233	38,233
Other assets:			
Bond issue costs - net	-	38,013	38,013
Capital assets:			
Land and rights	127,457	31,847	159,304
Other capital assets -			
Other capital assets - net of accumulated depreciation	<u>1,711,219</u>	<u>10,058,489</u>	<u>11,769,708</u>
TOTAL ASSETS	<u>\$ 3,108,355</u>	<u>\$ 11,813,175</u>	<u>\$ 14,921,530</u>
LIABILITIES			
Accounts payable	\$ 16,659	\$ 17,346	\$ 34,005
Accrued liabilities	7,364	19,291	26,655
Accrued interest payable	-	6,112	6,112
Due to other governments	4,721	-	4,721
Deferred revenue - property taxes	271,600	-	271,600
Customer deposits	-	32,667	32,667
Non-current liabilities:			
Due within one year:			
Bonds payable	-	127,000	127,000
Note payable	17,345	98,493	115,838
Lease payable	17,466	-	17,466
Landfill post-closure cost	1,227	-	1,227
Due in more than one year:			
Bonds payable	750,096	915,000	1,665,096
Notes payable	-	1,942,035	1,942,035
Lease payable	18,618	-	18,618
Landfill post-closure cost	28,221	-	28,221
Compensated absences	<u>8,042</u>	<u>11,984</u>	<u>20,026</u>
TOTAL LIABILITIES	<u>\$ 1,141,359</u>	<u>\$ 3,169,928</u>	<u>\$ 4,311,287</u>
NET ASSETS			
Invested in capital assets - net of related debt	\$ 1,005,703	\$ 7,045,821	\$ 8,051,524
Restricted for:			
Non-recurring police expenditures	1,208	-	1,208
Unrestricted:			
Designated	5,031	-	5,031
Undesignated	<u>955,054</u>	<u>1,597,426</u>	<u>2,552,480</u>
TOTAL NET ASSETS	<u>\$ 1,966,996</u>	<u>\$ 8,643,247</u>	<u>\$ 10,610,243</u>

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

CITY OF PIKEVILLE, TENNESSEE
Statement of Activities
Year Ended June 30, 2009

Functions/Programs:	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions		Primary Government			
			Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary Government								
Governmental activities:								
General government	\$ 377,514	\$ 8,000	\$ 29,995	\$ -	\$ (339,519)	\$ -	\$ (339,519)	
Public safety	368,713	77,882	-	298,562	7,731	-	7,731	
Public works	194,506	120,835	3,826	-	(69,845)	-	(69,845)	
Public welfare	1,483	-	-	-	(1,483)	-	(1,483)	
State street aid	55,725	-	46,954	-	(8,771)	-	(8,771)	
Interest on long-term debt	8,226	-	-	-	(8,226)	-	(8,226)	
Total governmental activities	<u>1,006,167</u>	<u>206,717</u>	<u>80,775</u>	<u>298,562</u>	<u>(420,113)</u>	<u>-</u>	<u>(420,113)</u>	
Business-type activities:								
Water and sewer	1,141,030	984,112	-	88,920	-	(67,998)	(67,998)	
Natural gas	1,114,650	1,049,204	-	-	-	(65,446)	(65,446)	
Total business-type activities	<u>2,255,680</u>	<u>2,033,316</u>	<u>-</u>	<u>88,920</u>	<u>-</u>	<u>(133,444)</u>	<u>(133,444)</u>	
Total primary government	<u>\$ 3,261,847</u>	<u>\$ 2,240,033</u>	<u>\$ 80,775</u>	<u>\$ 387,482</u>	<u>(420,113)</u>	<u>(133,444)</u>	<u>(553,557)</u>	
General revenues:								
Property taxes					272,912	-	272,912	
Local sales tax					175,438	-	175,438	
Excise tax					11,423	-	11,423	
Business tax					21,524	-	21,524	
Alcoholic beverage tax					74,887	-	74,887	
In lieu of taxes					144,868	-	144,868	
Interest revenue					14,593	29,442	44,035	
Other revenue					43,028	22,709	65,737	
Total general revenues					<u>758,673</u>	<u>52,151</u>	<u>810,824</u>	
Change in net assets					338,560	(81,293)	257,267	
Net assets - beginning					1,628,436	8,724,540	10,352,976	
Net assets - end					<u>\$ 1,966,996</u>	<u>\$ 8,643,247</u>	<u>\$ 10,610,243</u>	

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

CITY OF PIKEVILLE, TENNESSEE
Governmental Funds
Balance Sheet
June 30, 2009

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash	\$ 750,070	\$ 23,205	\$ 773,275
Investments	100,000	-	100,000
Restricted assets	10	-	10
Accounts receivable - net	77,705	-	77,705
Property tax receivable - net	304,491	-	304,491
Due from other governments	15,000	-	15,000
TOTAL ASSETS	\$ 1,247,276	\$ 23,205	\$ 1,270,481
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 7,910	\$ 8,749	\$ 16,659
Accrued liabilities	7,364	-	7,364
Due to other funds	-	802	802
Due to other governments	4,721	-	4,721
Deferred revenue - property taxes	302,738	-	302,738
Total liabilities	322,733	9,551	332,284
Fund Balances			
Unreserved, reported in:			
General fund - designated	5,031	-	5,031
General fund - undesignated	919,512	-	919,512
Special revenue funds	-	13,654	13,654
Total fund balances	924,543	13,654	938,197
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,247,276	\$ 23,205	\$ 1,270,481

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

CITY OF PIKEVILLE, TENNESSEE
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
June 30, 2009

Total fund balances per governmental funds Balance Sheet	\$ 938,197
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,838,676
Long-term liabilities, including notes payable, landfill closure and post-closure costs, leases payable, bonds payable and compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.	(841,015)
Some of the City's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	<u>31,138</u>
Net assets of governmental activities	<u>\$ 1,966,996</u>

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

CITY OF PIKEVILLE, TENNESSEE
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended June 30, 2009

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes	\$ 525,651	\$ -	\$ 525,651
Licenses and permits	1,086	-	1,086
Intergovernmental	506,415	-	506,415
Charges for services	66,000	120,053	186,053
Fines and forfeitures	17,302	1,780	19,082
Other revenue	<u>890,082</u>	<u>98</u>	<u>890,180</u>
TOTAL REVENUES	<u>2,006,536</u>	<u>121,931</u>	<u>2,128,467</u>
EXPENDITURES			
Current expenditures			
General government	359,685	-	359,685
Public safety	243,821	2,000	245,821
Public works	45,182	123,908	169,090
State street aid	55,629	-	55,629
Capital outlay	1,070,536	-	1,070,536
Debt service	<u>8,226</u>	<u>-</u>	<u>8,226</u>
TOTAL EXPENDITURES	<u>1,783,079</u>	<u>125,908</u>	<u>1,908,987</u>
Excess (deficiency) of revenues over (under) expenditures	223,457	(3,977)	219,480
Fund balances - beginning	<u>701,086</u>	<u>17,631</u>	<u>718,717</u>
Fund balances - end	<u>\$ 924,543</u>	<u>\$ 13,654</u>	<u>\$ 938,197</u>

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

CITY OF PIKEVILLE, TENNESSEE
Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended June 30, 2009

Net change in fund balances for total governmental funds	\$ 219,480
<p>Governmental funds report capital outlay as expenditures, however, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeds depreciation in the current period.</p>	
	869,120
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.</p>	
	18,824
<p>Repayment of long-term debt is reported as an expenditure on governmental funds, but reduces long-term liabilities on the Statement of Net Assets.</p>	
	15,813
<p>Bonds and capital leases issued are reported as a financial resource in the governmental funds. However, this is reported as an increase in long-term liabilities in the Statement of Net Assets. During the current year additional loan proceeds were drawn on bonds and capital leases payable.</p>	
	(786,180)
<p>Some items reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. These activities consist of:</p>	
Compensated absences	1,503
Change in net assets of governmental activities	\$ 338,560

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

CITY OF PIKEVILLE, TENNESSEE
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable</u> <u>(Unfavorable)</u>
REVENUES				
Taxes				
Real property	\$ 272,500	\$ 272,500	\$ 254,088	\$ (18,412)
Minimum business	25,500	25,500	21,238	(4,262)
Local sales	180,000	180,000	175,438	(4,562)
Local beer	80,000	80,000	74,887	(5,113)
Total taxes	<u>558,000</u>	<u>558,000</u>	<u>525,651</u>	<u>(32,349)</u>
Licenses and permits				
Privilege licenses	<u>1,000</u>	<u>1,000</u>	<u>1,086</u>	<u>86</u>
Intergovernmental				
State shared				
State street aid	51,000	51,000	46,954	(4,046)
Sales tax	130,000	130,000	116,833	(13,167)
Beer tax	1,000	1,000	929	(71)
Income tax	15,000	15,000	7,627	(7,373)
Street and transportation	4,000	4,000	3,826	(174)
Excise tax	13,000	13,000	11,423	(1,577)
Other	2,000	2,000	2,400	400
TVA replacement	16,000	16,000	17,079	1,079
Federal and state grants	<u>559,100</u>	<u>639,200</u>	<u>299,344</u>	<u>(339,856)</u>
Total intergovernmental	<u>791,100</u>	<u>871,200</u>	<u>506,415</u>	<u>(364,785)</u>
Charges for services				
Rent	7,200	43,200	7,200	(36,000)
Contract security services	-	-	58,800	58,800
Total charges for services	<u>7,200</u>	<u>43,200</u>	<u>66,000</u>	<u>22,800</u>
Fines and forfeitures				
Court fines	<u>18,000</u>	<u>18,000</u>	<u>17,302</u>	<u>(698)</u>
Other revenue				
Proceeds from sale of fixed assets	-	-	6,605	6,605
Proceeds from loan	-	950,000	802,564	(147,436)
Miscellaneous	90,500	90,500	30,357	(60,143)
Interest	10,000	10,000	14,495	4,495
Cable TV franchise	5,000	5,000	6,066	1,066
Contributions	<u>42,000</u>	<u>6,000</u>	<u>29,995</u>	<u>23,995</u>
Total other revenue	<u>147,500</u>	<u>1,061,500</u>	<u>890,082</u>	<u>(171,418)</u>
TOTAL REVENUES	<u>1,522,800</u>	<u>2,552,900</u>	<u>2,006,536</u>	<u>(546,364)</u>

(Continued)

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

CITY OF PIKEVILLE, TENNESSEE
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Continued)
Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable</u> <u>(Unfavorable)</u>
EXPENDITURES				
Current expenditures				
General government				
Financial administration				
Salaries	\$ 95,000	\$ 96,000	\$ 91,723	\$ 4,277
Travel	20,000	30,000	29,064	936
Office supplies	3,000	3,000	3,085	(85)
Insurance	119,500	132,500	122,848	9,652
Retirement	5,500	5,500	3,713	1,787
Payroll tax	19,000	19,000	23,416	(4,416)
Repairs and maintenance	1,500	1,500	1,278	222
Operating supplies	3,000	3,000	2,514	486
Advertising	9,000	9,000	13,044	(4,044)
Utilities	10,500	11,300	10,519	781
Telephone	6,000	6,000	5,752	248
Professional services	19,000	31,000	15,175	15,825
Auditing and legal services	22,500	24,000	19,641	4,359
Contracted services	6,000	6,000	5,913	87
Total financial administration	<u>339,500</u>	<u>377,800</u>	<u>347,685</u>	<u>30,115</u>
Judicial				
Salaries	<u>12,000</u>	<u>12,000</u>	<u>12,000</u>	<u>-</u>
Total general government	<u>351,500</u>	<u>389,800</u>	<u>359,685</u>	<u>30,115</u>
Public safety				
Police department				
Salaries	180,000	180,000	158,041	21,959
Travel	3,500	3,500	3,221	279
Office supplies	1,000	1,000	1,313	(313)
Retirement	13,000	13,000	7,016	5,984
Repairs and maintenance	6,600	9,100	11,342	(2,242)
Operating supplies	3,000	6,500	4,570	1,930
Vehicle	14,000	14,000	8,762	5,238
Advertising	450	450	211	239
Utilities	2,000	2,000	1,766	234
Uniforms	3,500	3,500	2,218	1,282
Training	2,500	2,500	-	2,500
Telephone	2,500	2,500	2,894	(394)
Contracted services	500	500	1,893	(1,393)
Total police department	<u>232,550</u>	<u>238,550</u>	<u>203,247</u>	<u>35,303</u>

(Continued)

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

CITY OF PIKEVILLE, TENNESSEE
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Continued)
Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable (Unfavorable)</u>
EXPENDITURES (Continued)				
Current expenditures (Continued)				
Public safety (Continued)				
Custody of property				
Vehicle expense	\$ 300	\$ 700	\$ 695	\$ 5
Fire department				
Salaries	500	500	500	-
Travel	1,500	1,500	1,067	433
Repairs and maintenance	5,500	5,500	5,170	330
Operating supplies	8,500	13,500	12,555	945
Vehicle	2,300	2,300	750	1,550
Advertising	1,000	1,000	378	622
Utilities	6,350	6,350	6,711	(361)
Miscellaneous	1,700	1,700	1,200	500
Uniforms	2,000	1,000	704	296
Training	4,500	5,500	5,060	440
Telephone	2,750	2,750	2,526	224
Contracted services	3,000	3,000	2,758	242
Rent	500	500	500	-
Total fire department	<u>40,100</u>	<u>45,100</u>	<u>39,879</u>	<u>5,221</u>
Total public safety	<u>272,950</u>	<u>284,350</u>	<u>243,821</u>	<u>40,529</u>
Public works				
Street department				
Salaries	-	13,000	13,421	(421)
Repairs and maintenance	3,000	6,500	6,337	163
Operating supplies	6,000	8,000	7,255	745
Vehicle expense	5,000	5,000	4,404	596
Materials	201,500	1,500	1,008	492
Contracted services	15,000	15,000	12,757	2,243
Total public works	<u>230,500</u>	<u>49,000</u>	<u>45,182</u>	<u>3,818</u>
State street aid				
Salaries	30,000	30,000	27,951	2,049
Retirement	3,000	3,000	1,769	1,231
Repairs and maintenance	1,000	1,000	211	789
Street paving and repair	1,000	1,000	-	1,000
Electricity - street lights	25,000	25,000	25,698	(698)
Total state street aid	<u>60,000</u>	<u>60,000</u>	<u>55,629</u>	<u>4,371</u>

(Continued)

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

CITY OF PIKEVILLE, TENNESSEE
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Continued)
Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable</u> <u>(Unfavorable)</u>
EXPENDITURES (Continued)				
Capital outlay				
Administrative	\$ 1,500	\$ 1,500	\$ 1,584	\$ (84)
Police department	20,000	26,000	78,159	(52,159)
Fire department	367,500	372,000	372,363	(363)
Street department	1,000	956,000	616,857	339,143
State street aid	-	-	320	(320)
Recreation	-	1,500	1,253	247
Housing rehabilitation	75,000	75,000	-	75,000
Total capital outlay	<u>465,000</u>	<u>1,432,000</u>	<u>1,070,536</u>	<u>361,464</u>
Debt service				
Principal paid	12,100	12,100	-	12,100
Interest	<u>7,600</u>	<u>9,600</u>	<u>8,226</u>	<u>1,374</u>
Total debt service	<u>19,700</u>	<u>21,700</u>	<u>8,226</u>	<u>13,474</u>
TOTAL EXPENDITURES	<u>1,399,650</u>	<u>2,236,850</u>	<u>1,783,079</u>	<u>453,771</u>
Excess (deficiency) of revenues over (under) expenditures	123,150	316,050	223,457	(92,593)
Fund balances - beginning	<u>701,086</u>	<u>701,086</u>	<u>701,086</u>	<u>-</u>
Fund balances - end	<u>\$ 824,236</u>	<u>\$ 1,017,136</u>	<u>\$ 924,543</u>	<u>\$ (92,593)</u>

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

CITY OF PIKEVILLE, TENNESSEE
Proprietary Funds
Statement of Net Assets
June 30, 2009

	Enterprise		Totals
	Water and Sewer Fund	Natural Gas Fund	
ASSETS			
Current Assets			
Cash	\$ 179,758	\$ 405,201	\$ 584,959
Investments	400,000	466,498	866,498
Accounts receivable - net	194,334	-	194,334
Due from other fund	-	32,555	32,555
Inventory	16,951	21,282	38,233
Total current assets	<u>791,043</u>	<u>925,536</u>	<u>1,716,579</u>
Non-current Assets			
Other assets			
Bond issue costs - net	<u>7,805</u>	<u>30,208</u>	<u>38,013</u>
Capital assets			
Land and rights	20,709	11,138	31,847
Other capital assets - net of accumulated depreciation	<u>8,762,265</u>	<u>1,296,224</u>	<u>10,058,489</u>
Total capital assets	<u>8,782,974</u>	<u>1,307,362</u>	<u>10,090,336</u>
Total non-current assets	<u>8,790,779</u>	<u>1,337,570</u>	<u>10,128,349</u>
TOTAL ASSETS	<u>\$ 9,581,822</u>	<u>\$ 2,263,106</u>	<u>\$ 11,844,928</u>
LIABILITIES			
Current liabilities			
Accounts payable	\$ 6,466	\$ 10,880	\$ 17,346
Accrued liabilities	15,309	3,982	19,291
Accrued interest payable	2,794	3,318	6,112
Due to other fund	31,753	-	31,753
Current maturities of long-term debt	<u>175,493</u>	<u>50,000</u>	<u>225,493</u>
Total current liabilities	<u>231,815</u>	<u>68,180</u>	<u>299,995</u>
Other liabilities			
Customers deposits	<u>12,992</u>	<u>19,675</u>	<u>32,667</u>
Non-current liabilities			
Revenue bonds payable - due after one year	35,000	880,000	915,000
Capital outlay note payable - due after one year	1,942,035	-	1,942,035
Compensated absences	<u>9,542</u>	<u>2,442</u>	<u>11,984</u>
Total non-current liabilities	<u>1,986,577</u>	<u>882,442</u>	<u>2,869,019</u>
TOTAL LIABILITIES	<u>\$ 2,231,384</u>	<u>\$ 970,297</u>	<u>\$ 3,201,681</u>
NET ASSETS			
Invested in capital assets - net of related debt	\$ 6,638,251	\$ 407,570	\$ 7,045,821
Unrestricted	<u>712,187</u>	<u>885,239</u>	<u>1,597,426</u>
TOTAL NET ASSETS	<u>\$ 7,350,438</u>	<u>\$ 1,292,809</u>	<u>\$ 8,643,247</u>

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

CITY OF PIKEVILLE, TENNESSEE
Proprietary Funds
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2009

	Enterprise		Total
	Water and Sewer Fund	Natural Gas Fund	
OPERATING REVENUES			
Charges for services	\$ 936,002	\$ 1,030,114	\$ 1,966,116
Customer penalties	35,001	-	35,001
Connection fees	13,109	12,727	25,836
Other operating	-	5,365	5,365
Total operating revenues	<u>984,112</u>	<u>1,048,206</u>	<u>2,032,318</u>
OPERATING EXPENSES			
Purchased gas	-	741,578	741,578
Transmission and distribution	442,163	76,804	518,967
Sewer collection, treatment and disposal	180,473	-	180,473
Administration	156,655	200,544	357,199
Depreciation	270,209	51,683	321,892
Total operating expenses	<u>1,049,500</u>	<u>1,070,609</u>	<u>2,120,109</u>
Operating income (loss)	<u>(65,388)</u>	<u>(22,403)</u>	<u>(87,791)</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest revenue	15,026	14,416	29,442
Grant revenue	88,920	998	89,918
Miscellaneous revenue	22,253	456	22,709
Interest and amortization expense	(91,530)	(44,041)	(135,571)
Total non-operating revenues (expenses)	<u>34,669</u>	<u>(28,171)</u>	<u>6,498</u>
Changes in net assets	(30,719)	(50,574)	(81,293)
Net assets - beginning	<u>7,381,157</u>	<u>1,343,383</u>	<u>8,724,540</u>
Net assets - end	<u>\$ 7,350,438</u>	<u>\$ 1,292,809</u>	<u>\$ 8,643,247</u>

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

CITY OF PIKEVILLE, TENNESSEE
Proprietary Funds
Statement of Cash Flows
Year Ended June 30, 2009

	Enterprise		Totals
	Water and Sewer Fund	Natural Gas Fund	
Cash Flows from Operating Activities			
Receipts from customers and users	\$ 993,837	\$ 1,048,206	\$ 2,042,043
Payments to suppliers	(1,052,381)	(878,066)	(1,930,447)
Payments to employees	(293,605)	(123,384)	(416,989)
Net cash provided (used) by operating activities	<u>(352,149)</u>	<u>46,756</u>	<u>(305,393)</u>
Cash Flows from Non-capital Financing Activities			
Miscellaneous revenue	22,253	456	22,709
Net cash provided (used) by non-capital financing activities	<u>22,253</u>	<u>456</u>	<u>22,709</u>
Cash Flows from Capital and Related Financing Activities			
Proceeds of capital grants	88,920	-	88,920
Principal paid on long-term debt	(172,384)	(50,000)	(222,384)
Interest paid on long-term debt	(88,712)	(39,894)	(128,606)
Acquisition and construction of capital assets	(39,029)	(3,835)	(42,864)
Net cash provided (used) by capital and related financing activities	<u>(211,205)</u>	<u>(93,729)</u>	<u>(304,934)</u>
Cash Flows from Investing Activities			
Interest payments received	15,026	14,416	29,442
Purchase of investments	-	(8,330)	(8,330)
Net cash provided (used) by investing activities	<u>15,026</u>	<u>6,086</u>	<u>21,112</u>
Net increase (decrease) in cash	(526,075)	(40,431)	(566,506)
Cash - beginning	<u>705,833</u>	<u>445,632</u>	<u>1,151,465</u>
Cash - end	<u>\$ 179,758</u>	<u>\$ 405,201</u>	<u>\$ 584,959</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Operating income (loss)	\$ (65,388)	\$ (22,403)	\$ (87,791)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	270,209	51,683	321,892
(Increase) decrease in accounts receivable	9,725	-	9,725
(Increase) decrease in due from other funds	-	17,298	17,298
(Increase) decrease in inventories	5,475	2,014	7,489
Increase (decrease) in accounts payable	(558,368)	(1,732)	(560,100)
Increase (decrease) in accrued liabilities	5,177	(171)	5,006
Increase (decrease) in due to other funds	(18,100)	-	(18,100)
Increase (decrease) in customer deposits	(560)	(735)	(1,295)
Increase (decrease) in compensated absences	(319)	802	483
Total adjustments	<u>(286,761)</u>	<u>69,159</u>	<u>(217,602)</u>
Net cash provided (used) by operating activities	<u>\$ (352,149)</u>	<u>\$ 46,756</u>	<u>\$ (305,393)</u>

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

CITY OF PIKEVILLE, TENNESSEE
Fiduciary Funds
Statement of Fiduciary Net Assets
June 30, 2009

	<u>Industrial Board Agency Fund</u>
ASSETS	
Cash	\$ 8,744
Rent receivable	1,535
Due from other governments	<u>4,721</u>
TOTAL ASSETS	<u>15,000</u>
 LIABILITIES	
Due to other governments	<u>15,000</u>
TOTAL LIABILITIES	<u>15,000</u>
 NET ASSETS	
Held in trust for Industrial Board	<u>\$ -</u>

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

CITY OF PIKEVILLE, TENNESSEE
Fiduciary Funds
Statement of Changes in Fiduciary Net Assets
Year Ended June 30, 2009

	<u>Industrial Board Agency Fund</u>
ADDITIONS	
Rent	\$ 34,535
TOTAL ADDITIONS	<u>34,535</u>
DEDUCTIONS	
Professional services	15,000
Debt service	<u>19,535</u>
TOTAL DEDUCTIONS	<u>34,535</u>
Change in net assets	-
Net assets - beginning	<u>-</u>
Net assets - end	<u>\$ -</u>

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

CITY OF PIKEVILLE, TENNESSEE
Notes to Financial Statements
June 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

A. Reporting Entity

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

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

Joint Venture

Sequatchie/Bledsoe County Landfill

The Sequatchie/Bledsoe County Landfill (SBCL) is a joint venture entered into by four governmental entities, Bledsoe and Sequatchie Counties and the cities of Dunlap and Pikeville. The landfill was formed by agreements entered into by these governments for the purpose of providing solid waste disposal for the citizens of Sequatchie and Bledsoe Counties. The landfill is administered under the oversight of a Board of Directors consisting of three people from each county and two from each city. The County Executive of each county and the Mayors of each city are members of the Board, and the remaining members are appointed by these officials subject to the approval of their respective governing body. Financial statements of the SBCL can be obtained by contacting the Bledsoe County Courthouse.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basic Financial Statements

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

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

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basic Financial Statements (Continued)

The City reports the following major governmental funds:

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

The City reports the following major enterprise funds:

Water and Sewer Fund - This fund is used to account for the provision of sewer services to the City.

Natural Gas Fund - This fund is used to account for the provision of natural gas services to the City.

C. Measurement Focus - Basis of Accounting

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus - Basis of Accounting (Continued)

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

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

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

D. Budgetary Data

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

Prior to May 1, the Mayor submits to the Board of Aldermen, the proposed operating budgets of the governmental and enterprise fund types for the fiscal year commencing the following July 1. The budget is legally enacted through passage of an ordinance prior to the July 1 beginning of the fiscal year. The operating budget includes proposed expenditures and the means of financing them. Budgets for the General Fund and Special Revenue Funds are adopted in accordance with accounting principles generally accepted in the United States of America (GAAP). Therefore, no adjustments are necessary to convert to the actual GAAP data from the budgetary basis.

The City Mayor is authorized to transfer budgeted amounts between departments within any fund; however, any revision that alters the total expenditures of any fund must be approved by the Board of Aldermen. Expenditures may not exceed appropriations at the fund level.

During the year, supplementary appropriations were necessary. The effect of the amendment was to increase budgeted revenues by \$1,030,100 and increase budgeted expenditures by \$837,200 in the General Fund. In the Sanitation Fund, budgeted revenues increased by \$12,300 and budgeted expenditures increased by \$24,500. Amendments in the Drug Fund netted to \$0.

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

Budgets for Enterprise Funds are adopted by the Aldermen as a management tool.

E. Cash and Cash Equivalents

For purposes of reporting cash on the Statement of Net Assets and cash flows in proprietary funds, the City considers unrestricted highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Cash consists of cash-on-hand and on-deposit with financial institutions. These are classified on the Statement of Cash Flows as "Cash". At June 30, 2009, the City had no cash equivalents.

F. Investments

All investments are made in those investments authorized by state statutes and are reported at fair value, which is based on quoted market prices.

G. Inventories

Inventories are stated generally at the lower of cost or market. Cost is determined on a first in-first out basis.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Interfund Transactions

Interfund Receivables and Payables

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

Transactions between Funds

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

I. Capital Assets

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

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

<u>Asset Class</u>	<u>Years</u>
Building and parks	15-40
Machinery and equipment	3-7
Vehicles	5-15
Landfill	50
Infrastructure	10-20

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Capital Assets (Continued)

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

<u>Asset Class</u>	<u>Years</u>
North Bledsoe system	10-40
Water treatment and distribution	5-50
Sewer collection and treatment	50
Building	30-40
Machinery and equipment	5-50
Vehicles	5
Gas lines and meters	30-40
Reservoirs and standpipes	10-50

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

J. Bond Discounts/Issuance Costs

In governmental fund types, bond discounts and issuance costs are recognized in the current period. However, bond discounts and issuance costs for the government-wide financial statements and proprietary fund types are deferred and amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. Bond discounts are presented as a reduction of the face amount of bonds payable whereas issuance costs are recorded as bond issue costs - net.

K. Compensated Absences

City employees are paid for vacation and absence due to sickness by prescribed formulas based on length of service. Vacation and sick leave for employees of governmental funds is recorded as an expenditure in the period it is used and considered payable from current financial resources. Sick leave does not vest for City employees, so no liability exists at year-end. Vacation leave is based on employment date, and unused vacation leave does not carryover beyond employment anniversary. Some employees have vacation leave remaining since their anniversary dates cross the fiscal year-end. Government-wide proprietary funds accrue vacation benefits in the period they are earned. A liability for these amounts is reported in governmental funds only if they have matured.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Long-term Obligations

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

M. Restricted Net Assets

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

N. Property Taxes

Property taxes are levied by the City on January 1st on property values assessed for that calendar year. The billings are mailed October 1st and are considered due upon receipt by the taxpayer; however, the actual due date is based on a period ending approximately 60 days after calendar year end. On this date, March 1st, the bill becomes delinquent and penalties and interest may be assessed. Property taxes are recognized on the accrual basis in the government-wide financial statements, and in the governmental funds they are recognized on the modified accrual basis. Proper allowances are made for estimated uncollectible accounts and delinquent accounts when necessary. The tax rate for the 2009 levy is \$.85 per \$100 of assessed valuation and the tax rate for the 2008 levy is \$.66 per \$100 of assessed valuation.

Property taxes for the 2009 levy are considered to be owed to the City as of the lien date on January 1, 2009. Therefore the entire 2009 levy was recorded as a receivable and deferred revenue as of June 30, 2009, in both the government-wide financial statements and in the governmental fund statements.

O. Prepayment of Expenditures

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

P. Estimates

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

Q. Proprietary Accounting and Financial Reporting

For its proprietary activities, the City of Pikeville, has applied all applicable pronouncements of the Governmental Accounting Standards Board (GASB) as well as those Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

R. Events Occurring after Reporting Date

The City has evaluated events and transactions that occurred between June 30, 2009, and January 26, 2010, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTE 2 - DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk is the risk that in the event of a bank failure the City’s deposits may not be returned to it. The City does not have a deposit or investment policy for custodial credit risk, however the State of Tennessee requires its governmental entities to either meet the deposit and collateralization regulations under TCA Title 9, chapter 4, Parts 1 and 4, or as provided in the collateral pool. As of June 30, 2009, the carrying amount of the City’s deposits was \$2,324,597, and the bank balance was \$2,325,590. None of the City’s bank balance was exposed to custodial credit risk as uninsured or uncollateralized due to the fact that all of its deposits and investments are in a financial institution that is a participant in the State of Tennessee collateral pool or fully collateralized.

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

Cash	\$ 1,358,244
Investments	<u>966,498</u>
	2,324,742
Less: petty cash	<u>(145)</u>
Total	<u>\$ 2,324,597</u>

Investments

The City’s investments are carried at fair value which is based on quoted market prices and consist of certificates of deposit totaling \$966,498. The City’s investments are listed on the Statement of Net Assets as “Investments”.

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

- Bonds, notes or treasury bills of the United States.
- Nonconvertible debt securities of the Federal Home Loan Bank, the Federal National Mortgage Association, the Federal Farm Credit Bank and the Student Loan Marketing Association.
- Any obligation guaranteed by the United States or any of its agencies.
- Certificates-of-deposit at state and federal chartered banks and savings and loan associations.
- The Local Government Investment Pool created by Title 9.

NOTE 3 - ACCOUNTS RECEIVABLE - NET

Accounts receivables at June 30, 2009, consist of the following:

	General Fund	Water and Sewer Fund	Total
Customer receivables	\$ -	\$ 206,479	\$ 206,479
State shared revenues	36,443	-	36,443
Local sales tax	29,953	-	29,953
Other taxes receivables	11,309	-	11,309
Less: allowance for doubtful accounts	<u>-</u>	<u>(12,145)</u>	<u>(12,145)</u>
Total	<u>\$ 77,705</u>	<u>\$ 194,334</u>	<u>\$ 272,039</u>

NOTE 4 - PROPERTY TAXES RECEIVABLE - NET

Property taxes receivable as of June 30, 2009, consist of the following:

<u>Year of Levy</u>	
2009	\$ 271,600
2008	34,128
2007	3,324
2006	1,725
2005	1,658
2004	114
2003	489
2002	<u>141</u>
	313,179
Less: allowance for uncollectibles	<u>(8,688)</u>
Property taxes receivable - net	<u>\$ 304,491</u>

NOTE 5 - DUE TO/FROM OTHER GOVERNMENTS

Due to/from other governments at June 30, 2009, consist of a \$15,000 advance to the Industrial Development Board for building purchases, and \$4,721 due to the Industrial Development Board.

NOTE 6 - DUE TO/FROM OTHER FUNDS

Interfund receivables and payables for the current year were as follows:

<u>Due to:</u>	<u>Due from:</u>		
	<u>Water and Sewer Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
Natural Gas Fund	<u>\$ 31,753</u>	<u>\$ 802</u>	<u>\$ 32,555</u>

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2009, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 127,457	\$ -	\$ -	\$ 127,457
Total capital assets not being depreciated	<u>127,457</u>	<u>-</u>	<u>-</u>	<u>127,457</u>
Capital assets being depreciated:				
Buildings and parks	618,778	-	-	618,778
Machinery and equipment	358,044	-	-	358,044
Vehicles	290,614	382,863	(60,960)	612,517
Infrastructure	208,306	608,354	-	816,660
Landfill	121,706	-	-	121,706
Total capital assets being depreciated	<u>1,597,448</u>	<u>991,217</u>	<u>(60,960)</u>	<u>2,527,705</u>
Less accumulated depreciation for:				
Buildings and parks	212,619	16,140	-	228,759
Machinery and equipment	283,399	23,421	-	306,820
Vehicles	192,975	46,980	(60,960)	178,995
Infrastructure	55,403	33,122	-	88,525
Landfill	10,953	2,434	-	13,387
Total accumulated depreciation	<u>755,349</u>	<u>122,097</u>	<u>(60,960)</u>	<u>816,486</u>
Total capital assets being depreciated - net	<u>842,099</u>	<u>869,120</u>	<u>-</u>	<u>1,711,219</u>
Governmental activities capital assets - net	<u>\$ 969,556</u>	<u>\$ 869,120</u>	<u>\$ -</u>	<u>\$ 1,838,676</u>

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

General government	\$ 15,383
Public safety	68,258
Public works	38,226
Public welfare	230
Total	<u>\$ 122,097</u>

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Business-type activities:					
Capital assets not being depreciated:					
Construction in process	\$ 2,287,994	\$ -	\$ -	\$ (2,287,994)	\$ -
Land and rights	31,847	-	-	-	31,847
Total capital assets not being depreciated	<u>2,319,841</u>	<u>-</u>	<u>-</u>	<u>(2,287,994)</u>	<u>31,847</u>
Capital assets being depreciated:					
North Bledsoe system	3,008,661	-	-	-	3,008,661
Water treatment and distribution	4,582,092	33,846	-	2,287,994	6,903,932
Sewer collection and treatment	2,654,161	-	-	-	2,654,161
Building	179,786	-	-	4,289	184,075
Machinery and equipment	166,898	9,018	(14,651)	(4,289)	156,976
Vehicles	196,155	-	-	-	196,155
Gas lines and meters	1,862,260	-	-	-	1,862,260
Reservoirs and standpipes	345,661	-	-	-	345,661
Total capital assets being depreciated	<u>12,995,674</u>	<u>42,864</u>	<u>(14,651)</u>	<u>2,287,994</u>	<u>15,311,881</u>
Less accumulated depreciation for:					
Water plant and lines	2,741,818	218,282	(14,651)	-	2,945,449
Sewer collection	1,477,401	51,927	-	-	1,529,328
Natural gas	726,932	51,683	-	-	778,615
Total accumulated depreciation	<u>4,946,151</u>	<u>321,892</u>	<u>(14,651)</u>	<u>-</u>	<u>5,253,392</u>
Total capital assets being depreciated - net	<u>8,049,523</u>	<u>(279,028)</u>	<u>-</u>	<u>2,287,994</u>	<u>10,058,489</u>
Business-type activities capital assets - net	<u>\$ 10,369,364</u>	<u>\$ (279,028)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,090,336</u>

NOTE 8 - DEFERRED REVENUES

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

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Property taxes	<u>\$31,138</u>	<u>\$ 271,600</u>	<u>\$ 302,738</u>

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

NOTE 9 - LONG-TERM DEBT

A. Governmental Debt

Long-term debt, payable by the Governmental Funds, which consists of a note payable, landfill closure liability, a capital lease, a bond payable and compensated absences, is summarized as follows:

	<u>Principal Balance</u>
Capital Outlay Note - Series 2003, \$66,000 agreement with Bledsoe Sequatchie	
Landfill Committee payable at \$3,046 quarterly	\$ 17,345
Landfill closure and post-closure costs - estimated	29,448
Capital lease	36,084
Revenue bonds, Series 2006, Public Building Authority, original amount \$1,000,000 in draw-down phase	750,096
Compensated absences	<u>8,042</u>
	841,015
Less: current portion of governmental long-term debt	<u>(36,038)</u>
 Total governmental long-term debt	 <u>\$ 804,977</u>

A summary of changes in governmental long-term debt for the year ended June 30, 2009, are as follows:

	<u>Balance July 1, 2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2009</u>	<u>Amount Due Within One Year</u>
Capital Outlay Note - 2003	\$ 31,931	\$ -	\$ (14,586)	\$ 17,345	\$ 17,345
Landfill closure and post-closure - estimated	30,675	-	(1,227)	29,448	1,227
Capital lease	-	36,084	-	36,084	17,466
Revenue bond - 2006	-	750,096	-	750,096	-
Compensated absences	<u>9,545</u>	-	<u>(1,503)</u>	<u>8,042</u>	-
Total	<u>\$ 72,151</u>	<u>\$ 786,180</u>	<u>\$ (17,316)</u>	841,015	<u>\$ 36,038</u>
Less: current portion of general long-term debt				<u>(36,038)</u>	
 Total governmental long-term debt				 <u>\$ 804,977</u>	

Interest paid during the year ended June 30, 2009, on governmental long-term debt was \$8,226.

(Continued)

NOTE 9 - LONG-TERM DEBT (Continued)

A. Governmental Debt (Continued)

Governmental debt service requirements to maturity, including interest of \$3,967, are as follows:

Year ended <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2010	\$ 36,038	\$ 2,737	\$ 38,775
2011	19,845	1,230	21,075
2012	1,227	-	1,227
2013	1,227	-	1,227
2014	1,227	-	1,227
2015-2019	6,135	-	6,135
2020-2024	6,135	-	6,135
2025-2029	6,135	-	6,135
2030-2033	<u>4,908</u>	<u>-</u>	<u>4,908</u>
	<u>\$ 82,877</u>	<u>\$ 3,967</u>	<u>\$ 86,844</u>

Note: The above debt service requirements schedule does not include compensated absences or the 2006 revenue bond on which the City is currently drawing funds.

B. Business-Type Debt

Water and Sewer Fund:

Long-term debt, payable by the Water and Sewer Fund, which consists of revenue bonds, utility relocation note, capital outlay note and compensated absences, is summarized as follows:

	<u>Principal Balance</u>
Water and Sewer Tax Deficiency bonds, Series 1969, 4.5%, due 6/1/2010	\$ 2,000
Water and Sewer Revenue and Tax Refunding bonds, Series 2002, 3.25% to 3.75%, due 12/01/2010	110,000
Utility relocation loan from Tennessee Department of Transportation payable first 5 years at 0% interest, \$41,567 annually, due 6/20/2013	119,518
Capital Outlay Note, Series 2002, 5.0%, due 2/20/2014	72,177
Capital Outlay Note, Series 2007, 3.68%, due 12/01/2017	348,000
Capital Outlay Note, Series 2008, 4.375%, due 12/10/2045	473,846
Capital Outlay Note, Series 2008, 4.375%, due 02/14/2048	1,026,987
Compensated absences	<u>9,542</u>
	2,162,070
Less: Current portion of water and sewer long-term debt	<u>(175,493)</u>
Total water and sewer long-term debt	<u>\$ 1,986,577</u>

Interest paid during the year ended June 30, 2009, on water and sewer long-term debt was \$87,050.
(Continued)

NOTE 9 - LONG-TERM DEBT (Continued)

B. Business Type Debt (Continued)

Water and Sewer Fund: (Continued)

A summary of changes in water and sewer long-term debt for the year ended June 30, 2009, are as follows:

	Balance <u>July 1, 2008</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>June 30, 2009</u>	Amount Due Within <u>One Year</u>
Tax deficiency bonds - 1969	\$ 6,000	\$ -	\$(4,000)	\$ 2,000	\$ 2,000
Revenue and tax refunding	180,000	-	(70,000)	110,000	75,000
Utility relocation loan	152,611	-	(33,093)	119,518	36,268
Capital Outlay Note - 2002	85,144	-	(12,967)	72,177	13,221
Capital Outlay Note - 2007	380,000	-	(32,000)	348,000	33,000
Capital Outlay Note - 2008	480,888	-	(7,042)	473,846	5,455
Capital Outlay Note - 2008	1,040,269	-	(13,282)	1,026,987	10,549
Compensated absences	<u>9,861</u>	<u>-</u>	<u>(319)</u>	<u>9,542</u>	<u>-</u>
Total	<u>\$ 2,334,773</u>	<u>\$ -</u>	<u>\$(172,703)</u>	2,162,070	<u>\$ 175,493</u>
Less: current portion of water and sewer long-term debt				<u>(175,493)</u>	
Total water and sewer long-term debt				<u>\$ 1,986,577</u>	

Water and Sewer debt service requirements to maturity, including interest of \$1,658,094, are as follows:

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2010	\$ 175,493	\$ 90,763	\$ 266,256
2011	138,819	83,466	222,285
2012	108,315	77,352	185,667
2013	75,405	73,171	148,576
2014	73,152	69,666	142,818
2015-2019	276,841	311,061	587,902
2020-2024	135,399	271,881	407,280
2025-2029	168,439	238,841	407,280
2030-2034	209,542	197,738	407,280
2035-2039	260,677	146,603	407,280
2040-2044	324,289	82,991	407,280
2045-2048	<u>206,157</u>	<u>14,561</u>	<u>220,718</u>
	<u>\$ 2,152,528</u>	<u>\$ 1,658,094</u>	<u>\$ 3,810,622</u>

Note: Compensated absences are not included in the above debt service requirement schedule due to their unestimatable nature.

(Continued)

NOTE 9 - LONG-TERM DEBT (Continued)

B. Business Type Debt (Continued)

Natural Gas Fund:

Long-term debt, payable by the Natural Gas Fund, which consists of revenue and tax bonds and compensated absences, is summarized as follows:

	<u>Principal Balance</u>
Gas system revenue and tax bonds, series 2002, 3.25% to 3.75%, due 01/01/2011	\$ 105,000
Gas system revenue and tax bonds, series 2002, 3.25% to 4.75%, due 12/01/2022	825,000
Compensated absences	<u>2,442</u>
	932,442
Less: Current portion of natural gas long-term debt	<u>(50,000)</u>
Total natural gas long-term debt	<u>\$ 882,442</u>

A summary of changes in natural gas long-term debt for the year ended June 30, 2009, are as follows:

	<u>Balance July 01, 2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2009</u>	<u>Amount Due Within One Year</u>
Revenue and tax bonds - 2002	\$ 140,000	\$ -	\$(35,000)	\$ 105,000	\$ 35,000
Revenue and tax bonds - 2002	840,000	-	(15,000)	825,000	15,000
Compensated absences	<u>1,640</u>	<u>802</u>	<u>-</u>	<u>2,442</u>	<u>-</u>
Total	<u>\$ 981,640</u>	<u>\$ 802</u>	<u>\$(50,000)</u>	932,442	<u>\$ 50,000</u>
Less: current portion of natural gas long-term debt				<u>(50,000)</u>	
Total natural gas long-term debt				<u>\$ 882,442</u>	

Interest paid during the year ended June 30, 2009, on natural gas long-term debt was \$40,756.

Natural gas debt service requirements to maturity, including interest of \$329,632, are as follows:

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2010	\$ 50,000	\$ 39,818	\$ 89,818
2011	50,000	38,049	88,049
2012	50,000	36,174	86,174
2013	55,000	33,480	88,480
2014	60,000	31,180	91,180
2015-2019	335,000	116,255	451,255
2020-2023	<u>330,000</u>	<u>34,676</u>	<u>364,676</u>
	<u>\$ 930,000</u>	<u>\$ 329,632</u>	<u>\$ 1,259,632</u>

Note: Compensated absences are not included in the above debt service requirement schedule due to their unestimatable nature.

NOTE 10 - LANDFILL CLOSURE AND POST-CLOSURE COSTS

The City of Pikeville is in a joint venture with the City of Pikeville, Bledsoe County, and Sequatchie County in the Sequatchie/Bledsoe County Landfill. The City of Pikeville shares in the closure and post-closure costs in a ratio equal to the proportion that the City's population bears to the total population of the county.

Rules established by the federal Environmental Protection Agency and the Tennessee Solid Waste Management Act of 1991 require municipalities operating landfills in Tennessee to be financially responsible for certain closure and post-closure care costs.

Closure and post-closure care costs include:

- * The cost of equipment expected to be installed and facilities expected to be constructed near or after the date the landfill stops accepting waste and during the post-closure period.
- * The costs of final cover expected to be applied near or after the closure date.
- * The costs of monitoring and maintaining the expected usable landfill areas during the post-closure period. Statement No. 18, *Accounting for Solid Waste Landfill Closure and Post-closure Care Costs*, issued by the Government Accounting Standards Board, requires governments to accrue a liability for these closure and post-closure care costs. This liability represents a proportionate share of estimated total current cost of closure and post-closure care. The liability is based on the cost to provide the required care on the date of the financial statements. The amount accrued each period is determined using the depletion method based on the percentage of landfill capacity used during the period. Estimates of closure and post-closure care costs are recalculated each year to reflect the effects of general inflation/deflation, changes in the landfill's closure or post-closure care plan and for changes in operating conditions such as technology or changes in applicable laws or regulations.

The estimated total current cost of closure and post-closure care of the Sequatchie/Bledsoe County Landfill is \$267,709. The City of Pikeville's share of the estimated total current cost of closure and post-closure, based upon population percentages, would be 11%. This amount has been recorded as a liability on the Statement of Net Assets.

NOTE 11 - NET ASSET RESTRICTIONS AND DESIGNATIONS

The City can restrict net assets and designate portions of unrestricted net assets to be maintained for specific purposes. The nature and purpose of these are explained as follows:

Net Assets - Restricted

Restricted for Non-recurring Police Expenditures - Reserves for \$1,208 are legally restricted for non-recurring police expenditures.

Net Assets - Designated

Designated for Park Improvements - Designation for \$5,031 has been made by the Mayor and Aldermen for future park improvements.

NOTE 12 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

The governmental fund balance includes a reconciliation between fund balance - total governmental funds and net assets - government activities as reported in the government-wide Statement of Net Assets. One element of that reconciliation explains that, "long-term liabilities including notes payable, landfill closure and post-closure costs, leases payable, bonds payable and compensated absences are not due and payable in the current period and, therefore, are not reported in the funds". The details of this \$(841,015) difference are as follows:

Note payable	\$ (17,345)
Landfill closure and post-closure cost	(29,448)
Lease payable	(36,084)
Bond payable	(750,096)
Compensated absences	<u>(8,042)</u>
 Net adjustment	 <u>\$ (841,015)</u>

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

The governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances includes a reconciliation between net changes in fund balances for total governmental funds and changes in net assets of governmental activities as reported in the government-wide Statement of Activities. One element of that reconciliation explains that, "Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense". The details of this \$869,120 difference are as follows:

Depreciation expense	\$ (122,097)
Capital outlay	<u>991,217</u>
 Net adjustment	 <u>\$ 869,120</u>

NOTE 13 - COMPLIANCE WITH FINANCE RELATED LEGAL AND CONTRACTUAL PROVISIONS

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

NOTE 14 - RISK MANAGEMENT POOL

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

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

Coverages are as follows:

Comprehensive general liability	\$1,000,000
Law enforcement liability	\$1,000,000
Automobile liability and physical damage	State Tort Limits:
Error or omissions	\$1,000,000 per person
Each other non-state tort	\$1,000,000 per occurrence
Workers compensation	\$300,000 each accident
	\$300,000 each employee
	\$700,000 policy limit
Property and equipment	\$9,609,777
Deductible:	
Error and omission	\$1,000
Auto physical damage	\$50/\$250
Property and equipment	\$1,000

The responsibilities of the City are as follows:

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

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

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

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

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

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

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

(Continued)

NOTE 14 - RISK MANAGEMENT POOL (Continued)

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

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

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

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

The responsibilities of TML are as follows:

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

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

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

The City has not compiled a record of the claims paid up to the applicable deductible for the prior or current fiscal year. The City is not aware of any claims which the City is liable for (up to the applicable deductible) which were outstanding and unpaid at June 30, 2009. No provision has been made in the financial statements for the year ended June 30, 2009, for any estimate of potential unpaid claims.

NOTE 15 - COMMERCIAL INSURANCE

It is the policy of the City to purchase commercial insurance for various risks of losses to which it is exposed. These risks include accident and employee health. Other risks of losses are covered under a risk management pool. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE 16 - PENSION PLAN

Plan Description

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

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

Funding Policy

The City of Pikeville requires employees to contribute 5.0 percent of earnable compensation.

The City of Pikeville is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2009, was 6.43% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the City of Pikeville is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ending June 30, 2009, the City of Pikeville's annual pension cost of \$34,897 to TCRS was equal to the City of Pikeville's required and actual contributions. The required contribution was determined as part of the July 1, 2007, actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5 percent annual increase in the Social Security wage base and (d) projected post-retirement increases of 3.0 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. The City of Pikeville's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2007, was 11 years. An actuarial valuation was performed as of July 1, 2007, which established contribution rates effective July 1, 2008.

Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2009	\$ 34,897	100.00%	\$0.00
June 30, 2008	\$ 49,857	100.00%	\$0.00
June 30, 2007	\$ 44,644	100.00%	\$0.00

NOTE 16 - PENSION PLAN (Continued)

Funded Status and Funding Progress

As of July 1, 2007, the most recent actuarial valuation date, the plan was 94.82% funded. The actuarial accrued liability for benefits was \$1.44 million, and the actuarial value of assets was \$1.37 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.07 million. The covered payroll (annual payroll of active employees covered by the plan) was \$0 million, and the ratio of the UAAL to the covered payroll was 15.40%.

The Schedules of Funding Progress, presented as Required Supplementary Information (RSI) following the Notes to the Financial Statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AAL's for benefits.

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

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 01, 2007	\$ 1,373	\$ 1,448	\$ 75	94.82%	\$ 487	15.40%

NOTE 17 - LITIGATION AND CLAIMS

The City is currently the defendant in certain legal actions, which are being vigorously defended. It is the opinion of management and legal counsel that these suits will not have a material effect on the financial position of the City.

NOTE 18 - RELATED PARTIES

Alderman Reed Sells is a part owner in a local building supply business. During the year, the City purchased items totaling \$12,358 from this business in the normal course of operations.

NOTE 19 - INDUSTRIAL BOARD AGENCY FUND

During the fiscal year ended June 30, 2009, the City of Pikeville sold the Pikeville Apparel Building to the Industrial Development Board of the City of Pikeville (IDB). As part of the sales transaction, the IDB was assigned the lease of Short Bark Industries (SBI), the current tenant, to fund the debt service of an EDA loan obtained by the IDB. The City currently acts as an agent for the IDB and collects the lease payments and makes the debt service payments on behalf of the IDB.

REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A

CITY OF PIKEVILLE, TENNESSEE
Tennessee Consolidated Retirement System
Schedule of Funding Progress
June 30, 2009

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2007	\$ 1,373	\$ 1,448	\$ 75	94.82%	\$ 487	15.40%

The Governmental Accounting Standards Board (GASB) requires the plan to prepare the Schedule of Funding Progress using the entry age actuarial cost method. The requirement to present the Schedule of Funding Progress using the Entry Age actuarial cost method change was made during the year of the most recent actuarial valuation date, therefore, only the most current year is presented.

NON-MAJOR GOVERNMENTAL FUNDS

Special Revenue Funds:

Special revenue funds are used to account for the proceeds of specific revenues that are legally restricted to finance specific functions or activities of government and which, therefore, cannot be diverted to other assets.

Drug Fund:

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

Sanitation Fund:

This fund accounts for the revenues and expenditures of the City of Pikeville's sanitation program.

CITY OF PIKEVILLE, TENNESSEE
Non-major Governmental Funds
Combining Balance Sheet
June 30, 2009

	Special Revenue		Total
	Drug	Sanitation	Non-major
	Fund	Fund	Governmental
			Funds
ASSETS			
Cash	\$ 1,208	\$ 21,997	\$ 23,205
TOTAL ASSETS	\$ 1,208	\$ 21,997	\$ 23,205
 LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ -	\$ 8,749	\$ 8,749
Due to other funds	-	802	802
Total liabilities	-	9,551	9,551
 Fund Balances			
Unreserved	1,208	12,446	13,654
Total fund balances	1,208	12,446	13,654
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,208	\$ 21,997	\$ 23,205

CITY OF PIKEVILLE, TENNESSEE
Non-major Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended June 30, 2009

	<u>Special Revenue</u>		Total Non-major Governmental Funds
	<u>Drug Fund</u>	<u>Sanitation Fund</u>	
REVENUES			
Charges for services	\$ -	\$ 120,053	\$ 120,053
Fines and forfeitures	1,780	-	1,780
Other revenue	<u>-</u>	<u>98</u>	<u>98</u>
TOTAL REVENUES	<u>1,780</u>	<u>120,151</u>	<u>121,931</u>
EXPENDITURES			
Current expenditures			
Public safety	2,000	-	2,000
Public works	<u>-</u>	<u>123,908</u>	<u>123,908</u>
TOTAL EXPENDITURES	<u>2,000</u>	<u>123,908</u>	<u>125,908</u>
Excess (deficiency) of revenues over (under) expenditures	(220)	(3,757)	(3,977)
Fund balances - beginning	<u>1,428</u>	<u>16,203</u>	<u>17,631</u>
Fund balances - end	<u>\$ 1,208</u>	<u>\$ 12,446</u>	<u>\$ 13,654</u>

CITY OF PIKEVILLE, TENNESSEE
Drug Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Year Ended June 30, 2009

	<u>Budgeted Amounts</u>			<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Favorable</u> <u>(Unfavorable)</u>
REVENUES				
Fines and forfeitures				
Court fines	\$ 2,000	\$ 2,500	\$ 1,780	\$ (720)
TOTAL REVENUES	<u>2,000</u>	<u>2,500</u>	<u>1,780</u>	<u>(720)</u>
 EXPENDITURES				
Current expenditures				
Public safety				
Drug enforcement	<u>2,000</u>	<u>2,500</u>	<u>2,000</u>	<u>500</u>
Total public safety	<u>2,000</u>	<u>2,500</u>	<u>2,000</u>	<u>500</u>
TOTAL EXPENDITURES	<u>2,000</u>	<u>2,500</u>	<u>2,000</u>	<u>500</u>
Excess (deficiency) of revenues over (under) expenditures	-	-	(220)	(220)
Fund balances - beginning	<u>1,428</u>	<u>1,428</u>	<u>1,428</u>	<u>-</u>
Fund balances - end	<u>\$ 1,428</u>	<u>\$ 1,428</u>	<u>\$ 1,208</u>	<u>\$ (220)</u>

CITY OF PIKEVILLE TENNESSEE
Sanitation Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable</u> <u>(Unfavorable)</u>
REVENUES				
Charges for services				
Garbage fees	\$ 108,200	\$ 120,500	\$ 120,053	\$ (447)
Other revenue				
Interest	<u>300</u>	<u>300</u>	<u>98</u>	<u>(202)</u>
TOTAL REVENUES	<u>108,500</u>	<u>120,800</u>	<u>120,151</u>	<u>(649)</u>
 EXPENDITURES				
Current expenditures				
Public works				
Contracted services	95,000	117,000	107,044	9,956
Contract services - landfill	-	-	16,472	(16,472)
Operating supplies	<u>-</u>	<u>-</u>	<u>392</u>	<u>(392)</u>
Total public works	<u>95,000</u>	<u>117,000</u>	<u>123,908</u>	<u>(6,908)</u>
 Debt service				
Retirement of bank notes	<u>13,500</u>	<u>16,000</u>	<u>-</u>	<u>16,000</u>
Total debt service	<u>13,500</u>	<u>16,000</u>	<u>-</u>	<u>16,000</u>
TOTAL EXPENDITURES	<u>108,500</u>	<u>133,000</u>	<u>123,908</u>	<u>9,092</u>
Excess (deficiency) of revenues over (under) expenditures	-	(12,200)	(3,757)	8,443
Fund balances - beginning	<u>16,203</u>	<u>16,203</u>	<u>16,203</u>	<u>-</u>
Fund balances - end	<u>\$ 16,203</u>	<u>\$ 4,003</u>	<u>\$ 12,446</u>	<u>\$ 8,443</u>

SUPPLEMENTAL INFORMATION

CITY OF PIKEVILLE, TENNESSEE
Schedule of Expenditures of Federal and State Awards
Year Ended June 30, 2009

<u>Federal Grantor/Pass - Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State Grant/ Program Number</u>	<u>Receivable (Deferred) June 30, 2008</u>	<u>Grant/Loan Receipts</u>	<u>Grant/Loan Expenditures</u>	<u>Receivable (Deferred) June 30, 2009</u>
Federal						
Department of Human Services FEMA Fire Grant	97.036	-	\$ -	\$ 284,996	\$ 284,996	\$ -
U.S. Department of Agriculture Forestry Grant	10.000	Z-09-215314	-	3,000	3,000	-
U.S. Environmental Protection Agency	66.202	XP-96470207-0	-	48,056	48,056	-
U.S. Department of Housing and Urban Development Community Development Block Grant/ Small Cities Program	14.219	GG-05-20262-00	-	40,297	40,297	-
Department of Transportation/ Tennessee Department of Transportation Highway Safety Grant - Traffic Enforcement Highway Safety Grant	20.605 20.601	Z-09-214650-00 Z-08-023710	- -	3,715 351	3,715 351	- -
Total Federal Awards			-	<u>380,415</u>	<u>380,415</u>	-
State						
Community Development	-	-	-	2,500	2,500	-
TOTAL FEDERAL AND STATE AWARDS			\$ -	<u>\$ 382,915</u>	<u>\$ 382,915</u>	<u>\$ -</u>

CITY OF PIKEVILLE, TENNESSEE
Notes to the Schedule of Expenditures of Federal and State Awards
Year Ended June 30, 2009

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal and State Awards includes the federal and state grant activity of the City of Pikeville, Tennessee, and is presented on the modified accrual basis of accounting. Therefore, some amounts presented in this schedule may differ from amounts presented in/or used in the preparation of the basic financial statements.

CITY OF PIKEVILLE, TENNESSEE
Water and Sewer Fund
Schedule of Revenues, Expenses and Changes in Net Assets - Budget and Actual
Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable</u> <u>(Unfavorable)</u>
OPERATING REVENUES				
Charges for services	\$ 969,200	\$ 972,200	\$ 936,002	\$ (36,198)
Customer penalties	30,000	30,000	35,001	5,001
Connection fees	15,000	15,000	13,109	(1,891)
Total operating revenues	<u>1,014,200</u>	<u>1,017,200</u>	<u>984,112</u>	<u>(33,088)</u>
OPERATING EXPENSES				
Water transmission and distribution	334,700	483,000	442,163	40,837
Sewer collection, treatment and disposal	182,500	195,400	180,473	14,927
Administration	241,900	233,900	156,655	77,245
Depreciation	185,000	185,000	270,209	(85,209)
Total operating expenses	<u>944,100</u>	<u>1,097,300</u>	<u>1,049,500</u>	<u>47,800</u>
Operating income (loss)	<u>70,100</u>	<u>(80,100)</u>	<u>(65,388)</u>	<u>14,712</u>
NON-OPERATING REVENUES (EXPENSES)				
Interest revenue	18,000	18,000	15,026	(2,974)
Grant revenue	-	90,000	88,920	(1,080)
Miscellaneous revenue	2,000	19,000	22,253	3,253
Interest and amortization expense	(189,500)	(189,500)	(91,530)	97,970
Total non-operating revenues (expenses)	<u>(169,500)</u>	<u>(62,500)</u>	<u>34,669</u>	<u>97,169</u>
Change in net assets	(99,400)	(142,600)	(30,719)	111,881
Net assets - beginning	<u>7,381,157</u>	<u>7,381,157</u>	<u>7,381,157</u>	<u>-</u>
Net assets - end	<u>\$ 7,281,757</u>	<u>\$ 7,238,557</u>	<u>\$ 7,350,438</u>	<u>\$ 111,881</u>

CITY OF PIKEVILLE
Natural Gas Fund
Schedule of Revenues, Expenses and Changes in Net Assets - Budget and Actual
Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable)
OPERATING REVENUES				
Charges for services	\$ 1,430,500	\$ 1,430,500	\$ 1,030,114	\$ (400,386)
Connection fees	13,200	13,200	12,727	(473)
Other operating	400	400	5,365	4,965
Total operating revenues	<u>1,444,100</u>	<u>1,444,100</u>	<u>1,048,206</u>	<u>(395,894)</u>
OPERATING EXPENSES				
Purchased gas	1,021,100	1,012,600	741,578	271,022
Transmission and distribution	91,900	91,900	76,804	15,096
Administration	250,100	258,600	200,544	58,056
Depreciation	51,000	51,000	51,683	(683)
Total operating expenses	<u>1,414,100</u>	<u>1,414,100</u>	<u>1,070,609</u>	<u>343,491</u>
Operating income (loss)	<u>30,000</u>	<u>30,000</u>	<u>(22,403)</u>	<u>(52,403)</u>
NON-OPERATING REVENUES (EXPENSES)				
Interest revenue	12,000	12,000	14,416	2,416
Grant revenue	-	-	998	998
Miscellaneous revenue	1,000	1,000	456	(544)
Interest and amortization expense	(43,000)	(43,000)	(44,041)	(1,041)
Total non-operating revenues (expenses)	<u>(30,000)</u>	<u>(30,000)</u>	<u>(28,171)</u>	<u>1,829</u>
Change in net assets	-	-	(50,574)	(50,574)
Net assets - beginning	<u>1,343,383</u>	<u>1,343,383</u>	<u>1,343,383</u>	<u>-</u>
Net assets - end	<u>\$ 1,343,383</u>	<u>\$ 1,343,383</u>	<u>\$ 1,292,809</u>	<u>\$ (50,574)</u>

CITY OF PIKEVILLE, TENNESSEE
General Fund
Schedule of Property Taxes Receivable
June 30, 2009

<u>Year of Levy</u>	
2009	\$ 271,600
2008	34,128
2007	3,324
2006	1,725
2005	1,658
2004	114
2003	489
2002	<u>141</u>
	313,179
Less allowance for uncollectible	<u>(8,688)</u>
Property taxes receivable - net	<u>\$ 304,491</u>

CITY OF PIKEVILLE, TENNESSEE
General Fund
Schedule of Changes in Property Taxes Receivable
Year Ended June 30, 2009

	Taxes Receivable July 1, 2008	Taxes Levied	Pickups	Releases	Collections	Taxes Receivable June 30, 2009
2009	\$ -	\$ 271,600	\$ -	\$ -	\$ -	\$ 271,600
2008	188,300	-	83,368	-	(237,540)	34,128
2007	20,990	-	-	-	(17,666)	3,324
2006	4,276	-	-	-	(2,551)	1,725
2005	2,658	-	-	-	(1,000)	1,658
2004	428	-	-	-	(314)	114
2003	680	-	-	-	(191)	489
2002	243	-	-	-	(102)	141
2001	-	-	-	-	-	-
2000	-	-	-	-	-	-
	<u>\$ 217,575</u>	<u>\$ 271,600</u>	<u>\$ 83,368</u>	<u>\$ -</u>	<u>\$ (259,364)</u>	<u>\$ 313,179</u>

CITY OF PIKEVILLE, TENNESSEE
Governmental Funds
Schedule of Debt Service Requirements
June 30, 2009

CAPITAL OUTLAY NOTE - SERIES 2003
LANDFILL CLOSURE
ORIGINAL LOAN \$66,000 AT 3.003%

<u>Maturing</u> <u>June 30,</u> <u>2010</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Requirements</u>
	\$ 17,345	\$ 355	\$ 17,700
Total	<u>\$ 17,345</u>	<u>\$ 355</u>	<u>\$ 17,700</u>

CITY OF PIKEVILLE, TENNESSEE
Governmental Funds
Schedule of Debt Service Requirements
June 30, 2009

LANDFILL POST-CLOSURE LIABILITY - ESTIMATE

<u>Maturing June 30,</u>	<u>Total Requirements</u>
2010	\$ 1,227
2011	1,227
2012	1,227
2013	1,227
2014	1,227
2015	1,227
2016	1,227
2017	1,227
2018	1,227
2019	1,227
2020	1,227
2021	1,227
2022	1,227
2023	1,227
2024	1,227
2025	1,227
2026	1,227
2027	1,227
2028	1,227
2029	1,227
2030	1,227
2031	1,227
2032	1,227
2033	<u>1,227</u>
Total	<u>\$ 29,448</u>

CITY OF PIKEVILLE, TENNESSEE
Governmental Funds
Schedule of Debt Service Requirements
June 30, 2009

FORD MOTOR CREDIT COMPANY
CAPITAL LEASE #8626300

<u>Maturing</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Requirements</u>
2010	\$ 17,466	\$ 2,382	\$ 19,848
2011	<u>18,618</u>	<u>1,230</u>	<u>19,848</u>
Total	<u>\$ 36,084</u>	<u>\$ 3,612</u>	<u>\$ 39,696</u>

CITY OF PIKEVILLE, TENNESSEE
Water and Sewer Fund
Schedule of Debt Service Requirements
June 30, 2009

WATER AND SEWER TAX DEFICIENCY BONDS
SERIES 1969

<u>Maturing</u> <u>June 30,</u> <u>2010</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Requirements</u>
	\$ 2,000	\$ 95	\$ 2,095
Total	<u>\$ 2,000</u>	<u>\$ 95</u>	<u>\$ 2,095</u>

CITY OF PIKEVILLE, TENNESSEE
Water and Sewer Fund
Schedule of Debt Service Requirements
June 30, 2009

WATER AND SEWER REVENUE AND TAX
REFUNDING BONDS
SERIES 2002

<u>Maturing June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2010	\$ 75,000	\$ 3,937	\$ 78,937
2011	<u>35,000</u>	<u>1,312</u>	<u>36,312</u>
Total	<u>\$ 110,000</u>	<u>\$ 5,249</u>	<u>\$ 115,249</u>

CITY OF PIKEVILLE, TENNESSEE
Water and Sewer Fund
Schedule of Debt Service Requirements
June 30, 2009

UTILITY RELOCATION LOAN FROM
TENNESSEE DEPARTMENT OF TRANSPORTATION

<u>Maturing June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2010	\$ 36,268	\$ 5,299	\$ 41,567
2011	38,203	3,364	41,567
2012	40,242	1,325	41,567
2013	<u>4,805</u>	<u>15</u>	<u>4,820</u>
 Total	 <u>\$ 119,518</u>	 <u>\$ 10,003</u>	 <u>\$ 129,521</u>

CITY OF PIKEVILLE, TENNESSEE
Water and Sewer Fund
Schedule of Debt Service Requirements
June 30, 2009

CAPITAL OUTLAY NOTE
SERIES 2002

Maturing June 30,	Principal	Interest	Total Requirements
2010	\$ 13,221	\$ 3,781	\$ 17,002
2011	13,898	3,104	17,002
2012	14,609	2,393	17,002
2013	15,356	1,646	17,002
2014	<u>15,093</u>	<u>369</u>	<u>15,462</u>
Total	<u>\$ 72,177</u>	<u>\$ 11,293</u>	<u>\$ 83,470</u>

CITY OF PIKEVILLE, TENNESSEE
Water and Sewer Fund
Schedule of Debt Service Requirements
June 30, 2009

CAPITAL OUTLAY NOTE
SERIES 2007
ORIGINAL LOAN \$380,000 AT 3.68%

<u>Maturing June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2010	\$ 33,000	\$ 12,199	\$ 45,199
2011	35,000	10,948	45,948
2012	36,000	9,642	45,642
2013	37,000	8,298	45,298
2014	39,000	6,900	45,900
2015	40,000	5,446	45,446
2016	41,000	3,956	44,956
2017	43,000	2,410	45,410
2018	<u>44,000</u>	<u>810</u>	<u>44,810</u>
 Total	 <u>\$ 348,000</u>	 <u>\$ 60,609</u>	 <u>\$ 408,609</u>

CITY OF PIKEVILLE, TENNESSEE
Water and Sewer Fund
Schedule of Debt Service Requirements
June 30, 2009

CAPITAL OUTLAY NOTE
SERIES 2008 - WATER PLANT
ORIGINAL LOAN \$483,000 AT 4.375%

Maturing June 30,	Principal	Interest	Total Requirements
2010	\$ 5,455	\$ 20,693	\$ 26,148
2011	5,698	20,450	26,148
2012	5,952	20,196	26,148
2013	6,218	19,930	26,148
2014	6,496	19,652	26,148
2015	6,786	19,362	26,148
2016	7,089	19,059	26,148
2017	7,405	18,743	26,148
2018	7,736	18,412	26,148
2019	8,081	18,067	26,148
2020	8,442	17,706	26,148
2021	8,818	17,330	26,148
2022	9,212	16,936	26,148
2023	9,623	16,525	26,148
2024	10,053	16,095	26,148
2025	10,501	15,647	26,148
2026	10,970	15,178	26,148
2027	11,460	14,688	26,148
2028	11,971	14,177	26,148
2029	12,506	13,642	26,148
2030	13,064	13,084	26,148
2031	13,647	12,501	26,148
2032	14,256	11,892	26,148
2033	14,893	11,255	26,148
2034	15,558	10,590	26,148
2035	16,252	9,896	26,148
2036	16,978	9,170	26,148
2037	17,735	8,413	26,148
2038	18,527	7,621	26,148
2039	19,354	6,794	26,148
2040	20,218	5,930	26,148
2041	21,120	5,028	26,148
2042	22,063	4,085	26,148
2043	23,048	3,100	26,148
2044	24,077	2,071	26,148
2045	25,152	996	26,148
2046	7,432	65	7,497
Total	\$ 473,846	\$ 474,979	\$ 948,825

CITY OF PIKEVILLE, TENNESSEE
Water and Sewer Fund
Schedule of Debt Service Requirements
June 30, 2009

CAPITAL OUTLAY NOTE
SERIES 2008 - NORTH VALLEY
ORIGINAL LOAN \$1,042,700 AT 4.375%

Maturing June 30,	Principal	Interest	Total Requirements
2010	\$ 10,549	\$ 44,759	\$ 55,308
2011	11,020	44,288	55,308
2012	11,512	43,796	55,308
2013	12,026	43,282	55,308
2014	12,563	42,745	55,308
2015	13,124	42,184	55,308
2016	13,709	41,599	55,308
2017	14,321	40,987	55,308
2018	14,961	40,347	55,308
2019	15,629	39,679	55,308
2020	16,326	38,982	55,308
2021	17,055	38,253	55,308
2022	17,816	37,492	55,308
2023	18,612	36,696	55,308
2024	19,442	35,866	55,308
2025	20,310	34,998	55,308
2026	21,217	34,091	55,308
2027	22,164	33,144	55,308
2028	23,153	32,155	55,308
2029	24,187	31,121	55,308
2030	25,266	30,042	55,308
2031	26,394	28,914	55,308
2032	27,572	27,736	55,308
2033	28,803	26,505	55,308
2034	30,089	25,219	55,308
2035	31,432	23,876	55,308
2036	32,835	22,473	55,308
2037	34,301	21,007	55,308
2038	35,832	19,476	55,308
2039	37,431	17,877	55,308
2040	39,102	16,206	55,308
2041	40,848	14,460	55,308
2042	42,671	12,637	55,308
2043	44,576	10,732	55,308
2044	46,566	8,742	55,308
2045	48,644	6,664	55,308
2046	50,815	4,493	55,308
2047	53,084	2,224	55,308
2048	21,030	119	21,149
Total	<u>\$ 1,026,987</u>	<u>\$ 1,095,866</u>	<u>\$ 2,122,853</u>

CITY OF PIKEVILLE, TENNESSEE
Natural Gas Fund
Schedule of Debt Service Requirements
June 30, 2009

GAS SYSTEM REVENUE AND TAX BONDS
SERIES 2002 AT 3.25 TO 3.75%

Maturing June 30,	Principal	Interest	Total Requirements
2010	\$ 35,000	\$ 3,850	\$ 38,850
2011	35,000	2,625	37,625
2012	<u>35,000</u>	<u>1,313</u>	<u>36,313</u>
Total	<u>\$ 105,000</u>	<u>\$ 7,788</u>	<u>\$ 112,788</u>

CITY OF PIKEVILLE, TENNESSEE
Natural Gas Fund
Schedule of Debt Service Requirements
June 30, 2009

GAS SYSTEM REVENUE AND TAX BONDS
SERIES 2002 AT 3.25 TO 4.75%

Maturing June 30,	Principal	Interest	Total Requirements
2010	\$ 15,000	\$ 35,968	\$ 50,968
2011	15,000	35,424	50,424
2012	15,000	34,861	49,861
2013	55,000	33,480	88,480
2014	60,000	31,180	91,180
2015	60,000	28,780	88,780
2016	65,000	26,199	91,199
2017	65,000	23,436	88,436
2018	70,000	20,515	90,515
2019	75,000	17,325	92,325
2020	75,000	13,894	88,894
2021	80,000	10,213	90,213
2022	85,000	6,294	91,294
2023	90,000	4,275	94,275
Total	<u>\$ 825,000</u>	<u>\$ 321,844</u>	<u>\$ 1,146,844</u>

CITY OF PIKEVILLE, TENNESSEE
Proprietary Funds
Schedule of Operating Expenses
Year Ended June 30, 2009

	<u>Water and Sewer Fund</u>	<u>Natural Gas Fund</u>	<u>Totals</u>
OPERATING EXPENSES			
Purchased gas	\$ -	\$ 741,578	\$ 741,578
Transmission and distribution			
Salaries	201,875	52,891	254,766
Retirement	9,613	3,289	12,902
Repairs and maintenance	12,661	12,097	24,758
Operating supplies	5,467	964	6,431
Pipes, valves, fittings, etc.	27,516	-	27,516
Vehicle expense	15,200	1,307	16,507
Advertising	147	-	147
Utilities	108,308	509	108,817
Uniforms	-	225	225
Training	-	1,784	1,784
Telephone	3,720	-	3,720
Chemical treatment	19,426	-	19,426
Professional services	22,959	1,320	24,279
Contracted services	15,271	1,772	17,043
Equipment expenses	-	646	646
Total transmission and distribution	<u>442,163</u>	<u>76,804</u>	<u>518,967</u>
Sewer collection, treatment and disposal			
Salaries	91,730	-	91,730
Retirement	5,010	-	5,010
Repairs and maintenance	10,475	-	10,475
Operating supplies	16,153	-	16,153
Pipes, valves, fittings, etc.	6,466	-	6,466
Vehicle expense	5,994	-	5,994
Publicity and subscriptions	70	-	70
Utilities	40,328	-	40,328
Telephone	528	-	528
Professional services	3,719	-	3,719
Total sewer collection, treatment and disposal	<u>180,473</u>	<u>-</u>	<u>180,473</u>

(Continued)

CITY OF PIKEVILLE, TENNESSEE
Proprietary Funds
Schedule of Operating Expenses (Continued)
Year Ended June 30, 2009

	<u>Water and Sewer Fund</u>	<u>Natural Gas Fund</u>	<u>Totals</u>
OPERATING EXPENSES (Continued)			
Administration			
Salaries	\$ -	\$ 70,493	\$ 70,493
Travel	4,024	5,077	9,101
Office supplies	6,579	5,629	12,208
Insurance	94,267	73,575	167,842
Retirement	-	3,860	3,860
Payroll tax expense	21,711	7,550	29,261
Repairs and maintenance	862	-	862
Operating supplies	877	267	1,144
Advertising	5,397	4,820	10,217
Training	-	1,958	1,958
Telephone	-	2,245	2,245
Professional services	300	10,440	10,740
Auditing and legal	6,704	6,254	12,958
Contracted services	10,440	2,764	13,204
Equipment expenses	2,844	812	3,656
Rent	2,400	4,800	7,200
Bank charges	250	-	250
Total administration	<u>156,655</u>	<u>200,544</u>	<u>357,199</u>
Depreciation	<u>270,209</u>	<u>51,683</u>	<u>321,892</u>
Total operating expenses	<u>\$ 1,049,500</u>	<u>\$ 1,070,609</u>	<u>\$ 2,120,109</u>

CITY OF PIKEVILLE, TENNESSEE
Tax Rates and Assessed Valuation Applicable to Last Ten Years and
Uncollected Delinquent Accounts
June 30, 2009

<u>Year of Levy</u>	<u>Tax Rate Per \$100</u>	<u>Assessment</u>	<u>Levy</u>
2000	\$.48	\$27,666,573	\$132,791
2001	\$.48	\$27,170,416	\$130,418
2002	\$.48	\$27,164,792	\$130,391
2003	\$.48	\$27,291,667	\$131,000
2004	\$.75	\$24,873,560	\$186,570
2005	\$.66	\$28,333,333	\$187,000
2006	\$.66	\$28,873,636	\$190,566
2007	\$.66	\$28,567,121	\$188,543
2008	\$.66	\$41,161,818	\$271,668
2009	\$.85	\$31,952,941	\$271,600

UNCOLLECTED DELINQUENT ACCOUNTS

The City of Pikeville has filed delinquent taxes with the Bledsoe County Trustee for collection at June 30, 2009.

CITY OF PIKEVILLE, TENNESSEE
Schedule of Municipal Utility Rates and Number of Customers
June 30, 2009

WATER RATE SCHEDULE

	<u>Residential</u>	<u>Commercial</u>	<u>Outside City</u>
Water Rates: July 1, 2009			
First 2,000 Gals.	\$ 17.76 per month	\$ 20.42 per month	\$ 17.76 per month
2,001 to 12,000 Gals.	\$ 4.79 per M	\$ 6.07 per M	\$ 8.61 per M
12,001 Gals. And Over	\$ 4.48 per M	\$ 5.74 per M	\$ 5.74 per M

SEWER RATE IS 100% OF WATER RATE

GAS RATE SCHEDULE

Gas rate fluctuates on a monthly basis depending on the wholesale gas cost.

GARBAGE RATE SCHEDULE

\$12.95 per month

NUMBER OF CUSTOMERS

Water	1,489
Sewer	659
Garbage	677
Gas	998

CITY OF PIKEVILLE, TENNESSEE
Schedule of Insurance
June 30, 2009

INSURANCE COVERAGE

Amount

TML

Property and equipment (deductible \$1000 per occurrence)	\$9,609,777 - Blanket limit per occurrence
--	--

Comprehensive general liability
 General liability, personal injury liability,
 error or omissions, and automobile
 liability and physical damage

State Tort Limits:
 \$250,000 per person
 \$600,000 per occurrence
 \$85,000 per property
 \$1,000,000
 \$1,000,000

Each other non-state tort	\$1,000,000
Errors or omissions (deductible \$1,000)	\$1,000,000

Workers compensation	\$300,000 each accident \$300,000 each employee \$700,000 policy limit
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OLD REPUBLIC SURETY COMPANY

Treasurer	\$100,000
All other employees	\$5,000

AMERICAN ALTERNATIVE INSURANCE

Fire Department liability	\$1,000,000/\$3,000,000
Fire Department auto liability	\$1,000,000

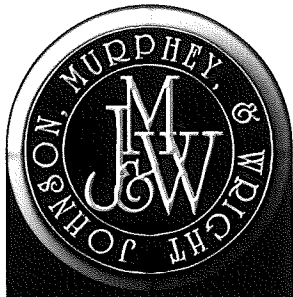
CITY OF PIKEVILLE, TENNESSEE
Schedule of Unaccounted for Water
June 30, 2009

(All amounts in gallons)

Water Treated and Purchased:		
Water pumped (potable)	169,158,000	
Water purchased	17,209,900	
Total Water Treated and Purchased		186,367,900
Accounted for Water:		
Water sold	82,728,600	
Metered for consumption (in house usage)	2,808,000	
Fire Department usage	128,500	
Flushing	371,520	
Tank cleaning/filling	7,680,000	
Street cleaning	3,600	
Bulk sales	26,400	
Water bill adjustments	1,907,000	
Total Accounted for Water		95,653,620
Unaccounted for Water		90,714,280
Percent Unaccounted for Water		48.675%
Other (explain)	0	
Explain Other:	n/a	

All amounts included in this schedule are supported by documentation on file at the water system. If no support is on file for a line item or if the line item is not applicable, a "0" is shown.

III. INTERNAL CONTROL AND COMPLIANCE SECTION



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

Mayor and Aldermen
City of Pikeville, Tennessee
Pikeville, Tennessee

We have audited the financial statements of the governmental activities, the business-type activities, the major fund and the aggregate remaining fund information of the City of Pikeville, Tennessee, as of and for the year ended June 30, 2009, and have issued our report thereon dated January 26, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses as 09-1 to be a material weakness.

Board of Mayor and Aldermen
City of Pikeville, Tennessee
Page Two

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Pikeville, Tennessee's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed two instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying Schedule of Findings and Responses as items 09-2 and 09-3.

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

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

Johnson, Murphy & Wright, P.C.

Chattanooga, Tennessee
January 26, 2010

CITY OF PIKEVILLE, TENNESSEE
Schedule of Findings and Responses
June 30, 2009

SUMMARY OF AUDIT RESULTS

Opinion:

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

Internal Control Deficiencies:

During the audit of the financial statements one significant deficiency in internal controls was disclosed, which also was considered in the aggregate to be a material weakness.

Material Noncompliance:

Two instances of noncompliance or other matters were disclosed.

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

INTERNAL CONTROL:

FINDING 09-1 - Accounting expertise (repeat finding 08-1)

Criteria:

SAS 112 and *Government Auditing Standards A.04(m.)* state in part that the lack of accounting personnel with “sufficient expertise” to properly select and implement proper accounting principles and controls, anti-fraud programs and controls, and controls over the year-end financial reporting process, including the actual preparation of year-end adjustments and financial statements is a “significant deficiency” and a strong indication of a “material weakness”.

Condition Found:

The City did not have accounting personnel on staff that had sufficient expertise as to the selection and implementation of proper accounting principles, anti-fraud programs or controls and they also did not have any accounting personnel on staff who were capable of preparing their own year-end adjustments and financial statements.

Recommendation:

The City should consider the risk benefits of continuing to allow the outside auditors to perform these services for them, versus hiring an internal auditor/CPA to perform the year-end financial reporting process and provide sufficient expertise to the selection of proper accounting principles and controls.

Management’s Response:

We concur. However, even though we are aware that we cannot theoretically rely on our outside CPA as a part of our system of internal controls anymore, we feel that this is still a very important and very reliable way to safeguard our assets and report the transactions of the City. In addition, we do not have the funds available at this time to hire a complete accounting staff.

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

COMPLIANCE:

FINDING 09-2 - Enterprise funds operating at a loss (repeat finding 08-2)

Criteria:

Tennessee Code Annotated Section 7-35-414 states in part that, "...Such rates and charges shall be adjusted so as to provide funds sufficient to pay all reasonable expenses of operation..."

Condition Found:

The Natural Gas Fund operated at a net loss of \$(50,574).

The Water and Sewer Fund operated at a net loss of \$(30,719).

Recommendation:

The City officials should closely monitor operating expenses and the rate restructuring in order to eliminate the net operating losses.

Management's Response:

We concur. We will more closely monitor expenses in the future.

FINDING 09-3 - Excessive water loss (repeat finding 08-4)

Criteria:

The *Uniform Accounting Manual for Tennessee Utility Districts*, Section 4-1, states, "Investigate unexplained fluctuations to ensure that users are billed with total consumption and that malfunctioning meters and leaks in lines and mains are located promptly and repaired." To increase effectiveness and efficiency, the City should locate and repair water leaks and malfunctioning meters.

Condition Found:

The Water and Sewer Fund experienced a 48.675% water loss.

Recommendation:

The City should make every effort through line testing and meter replacement to account for the water loss.

Managements Response:

We will make every effort to better account for our water losses in the future. We discovered several large losses already this year.

CITY OF PIKEVILLE, TENNESSEE
Schedule of Prior Audit Findings
June 30, 2009

Finding 08-1 - Accounting expertise

Still in effect.

Finding 08-2 - Enterprise funds operating at a loss

Still in effect.

Finding 08-3 - Expenditures exceeded budget

Corrected.

Finding 08-4 - Excessive water loss

Still in effect.