

**CITY OF PIKEVILLE, TENNESSEE**

**ANNUAL FINANCIAL REPORT**

**YEAR ENDED JUNE 30, 2011**

## I. INTRODUCTORY SECTION

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**CITY OF PIKEVILLE, TENNESSEE**  
**City Officials**  
**June 30, 2011**

Mayor ..... Greg Johnson

Alderman ..... Senia Anderson

Alderman ..... Reed Sells

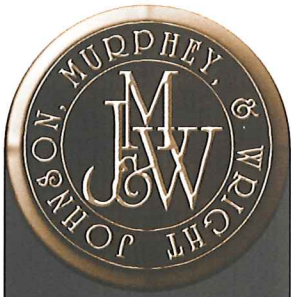
Alderman ..... Bill Swearingen

Alderman ..... Charles Young

City Recorder ..... Debra Barnett

City Attorney ..... Edward Boring

## II. FINANCIAL SECTION



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Accountants

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Marianne Greene, CPA

## 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, 2011, 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, 2011, 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 20, 2012, 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 51 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, 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 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, Murphree & Wright, P.C.*

Chattanooga, Tennessee  
January 20, 2012

## 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, 2011. 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, 2011, by \$10,309,546 (net assets). Of this amount, \$1,464,262 (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 deficit of \$(427,506). The City's business-type activities operated at a surplus of \$227,692.

As of the close of the current fiscal year, the City of Pikeville, Tennessee's governmental funds reported combined ending fund balances of \$274,581. Of that amount \$392 is restricted for use on investigations of drug related violations and drug prevention programs. Also, \$31 is assigned by the Mayor and Aldermen for future park improvements. The remaining 99.85%, or \$274,158, is available for spending at the City's discretion.

At the end of the current fiscal year, unassigned fund balance for the General Fund was \$274,158, or 21.25% 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 \$8,746,802. Of that balance, \$1,187,212, or 13.57%, is unrestricted. \$7,559,590, or 86.43%, 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 two 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 governmental fund is presented 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 50 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 \$10,309,546 at the close of this fiscal year.

The largest portion of the City of Pikeville, Tennessee's net assets (85.79%) 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 0.01%, or \$392, represents resources that are subject to external restrictions on how they may be used. The remaining 14.20% 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 \$31 of unrestricted net assets.

At June 30, 2011, 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>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Current and other assets	\$ 643,268	\$ 937,480	\$ 1,374,232	\$ 1,690,933	\$ 2,017,500	\$ 2,628,413
Capital assets	<u>2,757,488</u>	<u>2,864,484</u>	<u>10,204,552</u>	<u>9,779,821</u>	<u>12,962,040</u>	<u>12,644,305</u>
Total assets	<u>\$3,400,756</u>	<u>\$3,801,964</u>	<u>\$11,578,784</u>	<u>\$ 11,470,754</u>	<u>\$14,979,540</u>	<u>\$15,272,718</u>
Non-current liabilities	\$ 1,481,706	\$ 1,528,770	\$ 2,682,546	\$ 2,867,330	\$ 4,164,252	\$ 4,396,100
Other liabilities	<u>356,306</u>	<u>282,944</u>	<u>149,436</u>	<u>84,314</u>	<u>505,742</u>	<u>367,258</u>
Total liabilities	<u>\$1,838,012</u>	<u>\$1,811,714</u>	<u>\$ 2,831,982</u>	<u>\$ 2,951,644</u>	<u>\$ 4,669,994</u>	<u>\$ 4,763,358</u>
Net assets:						
Invested in capital assets - net of related debt	\$ 1,285,302	\$ 1,343,848	\$ 7,559,590	\$ 6,955,272	\$ 8,844,892	\$ 8,299,120
Restricted	392	1,230	-	-	392	1,230
Unrestricted	<u>277,050</u>	<u>645,172</u>	<u>1,187,212</u>	<u>1,563,838</u>	<u>1,464,262</u>	<u>2,209,010</u>
Total net assets	<u>\$1,562,744</u>	<u>\$1,990,250</u>	<u>\$ 8,746,802</u>	<u>\$ 8,519,110</u>	<u>\$10,309,546</u>	<u>\$10,509,360</u>

**Changes in Net Assets**

Governmental activities decreased the City's net assets by \$(427,506), while business-type activities increased the City's net assets by \$227,692. 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.



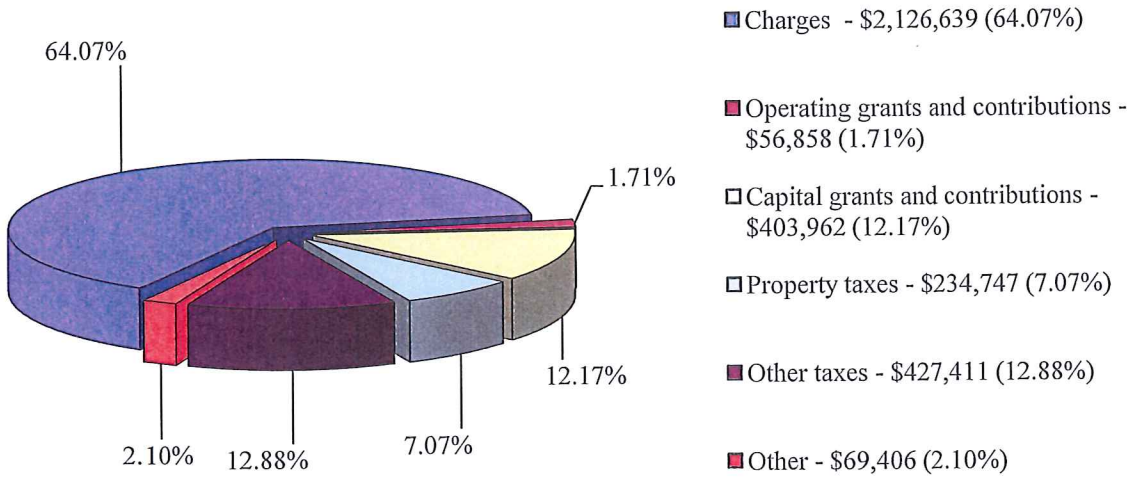
The table below provides a summary of the City's net assets broken down by governmental and business-type activities.

**City of Pikeville, Tennessee's Changes in Net Assets**

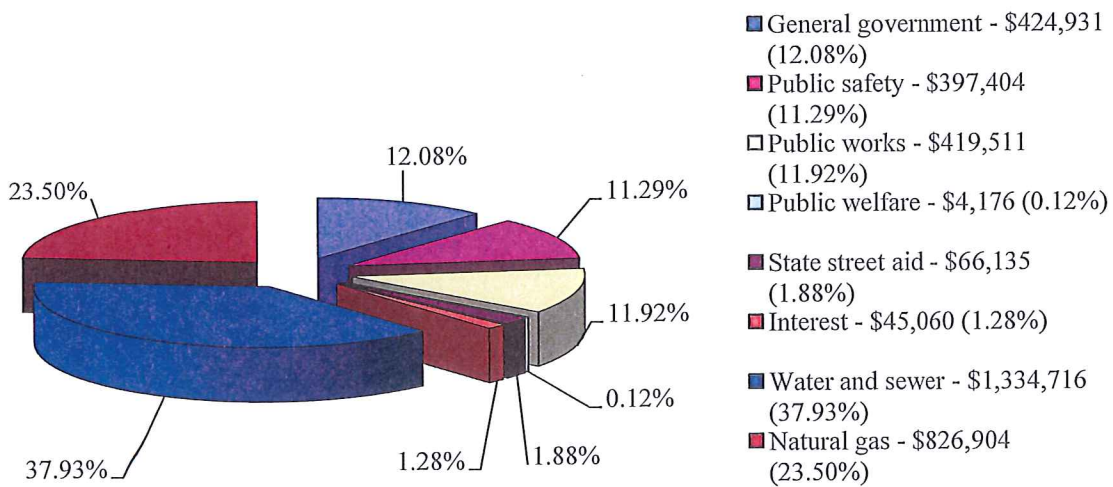
	Governmental Activities		Business-type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for services	\$ 162,959	\$ 267,245	\$ 1,963,680	\$ 1,980,871	\$ 2,126,639	\$ 2,248,116
Operating grants and contributions	56,858	56,531	-	-	56,858	56,531
Capital grants and contributions	14,422	3,815	389,540	-	403,962	3,815
General revenues:						
Property taxes	234,747	252,922	-	-	234,747	252,922
Other taxes	427,411	448,970	-	-	427,411	448,970
Other income	33,314	42,310	36,092	47,400	69,406	89,710
Total revenues	<u>929,711</u>	<u>1,071,793</u>	<u>2,389,312</u>	<u>2,028,271</u>	<u>3,319,023</u>	<u>3,100,064</u>
Expenses:						
General government	424,931	362,566	-	-	424,931	362,566
Public safety	397,404	308,984	-	-	397,404	308,984
Public works	419,511	316,241	-	-	419,511	316,241
Public welfare	4,176	7,959	-	-	4,176	7,959
State street aid	66,135	52,789	-	-	66,135	52,789
Interest on long-term debt	45,060	-	-	-	45,060	-
Water and sewer	-	-	1,334,716	1,247,064	1,334,716	1,247,064
Natural gas	-	-	826,904	905,344	826,904	905,344
Total expenses	<u>1,357,217</u>	<u>1,048,539</u>	<u>2,161,620</u>	<u>2,152,408</u>	<u>3,518,837</u>	<u>3,200,947</u>
Change in net assets	( 427,506)	23,254	227,692	( 124,137)	( 199,814)	( 100,883)
Net assets - beginning	<u>1,990,250</u>	<u>1,966,996</u>	<u>8,519,110</u>	<u>8,643,247</u>	<u>10,509,360</u>	<u>10,610,243</u>
Net assets - end	<u>\$ 1,562,744</u>	<u>\$ 1,990,250</u>	<u>\$ 8,746,802</u>	<u>\$ 8,519,110</u>	<u>\$ 10,309,546</u>	<u>\$ 10,509,360</u>

The graphs below summarize the \$3,319,023 of city-wide revenues by source, and the associated \$3,518,837 of expense by program. The graph combines data from both governmental and business-type activities.

### City-Wide Sources of Revenue



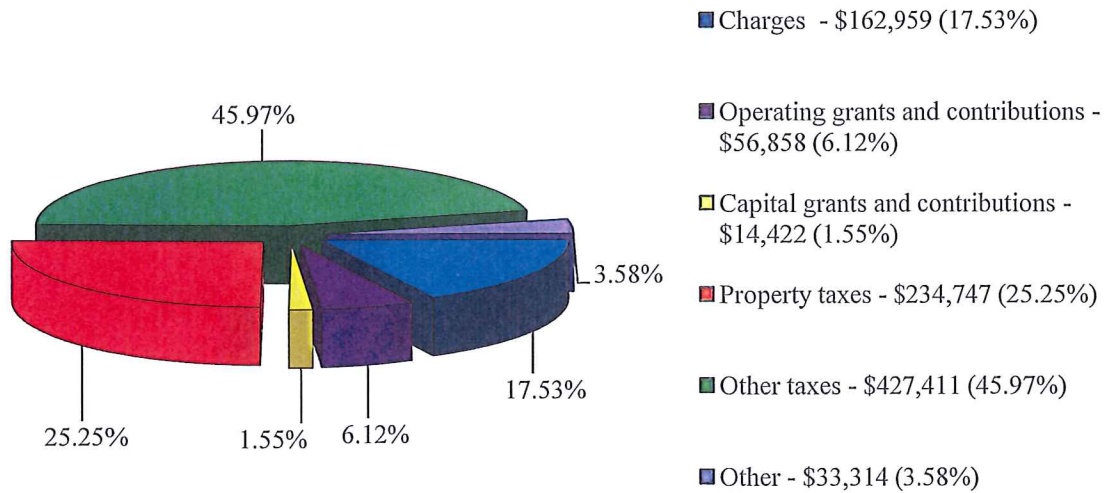
### City-Wide Program Expenses



**Governmental Activities**

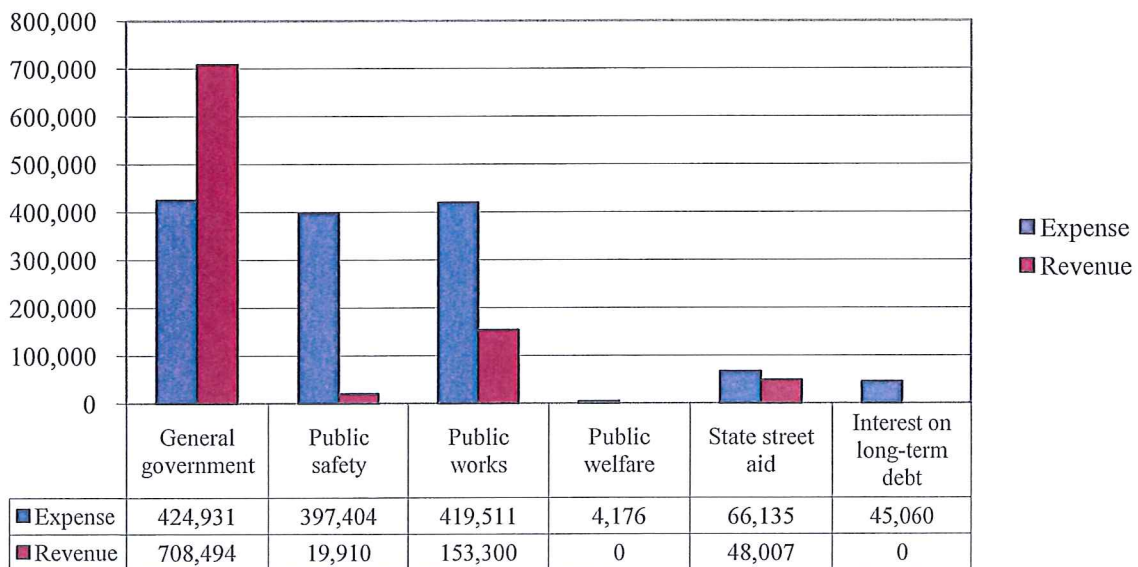
Governmental activities accounted for revenues of \$929,711. The following graph summarizes the revenue by source.

**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.

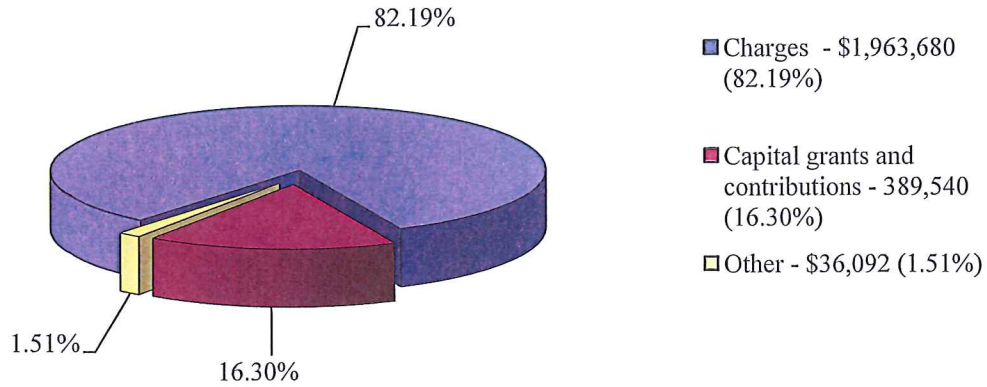
**Expenses and Program Revenues -  
Governmental Activities**



**Business-type activities**

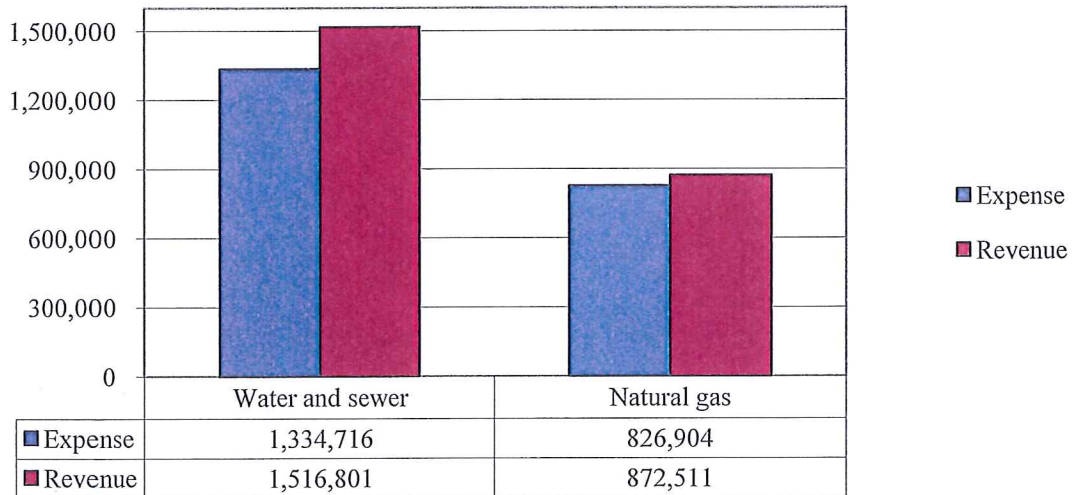
Business-type activities accounted for revenues of \$2,389,312. The following graph summarizes the revenue by source.

**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 unassigned fund balance may serve as a useful measure of a government's net resources available at the end of the fiscal year for future unforeseen emergencies.

As of the end of the current fiscal year, the City of Pikeville, Tennessee's governmental funds reported combined ending fund balances of \$274,581. Approximately 99.85% of this total amount, \$274,158, constitutes unassigned fund balance. The Mayor and Aldermen have assigned \$31 for future park improvements. Also, \$392 is restricted in the Drug Fund.

The General Fund is the chief operating fund of the City of Pikeville, Tennessee. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$274,158. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance to total General Fund expenditures. Unassigned fund balance represents 21.25% 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 \$245,720 for the Water and Sewer Fund and \$941,492 for the Natural Gas Fund.

### **General Fund Budgetary Highlights**

Differences between the original budget and the final amended budget were approximately \$142,700, and are listed below:

General Fund budgeted revenues increased \$165,000.

General Fund budgeted expenditures increased \$22,300.

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

## CAPITAL ASSET AND DEBT ADMINISTRATION

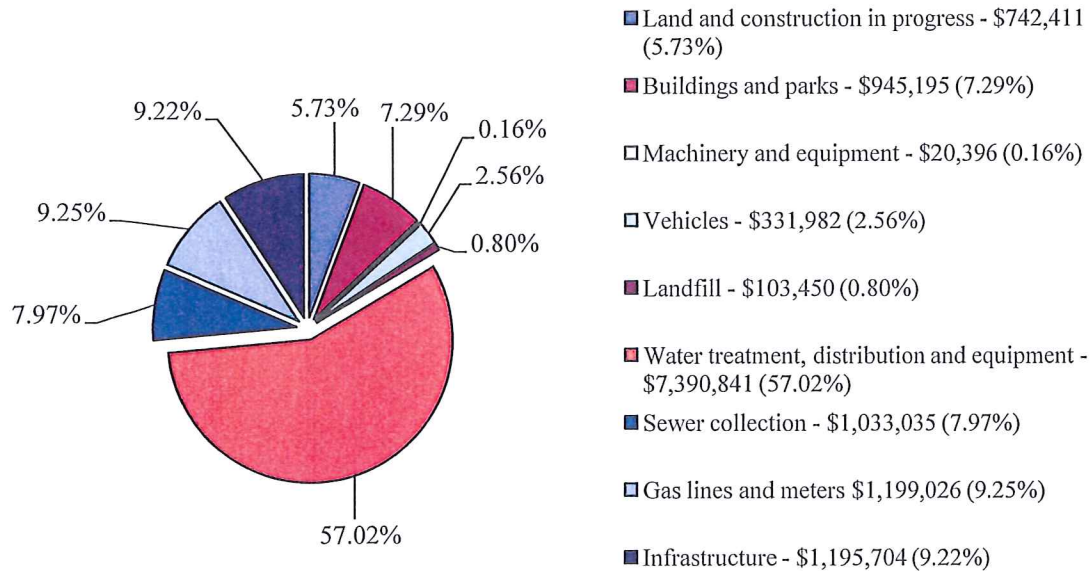
The table below summarizes the City's investment in capital assets and is broken down by governmental and business-type activities.

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

	Governmental Activities	Business-type Activities	Total
Land and construction in progress	\$ 160,761	\$ 581,650	\$ 742,411
Buildings and parks	945,195	-	945,195
Machinery and equipment	20,396	-	20,396
Vehicles	331,982	-	331,982
Landfill	103,450	-	103,450
Water treatment and distribution and equipment	-	7,390,841	7,390,841
Sewer collection and treatment	-	1,033,035	1,033,035
Gas lines and meters	-	1,199,026	1,199,026
Infrastructure	<u>1,195,704</u>	<u>-</u>	<u>1,195,704</u>
Total capital assets	<u>\$ 2,757,488</u>	<u>\$ 10,204,552</u>	<u>\$ 12,962,040</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 6 on page 39.



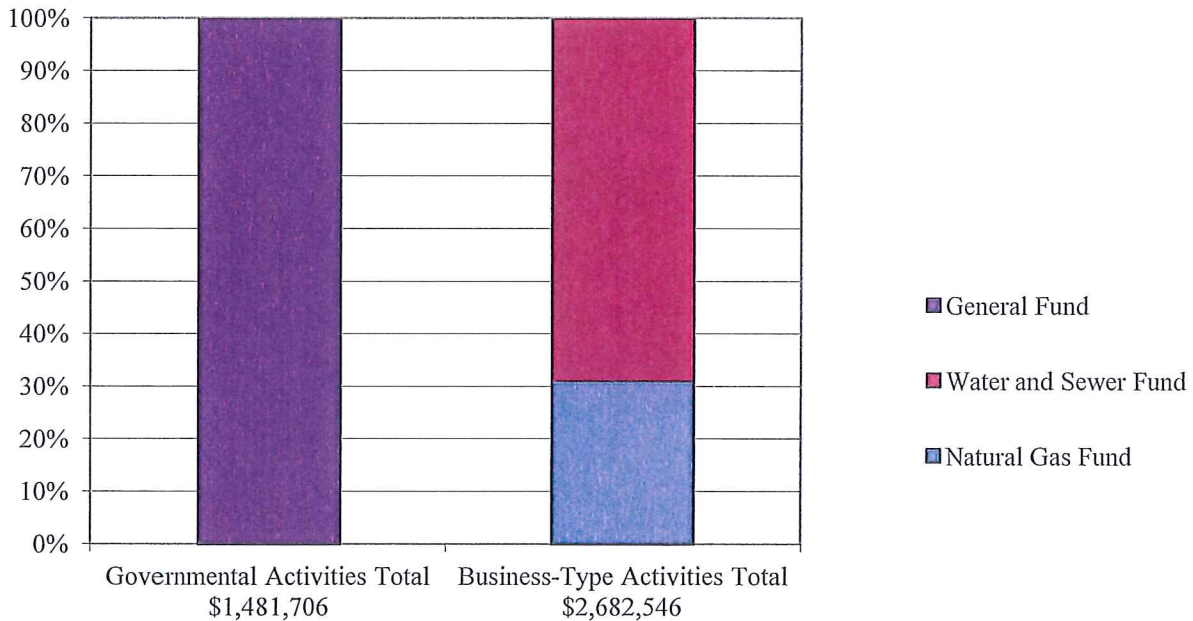
### City of Pikeville, Tennessee's Outstanding Debt

At the end of the current fiscal year, the City of Pikeville, Tennessee had total long-term debt outstanding of \$4,164,252. Of that amount, \$688,542 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	\$ 1,446,419	\$ 830,000	\$ 2,276,419
Capital outlay notes	-	1,839,708	1,839,708
Landfill post-closure costs	25,767	-	25,767
Compensated absences	9,520	12,838	22,358
	1,481,706	2,682,546	4,164,252
Less current portion	( 530,227)	( 158,315)	( 688,542)
<b>Total long-term debt</b>	<b>\$ 951,479</b>	<b>\$ 2,524,231</b>	<b>\$ 3,475,710</b>

As shown in the graph below, 100.00% of governmental activities debt is related to the General Fund. Business-type debt can be attributed approximately 69.01% to the Water and Sewer Fund and 30.99% 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 \$7.2 million from the Department of Corrections for providing water to the Bledsoe County Corrections Complex. The City should also receive a \$500,000 ARC grant. It is possible that the City could receive a \$250,000 THDA grant and a \$500,000 CDBG grant.

It is also in the City's plans to upgrade the Water Treatment Plant and well #5. The City would also add two new wells to the water system.

**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, 2011**

	Primary Government		
	Governmental Activities	Business- type Activities	Total
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash	\$ 178,366	\$ 633,350	\$ 811,716
Investments	100,000	500,031	600,031
Accounts receivable - net	80,736	186,281	267,017
Property taxes receivable - net	274,350	-	274,350
Internal balances	9,816	(9,816)	-
Inventory	-	39,640	39,640
Other assets:			
Bond issue costs - net	-	24,746	24,746
Capital assets:			
Land and rights	160,761	581,650	742,411
Other capital assets -			
Other capital assets - net of accumulated depreciation	<u>2,596,727</u>	<u>9,622,902</u>	<u>12,219,629</u>
<b>TOTAL ASSETS</b>	<u>\$ 3,400,756</u>	<u>\$ 11,578,784</u>	<u>\$ 14,979,540</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 87,976	\$ 92,253	\$ 180,229
Accrued liabilities	9,523	21,860	31,383
Accrued interest payable	-	4,716	4,716
Due to other governments	3,107	-	3,107
Deferred revenue - property taxes	255,700	-	255,700
Customer deposits	-	30,607	30,607
Non-current liabilities:			
Due within one year:			
Bonds payable	529,000	50,000	579,000
Note payable	-	108,315	108,315
Landfill post-closure cost	1,227	-	1,227
Due in more than one year:			
Bonds payable	917,419	780,000	1,697,419
Notes payable	-	1,731,393	1,731,393
Landfill post-closure cost	24,540	-	24,540
Compensated absences	<u>9,520</u>	<u>12,838</u>	<u>22,358</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 1,838,012</u>	<u>\$ 2,831,982</u>	<u>\$ 4,669,994</u>
<b>NET ASSETS</b>			
Invested in capital assets - net of related debt	\$ 1,285,302	\$ 7,559,590	\$ 8,844,892
Restricted for:			
Non-recurring police expenditures	392	-	392
Unrestricted:			
Designated	31	-	31
Undesignated	<u>277,019</u>	<u>1,187,212</u>	<u>1,464,231</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 1,562,744</u>	<u>\$ 8,746,802</u>	<u>\$ 10,309,546</u>

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



**CITY OF PIKEVILLE, TENNESSEE**  
**Governmental Funds**  
**Balance Sheet**  
**June 30, 2011**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash	\$ 177,964	\$ 392	\$ 178,356
Investments	100,000	-	100,000
Restricted assets	10	-	10
Accounts receivable - net	80,736	-	80,736
Property tax receivable - net	274,350	-	274,350
Due from other funds	<u>9,816</u>	<u>-</u>	<u>9,816</u>
<b>TOTAL ASSETS</b>	<u>\$ 642,876</u>	<u>\$ 392</u>	<u>\$ 643,268</u>
 <b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities</b>			
Accounts payable	\$ 87,976	\$ -	\$ 87,976
Accrued liabilities	9,523	-	9,523
Due to other governments	3,107	-	3,107
Deferred revenue - property taxes	<u>268,081</u>	<u>-</u>	<u>268,081</u>
Total liabilities	<u>368,687</u>	<u>-</u>	<u>368,687</u>
 <b>Fund Balances</b>			
Restricted	-	392	392
Assigned	31	-	31
Unassigned	<u>274,158</u>	<u>-</u>	<u>274,158</u>
Total fund balances	<u>274,189</u>	<u>392</u>	<u>274,581</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 642,876</u>	<u>\$ 392</u>	<u>\$ 643,268</u>

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, 2011**

Total fund balances per governmental funds Balance Sheet	\$ 274,581
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	2,757,488
Long-term liabilities, including notes payable, landfill post-closure costs, bonds payable and compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.	(1,481,706)
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>12,381</u>
Net assets of governmental activities	<u>\$ 1,562,744</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, 2011**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Taxes	\$ 510,560	\$ -	\$ 510,560
Licenses and permits	1,000	-	1,000
Intergovernmental	243,245	-	243,245
Charges for services	126,549	-	126,549
Fines and forfeitures	9,739	962	10,701
Other revenue	<u>38,384</u>	<u>-</u>	<u>38,384</u>
<b>TOTAL REVENUES</b>	<u>929,477</u>	<u>962</u>	<u>930,439</u>
<b>EXPENDITURES</b>			
<b>Current expenditures</b>			
General government	349,106	-	349,106
Public safety	280,698	1,800	282,498
Public works	386,499	-	386,499
Public welfare	4,176	-	4,176
State street aid	66,290	-	66,290
<b>Capital outlay</b>	<u>203,502</u>	<u>-</u>	<u>203,502</u>
<b>TOTAL EXPENDITURES</b>	<u>1,290,271</u>	<u>1,800</u>	<u>1,292,071</u>
Net changes in fund balances	(360,794)	(838)	(361,632)
<b>Fund balances - beginning</b>	<u>634,983</u>	<u>1,230</u>	<u>636,213</u>
<b>Fund balances - end</b>	<u>\$ 274,189</u>	<u>\$ 392</u>	<u>\$ 274,581</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, 2011**

Net change in fund balances for total governmental funds	\$ (361,632)
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 depreciation exceeds capital outlay in the current period.	(106,996)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	(5,942)
Repayment of long-term debt is reported as an expenditure on governmental funds, but reduces long-term liabilities on the Statement of Net Assets.	48,450
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:	
Compensated absences	<u>(1,386)</u>
Change in net assets of governmental activities	<u>\$ (427,506)</u>

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, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable (Unfavorable)</u>
<b>REVENUES</b>				
<b>Taxes</b>				
Real property	\$ 265,000	\$ 265,000	\$ 240,690	\$ (24,310)
Minimum business	13,750	13,750	13,292	(458)
Local sales	170,000	170,000	179,140	9,140
Local beer	80,000	80,000	77,438	(2,562)
Total taxes	<u>528,750</u>	<u>528,750</u>	<u>510,560</u>	<u>(18,190)</u>
<b>Licenses and permits</b>				
Privilege licenses	<u>1,250</u>	<u>1,250</u>	<u>1,000</u>	<u>(250)</u>
<b>Intergovernmental</b>				
State shared				
State street aid	55,000	55,000	48,007	(6,993)
Sales tax	110,000	110,000	119,614	9,614
Beer tax	1,000	1,000	929	(71)
Income tax	7,500	7,500	5,545	(1,955)
Street and transportation	2,000	2,000	3,779	1,779
Excise tax	12,000	12,000	9,635	(2,365)
Other	2,000	2,000	1,200	(800)
TVA replacement	20,000	20,000	20,368	368
Federal and state grants	<u>1,017,000</u>	<u>1,182,000</u>	<u>34,168</u>	<u>(1,147,832)</u>
Total intergovernmental	<u>1,226,500</u>	<u>1,391,500</u>	<u>243,245</u>	<u>(1,148,255)</u>
<b>Charges for services</b>				
Garbage fees	133,000	133,000	119,349	(13,651)
Rent	<u>7,200</u>	<u>7,200</u>	<u>7,200</u>	<u>-</u>
Total charges for services	<u>140,200</u>	<u>140,200</u>	<u>126,549</u>	<u>(13,651)</u>
<b>Fines and forfeitures</b>				
Court fines	<u>17,000</u>	<u>17,000</u>	<u>9,739</u>	<u>(7,261)</u>
<b>Other revenue</b>				
Miscellaneous	70,250	70,250	18,958	(51,292)
Interest	5,100	5,100	3,465	(1,635)
Cable TV franchise	6,200	6,200	6,667	467
Contributions	<u>5,000</u>	<u>5,000</u>	<u>9,294</u>	<u>4,294</u>
Total other revenue	<u>86,550</u>	<u>86,550</u>	<u>38,384</u>	<u>(48,166)</u>
<b>TOTAL REVENUES</b>	<u>2,000,250</u>	<u>2,165,250</u>	<u>929,477</u>	<u>(1,235,773)</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, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable (Unfavorable)</u>
<b>EXPENDITURES</b>				
<b>Current expenditures</b>				
<b>General government</b>				
Financial administration				
Salaries	\$ 93,300	\$ 94,350	\$ 92,214	\$ 2,136
Payroll tax	20,000	20,450	18,164	2,286
Employee benefits	83,900	96,250	95,648	602
Advertising	13,750	13,750	5,869	7,881
Auditing and legal services	24,000	24,000	23,641	359
Contracted and professional services	20,250	17,600	16,541	1,059
Donations	567,250	567,250	132	567,118
Insurance	45,000	45,000	38,242	6,758
Office supplies	3,500	3,500	3,087	413
Operating supplies	2,500	2,500	511	1,989
Repairs and maintenance	2,000	2,000	153	1,847
Telephone	6,000	6,000	5,833	167
Travel	20,000	20,000	23,837	(3,837)
Utilities	11,800	14,300	13,234	1,066
Total financial administration	<u>913,250</u>	<u>926,950</u>	<u>337,106</u>	<u>589,844</u>
Judicial				
Salaries	<u>12,300</u>	<u>12,550</u>	<u>12,000</u>	<u>550</u>
Total general government	<u>925,550</u>	<u>939,500</u>	<u>349,106</u>	<u>590,394</u>
<b>Public safety</b>				
Police department				
Salaries	138,375	151,500	150,875	625
Payroll tax	-	2,000	5,327	(3,327)
Employee benefits	6,150	6,150	6,201	(51)
Advertising	1,000	1,000	421	579
Contracted services	2,000	2,000	210	1,790
Office supplies	2,000	2,000	7,272	(5,272)
Operating supplies	3,500	3,500	3,529	(29)
Repairs and maintenance	7,750	7,750	11,751	(4,001)
Telephone	3,000	3,000	3,198	(198)
Training	500	500	2,500	(2,000)
Travel	2,500	2,500	1,406	1,094
Uniforms	2,000	2,000	4,216	(2,216)
Utilities	2,500	2,500	2,199	301
Vehicle	10,000	10,000	17,682	(7,682)
Total police department	<u>181,275</u>	<u>196,400</u>	<u>216,787</u>	<u>(20,387)</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, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable</u> <u>(Unfavorable)</u>
<b>EXPENDITURES (Continued)</b>				
<b>Current expenditures (Continued)</b>				
<b>Public safety (Continued)</b>				
Custody of property				
Vehicle expense	\$ 500	\$ 500	\$ 150	\$ 350
Fire department				
Salaries	500	500	500	-
Advertising	1,000	1,000	810	190
Contracted services	3,000	3,000	2,601	399
Grant expenses	-	35,000	24,959	10,041
Operating supplies	10,000	10,000	9,419	581
Rent	1,700	1,700	1,700	-
Repairs and maintenance	5,500	5,500	5,157	343
Telephone	2,800	2,800	2,577	223
Training	5,000	5,000	5,586	(586)
Travel	2,000	2,000	1,955	45
Uniforms	1,000	1,000	2,291	(1,291)
Utilities	6,500	6,500	5,100	1,400
Vehicle	1,000	1,000	1,106	(106)
Total fire department	<u>40,000</u>	<u>75,000</u>	<u>63,761</u>	<u>11,239</u>
Total public safety	<u>221,775</u>	<u>271,900</u>	<u>280,698</u>	<u>(8,798)</u>
<b>Public works</b>				
Street department				
Salaries	13,325	13,325	616	12,709
Advertising	-	-	41	(41)
Contracted services	12,000	55,500	128,887	(73,387)
Materials	194,000	140,000	135,292	4,708
Operating supplies	7,500	10,500	11,073	(573)
Repairs and maintenance	4,500	4,500	5,250	(750)
Vehicle expense	6,500	9,500	9,307	193
Total street department	<u>237,825</u>	<u>233,325</u>	<u>290,466</u>	<u>(57,141)</u>
Sanitation department				
Contracted services	93,000	125,000	92,405	32,595
Contract services - landfill	16,000	6,870	3,628	3,242
Total sanitation department	<u>109,000</u>	<u>131,870</u>	<u>96,033</u>	<u>35,837</u>
Total public works	<u>346,825</u>	<u>365,195</u>	<u>386,499</u>	<u>(21,304)</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, 2011**

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
<b>EXPENDITURES (Continued)</b>				
<b>Current expenditures (Continued)</b>				
<b>Public welfare</b>				
Parks and culture				
Contracted services	\$ 28,000	\$ 28,000	\$ 174	\$ 27,826
Culture	-	3,700	3,827	(127)
Repairs and maintenance	1,000	1,000	175	825
Total public welfare	29,000	32,700	4,176	28,524
<b>State street aid</b>				
Salaries	30,750	37,000	36,505	495
Payroll tax	-	-	1,256	(1,256)
Employee benefits	2,050	2,050	2,005	45
Electricity - street lights	26,000	26,000	26,524	(524)
Total state street aid	58,800	65,050	66,290	(1,240)
<b>Capital outlay</b>				
Administrative	1,500	21,500	19,132	2,368
Police department	62,000	62,000	27,347	34,653
Fire department	154,000	55,375	4,417	50,958
Street department	322,000	320,500	152,606	167,894
Total capital outlay	539,500	459,375	203,502	255,873
<b>Debt service</b>				
Principal paid	20,000	28,230	-	28,230
Interest	1,500	3,300	-	3,300
Total debt service	21,500	31,530	-	31,530
<b>TOTAL EXPENDITURES</b>	2,142,950	2,165,250	1,290,271	874,979
Net changes in fund balances	(142,700)	-	(360,794)	(360,794)
<b>Fund balances - beginning - as restated</b>	634,983	634,983	634,983	-
<b>Fund balances - end</b>	\$ 492,283	\$ 634,983	\$ 274,189	\$ (360,794)

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

**CITY OF PIKEVILLE, TENNESSEE**  
**Proprietary Funds**  
**Statement of Net Assets**  
**June 30, 2011**

	Enterprise		Totals
	Water and Sewer Fund	Natural Gas Fund	
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash	\$ 193,737	\$ 439,613	\$ 633,350
Investments	-	500,031	500,031
Accounts receivable - net	186,281	-	186,281
Due from other fund	-	27,536	27,536
Inventory	21,671	17,969	39,640
Total current assets	<u>401,689</u>	<u>985,149</u>	<u>1,386,838</u>
<b>Non-current Assets</b>			
Other assets			
Bond issue costs - net	<u>1,108</u>	<u>23,638</u>	<u>24,746</u>
Capital assets			
Land and rights and construction in progress	570,512	11,138	581,650
Other capital assets - net of accumulated depreciation	<u>8,423,874</u>	<u>1,199,028</u>	<u>9,622,902</u>
Total capital assets	<u>8,994,386</u>	<u>1,210,166</u>	<u>10,204,552</u>
Total non-current assets	<u>8,995,494</u>	<u>1,233,804</u>	<u>10,229,298</u>
<b>TOTAL ASSETS</b>	<u>\$ 9,397,183</u>	<u>\$ 2,218,953</u>	<u>\$ 11,616,136</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable	\$ 76,963	\$ 15,290	\$ 92,253
Accrued liabilities	16,171	5,689	21,860
Accrued interest payable	1,701	3,015	4,716
Due to other fund	37,352	-	37,352
Current maturities of long-term debt	<u>108,315</u>	<u>50,000</u>	<u>158,315</u>
Total current liabilities	<u>240,502</u>	<u>73,994</u>	<u>314,496</u>
<b>Other liabilities</b>			
Customers deposits	<u>12,312</u>	<u>18,295</u>	<u>30,607</u>
<b>Non-current liabilities</b>			
Revenue bonds payable - due after one year	-	780,000	780,000
Capital outlay note payable - due after one year	1,731,393	-	1,731,393
Compensated absences	<u>11,470</u>	<u>1,368</u>	<u>12,838</u>
Total non-current liabilities	<u>1,742,863</u>	<u>781,368</u>	<u>2,524,231</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 1,995,677</u>	<u>\$ 873,657</u>	<u>\$ 2,869,334</u>
<b>NET ASSETS</b>			
Invested in capital assets - net of related debt	\$ 7,155,786	\$ 403,804	\$ 7,559,590
Unrestricted	<u>245,720</u>	<u>941,492</u>	<u>1,187,212</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 7,401,506</u>	<u>\$ 1,345,296</u>	<u>\$ 8,746,802</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, 2011**

	<b>Enterprise</b>		<b>Total</b>
	<b>Water and Sewer Fund</b>	<b>Natural Gas Fund</b>	
<b>OPERATING REVENUES</b>			
Charges for services	\$ 1,060,450	\$ 840,019	\$ 1,900,469
Customer penalties	31,032	-	31,032
Connection fees	18,942	11,958	30,900
Other operating	-	1,279	1,279
Total operating revenues	<u>1,110,424</u>	<u>853,256</u>	<u>1,963,680</u>
<b>OPERATING EXPENSES</b>			
Purchased gas	-	420,496	420,496
Transmission and distribution	528,164	95,866	624,030
Sewer collection, treatment and disposal	245,014	-	245,014
Administration	181,616	220,053	401,669
Depreciation	290,229	49,968	340,197
Total operating expenses	<u>1,245,023</u>	<u>786,383</u>	<u>2,031,406</u>
Operating income (loss)	<u>(134,599)</u>	<u>66,873</u>	<u>(67,726)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Interest revenue	7,832	18,350	26,182
Intergovernmental	389,540	-	389,540
Miscellaneous revenue	9,005	905	9,910
Interest and amortization expense	(89,693)	(40,521)	(130,214)
Total non-operating revenues (expenses)	<u>316,684</u>	<u>(21,266)</u>	<u>295,418</u>
Changes in net assets	182,085	45,607	227,692
Net assets - beginning	<u>7,219,421</u>	<u>1,299,689</u>	<u>8,519,110</u>
Net assets - end	<u>\$ 7,401,506</u>	<u>\$ 1,345,296</u>	<u>\$ 8,746,802</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, 2011**

	<b>Enterprise</b>		<b>Totals</b>
	<b>Water and Sewer Fund</b>	<b>Natural Gas Fund</b>	
<b>Cash Flows from Operating Activities</b>			
Receipts from customers and users	\$ 1,080,406	\$ 853,256	\$ 1,933,662
Payments to suppliers	(565,580)	(598,752)	(1,164,332)
Payments to employees	(320,041)	(128,022)	(448,063)
Net cash provided (used) by operating activities	<u>194,785</u>	<u>126,482</u>	<u>321,267</u>
<b>Cash Flows from Non-capital Financing Activities</b>			
Miscellaneous revenue	<u>9,005</u>	<u>905</u>	<u>9,910</u>
Net cash provided (used) by non-capital financing activities	<u>9,005</u>	<u>905</u>	<u>9,910</u>
<b>Cash Flows from Capital and Related Financing Activities</b>			
Proceeds of capital grants	389,540	-	389,540
Principal paid on long-term debt	(135,089)	(50,000)	(185,089)
Interest paid on long-term debt	(87,961)	(37,392)	(125,353)
Acquisition and construction of capital assets	(764,928)	-	(764,928)
Net cash provided (used) by capital and related financing activities	<u>(598,438)</u>	<u>(87,392)</u>	<u>(685,830)</u>
<b>Cash Flows from Investing Activities</b>			
Proceeds from the sale of investments	400,000	-	400,000
Interest payments received	7,832	18,350	26,182
Purchase of investments	-	(13,388)	(13,388)
Net cash provided (used) by investing activities	<u>407,832</u>	<u>4,962</u>	<u>412,794</u>
Net increase (decrease) in cash	13,184	44,957	58,141
Cash - beginning	<u>180,553</u>	<u>394,656</u>	<u>575,209</u>
Cash - end	<u>\$ 193,737</u>	<u>\$ 439,613</u>	<u>\$ 633,350</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>			
Operating income (loss)	<u>\$ (134,599)</u>	<u>\$ 66,873</u>	<u>\$ (67,726)</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	290,229	49,968	340,197
(Increase) decrease in accounts receivable	(30,018)	-	(30,018)
(Increase) decrease in due from other funds	-	2,030	2,030
(Increase) decrease in inventories	(844)	2,943	2,099
Increase (decrease) in accounts payable	67,847	5,611	73,458
Increase (decrease) in accrued liabilities	(7,703)	703	(7,000)
Increase (decrease) in due to other funds	8,617	-	8,617
Increase (decrease) in customer deposits	(260)	(435)	(695)
Increase (decrease) in compensated absences	1,516	(1,211)	305
Total adjustments	<u>329,384</u>	<u>59,609</u>	<u>388,993</u>
Net cash provided (used) by operating activities	<u>\$ 194,785</u>	<u>\$ 126,482</u>	<u>\$ 321,267</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, 2011**

	<b>Industrial Board Agency Fund</b>
<b>ASSETS</b>	
Cash	\$ 13,335
Due from other governments	<u>2,804</u>
<b>TOTAL ASSETS</b>	<u>16,139</u>
 <b>NET ASSETS</b>	
Held in trust for Industrial Board	<u>\$ 16,139</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, 2011

	<u>Industrial Board Agency Fund</u>
<b>ADDITIONS</b>	
Rent	\$ 36,000
<b>TOTAL ADDITIONS</b>	<u>36,000</u>
<b>DEDUCTIONS</b>	
Utilities	141
Repairs and maintenance	776
Miscellaneous	381
Debt service	<u>34,956</u>
<b>TOTAL DEDUCTIONS</b>	<u>36,254</u>
Change in net assets	(254)
Net assets - beginning	<u>16,393</u>
Net assets - end	<u>\$ 16,139</u>

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



**CITY OF PIKEVILLE, TENNESSEE**  
**Notes to Financial Statements**  
**June 30, 2011**

**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.

**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.

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

### B. Basic Financial Statements (Continued)

**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.

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.

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

### 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.

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

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

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

### D. Fund Balance Policy

#### Committed Fund Balances:

The Mayor and Alderman have the authority to commit funds for a specific purpose. Any funds set aside as committed fund balance requires, at a minimum, the passage of a resolution by a simple majority vote. An ordinance may also be used.

#### Assigned Fund Balance:

The Mayor and Alderman have the authority to set aside funds for the intended use of a specific purpose. Any funds set aside as assigned fund balance requires a simple majority vote and must be recorded in the minutes.

#### Order of Use of Restricted and Unrestricted Funds:

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

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

### E. 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 \$165,000 and increase budgeted expenditures by \$22,300 in the General Fund. In the Drug Fund, budgeted revenues increased by \$600 and budgeted expenditures increased by \$600.

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.

### F. 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, 2011, the City had no cash equivalents.

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

**G. 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.

**H. Inventories**

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

**I. 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.

**J. 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)**

**J. 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.

**K. 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.

**L. 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)

### **M. 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.

### **N. Restricted Net Assets**

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

### **O. Property Taxes**

Property taxes are levied by the City on January 1<sup>st</sup> on property values assessed for that calendar year. The billings are mailed October 1<sup>st</sup> 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 1<sup>st</sup>, 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 2011 levy is \$.85 per \$100 of assessed valuation and the tax rate for the 2010 levy is \$.85 per \$100 of assessed valuation.

Property taxes for the 2011 levy are considered to be owed to the City as of the lien date on January 1, 2011. Therefore the entire 2011 levy was recorded as a receivable and deferred revenue as of June 30, 2011, in both the government-wide financial statements and in the governmental fund statements.

### **P. 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.

### **Q. 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.

### **R. 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.

### **S. Events Occurring after Reporting Date**

The City has evaluated events and transactions that occurred between June 30, 2011, and January 20, 2012, 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, 2011, the carrying amount of the City's deposits was \$1,411,602, and the bank balance was \$1,516,191. 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	\$ 811,716
Investments	<u>600,031</u>
	1,411,747
Less: petty cash	<u>( 145)</u>
Total	<u>\$ 1,411,602</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 \$600,031. 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, 2011, consist of the following:

	General Fund	Water and Sewer Fund	Total
Customer receivables	\$ -	\$ 203,463	\$ 203,463
State shared revenues	37,895	-	37,895
Local sales tax	30,819	-	30,819
Other taxes receivables	12,022	-	12,022
Less: allowance for doubtful accounts	<u>-</u>	<u>( 17,182)</u>	<u>( 17,182)</u>
Total	<u>\$ 80,736</u>	<u>\$ 186,281</u>	<u>\$ 267,017</u>



**NOTE 4 - PROPERTY TAXES RECEIVABLE - NET**

Property taxes receivable as of June 30, 2011, consist of the following:

<u>Year of Levy</u>	
2011	\$ 255,700
2010	20,383
2009	7,273
2008	2,832
2007	1,134
2006	1,073
2005	1,022
2004	114
2003	489
2002	141
	<u>290,161</u>
Less: allowance for uncollectibles	<u>( 15,811)</u>
Property taxes receivable - net	<u>\$ 274,350</u>

**NOTE 5 - DUE 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</u> <u>Sewer Fund</u>
General Fund	\$ 9,816
Natural Gas Fund	<u>27,536</u>
Total	<u>\$ 37,352</u>

## NOTE 6 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 160,761	\$ -	\$ -	\$ 160,761
Total capital assets not being depreciated	<u>160,761</u>	<u>-</u>	<u>-</u>	<u>160,761</u>
Capital assets being depreciated:				
Buildings and parks	1,228,801	-	-	1,228,801
Machinery and equipment	362,034	6,559	-	368,593
Vehicles	632,364	52,500	( 19,847)	665,017
Infrastructure	1,360,447	62,779	-	1,423,246
Landfill	121,706	-	-	121,706
Total capital assets being depreciated	<u>3,705,352</u>	<u>121,858</u>	<u>( 19,847)</u>	<u>3,807,363</u>
Less accumulated depreciation for:				
Buildings and parks	252,525	31,081	-	283,606
Machinery and equipment	327,458	20,739	-	348,197
Vehicles	255,375	81,629	( 3,969)	333,035
Infrastructure	150,451	77,091	-	227,542
Landfill	15,820	2,436	-	18,256
Total accumulated depreciation	<u>1,001,629</u>	<u>212,976</u>	<u>( 3,969)</u>	<u>1,210,636</u>
Total capital assets being depreciated - net	<u>2,703,723</u>	<u>( 91,118)</u>	<u>( 15,878)</u>	<u>2,596,727</u>
Governmental activities capital assets - net	<u>\$ 2,864,484</u>	<u>\$ ( 91,118)</u>	<u>\$ ( 15,878)</u>	<u>\$ 2,757,488</u>

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

General government				\$ 55,198
Public safety				98,743
Public works				59,035
Total				<u>\$ 212,976</u>
	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type activities:</b>				
Capital assets not being depreciated:				
Land and land rights	\$ 31,847	\$ -	\$ -	\$ 31,847
Construction in progress	-	549,803	-	549,803
Total capital assets not being depreciated	<u>31,847</u>	<u>549,803</u>	<u>-</u>	<u>581,650</u>
Capital assets being depreciated:				
North Bledsoe system	3,008,661	-	-	3,008,661
Water treatment and distribution	6,919,311	133,025	-	7,052,336
Sewer collection and treatment	2,654,161	-	-	2,654,161
Building	184,075	-	-	184,075
Machinery and equipment	167,580	-	-	167,580
Vehicles	188,389	82,100	-	270,489
Gas lines and meters	1,862,260	-	-	1,862,260
Reservoirs and standpipes	345,661	-	-	345,661
Total capital assets being depreciated	<u>15,330,098</u>	<u>215,125</u>	<u>-</u>	<u>15,545,223</u>
Less accumulated depreciation for:				
Water plant and lines	3,173,769	249,012	-	3,422,781
Sewer collection	1,579,909	41,217	-	1,621,126
Natural gas	828,446	49,968	-	878,414
Total accumulated depreciation	<u>5,582,124</u>	<u>340,197</u>	<u>-</u>	<u>5,922,321</u>
Total capital assets being depreciated - net	<u>9,747,974</u>	<u>( 125,072)</u>	<u>-</u>	<u>9,622,902</u>
Business-type activities capital assets - net	<u>\$ 9,779,821</u>	<u>\$ 424,731</u>	<u>\$ -</u>	<u>\$ 10,204,552</u>

**NOTE 7 - DUE TO OTHER GOVERNMENTS**

Due to other governments at June 30, 2011, consist of the following:

Due to County Government	\$ 303
Due to Industrial Development Board	<u>2,804</u>
Total	<u>\$ 3,107</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>\$ 12,381</u>	<u>\$ 255,700</u>	<u>\$ 268,081</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 bond payable and compensated absences, is summarized as follows:

	<u>Principal Balance</u>
Landfill post-closure -- estimated	\$ 25,767
Revenue bonds, Series 2006, Public Building Authority, original amount \$1,000,000, .44%, due 2031	946,419
General obligation loan	500,000
Compensated absences	<u>9,520</u>
	1,481,706
Less: current portion of governmental long-term debt	<u>( 530,227)</u>
Total governmental long-term debt	<u>\$ 951,479</u>

A summary of changes in governmental long-term debt for the year ended June 30, 2011, are as follows:

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2011</u>	<u>Amount Due Within One Year</u>
Landfill post-closure - estimated	\$ 30,980	\$ -	\$( 5,213)	\$ 25,767	\$ 1,227
Capital lease	16,237	-	( 16,237)	-	-
Revenue bond - 2006	973,419	-	( 27,000)	946,419	29,000
General obligation loan	500,000	-	-	500,000	500,000
Compensated absences	<u>8,134</u>	<u>1,386</u>	<u>-</u>	<u>9,520</u>	<u>-</u>
Total	<u>\$ 1,528,770</u>	<u>\$ 1,386</u>	<u>\$( 48,450)</u>	1,481,706	<u>\$ 530,227</u>
Less: current portion of general long-term debt				<u>( 530,227)</u>	
Total governmental long-term debt				<u>\$ 951,479</u>	

(Continued)

**NOTE 9 - LONG-TERM DEBT (Continued)**

**A. Governmental Debt (Continued)**

Interest paid during the year ended June 30, 2011, on governmental long-term debt was \$45,060.

Governmental debt service requirements to maturity, including interest of \$530,508, are as follows:

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2012	\$ 530,227	\$ 57,873	\$ 588,100
2013	31,227	41,310	72,537
2014	33,227	39,960	73,187
2015	34,227	38,520	72,747
2016	36,227	37,035	73,262
2017-2021	207,135	160,020	367,155
2022-2026	264,135	109,980	374,115
2027-2031	334,554	45,810	380,364
2032	<u>1,227</u>	<u>-</u>	<u>1,227</u>
	<u>\$ 1,472,186</u>	<u>\$ 530,508</u>	<u>\$ 2,002,694</u>

Note: The above debt service requirements schedule does not include compensated absences due to their unestimatable nature.

**B. Business-Type Debt**

**Water and Sewer Fund:**

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

	<u>Principal Balance</u>
Utility relocation loan from Tennessee Department of Transportation payable first 5 years at 0% interest, \$41,567 annually, due 6/20/2013	\$ 46,928
Capital Outlay Note, Series 2002, 5.0%, due 2/20/2014	44,899
Capital Outlay Note, Series 2007, 3.68%, due 12/01/2017	280,000
Capital Outlay Note, Series 2008, 4.375%, due 12/10/2045	462,544
Capital Outlay Note, Series 2008, 4.375%, due 02/14/2048	1,005,337
Compensated absences	<u>11,470</u>
	1,851,178
Less: Current portion of water and sewer long-term debt	<u>( 108,315)</u>
Total water and sewer long-term debt	<u>\$ 1,742,863</u>

Interest paid during the year ended June 30, 2011, on water and sewer long-term debt was \$87,476.

(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, 2011, are as follows:

	Balance <u>July 1, 2010</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>June 30, 2011</u>	Amount Due Within <u>One Year</u>
Revenue and tax refunding	\$ 35,000	\$ -	\$ ( 35,000)	\$ -	\$ -
Utility relocation loan	81,128	-	( 34,200)	46,928	40,242
Capital Outlay Note - 2002	58,953	-	( 14,054)	44,899	14,609
Capital Outlay Note - 2007	315,000	-	( 35,000)	280,000	36,000
Capital Outlay Note - 2008	468,318	-	( 5,774)	462,544	5,952
Capital Outlay Note - 2008	1,016,398	-	( 11,061)	1,005,337	11,512
Compensated absences	<u>9,954</u>	<u>1,516</u>	<u>-</u>	<u>11,470</u>	<u>-</u>
<b>Total</b>	<b><u>\$ 1,984,751</u></b>	<b><u>\$ 1,516</u></b>	<b><u>\$ ( 135,089)</u></b>	<b>1,851,178</b>	<b><u>\$ 108,315</u></b>
Less: current portion of water and sewer long-term debt				<u>( 108,315)</u>	
<b>Total water and sewer long-term debt</b>				<b><u>\$ 1,742,863</u></b>	

Water and Sewer debt service requirements to maturity, including interest of \$1,483,865, are as follows:

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2012	\$ 108,315	\$ 77,352	\$ 185,667
2013	77,286	73,171	150,457
2014	72,993	69,666	142,659
2015	59,910	66,992	126,902
2016	61,798	64,614	126,412
2017-2021	205,774	291,726	497,500
2022-2026	147,756	259,524	407,280
2027-2031	183,812	223,468	407,280
2032-2036	228,668	178,612	407,280
2037-2041	284,468	122,812	407,280
2042-2046	334,895	53,585	388,480
2047-2048	<u>74,033</u>	<u>2,343</u>	<u>76,376</u>
	<b><u>\$ 1,839,708</u></b>	<b><u>\$ 1,483,865</u></b>	<b><u>\$ 3,323,573</u></b>

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	\$ 35,000
Gas system revenue and tax bonds, series 2002, 3.25% to 4.75%, due 12/01/2022	795,000
Compensated absences	<u>1,368</u>
	831,368
Less: Current portion of natural gas long-term debt	<u>( 50,000)</u>
Total natural gas long-term debt	<u>\$ 781,368</u>

A summary of changes in natural gas long-term debt for the year ended June 30, 2011, are as follows:

	<u>Balance July 01, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2011</u>	<u>Amount Due Within One Year</u>
Revenue and tax bonds - 2002	\$ 70,000	\$ -	\$( 35,000)	\$ 35,000	\$ 35,000
Revenue and tax bonds - 2002	810,000	-	( 15,000)	795,000	15,000
Compensated absences	<u>2,579</u>	<u>-</u>	<u>( 1,211)</u>	<u>1,368</u>	<u>-</u>
Total	<u>\$ 882,579</u>	<u>\$ -</u>	<u>\$( 51,211)</u>	831,368	<u>\$ 50,000</u>
Less: current portion of natural gas long-term debt				<u>( 50,000)</u>	
Total natural gas long-term debt				<u>\$ 781,368</u>	

Interest paid during the year ended June 30, 2011, on natural gas long-term debt was \$37,236.

Natural gas debt service requirements to maturity, including interest of \$251,765, are as follows:

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2012	\$ 50,000	\$ 36,174	\$ 86,174
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
2017-2021	365,000	85,383	450,383
2022-2023	<u>175,000</u>	<u>10,569</u>	<u>185,569</u>
	<u>\$ 830,000</u>	<u>\$ 251,765</u>	<u>\$ 1,081,765</u>

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

## **NOTE 10 - LANDFILL 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 \$234,245. The City of Pikeville's share of the estimated total current cost of closure and post-closure, based upon population percentages, would be 11% or \$25,767. This amount has been recorded as a liability on the Statement of Net Assets.

## **NOTE 11 - NET ASSET AND FUND BALANCES**

### **Restricted Net Assets and Fund Balance**

Non-recurring Police Expenditures - \$392 are restricted for non-recurring police expenditures.

### **Designated Net Assets and Assigned Fund Balance**

Park Improvements - \$31 has been set aside 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, 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 \$(1,481,706) difference are as follows:

Landfill post-closure cost	\$( 25,767)
Bond payable	( 946,419)
Note payable	( 500,000)
Compensated absences	<u>( 9,520)</u>
Net adjustment	<u>\$( 1,481,706)</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 \$(106,996) difference are as follows:

Depreciation expense	\$ (212,976)
Loss on disposal	( 15,878)
Capital outlay	<u>121,858</u>
Net adjustment	<u>\$( 106,996)</u>

**NOTE 13 - COMPLIANCE WITH FINANCE RELATED LEGAL AND CONTRACTUAL PROVISIONS**

Industrial Board Building Purchase

The City of Pikeville purchased a building apparently for industrial purposes, and used the building as collateral for the loan obtained to make the purchase. State law does not permit the building itself to be used as collateral for the loan to the City.



**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	\$11,582,054
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, 2011. No provision has been made in the financial statements for the year ended June 30, 2011, 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/PS/>.

### **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, 2011, was 7.11% 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, 2011, the City of Pikeville's annual pension cost of \$43,057 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, 2009, actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected 3.0 percent annual rate of inflation, (c) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5 percent annual increase in the Social Security wage base and (e) projected post-retirement increases of 2.5 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten-year period. The 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, 2009, was 20 years. An actuarial valuation was performed as of July 1, 2009, which established contribution rates effective July 1, 2010.

**NOTE 16 - PENSION PLAN (Continued)**

**Trend Information**

Fiscal Year <u>Ending</u>	Annual Pension <u>Cost (APC)</u>	Percentage of APC <u>Contributed</u>	Net Pension <u>Obligation</u>
June 30, 2011	\$ 43,057	100.00%	\$0.00
June 30, 2010	\$ 35,868	100.00%	\$0.00
June 30, 2009	\$ 34,897	100.00%	\$0.00

***Funded Status and Funding Progress***

As of July 1, 2009, the most recent actuarial valuation date, the plan was 86.83% funded. The actuarial accrued liability for benefits was \$1.7 million, and the actuarial value of assets was \$1.5 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.2 million. The covered payroll (annual payroll of active employees covered by the plan) was \$0.5 million, and the ratio of the UAAL to the covered payroll was 40.66%.

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 <u>(a)</u>	Actuarial Accrued Liability (AAL) - Entry Age <u>(b)</u>	Unfunded AAL (UAAL) <u>(b)-(a)</u>	Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a Percentage of Covered Payroll <u>((b-a)/c)</u>
July 01, 2009	\$ 1,474	\$ 1,698	\$ 224	86.83%	\$ 550	40.66%
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 \$7,075 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.

**NOTE 20 - FUND BALANCE - BEGINNING (AS RESTATED)**

The beginning fund balance of the General Fund was restated for the inclusion of the Solid Waste Fund from the prior year to comply with GASB Statement 54 as follows:

Fund balance - General Fund - July 1, 2010	\$610,543
Fund balance - Solid Waste Fund - July 1, 2010	<u>24,440</u>
Fund balance - beginning as restated July 1, 2010	<u>\$634,983</u>

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

**CITY OF PIKEVILLE, TENNESSEE**  
**Tennessee Consolidated Retirement System**  
**Schedule of Funding Progress**  
**June 30, 2011**

(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, 2009	\$ 1,474	\$ 1,698	\$ 224	86.83%	\$ 550	40.66%
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 went into affect during the year of the 2007 actuarial valuation, therefore only the two most recent valuations are presented.

## NON-MAJOR GOVERNMENTAL FUNDS

### **Special Revenue Funds:**

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

### **Drug Fund:**

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



**CITY OF PIKEVILLE, TENNESSEE**  
**Non-major Governmental Fund**  
**Balance Sheet**  
**June 30, 2011**

	<u>Drug Fund</u>
<b>ASSETS</b>	
Cash	\$ <u>392</u>
<b>TOTAL ASSETS</b>	<u>\$ 392</u>
<b>LIABILITIES AND FUND BALANCES</b>	
<b>Fund Balances</b>	
Restricted	\$ <u>392</u>
Total fund balances	<u>392</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 392</u>

**CITY OF PIKEVILLE, TENNESSEE**  
**Non-major Governmental Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Year Ended June 30, 2011**

	<b>Drug Fund</b>
<b>REVENUES</b>	
Fines and forfeitures	\$ 962
<b>TOTAL REVENUES</b>	962
<b>EXPENDITURES</b>	
<b>Current expenditures</b>	
Public safety	1,800
<b>TOTAL EXPENDITURES</b>	1,800
Net changes in fund balance	(838)
<b>Fund balance - beginning</b>	1,230
<b>Fund balance - end</b>	\$ 392

**CITY OF PIKEVILLE, TENNESSEE**  
**Drug Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**Year Ended June 30, 2011**

	<u>Budgeted Amounts</u>			<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Favorable</u> <u>(Unfavorable)</u>
<b>REVENUES</b>				
Fines and forfeitures				
Court fines	<u>\$ 1,200</u>	<u>\$ 1,800</u>	<u>\$ 962</u>	<u>\$ (838)</u>
<b>TOTAL REVENUES</b>	<u>1,200</u>	<u>1,800</u>	<u>962</u>	<u>(838)</u>
 <b>EXPENDITURES</b>				
<b>Current expenditures</b>				
Public safety				
Drug enforcement	<u>1,200</u>	<u>1,800</u>	<u>1,800</u>	<u>-</u>
Total public safety	<u>1,200</u>	<u>1,800</u>	<u>1,800</u>	<u>-</u>
<b>TOTAL EXPENDITURES</b>	<u>1,200</u>	<u>1,800</u>	<u>1,800</u>	<u>-</u>
 Net changes in fund balance	-	-	(838)	(838)
 <b>Fund balances - beginning</b>	<u>1,230</u>	<u>1,230</u>	<u>1,230</u>	<u>-</u>
 <b>Fund balances - end</b>	<u>\$ 1,230</u>	<u>\$ 1,230</u>	<u>\$ 392</u>	<u>\$ (838)</u>

**SUPPLEMENTAL INFORMATION**

CITY OF PIKEVILLE, TENNESSEE  
 Schedule of Expenditures of Federal and State Awards  
 Year Ended June 30, 2011

Federal Grantor/Pass - Through Grantor/Program Title	Federal CFDA Number	State Grant/ Program Number	Receivable (Deferred) June 30, 2010	Grant/Loan Receipts	Grant/Loan Expenditures	Receivable (Deferred) June 30, 2011
<b>Federal</b>						
Department of Human Services FEMA Fire Grant	97.083	EMW-2008-FF-00421	\$ 6,496	\$ 31,455	\$ 24,959	\$ -
Department of Housing and Urban Development Community Development Block Grant	14.228	GG-10-32494-00	-	389,540	389,540	-
Department of Transportation/ Tennessee Department of Transportation Highway Safety Grant - High Visibility	20.601	K8-10-102	-	6,209	6,209	-
<b>Total Federal Awards</b>			<u>6,496</u>	<u>427,204</u>	<u>420,708</u>	<u>-</u>
<b>State</b>						
Tennessee Department of Agriculture Urban Forestry Grant	-	6260714825	-	3,000	3,000	-
<b>TOTAL FEDERAL AND STATE AWARDS</b>			<u>\$ 6,496</u>	<u>\$ 430,204</u>	<u>\$ 423,708</u>	<u>\$ -</u>

**CITY OF PIKEVILLE, TENNESSEE**  
**Notes to the Schedule of Expenditures of Federal and State Awards**  
**Year Ended June 30, 2011**

**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**  
**Sanitation Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**Year Ended June 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable</u> <u>(Unfavorable)</u>
<b>REVENUES</b>				
Charges for services				
Garbage fees	\$ 133,000	\$ 133,000	\$ 119,349	\$ (13,651)
Other revenue				
Interest	<u>100</u>	<u>100</u>	<u>99</u>	<u>(1)</u>
<b>TOTAL REVENUES</b>	<u>133,100</u>	<u>133,100</u>	<u>119,448</u>	<u>(13,652)</u>
<b>EXPENDITURES</b>				
<b>Current expenditures</b>				
Public works				
Contracted services	93,000	125,000	92,405	32,595
Contract services - landfill	<u>16,000</u>	<u>6,870</u>	<u>3,628</u>	<u>3,242</u>
Total public works	<u>109,000</u>	<u>131,870</u>	<u>96,033</u>	<u>35,837</u>
<b>Debt service</b>				
Retirement of bank notes	<u>-</u>	<u>1,230</u>	<u>-</u>	<u>1,230</u>
Total debt service	<u>-</u>	<u>1,230</u>	<u>-</u>	<u>1,230</u>
<b>TOTAL EXPENDITURES</b>	<u>109,000</u>	<u>133,100</u>	<u>96,033</u>	<u>37,067</u>
Excess (deficiency) of revenues over (under) expenditures	<u>24,100</u>	<u>-</u>	<u>23,415</u>	<u>23,415</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer in	<u>-</u>	<u>-</u>	<u>(32,000)</u>	<u>(32,000)</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(32,000)</u>	<u>(32,000)</u>
Net changes in fund balances	24,100	-	(8,585)	(8,585)
<b>Fund balances - beginning</b>	<u>24,440</u>	<u>24,440</u>	<u>24,440</u>	<u>-</u>
<b>Fund balances - end</b>	<u>\$ 48,540</u>	<u>\$ 24,440</u>	<u>\$ 15,855</u>	<u>\$ (8,585)</u>

**CITY OF PIKEVILLE, TENNESSEE**  
**Water and Sewer Fund**  
**Schedule of Revenues, Expenses and Changes in Net Assets - Budget and Actual**  
**Year Ended June 30, 2011**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance</b>
	<b>Original</b>	<b>Final</b>		<b>Favorable (Unfavorable)</b>
<b>OPERATING REVENUES</b>				
Charges for services	\$ 1,025,200	\$ 1,025,200	\$ 1,060,450	\$ 35,250
Customer penalties	30,000	30,000	31,032	1,032
Connection fees	15,000	15,000	18,942	3,942
Total operating revenues	<u>1,070,200</u>	<u>1,070,200</u>	<u>1,110,424</u>	<u>40,224</u>
<b>OPERATING EXPENSES</b>				
Water transmission and distribution	3,124,078	3,259,450	528,164	2,731,286
Sewer collection, treatment and disposal	719,450	233,150	245,014	(11,864)
Administration	162,888	316,600	181,616	134,984
Depreciation	276,000	276,000	290,229	(14,229)
Total operating expenses	<u>4,282,416</u>	<u>4,085,200</u>	<u>1,245,023</u>	<u>2,840,177</u>
Operating income (loss)	<u>(3,212,216)</u>	<u>(3,015,000)</u>	<u>(134,599)</u>	<u>2,880,401</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Interest revenue	14,000	14,000	7,832	(6,168)
Intergovernmental	3,182,000	3,182,000	389,540	(2,792,460)
Miscellaneous revenue	7,000	7,000	9,005	2,005
Interest and amortization expense	(223,000)	(188,000)	(89,693)	98,307
Total non-operating revenues (expenses)	<u>2,980,000</u>	<u>3,015,000</u>	<u>316,684</u>	<u>(2,698,316)</u>
Change in net assets	(232,216)	-	182,085	182,085
Net assets - beginning	<u>7,219,421</u>	<u>7,219,421</u>	<u>7,219,421</u>	<u>-</u>
Net assets - end	<u>\$ 6,987,205</u>	<u>\$ 7,219,421</u>	<u>\$ 7,401,506</u>	<u>\$ 182,085</u>



**CITY OF PIKEVILLE**  
**Natural Gas Fund**  
**Schedule of Revenues, Expenses and Changes in Net Assets - Budget and Actual**  
**Year Ended June 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance</b>
	<u>Original</u>	<u>Final</u>		<b>Favorable (Unfavorable)</b>
<b>OPERATING REVENUES</b>				
Charges for services	\$ 1,088,150	\$ 1,079,675	\$ 840,019	\$ (239,656)
Connection fees	12,450	12,450	11,958	(492)
Other operating	300	300	1,279	979
Total operating revenues	<u>1,100,900</u>	<u>1,092,425</u>	<u>853,256</u>	<u>(239,169)</u>
<b>OPERATING EXPENSES</b>				
Purchased gas	630,000	630,000	420,496	209,504
Transmission and distribution	106,425	108,925	95,866	13,059
Administration	212,850	222,200	220,053	2,147
Depreciation	<u>49,500</u>	<u>49,500</u>	<u>49,968</u>	<u>(468)</u>
Total operating expenses	<u>998,775</u>	<u>1,010,625</u>	<u>786,383</u>	<u>224,242</u>
Operating income (loss)	<u>102,125</u>	<u>81,800</u>	<u>66,873</u>	<u>(14,927)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Interest revenue	6,000	6,000	18,350	12,350
Miscellaneous revenue	300	300	905	605
Interest and amortization expense	<u>(88,100)</u>	<u>(88,100)</u>	<u>(40,521)</u>	<u>47,579</u>
Total non-operating revenues (expenses)	<u>(81,800)</u>	<u>(81,800)</u>	<u>(21,266)</u>	<u>60,534</u>
Change in net assets	20,325	-	45,607	45,607
Net assets - beginning	<u>1,299,689</u>	<u>1,299,689</u>	<u>1,299,689</u>	<u>-</u>
Net assets - end	<u>\$ 1,320,014</u>	<u>\$ 1,299,689</u>	<u>\$ 1,345,296</u>	<u>\$ 45,607</u>

**CITY OF PIKEVILLE, TENNESSEE**  
**General Fund**  
**Schedule of Property Taxes Receivable**  
**June 30, 2011**

Year of Levy

2011	\$ 255,700
2010	20,383
2009	7,273
2008	2,832
2007	1,134
2006	1,073
2005	1,022
2004	114
2003	489
2002	141
	<hr/>
	290,161
Less allowance for uncollectible	<hr/>
	(15,811)
Property taxes receivable - net	<u>\$ 274,350</u>

**CITY OF PIKEVILLE, TENNESSEE**  
**General Fund**  
**Schedule of Changes in Property Taxes Receivable**  
**Year Ended June 30, 2011**

	<b>Taxes Receivable July 1, 2010</b>	<b>Taxes Levied</b>	<b>Pickups</b>	<b>Releases</b>	<b>Collections</b>	<b>Taxes Receivable June 30, 2011</b>
2011	\$ -	\$ 255,700	\$ -	\$ -	\$ -	\$ 255,700
2010	260,100	-	-	(21,249)	(218,468)	20,383
2009	21,538	-	-	(7,344)	(6,921)	7,273
2008	7,364	-	-	-	(4,532)	2,832
2007	1,854	-	-	-	(720)	1,134
2006	1,249	-	-	-	(176)	1,073
2005	1,658	-	-	-	(636)	1,022
2004	114	-	-	-	-	114
2003	489	-	-	-	-	489
2002	141	-	-	-	-	141
	<u>\$ 294,507</u>	<u>\$ 255,700</u>	<u>\$ -</u>	<u>\$ (28,593)</u>	<u>\$ (231,453)</u>	<u>\$ 290,161</u>

**CITY OF PIKEVILLE, TENNESSEE**  
**Governmental Funds**  
**Schedule of Debt Service Requirements**  
**June 30, 2011**

**LANDFILL POST-CLOSURE LIABILITY - ESTIMATE**

Maturing <u>June 30,</u>	Total <u>Requirements</u>
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	<u>1,227</u>
 Total	 <u>\$ 25,767</u>

**CITY OF PIKEVILLE, TENNESSEE**  
**Governmental Funds**  
**Schedule of Debt Service Reuquirements**  
**June 30, 2011**

**PUBLIC BUILDING AUTHORITY**  
**REVENUE BONDS - SERIES 2006**  
**ORIGINAL LOAN \$1,000,000 AT 0.44%**

<u>Maturing June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2012	\$ 29,000	\$ 42,615	\$ 71,615
2013	30,000	41,310	71,310
2014	32,000	39,960	71,960
2015	33,000	38,520	71,520
2016	35,000	37,035	72,035
2017	37,000	35,460	72,460
2018	38,000	33,795	71,795
2019	40,000	32,085	72,085
2020	42,000	30,285	72,285
2021	44,000	28,395	72,395
2022	47,000	26,415	73,415
2023	49,000	24,300	73,300
2024	51,000	22,095	73,095
2025	54,000	19,800	73,800
2026	57,000	17,370	74,370
2027	60,000	14,805	74,805
2028	62,000	12,105	74,105
2029	66,000	9,315	75,315
2030	69,000	6,345	75,345
2031	71,419	3,240	74,659
Total	<u>\$ 946,419</u>	<u>\$ 515,250</u>	<u>\$ 1,461,669</u>

**CITY OF PIKEVILLE, TENNESSEE**  
**Governmental Funds**  
**Schedule of Debt Service Requirements**  
**June 30, 2011**

**FIRST NATIONAL BANK**  
**GENERAL OBLIGATION LOAN**

<u>Maturing June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2012	<u>\$ 500,000</u>	<u>\$ 15,258</u>	<u>\$ 515,258</u>
Total	<u>\$ 500,000</u>	<u>\$ 15,258</u>	<u>\$ 515,258</u>

**CITY OF PIKEVILLE, TENNESSEE**  
**Water and Sewer Fund**  
**Schedule of Debt Service Requirements**  
**June 30, 2011**

**UTILITY RELOCATION LOAN FROM**  
**TENNESSEE DEPARTMENT OF TRANSPORTATION**

<u>Maturing</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Requirements</u>
2012	\$ 40,242	\$ 1,325	\$ 41,567
2013	<u>6,686</u>	<u>15</u>	<u>6,701</u>
Total	<u>\$ 46,928</u>	<u>\$ 1,340</u>	<u>\$ 48,268</u>

**CITY OF PIKEVILLE, TENNESSEE**  
**Water and Sewer Fund**  
**Schedule of Debt Service Requirements**  
**June 30, 2011**

**CAPITAL OUTLAY NOTE**  
**SERIES 2002**

<u>Maturing June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2012	\$ 14,609	\$ 2,393	\$ 17,002
2013	15,356	1,646	17,002
2014	<u>14,934</u>	<u>369</u>	<u>15,303</u>
Total	<u>\$ 44,899</u>	<u>\$ 4,408</u>	<u>\$ 49,307</u>



**CITY OF PIKEVILLE, TENNESSEE**  
**Water and Sewer Fund**  
**Schedule of Debt Service Requirements**  
**June 30, 2011**

**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>
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>\$ 280,000</u>	<u>\$ 37,462</u>	<u>\$ 317,462</u>

**CITY OF PIKEVILLE, TENNESSEE**  
**Water and Sewer Fund**  
**Schedule of Debt Service Requirements**  
**June 30, 2011**

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

Maturing June 30,	Principal	Interest	Total Requirements
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	7,283	65	7,348
Total	<u>\$ 462,544</u>	<u>\$ 433,836</u>	<u>\$ 896,380</u>

**CITY OF PIKEVILLE, TENNESSEE**  
**Water and Sewer Fund**  
**Schedule of Debt Service Requirements**  
**June 30, 2011**

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

<u>Maturing June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
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	20,949	119	21,068
<b>Total</b>	<b><u>\$ 1,005,337</u></b>	<b><u>\$ 1,006,819</u></b>	<b><u>\$ 2,012,156</u></b>

**CITY OF PIKEVILLE, TENNESSEE**  
**Natural Gas Fund**  
**Schedule of Debt Service Requirements**  
**June 30, 2011**

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

<u>Maturing</u> <u>June 30,</u> <u>2012</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Requirements</u>
	\$ 35,000	\$ 1,313	\$ 36,313
Total	<u>\$ 35,000</u>	<u>\$ 1,313</u>	<u>\$ 36,313</u>

**CITY OF PIKEVILLE, TENNESSEE**  
**Natural Gas Fund**  
**Schedule of Debt Service Requirements**  
**June 30, 2011**

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

<u>Maturing June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
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	<u>90,000</u>	<u>4,275</u>	<u>94,275</u>
Total	<u>\$ 795,000</u>	<u>\$ 250,452</u>	<u>\$ 1,045,452</u>

**CITY OF PIKEVILLE, TENNESSEE**  
**Proprietary Funds**  
**Schedule of Operating Expenses**  
**Year Ended June 30, 2011**

	<u>Water and Sewer Fund</u>	<u>Natural Gas Fund</u>	<u>Totals</u>
<b>OPERATING EXPENSES</b>			
Purchased gas	\$ -	\$ 420,496	\$ 420,496
Transmission and distribution			
Salaries	224,064	55,349	279,413
Payroll tax	7,114	982	8,096
Employee benefits	14,932	3,872	18,804
Chemical treatment	17,574	-	17,574
Contracted and professional services	21,792	2,420	24,212
Equipment expenses	-	396	396
Office supplies	290	-	290
Operating supplies	7,962	1,661	9,623
Pipes, valves, fittings, etc.	30,832	-	30,832
Repairs and maintenance	12,936	21,320	34,256
Telephone	4,352	-	4,352
Training	-	1,039	1,039
Uniforms	-	224	224
Utilities	163,720	4,256	167,976
Vehicle expense	22,596	4,347	26,943
Total transmission and distribution	<u>528,164</u>	<u>95,866</u>	<u>624,030</u>
Sewer collection, treatment and disposal			
Salaries	95,977	-	95,977
Payroll tax	3,210	-	3,210
Employee benefits	6,720	-	6,720
Advertising	1,440	-	1,440
Chemical treatment	12,522	-	12,522
Contracted and professional services	15,158	-	15,158
Equipment expenses	128	-	128
Operating supplies	10,852	-	10,852
Pipes, valves, fittings, etc.	2,325	-	2,325
Repairs and maintenance	9,733	-	9,733
Telephone	610	-	610
Utilities	80,527	-	80,527
Vehicle expense	5,812	-	5,812
Total sewer collection, treatment and disposal	<u>245,014</u>	<u>-</u>	<u>245,014</u>

(Continued)

**CITY OF PIKEVILLE, TENNESSEE**  
**Proprietary Funds**  
**Schedule of Operating Expenses (Continued)**  
**Year Ended June 30, 2011**

	<u>Water and Sewer Fund</u>	<u>Natural Gas Fund</u>	<u>Totals</u>
<b>OPERATING EXPENSES (Continued)</b>			
Administration			
Salaries	\$ -	\$ 72,673	\$ 72,673
Payroll tax	16,089	9,878	25,967
Employee benefits	84,651	58,020	142,671
Advertising	9,673	7,311	16,984
Auditing and legal	13,634	12,144	25,778
Bank charges	250	250	500
Contracted and professional services	6,680	8,987	15,667
Equipment expenses	208	45	253
Insurance	27,625	27,625	55,250
Office supplies	6,289	6,367	12,656
Operating supplies	342	127	469
Rent	2,400	4,800	7,200
Repairs and maintenance	102	6	108
Telephone	-	2,800	2,800
Training	-	3,911	3,911
Travel	13,673	5,109	18,782
Total administration	<u>181,616</u>	<u>220,053</u>	<u>401,669</u>
Depreciation	<u>290,229</u>	<u>49,968</u>	<u>340,197</u>
Total operating expenses	<u>\$ 1,245,023</u>	<u>\$ 786,383</u>	<u>\$ 2,031,406</u>

**CITY OF PIKEVILLE, TENNESSEE**  
**Tax Rates and Assessed Valuation Applicable to Last Ten Years and**  
**Uncollected Delinquent Accounts**  
**June 30, 2011**

<u>Year of Levy</u>	<u>Tax Rate Per \$100</u>	<u>Assessment</u>	<u>Levy</u>
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	\$ 30,589,294	\$ 260,009
2010	\$.85	\$ 30,071,059	\$ 255,604
2011	\$.85	\$ 30,082,353	\$ 255,700

**UNCOLLECTED DELINQUENT ACCOUNTS**

The City of Pikeville has filed delinquent taxes with the Bledsoe County Trustee for collection at June 30, 2011.



**CITY OF PIKEVILLE, TENNESSEE**  
**Schedule of Municipal Utility Rates and Number of Customers**  
**June 30, 2011**

**WATER RATE SCHEDULE**

	<u>Residential</u>	<u>Commercial</u>	<u>Outside City</u>
Water Rates:			
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	1,518
Sewer	667
Garbage	683
Gas	977

**CITY OF PIKEVILLE, TENNESSEE**  
**Schedule of Insurance**  
**June 30, 2011**

<b>INSURANCE COVERAGE</b>	<u>Amount</u>
<b>TML</b>	
Property and equipment (deductible \$1000 per occurrence)	\$11,582,054 - Blanket limit per occurrence
Comprehensive general liability General liability, personal injury liability, error or omissions, and automobile liability and physical damage	State Tort Limits: \$300,000 per person \$700,000 per occurrence \$300,000 per property
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
<b>OLD REPUBLIC SURETY COMPANY</b>	
Treasurer	\$100,000
All other employees	\$5,000
<b>AMERICAN ALTERNATIVE INSURANCE</b>	
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, 2011**

(All amounts in gallons)

**Water Treated and Purchased:**

Water pumped (potable)	181,384,000	
Water purchased	6,668,000	
<b>Total Water Treated and Purchased</b>		188,052,000

**Accounted for Water:**

Water sold	93,820,400	
Metered for consumption (in house usage)	2,808,000	
Fire Department usage	164,800	
Flushing	371,520	
Tank cleaning/filling	7,680,000	
Street cleaning	3,600	
Bulk sales	28,100	
Water bill adjustments	1,671,500	
<b>Total Accounted for Water</b>		106,547,920

**Unaccounted for Water** 81,504,080

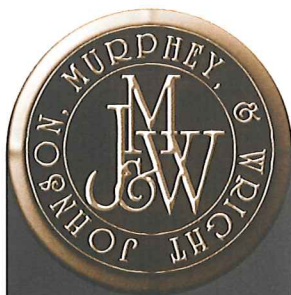
**Percent Unaccounted for Water** 43.34%

**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, 2011, and have issued our report thereon dated January 20, 2012. 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 deficiencies described in the accompanying Schedule of Findings and Responses as 11-1 and 11-2 to be material weaknesses.

**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 several 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 11-3 through 11-5.

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 20, 2012

**CITY OF PIKEVILLE, TENNESSEE**  
**Schedule of Findings and Responses**  
**June 30, 2011**

**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 two significant deficiency in internal controls was disclosed, which also was considered in the aggregate to be a material weakness.

**Material Noncompliance:**

Three 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 11-1 - Accounting expertise (repeat finding 10-1)**

**Criteria:**

SAS 115 states in part that the lack of accounting personnel with sufficient "training" to properly design controls over the year-end financial reporting process, including the actual "preparation of 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 training to prepare their own financial report.

**Recommendation:**

The City should consider the risk benefits of continuing to allow the outside auditors to perform these services for them, versus having an internal auditor/CPA to perform the year-end financial reporting process.

**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, we feel that this is still a very important and very reliable way to safeguard our assets and report the transactions of the City. We are taking responsibility for the preparation and fair presentation of the financial statements and we possess suitable skill, knowledge, and/or experience to evaluate the adequacy of any services in this area provided by the auditor. In addition, we are currently sending one of our staff members through the CMFO training so that they are better equipped to review the financial report prepared by the auditor.

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

**INTERNAL CONTROL:** (Continued)

**FINDING 11-2 - Approvals and documentation**

**Criteria:**

*Government Auditing Standards* Chapter A.04(h) states that “inadequate controls for the safeguarding of assets,” is a control deficiency.

**Condition Found:**

- 1) A few disbursements selected for testing did not have approved invoices available to examine.
- 2) A few credit card disbursements selected for testing did not have receipts attached. Also, some credit card statements were not kept.
- 3) A few travel disbursements selected for testing did not have adequate documentation; such as conference documentation, check request, travel request and/or purchase orders.
- 4) Fuel accounts are not being monitored to ensure purchases are for a municipal purpose.

**Recommendation:**

- 1) All disbursements should have adequate documentation to ensure the expenditure was for a municipal purpose. Also, a proper official should initial each invoice before payment.
- 2) All credit card statements and supporting invoices should be kept.
- 3) Payments for travel expenses should have adequate documentation.
- 4) The City should use fuel cards that identify drivers, vehicles, odometer readings and auto mileage. All employees should be reimbursed for business mileage based on Internal Revenue Service mileage rates.

**Management’s Response:**

We concur. We will more closely monitor these issues in the future.

**COMPLIANCE:**

**FINDING 11-3 - Excessive water loss (repeat finding 10-3)**

**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 43.34% water loss.

**Recommendation:**

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

**Management’s Response:**

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



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

**COMPLIANCE:** (Continued)

**FINDING 11-4 - Water adjustments not properly approved** (repeat finding 10-5)

**Criteria:**

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 5, Chapter 15, Section 4, states “all adjustments to customers’ bills should be approved by the governing body.”

**Condition Found:**

There is no written policy for water adjustments.

**Recommendation:**

The Board needs to approve a water adjustment policy which includes approval of all adjustments by the Board of Commissioners.

**Management’s Response:**

We concur. We will adopt a “written” adjustment policy in the future.

**FINDING 11-5 - Non-municipal building purchase** (repeat finding 10-6)

**Criteria:**

Tennessee Code Annotated (TCA) Section 6-56-112 states that “all expenditures of money made by a municipality must be made for a lawful municipal purpose.” In addition (TCA) 9-21-603 states in part that “notes...may be secured by and payable from revenues of such...project”, and (TCA) 13-16-203 states in part that “a municipality has the power to ...pledge its full faith and credit and/or fees...or other charges for the use of or in connection with any industrial building...”.

**Condition Found:**

The City of Pikeville purchased a building apparently for industrial purposes, and used the building as collateral for the loan obtained to make the purchase. State law does not permit the building itself to be used as collateral for the loan to the City.

**Recommendation:**

The City should work with the Comptroller’s office, their attorney and the lender to correct this situation as soon as possible.

**Management’s Response:**

We concur. We were not aware that this type of funding was not allowed. The loan is only for one year with one payment due in October, 2012. We will make every effort to rectify this as soon as possible.

**CITY OF PIKEVILLE, TENNESSEE**  
**Schedule of Prior Audit Findings**  
**June 30, 2011**

**Finding 10-1 - Accounting expertise**

Still in effect.

**Finding 10-2 - Enterprise funds operating at a loss**

Corrected.

**Finding 10-3 - Excessive water loss**

Still in effect.

**Finding 10-4 - Expenditures exceeded budget**

Corrected.

**Finding 10-5 - Water adjustments not properly approved**

Still in effect.

**Finding 10-6 - Non-municipal building purchase**

Still in effect.