

CITY OF PIKEVILLE, TENNESSEE

FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

FOR THE FISCAL YEAR ENDED
JUNE 30, 2013



**HENDERSON HUTCHERSON
& MCCULLOUGH, PLLC**

INTRODUCTORY SECTION

CITY OF PIKEVILLE, TENNESSEE

TABLE OF CONTENTS

JUNE 30, 2013

	PAGE
INTRODUCTORY SECTION	
Table of Contents	i-ii
City Officials	iii
FINANCIAL SECTION	
Independent Auditor's Report	1-3
Management's Discussion and Analysis (unaudited)	4-10
Basic Financial Statements	
Government-Wide Financial Statements –	
Statement of Net Position	11
Statement of Activities	12-13
Fund Financial Statements –	
Statement of Net Position – Governmental Funds	14
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	15
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	17
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – GAAP Basis – General Fund	18
Statement of Net Position – Proprietary Funds	19
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds	20
Statement of Cash Flows – Proprietary Funds	21-22
Notes to Financial Statements	23-38
Required Supplementary Information (unaudited)	
Schedule of Funding Progress – Tennessee Consolidated Retirement System	39

(Continued)

CITY OF PIKEVILLE, TENNESSEE

TABLE OF CONTENTS

JUNE 30, 2013

OTHER SUPPLEMENTARY INFORMATION

Combining Financial Statements

Nonmajor Governmental funds – Combining Balance Sheet	40
Nonmajor Governmental Funds – Combining Schedule of Revenues, Expenditures, and Changes in Fund Balance	41

Budgetary Comparison Schedules

General Fund – Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual	42-47
Industrial Development Board Fund – Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual	48
Drug Fund – Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual	49

Financial Schedules

Schedule of Property Tax Rates and Assessments	50
Schedule of Changes in Property Tax Receivable	51
Schedule of Debt Service Requirements	52-55
Schedule of Municipal Utility Rates and Numbers of Customers	56
Schedule for Unaccounted for Water Loss	57

SINGLE AUDIT SECTION

Schedule of Expenditures of Federal and State Awards	58
Notes to the Schedule of Expenditures of Federal and State Awards	59
Independent Auditor’s Report on Compliance and on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	60-61
Independent Auditor’s Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance as Required by OMB Circular A-133	62-63
Schedule of Findings and Questioned Costs	64-65
Schedule of Prior Year Findings	66

CITY OF PIKEVILLE, TENNESSEE

CITY OFFICIALS

JUNE 30, 2013

Mayor

Philip Cagle

Alderman

Senia Anderson

Alderman

Reed Sells

Alderman

Bill Swearingen

Alderman

Ray Evans

City Recorder

Debra Barnett

City Attorney

Edward Boring

FINANCIAL SECTION



**HENDERSON HUTCHERSON
& MCCULLOUGH, PLLC**

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Mayor and Alderman
City of Pikeville, Tennessee
Pikeville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Pikeville, Tennessee, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Pikeville, Tennessee as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of funding progress on pages 4-10 and 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The budgetary comparison schedules, combining and individual nonmajor fund financial statements, financial schedules (all included as other supplementary information) and the schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedules, combining and individual nonmajor fund financial statements, other supplementary information and schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2013, on our consideration of the City of Pikeville's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Pikeville's internal control over financial reporting and compliance.

Chattanooga, Tennessee
November 8, 2013

*Henderson Hutcherson
& McCullough, PLLC*

CITY OF PIKEVILLE, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013

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, 2013. 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 and deferred inflows of resources at June 30, 2013 by \$16,300,444 (net position). The City's governmental funds reported a decrease in combined fund balance of \$53,393. Total government activities under GASB 34 operated at an increase of \$303,015. The difference is the amount by which depreciation exceeded capital outlay in the current period, unavailable property taxes, and the current period's repayment of long-term debt. See page 17 for the reconciliation.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction of the City of Pikeville's basic financial statements. The City'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's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the City's assets, liabilities, and deferred inflows of resources with the difference between the three reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement of some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements distinguish functions of the City that are principally supported by tax and intergovernmental revenues (governmental activities).

The government-wide financial statements can be found on pages 11-13 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, 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 are either governmental funds or 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 financial 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 government activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact on 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 governmental funds and governmental activities.

The City maintains one major governmental fund and two nonmajor governmental funds, reported as one combined opinion unit. 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 each opinion unit, which consists of the General Fund and combined nonmajor funds.

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

The basic governmental fund financial statements can be found on pages 14 through 18 of this report.

Proprietary Funds

The City of Pikeville 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 uses enterprise funds to account for its water and sewer and 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 19 through 22 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 23 to 38 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information concerning the City of Pikeville. This supplementary information can be found on pages 39 to 57 of this report.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities and deferred inflows of resources by \$16,300,444 at the close of this fiscal year.

City of Pikeville, Tennessee's Net Position

	Governmental Activities		Business-type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 539,986	\$ 595,367	\$ 1,543,225	\$ 1,381,011	\$ 2,083,211	\$ 1,976,378
Capital assets	<u>2,990,244</u>	<u>2,657,037</u>	<u>17,048,677</u>	<u>12,590,149</u>	<u>20,038,921</u>	<u>15,247,186</u>
Total assets	<u>3,530,230</u>	<u>3,252,404</u>	<u>18,591,902</u>	<u>13,971,160</u>	<u>22,122,132</u>	<u>17,223,564</u>
Non-current liabilities	1,536,326	1,452,848	3,902,366	2,664,475	5,438,692	4,117,323
Other liabilities	<u>43,005</u>	<u>28,223</u>	<u>109,791</u>	<u>68,518</u>	<u>152,796</u>	<u>96,741</u>
Total liabilities	<u>1,579,331</u>	<u>1,481,071</u>	<u>4,012,157</u>	<u>2,732,993</u>	<u>5,591,488</u>	<u>4,214,064</u>
Deferred inflows	<u>230,200</u>	<u>257,300</u>	-	-	<u>230,200</u>	<u>257,300</u>
Net position						
Net investment in capital assets	1,453,918	1,215,078	13,146,311	9,960,873	14,600,229	11,175,951
Restricted	-	1,572	-	-	-	1,572
Unrestricted	<u>266,781</u>	<u>297,383</u>	<u>1,433,434</u>	<u>1,277,294</u>	<u>1,700,215</u>	<u>1,574,677</u>
Total net position	<u>\$ 1,720,699</u>	<u>\$ 1,514,033</u>	<u>\$ 14,579,745</u>	<u>\$ 11,238,167</u>	<u>\$ 16,300,444</u>	<u>\$ 12,752,200</u>

Ninety percent (90%) of the City's net position represents net investment in capital assets (e.g. land, buildings and parks, machinery and equipment, vehicles, infrastructure, landfill, utility system and infrastructure, and gas lines and meters). This amount of total net position is not available for future spending. The remaining \$1,700,215 in unrestricted net position is available to the City to meet ongoing obligations.

Changes in Net Position

Governmental activities increased the City's net position by \$303,015, while business-type activities increased the City's net position by \$3,261,291. The City can only use the net position obtained through business-type activities to finance the continuing operations of the water and sewer and natural gas systems.

(Continued)

Changes in Net Position (Continued)

The table below provides a summary of the changes in the City's change in net position:

City of Pikeville, Tennessee's Changes in Net Position						
	Governmental Activities		Business-type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services	\$ 141,026	\$ 204,862	\$ 1,990,214	\$ 1,739,351	\$ 2,131,240	\$ 1,944,213
Operating grants and contributions	23,259	49,971	-	-	23,259	49,971
Capital grants and contributions	465,288	71,881	3,401,033	2,671,252	3,866,321	2,743,133
General revenues:						
Property taxes	245,413	248,028	-	-	245,413	248,028
Other taxes	537,597	474,748	-	-	537,597	474,748
Other income	33,540	21,341	36,074	21,780	69,614	43,121
Total revenues	<u>1,446,123</u>	<u>1,070,831</u>	<u>5,427,321</u>	<u>4,432,383</u>	<u>6,873,444</u>	<u>5,503,214</u>
Expenses:						
General government	489,745	414,187	-	-	489,745	414,187
Public safety	336,754	394,459	-	-	336,754	394,459
Public works	181,534	224,538	-	-	181,534	224,538
Public welfare	786	1,234	-	-	786	1,234
State street aid	100,781	76,739	-	-	100,781	76,739
Interest	33,508	8,385	-	-	33,508	8,385
Water and sewer	-	-	1,403,771	1,294,778	1,403,771	1,294,778
Natural gas	-	-	762,259	646,240	762,259	646,240
Total expenses	<u>1,143,108</u>	<u>1,119,542</u>	<u>2,166,030</u>	<u>1,941,018</u>	<u>3,309,138</u>	<u>3,060,560</u>
Change in net position	303,015	(48,711)	3,261,291	2,491,365	3,564,306	2,442,654
Net position – beginning, <i>restated</i>	<u>1,417,684</u>	<u>1,562,744</u>	<u>11,318,454</u>	<u>8,746,802</u>	<u>12,736,138</u>	<u>10,309,546</u>
Net position – ending	<u>\$ 1,720,699</u>	<u>\$ 1,514,033</u>	<u>\$ 14,579,745</u>	<u>\$ 11,238,167</u>	<u>\$ 16,300,444</u>	<u>\$ 12,752,200</u>

Beginning fund balance and net position has been restated as a result of prior period adjustments to accounts receivables. In addition, net position has been restated to reflect a change in accounting principle due to the implementation of GASB Nos. 61 and 65.

	<u>General Fund</u>	<u>Government-wide Activities</u>
Beginning balance, as previously stated	\$ 289,022	\$ 1,514,033
Prior period adjustment		
Change in accounting principle (GASB 61)	-	90,118
Correction of state shared revenue receivables	(6,231)	(6,231)
Beginning balance, <i>restated</i>	<u>\$ 282,791</u>	<u>\$ 1,417,684</u>

(Continued)

Changes in Net Position (Continued)

	<u>Water and Sewer Fund</u>	<u>Natural Gas Fund</u>	<u>Business- type Activities</u>
Beginning balance, as previously stated	\$ 9,897,330	\$ 1,340,837	\$ 11,238,167
Prior period adjustment			
Change in accounting principle (GASB 65)	-	(20,948)	(20,948)
Correction of utility receivables	<u>86,085</u>	<u>15,150</u>	<u>101,235</u>
Beginning balance, <i>restated</i>	<u>\$ 9,983,415</u>	<u>\$ 1,335,039</u>	<u>\$ 11,318,454</u>

Additional information on these changes can be found on page 38 of this report.

Financial Analysis of the City's Funds

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

Governmental Funds

The focus of the City'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'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's governmental funds reported combined ending fund balances of \$230,970 a decrease of \$53,393 in comparison with the prior year. Ninety-seven percent (97%) of this total amount constitutes unassigned fund balance.

The general fund is the chief operating fund of the City of Pikeville. At the end of the current fiscal year, unassigned fund balance of the general fund was \$224,894. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total general fund expenditures. Unassigned fund balance is .14 times greater than total general fund expenditures without transfers.

The fund balance of the City's general fund decreased by \$57,897 during the current fiscal year.

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 position at the end of the year amounted to \$479,722 for the Water and Sewer Fund and \$953,712 for the Natural Gas Fund.

General Fund Budgetary Highlights

The City of Pikeville adopts an annual appropriated budget approved by the City Council.

The overall original budget and final amended budget did not change throughout the fiscal year. However, revenue and expenditure amendments were made to account for variances in operations that were not originally planned. General Fund budgeted revenues and expenditures increased \$15,252.

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

Capital Asset and Debt Administration

Capital Assets

The City of Pikeville's capital assets for its governmental activities as of June 30, 2013, amounted to \$2,990,244 (net of accumulated depreciation). Capital assets for its business-type activities as of June 30, 2013, amounted to \$17,048,677 (net of accumulated depreciation). The City's investment in capital assets includes land, buildings and parks, machinery and equipment, vehicles, infrastructure, landfill, utility system and infrastructure, and gas lines and meters.

Major capital asset additions consist of the following:

- New roof on the industrial building for \$459,132
- New police vehicles and related equipment for \$92,451
- Water and sewer treatment and distribution system for \$4,799,443

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

	2013	2012
Governmental Activities:		
Land	\$ 160,761	\$ 160,761
Buildings and parks	1,399,955	975,870
Machinery and equipment	38,657	35,254
Vehicles	250,233	263,221
Infrastructure	1,042,056	1,120,915
Landfill	98,582	101,016
Total	<u>\$ 2,990,244</u>	<u>\$ 2,657,037</u>
	2013	2012
Business-type Activities:		
Land	\$ 64,847	\$ 64,847
Construction in progress	5,371,908	2,599,120
North Bledsoe system	2,328,595	2,403,944
Water treatment and distribution	6,452,185	4,578,452
Sewer collection and treatment	1,576,609	1,630,733
Buildings	106,711	112,017
Machinery and equipment	47,588	22,273
Vehicles	34,240	61,370
Gas lines and meters	1,047,469	1,092,340
Reservoirs and standpipes	18,525	25,051
Total	<u>\$ 17,048,677</u>	<u>\$ 12,590,147</u>

Additional information on the City's capital assets can be found on pages 31-32, Note 7.

(Continued)

Capital Asset and Debt Administration (Continued)

Long-term Debt

At the end of the fiscal year, the City of Pikeville had long-term debt outstanding of \$5,462,409. Of that amount \$711,954 is due in the next fiscal year.

	2013	2012
Governmental Activities:		
Notes payable	\$ 1,446,256	\$ 1,417,419
Capital lease obligations	66,757	-
Landfill post-closure	23,313	24,540
Compensated absences	10,403	10,889
	<u>\$ 1,546,729</u>	<u>\$ 1,452,848</u>
Business-type Activities:		
Water and Sewer Fund –		
Notes payable	\$ 3,177,366	\$ 1,870,224
Compensated absences	8,789	11,605
	<u>3,186,155</u>	<u>1,881,829</u>
Natural Gas Fund –		
Bonds payable	725,000	780,000
Compensated absences	4,525	2,646
	<u>729,525</u>	<u>782,646</u>
	<u>\$ 3,915,680</u>	<u>\$ 2,664,475</u>

Additional information on outstanding debt can be found in Note 8 on pages 32-34.

Currently Known Conditions Effecting Future Years

The City of Pikeville, Tennessee is actively engaged in several projects that effect future years. The City is in the process of receiving \$7.2 million from the Department of Corrections for providing water to the Bledsoe County Corrections Complex.

The City also plans to upgrade the Water Treatment Plant and well number 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’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, Tennessee 37367.

CITY OF PIKEVILLE, TENNESSEE

STATEMENT OF NET POSITION

JUNE 30, 2013

	Governmental Activities	Business-type Activities	Total Primary Government
ASSETS			
Cash and cash equivalents	\$ 201,853	\$ 1,133,744	\$ 1,335,597
Property tax receivable, net	254,981	-	254,981
Accounts receivable, net	73,326	369,641	442,967
Internal balances	9,816	(9,816)	-
Inventories	-	49,646	49,646
Other assets	10	10	20
Capital assets -			
Land and other nondepreciable assets	160,761	5,436,755	5,597,516
Capital assets, net of accumulated depreciation	<u>2,829,483</u>	<u>11,611,922</u>	<u>14,441,405</u>
 Total assets	 <u>3,530,230</u>	 <u>18,591,902</u>	 <u>22,122,132</u>
LIABILITIES			
Accounts payable	20,836	49,148	69,984
Accrued liabilities	11,766	18,357	30,123
Customer deposits	-	28,972	28,972
Compensated absences	10,403	13,314	23,717
Long-term liabilities, due within one year	550,537	137,700	688,237
Long-term liabilities, due in more than one year	<u>985,789</u>	<u>3,764,666</u>	<u>4,750,455</u>
 Total liabilities	 <u>1,579,331</u>	 <u>4,012,157</u>	 <u>5,591,488</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	<u>230,200</u>	<u>-</u>	<u>230,200</u>
 Total deferred inflows of resources	 <u>230,200</u>	 <u>-</u>	 <u>230,200</u>
NET POSITION			
Net investment in capital assets	1,453,918	13,146,311	14,600,229
Unrestricted	<u>266,781</u>	<u>1,433,434</u>	<u>1,700,215</u>
 Total net position	 <u>\$ 1,720,699</u>	 <u>\$ 14,579,745</u>	 <u>\$ 16,300,444</u>

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

CITY OF PIKEVILLE, TENNESSEE

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2013

<u>Functions/Programs</u>	Program Revenues			
<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
PRIMARY GOVERNMENT				
Governmental activities -				
General government	\$ 489,745	\$ 1,955	\$ 23,259	\$ 465,288
Public safety	336,754	22,305	-	-
Public works	181,534	116,766	-	-
Public welfare	786	-	-	-
State street aid	100,781	-	-	-
Interest	33,508	-	-	-
Total governmental activities	<u>1,143,108</u>	<u>141,026</u>	<u>23,259</u>	<u>465,288</u>
Business-type activities -				
Water and sewer	1,403,771	1,212,452	-	3,401,033
Natural gas	762,259	777,762	-	-
Total business-type activities	<u>2,166,030</u>	<u>1,990,214</u>	<u>-</u>	<u>3,401,033</u>
Total primary government	<u>\$ 3,309,138</u>	<u>\$ 2,131,240</u>	<u>\$ 23,259</u>	<u>\$ 3,866,321</u>
GENERAL REVENUES				
Property taxes				
Local sales taxes				
Alcoholic beverage taxes				
Franchise and excise taxes				
Business taxes				
In lieu of taxes				
Other taxes				
Interest revenue				
Other revenue				
Total general revenue				
Change in net position				
NET POSITION				
Beginning, <i>restated</i>				
Ending				

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

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ 757	\$ -	\$ 757
(314,449)	-	(314,449)
(64,768)	-	(64,768)
(786)	-	(786)
(100,781)	-	(100,781)
(33,508)	-	(33,508)
<u>(513,535)</u>	<u>-</u>	<u>(513,535)</u>
-	3,209,714	3,209,714
-	15,503	15,503
<u>-</u>	<u>3,225,217</u>	<u>3,225,217</u>
(513,535)	3,225,217	2,711,682
245,413	-	245,413
303,251	-	303,251
118,954	-	118,954
11,762	-	11,762
39,081	-	39,081
18,735	-	18,735
45,814	-	45,814
537	2,101	2,638
<u>33,003</u>	<u>33,973</u>	<u>66,976</u>
<u>816,550</u>	<u>36,074</u>	<u>852,624</u>
303,015	3,261,291	3,564,306
<u>1,417,684</u>	<u>11,318,454</u>	<u>12,736,138</u>
<u>\$ 1,720,699</u>	<u>\$ 14,579,745</u>	<u>\$ 16,300,444</u>

CITY OF PIKEVILLE, TENNESSEE

BALANCE SHEET GOVERNMENTAL FUNDS

JUNE 30, 2013

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 195,777	\$ 6,076	\$ 201,853
Property tax receivable, net	254,981	-	254,981
Accounts receivable, net	73,326	-	73,326
Due from other funds	9,816	-	9,816
Other assets	10	-	10
Total assets	\$ 533,910	\$ 6,076	\$ 539,986
LIABILITIES			
Accounts payable	\$ 20,836	\$ -	\$ 20,836
Accrued payroll liabilities	11,766	-	11,766
Total liabilities	32,602	-	32,602
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	276,414	-	276,414
Total deferred inflows of resources	276,414	-	276,414
FUND BALANCES			
Restricted	-	6,076	6,076
Unassigned	224,894	-	224,894
Total fund balances	224,894	6,076	230,970
Total liabilities, deferred inflows of resources, and fund balances	\$ 533,910	\$ 6,076	\$ 539,986

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

CITY OF PIKEVILLE, TENNESSEE

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION

JUNE 30, 2013

Differences in amounts reported for governmental activities in the statement of net position on page 11:

Fund balances – total governmental funds	\$	230,970
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		2,990,244
Certain revenues will be collected after yearend but are not available soon enough to pay for the current period's expenditures and therefore are deferred or not reported in the funds.		46,214
Long-term liabilities are not due and payable in the current period and are not reported in the funds. All liabilities, both due in one year and due in more than one year, are reported in the statement of net position.		
These items consist of:		
Bonds payable		(887,419)
Notes payable		(558,837)
Capital leases		(66,757)
Compensated absences		(10,403)
Landfill post-closure costs		<u>(23,313)</u>
Net assets of governmental activities	\$	<u>1,720,699</u>

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

CITY OF PIKEVILLE, TENNESSEE

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2013

	General	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes	\$ 567,024	\$ -	\$ 567,024
Licenses and permits	1,815	-	1,815
Intergovernmental	670,769	-	670,769
Charges for services	121,840	-	121,840
Fines and forfeitures	15,122	2,249	17,371
Other revenue	45,762	4,138	49,900
Total revenues	1,422,332	6,387	1,428,719
EXPENDITURES			
Current			
General government	392,072	-	392,072
Public safety	270,116	1,200	271,316
Public works	150,042	-	150,042
Public welfare	766	20	786
State street aid	78,969	-	78,969
Capital outlay	560,895	-	560,895
Debt service -			
Principal	64,310	16,281	80,591
Interest	28,626	4,882	33,508
Total expenditures	1,545,796	22,383	1,568,179
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(123,464)	(15,996)	(139,460)
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	-	20,500	20,500
Transfers to other funds	(20,500)	-	(20,500)
Capital leases	86,067	-	86,067
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(57,897)	4,504	(53,393)
FUND BALANCES:			
Beginning, <i>restated</i>	282,791	1,572	284,363
Ending	\$ 224,894	\$ 6,076	\$ 230,970

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, 2013

Differences in amounts reported for governmental activities in the statement of activities on page 12-13:

Net change in fund balances – total governmental funds		\$ (53,393)
--	--	-------------

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlay reported as expenditures in the governmental funds, that meet the capitalization threshold are shown as capital assets in the statement of net position.		560,895
---	--	---------

Depreciation expense on governmental capital assets are included in the statement of activities.		(218,128)
--	--	-----------

The net effect of various transactions involving capital assets is to decrease net position.

Donation of capital assets	\$ 6,801	
Disposal of capital assets	<u>(16,361)</u>	(9,560)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Capital lease financing	(86,067)	
Principal repayments	80,591	
Amortization	<u>1,227</u>	(4,249)

Certain items reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in the governmental funds. This item consists of:

Change in compensated absences		486
--------------------------------	--	-----

Certain governmental revenues will not be collected for several months after the fiscal year and are deferred in the governmental funds.		<u>26,964</u>
--	--	---------------

Change in net position of governmental activities		<u>\$ 303,015</u>
---	--	-------------------

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

CITY OF PIKEVILLE, TENNESSEE

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GAAP BASIS - GENERAL FUND

YEAR ENDED JUNE 30, 2013

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 536,500	\$ 536,500	\$ 567,024	\$ 30,524
Licenses and permits	1,000	1,000	1,815	815
Intergovernmental	1,733,046	1,745,688	670,769	(1,074,919)
Charges for services	116,100	116,100	121,840	5,740
Fines and forfeitures	9,000	9,000	15,122	6,122
Miscellaneous	22,900	25,510	45,762	20,252
Total revenue	<u>2,418,546</u>	<u>2,433,798</u>	<u>1,422,332</u>	<u>(1,011,466)</u>
EXPENDITURES				
Current -				
General government	342,541	392,791	392,072	719
Public safety	309,250	274,495	270,116	4,379
Public works	563,600	558,127	150,042	408,085
Public welfare	1,250	900	766	134
State street aid	80,500	75,400	78,969	(3,569)
Capital outlay	1,052,850	1,076,030	560,895	515,135
Debt service -				
Principal	30,000	17,000	64,310	(47,310)
Interest	11,335	15,335	28,626	(13,291)
Total expenditures	<u>2,391,326</u>	<u>2,410,078</u>	<u>1,545,796</u>	<u>864,282</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	27,220	23,720	(123,464)	(147,184)
OTHER FINANCING SOURCES (USES)				
Transfers to other funds	(3,500)	-	(20,500)	(20,500)
Proceeds from sale of assets	<u>-</u>	<u>-</u>	<u>86,067</u>	<u>86,067</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	23,720	23,720	(57,897)	<u>\$ 81,617</u>
FUND BALANCES:				
Beginning, <i>restated</i>	<u>282,791</u>	<u>282,791</u>	<u>282,791</u>	
Ending	<u>\$ 306,511</u>	<u>\$ 306,511</u>	<u>\$ 224,894</u>	

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

CITY OF PIKEVILLE, TENNESSEE

PROPRIETARY FUNDS STATEMENT OF NET POSITION

JUNE 30, 2013

	Water and Sewer Fund	Natural Gas Fund	Total
ASSETS			
Current assets -			
Cash and cash equivalents	\$ 225,843	\$ 907,901	\$ 1,133,744
Accounts receivable, net	347,238	22,403	369,641
Due from other funds	-	38,231	38,231
Inventories	10,062	39,584	49,646
Other assets	-	10	10
Total current assets	583,143	1,008,129	1,591,272
Noncurrent assets -			
Capital assets -			
Land and other nondepreciable assets	5,425,617	11,138	5,436,755
Capital assets, net of accumulated depreciation	10,498,427	1,113,495	11,611,922
Total noncurrent assets	15,924,044	1,124,633	17,048,677
TOTAL ASSETS	16,507,187	2,132,762	18,639,949
LIABILITIES			
Current liabilities -			
Accounts payable	23,619	25,529	49,148
Accrued liabilities	11,329	7,028	18,357
Customer deposits	11,637	17,335	28,972
Due to other funds	48,047	-	48,047
Compensated absences	8,789	4,525	13,314
Long-term liabilities, due within one year	77,700	60,000	137,700
Total current liabilities	181,121	114,417	295,538
Noncurrent liabilities			
Long-term liabilities, due in more than one year	3,099,666	665,000	3,764,666
Total noncurrent liabilities	3,099,666	665,000	3,764,666
TOTAL LIABILITIES	3,280,787	779,417	4,060,204
NET POSITION			
Net investment in capital assets	12,746,678	399,633	13,146,311
Unrestricted	479,722	953,712	1,433,434
Total net position	\$ 13,226,400	\$ 1,353,345	\$ 14,579,745

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 POSITION

YEAR ENDED JUNE 30, 2013

	Water and Sewer Fund	Natural Gas Fund	Total
OPERATING REVENUES			
Charges for services	\$ 1,166,010	\$ 767,592	\$ 1,933,602
Customer penalties	2,923	-	2,923
Connection fees	35,705	9,925	45,630
Interest revenue	327	1,774	2,101
Other operating revenue	7,814	245	8,059
Total revenues	1,212,779	779,536	1,992,315
OPERATING EXPENSES			
Purchased gas	-	380,496	380,496
Transmission and distribution	522,241	77,831	600,072
Sewer collection, treatment and disposal	288,553	-	288,553
Administration	202,883	219,550	422,433
Depreciation	318,004	50,902	368,906
Total operating expenses	1,331,681	728,779	2,060,460
OPERATING INCOME (LOSS)	(118,902)	50,757	(68,145)
NONOPERATING REVENUES (EXPENSES)			
Capital contributions	3,401,033	-	3,401,033
Miscellaneous revenue	32,944	1,029	33,973
Interest expense	(72,090)	(33,480)	(105,570)
Total nonoperating revenues (expenses)	3,361,887	(32,451)	3,329,436
Changes in net position	3,242,985	18,306	3,261,291
Net position, beginning, <i>restated</i>	9,983,415	1,335,039	11,318,454
Net position, ending	\$ 13,226,400	\$ 1,353,345	\$ 14,579,745

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, 2013

	Water and Sewer Fund	Natural Gas Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 1,110,683	\$ 770,499	\$ 1,881,182
Receipts from other funds	25,465	-	25,465
Payments to other funds	-	(13,386)	(13,386)
Payments to suppliers	(600,432)	(675,457)	(1,275,889)
Payments to employees	(396,788)	1,879	(394,909)
Return of customer deposits	(425)	(750)	(1,175)
Interest	327	1,774	2,101
Net cash provided by operating activities	138,830	84,559	223,389
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Miscellaneous revenue	36,493	1,029	37,522
Net cash provided by noncapital financing activities	36,493	1,029	37,522
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from long-term liabilities	1,388,373	-	1,388,373
Proceeds of capital grants	3,401,033	-	3,401,033
Proceeds from the sale of capital assets	4,403	-	4,403
Principal paid on long-term debt	(81,232)	(55,000)	(136,232)
Interest paid on long-term debt	(72,090)	(33,480)	(105,570)
Acquisition and construction of capital assets	(4,822,369)	(13,017)	(4,835,386)
Net cash used by capital and related financing activities	(181,882)	(101,497)	(283,379)
Net decrease in cash and cash equivalents	(6,559)	(15,909)	(22,468)
Cash and cash equivalents, June 30, 2012	232,402	923,810	1,156,212
Cash and cash equivalents, June 30, 2013	\$ 225,843	\$ 907,901	\$ 1,133,744

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, 2013

	Water and Sewer Fund	Natural Gas Fund	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
OPERATING INCOME (LOSS)	\$ (118,902)	\$ 50,757	\$ (68,145)
ADJUSTMENTS NOT AFFECTING CASH			
Depreciation	318,004	50,902	368,906
(Increase) decrease in -			
Accounts receivable	(93,256)	(7,263)	(100,519)
Due from other funds	2,263	(13,386)	(11,123)
Inventories	3,882	(19,836)	(15,954)
Increase (decrease) in -			
Accounts payable	15,742	23,728	39,470
Accrued payables	(8,864)	(1,472)	(10,336)
Customer deposits	(425)	(750)	(1,175)
Due to other funds	23,202	-	23,202
Compensated absences	(2,816)	1,879	(937)
Total adjustments	257,732	33,802	291,534
Net cash provided by operating activities	\$ 138,830	\$ 84,559	\$ 223,389

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

CITY OF PIKEVILLE, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

		<u>Page</u>
Note 1	Summary of Significant Accounting Policies	23
Note 2	Stewardship, Compliance and Accountability	29
Note 3	Cash Deposits and Investments	29
Note 4	Receivables	30
Note 5	Interfund Transfers	30
Note 6	Interfund Receivables and Payables	30
Note 7	Capital Assets	31
Note 8	Long-term Liabilities	32
Note 9	Landfill Post-Closure Costs	35
Note 10	Employment Retirement System	35
Note 11	Restrictions and Contingencies	37
Note 12	Risk Management and Litigation	37
Note 13	Subsequent Events	37
Note 14	Related Party Transactions	37
Note 15	Change in Accounting Principles and Prior Period Adjustments	37

CITY OF PIKEVILLE, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Reporting Entity

The City of Pikeville, Tennessee (the City) was incorporated in 1939 under Tennessee law. The City is governed by the elected Mayor and four elected Aldermen and provides services to the citizens of the City including police and fire protection, public works, sanitation, solid waste and garbage services, parks and recreation facilities, maintenance of streets and highways, and general administrative services.

As required by accounting principles generally accepted in the United States of America (GAAP), the accompanying basic financial statements includes all the funds and the account groups relevant to the operations of the City.

Blended Component Unit

The Industrial Development Board

The Industrial Development Board (Board) was formed on September 25, 1978 and serves all citizens of the government. The Board was formed to promote industrial development within the City. The organization is governed by a board as appointed by City Council. Debt issuance authorizations are approved by City Council and the City is legally obligated to resources in case there are deficiencies in debt service payments and resources are not available from any other remedies. The Board is reported as a nonmajor special revenue fund and does not issue separate 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.

Basic Financial Statements

The Basic Financial Statements consists of the following:

- 1) Government-wide financial statements;
- 2) Fund financial statements;
- 3) Notes to the basic financial statements.

Government-wide Financial Statements

The Government-wide Financial Statements consist of the statement of net position and the statement of activities and report information on all of the nonfiduciary activities of the Primary Government (governmental activities and business-type activities). The City reports capital assets in the government-wide statement of net position and reports depreciation expense – the cost of “using up” capital assets – in the statement of activities.

Governmental activities are normally supported by taxes and intergovernmental revenues. The governmental activities of the City include general government, public safety (police, fire, and animal control), public works, public welfare, culture and recreation and general administrative support services.

The statement of activities reports expenses and revenues in a format that focuses on the cost of each of the City’s functions, e.g., public safety, public works, etc. The expense of individual functions is compared to the revenue generated directly by the function. Direct expenses are those that are clearly identifiable with a specific function. The types of transactions reported as program revenues for the City are reported in three specific categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions. Charges for services include revenues from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function. Grant and contributions include revenues restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not included among program revenues are reported instead as general revenues.

Fund Financial Statements

The fund financial statements provide information about the government’s funds, including its blended component unit. Separate statements for each fund category – governmental and proprietary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The City reports the following major governmental fund:

The *General Fund* is the government’s primary operating fund and is the only fund that qualifies as a major fund under GASB No. 34. It accounts for all financial resources of the City, except those required to be accounted for in another fund.

The City reports the following major enterprise funds:

The *Water and Sewer Fund* accounts for the government’s water and sewer operations to the City’s citizens.

The *Natural Gas Fund* accounts for the government’s natural gas operations to the City’s citizens.

Additionally, the City reports the following other fund types:

Special Revenue Funds. These 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.

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds. While these balances are reported in the fund financial statements, certain eliminations are made in preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included in internal balances in the governmental activities columns. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

The *governmental fund financial statements* are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis, revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and expenditures relating to claims and judgments are recognized only when payment is due.

Property taxes, state-shared revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable within the current fiscal period are considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be available only when cash is received by the City.

The proprietary funds are reported using the *economic resources measurements focus* and the *accrual basis of accounting*.

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 funds' principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include 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.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Budgets and Budgetary Accounting

Formal budgets are adopted by the Mayor and City Council as a management control device during the year for the governmental type funds and special revenue funds.

Expenditures may not legally exceed budgeted appropriations at the fund level. Budgetary integration is employed as a management tool during the fiscal year, and the budget is amended, as necessary, to meet changing needs. Council approves departmental budgets. Transfers between departments and any revisions in the total appropriation must be approved by the Mayor and City Council Board of Alderman. Unused appropriations for any of the annually funds lapse at the end of the year.

At June 30, 2013, General Fund expenditures exceeded budgeted appropriations within the state street aid and debt service functions by \$3,569 and \$60,601, respectively.

Cash and Cash Equivalents

For purposes of reporting cash flows, the City considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investments

The City follows state investment policy guidelines for types of allowable investments.

Inventories and Prepaid Items

Inventories, which consist primarily of materials used in the Water and Sewer and Natural Gas Funds, are recorded at the lower of cost or market. The cost of such inventories is recorded as expenditures/expenses when consumed rather than purchased.

Certain payments to vendors reflect costs applicable to future reporting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Accounts Receivables

With respect to the accounts receivable for water and sewer fees and property taxes, the City uses the allowance method to estimate uncollectible accounts based on a projection of balances unlikely to be collected. Individual accounts are written off only when they are determined to be uncollectible. Receivables for the Water and Sewer Fund and General Fund are reported net of allowance of \$18,805 and \$24,142, respectively. Other receivable amounts are considered collectible in all material respects.

Capital Assets

Capital assets, including property, plant, equipment, landfill and infrastructure assets (e.g., primary and secondary roads, drainage) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined as assets with an initial, individual cost of more than \$500 and an estimated useful life greater than two years. Capital assets are recorded at historical cost. 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 extend the assets' lives is not capitalized.

In the case of the initial capitalization of general infrastructure assets (i.e. those reported by governmental activities), the government chose to include all such items regardless of their acquisition date or amount. The government was able to estimate the historical cost for the initial reporting of these assets through back trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Major outlays for capital assets and improvements are capitalized as projects are constructed. The City capitalizes net interest costs and interest earned as part of the cost of construction when material. No interest was capitalized during the fiscal year ended June 30, 2013. Governmental activities capital assets of the City are depreciated using the straight-line method over the following estimated useful lives of the assets are as follows:

	Useful Life
Buildings and improvements	15-40 years
Infrastructure	10-20 years
Vehicles	5-15 years
Machinery and equipment	3-7 years
Landfill	50 years

Capital assets of the proprietary funds are accounted for in the respective 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 and 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:

	Useful Life
North Bledsoe system	10-40 years
Water treatment and distribution	5-50 years
Sewer collection and treatment	50 years
Building	30-40 years
Machinery and equipment	5-50 years
Vehicles	5 years
Gas lines and meters	30-40 years
Reservoirs and standpipes	10-50 years

Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises under a modified accrual basis of accounting and full accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported in the governmental funds balance sheet and government-wide statement of net position. The governmental funds and governmental activities report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Net Position Flow Assumption

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

Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

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 are recorded as expenditures 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 carry over 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.

Long-term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental and business-type activities statement of net position. Similarly, long-term debt and other obligations of the City are recorded as liabilities in the appropriate fund. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as expenses when incurred.

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

Net Position

The government-wide financial statements and proprietary fund financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted.

Net Investment in Capital Assets is intended to reflect the position of net assets which are associated with non-liquid capital assets less outstanding capital asset related debt.

Restricted Net Position represents net position that has third party (statutory, bond covenant or granting agency) limitations on their use.

Unrestricted Net Position represents net position that is not restricted for any project or other purpose. While management may have categorized and segmented portions for various purposes, the City has the unrestricted authority to revisit or alter these managerial decisions.

Fund Balance

Governmental funds utilize a fund balance presentation for equity. Fund balance is categorized as nonspendable, restricted, committed, assigned or unassigned.

Nonspendable Fund Balance – represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaids) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance – represents amounts with external constraints placed on the use of these resources (such as debt covenants, grantors, other governments, etc.) or imposed by enabling legislation.

Committed Fund Balance – represents amounts that can only be used for specific purposes as pursuant to official action by City Council prior to the end of the reporting period.

Assigned Fund Balance – represents amounts the City intends to use for specific purposes as expressed by the City Council or an official delegated the authority to assign amounts. This is the residual classification for all governmental funds other than the general fund. Assignment of amounts to a specific purpose as part of the annual budget ordinance may be made by resolution of motion of the board.

Unassigned Fund Balance – represents fund balance that has not been assigned to other funds and as not been restricted, committed, or assigned to specific purposes within the general fund.

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Fund Balances:			
Restricted			
Drug Enforcement	\$ -	\$ 2,621	\$ 2,621
Industrial Development	-	3,455	3,455
Unassigned	<u>224,894</u>	<u>-</u>	<u>224,894</u>
Total fund balances	<u>\$ 224,894</u>	<u>\$ 6,076</u>	<u>\$ 230,970</u>

Property Tax Information

Property taxes attach as an enforceable lien on the property as of January 1 and are levied for the calendar year in October. They are payable immediately and become past due March 1 of the succeeding year to avoid penalties and interest. On February 1 of the following year, the delinquent property taxes are filed with the office of the Bledsoe County Clerk and Master by the Trustee's office.

Property taxes are recognized when they become available. Available includes those property taxes receivable which are expected to be collected within 60 days after year-end.

Property taxes levied for 2013 are recorded as receivables and deferred inflows of resources. The allowance recorded for uncollectible taxes totaled \$24,142 and was based on historical collection data.

Interfund Transactions

During the course of normal operations, transactions occur between individual funds for goods provided or services rendered. Short-term interfund loans are classified as "due to/from other funds". Long-term loans between funds are classified as "loans to/from other funds". All short-term interfund receivables and payables at year end are planned to be eliminated in the subsequent year.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Compliance with Finance Related Legal and Contractual Provisions

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

NOTE 3 – CASH DEPOSITS AND INVESTMENTS

Cash Deposits

The City reports its cash and other investments under GASB Statement No. 40, "Deposit and Investment Risk Disclosures". This statement eliminated or modified portions of the disclosures previously required by GASB Statement No. 3. GASB Statement No. 40 is designed to improve financial reporting of deposit and investment risks.

The City's investments are carried at fair value which is based on quoted market prices and consist of certificates of deposits totaling \$503,580. The City's investments are listed as cash and cash equivalents within the Statement of Net Position.

Interest Rate Risk

As a means of limiting its exposure to losses resulting from rising interest rates, the City's usual policy is to invest in certificates of three years or less. The exposure to interest rate changes is presented using the weighted average maturity method. Its policy is to limit exposure to interest rate risk by requiring sufficient liquidity in the investment portfolio. The City's investments experienced no significant fluctuations in fair value during the year.

Custodial Credit Risk

The City's policies limit deposits and investments to those instruments allowed by applicable state laws. State statutes require that deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the value of the uninsured deposits. The deposits must be covered by the federal deposit insurance or the Tennessee Bank Collateral Pool, by collateral held in the City's agent in the City's name, or by Federal Reserve Banks acting as third party agents. State statutes also authorize the types of investments in which the City may participate. The City limits its investments to certificates of deposit and savings and money market accounts with local banks. The City could also invest with the State of Tennessee local government pooled investment fund, but has not chosen to do so.

Credit Risk

The City's policies are designed to maximize its earnings, while protecting the security and providing maximum liquidity, in accordance with all applicable state laws.

NOTE 4 – RECEIVABLES

Receivables at June 30, 2013, consist of the following:

	<u>General</u>	<u>Water and Sewer</u>	<u>Natural Gas</u>	<u>Total</u>
Funds				
Taxes	\$ 279,123	\$ -	\$ -	\$ 279,123
Intergovernmental	63,536	-	-	63,536
Accounts	<u>9,790</u>	<u>366,043</u>	<u>22,403</u>	<u>398,236</u>
Gross receivables	352,449	366,043	22,403	740,895
Less: Allowance for uncollectibles	<u>(24,142)</u>	<u>(18,805)</u>	<u>-</u>	<u>(42,947)</u>
Net receivables	<u>\$ 328,307</u>	<u>\$ 347,238</u>	<u>\$ 22,403</u>	<u>\$ 697,948</u>

NOTE 5 – INTERFUND TRANSFERS

Transfers within the City are substantially for the purpose of subsidizing operating functions. Resources are accumulated in a fund or component unit to support and simplify the administration of various projects or programs. Interfund transfers are transactions between transferring funds out of one fund to support the operations of another fund.

For the year ended June 30, 2013, the City reported a transfer in within the Industrial Development Authority Fund and a transfer out within the General Fund, in the amount of \$20,500.

NOTE 6 – INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balance as of June 30, 2013, is as follows:

	<u>Payable Fund</u> <u>Water and Sewer Fund</u>
Receivables Fund	
General Fund	\$ 9,816
Natural Gas Fund	<u>38,231</u>
Total	<u>\$ 48,047</u>

The outstanding balances between funds result mainly from monthly utility collections. The Water and Sewer Fund collects sanitation, natural gas, and water and sewer charges, and remits collections to the respective funds after month end closing procedures.

NOTE 7 – CAPITAL ASSETS

The following is a summary of changes in capital assets and accumulated depreciation:

	Beginning Balance	Additions	Adjustments/ Retirements	Ending Balance
Governmental Activities				
Non-depreciable capital assets:				
Land	\$ 160,761	\$ -	\$ -	\$ 160,761
Total non-depreciable assets	<u>160,761</u>	<u>-</u>	<u>-</u>	<u>160,761</u>
Depreciable capital assets:				
Buildings and parks	1,291,621	459,132	-	1,750,753
Machinery and equipment	398,738	16,113	900	413,951
Vehicles	682,777	92,451	125,619	649,609
Infrastructure	1,427,216	-	-	1,427,216
Landfill	121,706	-	-	121,706
	<u>3,922,058</u>	<u>567,696</u>	<u>126,519</u>	<u>4,363,235</u>
Less accumulated depreciation:				
Buildings and parks	315,751	35,047	-	350,798
Machinery and equipment	363,484	12,095	285	375,294
Vehicles	419,556	89,693	109,873	399,376
Infrastructure	306,301	78,859	-	385,160
Landfill	20,690	2,434	-	23,124
	<u>1,425,782</u>	<u>218,128</u>	<u>110,158</u>	<u>1,533,752</u>
Total depreciable assets, net	<u>2,496,276</u>	<u>349,568</u>	<u>16,361</u>	<u>2,829,483</u>
Total capital assets, net	<u>\$ 2,657,037</u>	<u>\$ 349,568</u>	<u>\$ 16,361</u>	<u>\$ 2,990,244</u>
Business-type Activities				
Non-depreciable capital assets:				
Land	\$ 64,847	\$ -	\$ -	\$ 64,847
Construction in progress	2,599,120	4,799,443	2,026,655	5,371,908
Total non-depreciable assets	<u>2,663,967</u>	<u>4,799,443</u>	<u>2,026,655</u>	<u>5,436,755</u>
Depreciable capital assets:				
North Bledsoe system	3,008,661	-	-	3,008,661
Water treatment and distribution	7,052,336	2,026,655	-	9,078,991
Sewer collection and treatment	3,299,530	-	-	3,299,530
Buildings	184,075	-	-	184,075
Machinery and equipment	181,249	35,943	-	217,192
Vehicles	270,489	-	39,900	230,589
Gas lines and meters	1,862,260	-	-	1,862,260
Reservoirs and standpipes	345,661	-	-	345,661
	<u>16,204,261</u>	<u>2,062,598</u>	<u>39,900</u>	<u>18,226,959</u>
Less accumulated depreciation:				
North Bledsoe system	604,717	75,349	-	680,066
Water treatment and distribution	2,473,884	152,922	-	2,626,806
Sewer collection and treatment	1,668,797	54,124	-	1,722,921
Buildings	72,058	5,306	-	77,364
Machinery and equipment	158,976	10,628	-	169,604
Vehicles	209,119	19,180	31,950	196,349
Gas lines and meters	769,920	44,871	-	814,791
Reservoirs and standpipes	320,610	6,526	-	327,136
	<u>6,278,081</u>	<u>368,906</u>	<u>31,950</u>	<u>6,615,037</u>
Total depreciable assets, net	<u>9,926,180</u>	<u>1,693,692</u>	<u>7,950</u>	<u>11,611,922</u>
Total capital assets, net	<u>\$ 12,590,147</u>	<u>\$ 6,493,135</u>	<u>\$ 2,034,605</u>	<u>\$ 17,048,677</u>

Depreciation expense is charged to functions as follows:

General government	\$ 98,159
Public safety	65,438
Public works	32,719
Culture and recreation	<u>21,812</u>
Total	<u>\$ 218,128</u>

NOTE 8 – LONG-TERM LIABILITIES

Governmental Activities

In the government-wide financial statements, long-term debt and other long-term obligations relative to governmental activities are reported as liabilities of the entity. Debt reported in the government-wide financial statements is expected to be liquidated with general government resources. The debt represents amounts not expected to be paid with expendable, available resources, and consists of the following:

Notes:

Note of \$1,000,000 to Tennessee Municipal League Bond Fund, payable in variable, annual installments through 2031, with interest payable monthly at .44%	\$ 887,419
---	------------

Note of \$500,000 to First National Bank, payable in annual installments of \$17,002 through February 2014, with interest at 5.00%	485,000
--	---------

Note of \$150,000 to Southeast Tennessee Development District in monthly installments of \$1,628, including interest at 5.5% through September 2017	<u>73,837</u>
---	---------------

\$ 1,446,256

Capital lease obligations:

Payable to Ford Motor Credit Company in annual installments \$19,310, including interest at 6.10%, through June 2017	<u>\$ 66,757</u>
--	------------------

Landfill post-closure estimate

Original estimate of \$36,810 amortized over thirty (30) years or or \$1,227 per year	<u>\$ 23,313</u>
---	------------------

Liability for compensated absences as discussed in Note 1	<u>\$ 10,403</u>
---	------------------

Maturities of general long-term liabilities are as follows:

For the Year Ending June 30,	Notes	Capital Lease Obligations	Landfill Post-closure	Compensated Absences	Total
2014	\$ 534,072	\$ 15,238	\$ 1,227	\$ 10,403	\$ 560,940
2015	49,775	16,167	1,227	-	67,169
2016	52,721	17,153	1,227	-	71,101
2017	55,720	18,199	1,227	-	75,146
2018	41,549	-	1,227	-	42,776
2019-2023	222,000	-	6,135	-	228,135
2024-2028	284,000	-	6,135	-	290,135
2029-2032	<u>206,419</u>	<u>-</u>	<u>4,908</u>	<u>-</u>	<u>211,327</u>
	<u>\$ 1,446,256</u>	<u>\$ 66,757</u>	<u>\$ 23,313</u>	<u>\$ 10,403</u>	<u>\$ 1,546,729</u>

Business-type Activities

Long-term debt and long-term obligations relative to business-type activities are reported as liabilities with the proprietary fund financial statements. Debt related to business-type activities at June 30, 2013, consisted of the following:

Water and Sewer Fund

Notes:

Note of \$1,589,000 to USDA Rural Development, currently in draw down phase	\$ 1,552,502
Note of \$150,075 to USDA Rural Development, Series 2002, payable in annual installments of \$17,002, including interest at 5.00% through April 2014	14,784
Note of \$483,000 to USDA Rural Development, Series 2006, payable in monthly installments of \$2,179, including interest at 4.375% through 2046	452,325
Note of \$380,000 to Tennessee Municipal League Bond Fund, Series 2007, payable in variable, annual installments, plus semi-annual interest at 3.68% through December 2016	172,000
Note of \$1,042,700 to USDA Rural Development, Series 2008, payable in monthly installments of \$4,609, including interest at 4.375% through 2048	<u>985,755</u>
	<u>\$ 3,177,366</u>
Liability for compensated absences as discussed in Note 1	<u>\$ 8,789</u>

Maturities of water and sewer long-term liabilities are as follows:

For the Year Ending June 30,	Notes	Compensated Absences	Total
2014	\$ 77,700	\$ 8,789	\$ 86,489
2015	1,616,262	-	1,616,262
2016	64,643	-	64,643
2017	61,564	-	61,564
2018	22,527	-	22,527
2019-2023	128,645	-	128,645
2024-2028	160,039	-	160,039
2029-2033	199,092	-	199,092
2034-2038	247,677	-	247,677
2039-2043	308,116	-	308,116
2044-2048	<u>291,101</u>	<u>-</u>	<u>291,101</u>
	<u>\$ 3,177,366</u>	<u>\$ 8,789</u>	<u>\$ 3,186,155</u>

Natural Gas Fund

Revenue and tax bonds:

Series 2002, payable in variable, annual installments,
plus interest at rates of 3.25% to 4.25%, through December 2022 \$ 725,000

Liability for compensated absences as discussed in Note 1 \$ 4,525

Maturities of natural gas long-term liabilities are as follows:

For the Year Ending June 30,	Notes	Compensated Absences	Total
2014	\$ 60,000	\$ 4,525	\$ 64,525
2015	60,000	-	60,000
2016	65,000	-	65,000
2017	65,000	-	65,000
2018	70,000	-	70,000
2019-2023	<u>405,000</u>	<u>-</u>	<u>405,000</u>
	<u>\$ 725,000</u>	<u>\$ 4,525</u>	<u>\$ 729,525</u>

During the year ended June 30, 2013, changes in long-term debt were as follows:

	Beginning Balance	Adjustments/ Additions	Retirements	Ending Balance	Amount Due Within One Year
Governmental Activities					
Notes payable	\$ 1,417,419	\$ 90,118	\$ (61,281)	\$ 1,446,256	\$ 534,072
Capital lease obligations	-	86,067	(19,310)	66,757	15,238
Landfill post-closure	24,540	-	(1,227)	23,313	1,227
Compensated absences	<u>10,889</u>	<u>10,403</u>	<u>(10,889)</u>	<u>10,403</u>	<u>10,403</u>
	<u>\$ 1,452,848</u>	<u>\$ 186,588</u>	<u>\$ (92,707)</u>	<u>\$ 1,546,729</u>	<u>\$ 560,940</u>
Business-type Activities					
Water and Sewer Fund:					
Notes payable	\$ 1,870,224	\$ 1,388,373	\$ (81,231)	\$ 3,177,366	\$ 77,700
Compensated absences	<u>11,605</u>	<u>8,789</u>	<u>(11,605)</u>	<u>8,789</u>	<u>8,789</u>
	<u>1,881,829</u>	<u>1,397,162</u>	<u>(92,836)</u>	<u>\$ 3,186,155</u>	<u>86,489</u>
Natural Gas Fund:					
Bonds payable	780,000	-	(55,000)	725,000	60,000
Compensated absences	<u>2,646</u>	<u>4,525</u>	<u>(2,646)</u>	<u>4,525</u>	<u>4,525</u>
	<u>782,646</u>	<u>4,525</u>	<u>(57,646)</u>	<u>729,525</u>	<u>64,525</u>
	<u>\$ 2,664,475</u>	<u>\$ 1,401,687</u>	<u>\$ (150,482)</u>	<u>\$ 3,915,680</u>	<u>\$ 151,014</u>

NOTE 9 – LANDFILL POST-CLOSURE COSTS

The City of Pikeville is involved 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 designated 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 use 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 \$211,936. 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 23,313. This amount has been recorded as a liability on the Statement of Net Position, as discussed in the previous note disclosure, Note 8.

NOTE 10 – EMPLOYEE RETIREMENT SYSTEM

Tennessee Consolidated Retirement System

Plan Description

Employees of the City of Pikeville are members of the Political Subdivision Pension Plan (PSPP), and agent multi-employer defined benefit 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 PCPP. The report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor, Andrew Jackson Building, Nashville, Tennessee 37243-0230, or can be accessed at <http://treasury.tn.gov/tcrs/PS>.

Funding Policy

The City of Pikeville requires employees to contribute 5% of earnable compensation. The City of Pikeville is required to contribute at an actuarially determined rate; the rate for the fiscal year ended June 30, 2013, was 6.81% 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 ended June 30, 2013, the City's annual pension cost of \$49,030 to TCRS was equal to its required and actual contributions. The required contribution was determined as part of the July 1, 2011, actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment or present and future assets of 7.5% a year compounded annually, (b) projected 3.0% annual rate of inflation, (c) projected salary increases of 4.75% (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5% annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5% 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, 2011 was 7 years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2013	\$ 49,030	100.00%	\$ -
6/30/2012	43,518	100.00%	-
6/30/2011	43,057	100.00%	-

Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the plan was 89.27% funded. The actuarial accrued liability for benefits (AAL) was \$1.98 million, and the actuarial value of assets was \$1.77 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.21 million. The covered payroll (annual payroll of active employees covered by the plan) was \$0.59 million, and the ratio of the UAAL to the covered payroll was 36.17%.

The schedule 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 value of plan assets are increasing or decreasing over time relative to the AAL for benefits.

(Dollar amounts in thousands):

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b)-(a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
7/01/2011	\$ 1,770	\$ 1,983	\$ 213	89.27%	\$ 588	36.17%

NOTE 11 – RESTRICTIONS AND CONTINGENCIES

Federal and State Grants

The City has received funds from federal and state grants for specific purposes which are subject to review by the grantor agencies. Such reviews could lead to a request for reimbursement to the grantor agencies for any expenditure disallowed under the terms of the grants. Management believes that such disallowed costs, if any, would be immaterial.

NOTE 12 – RISK MANAGEMENT AND LITIGATION

The City of Pikeville is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City participates in the Tennessee Municipal League Risk Management Pool (TML-RMP) to provide workers' compensation coverage and general liability and property insurance. The City, along with other participating entities, contributes annual amounts determined by TML-RMP management. As claims arise they are submitted to and paid by TMP-RMP. During the fiscal year ended June 30, 2013, the City contributed a total of \$36,712 to the fund for this insurance coverage. There were no significant reductions in insurance coverage from the prior year.

NOTE 13 – SUBSEQUENT EVENTS

Management has evaluated events and transactions subsequent to the balance sheet date through the date of the auditor's report (the date the financial statements were available to be issued) for potential recognition or disclosure in the financial statements. Management has not identified any items requiring recognition or disclosure.

NOTE 14 – RELATED PARTY TRANSACTIONS

Alderman Reed Sells is a part owner in a local building supply business. During the year the City purchased items totally \$25,357 from this business in the normal course of operations.

NOTE 15 – CHANGE IN ACCOUNTING PRINCIPLES AND PRIOR PERIOD ADJUSTMENTS

Provisions of Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus (an amendment of GASB Statements No. 14 and No. 34)*; Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; and Statement No. 63, *Reporting Deferred Outflows, Deferred Inflows and Net Position* became effective for the year ended June 30, 2013. The district early implemented Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which has an effective date of June 30, 2014.

GASB Statement No. 61 amends Statements No. 14 and No. 34 and modifies certain requirements for inclusion of component units in the financial reporting entity to ensure that the reporting entity includes only organization for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. Statement No. 61 also clarifies the criteria for blending component units and presenting business-type component units. As a result of implementation the Industrial Development Board was added as a blended component unit. In addition, a note payable, in the amount of \$90,118, was added as a direct adjustment to net position within the governmental activities.

GASB Statement No. 62 incorporates into GASB's literature the provisions in Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' Committee on Accounting Procedure issued on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements. The option to use subsequent FASB guidance has been removed.

GASB Statement No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources that were introduced and defined by Concepts Statement No.4, *Elements of Financial Statements*. Previous financial reporting standards did not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. In addition, the previous Statement of Net Assets was renamed to a Statement of Financial Position.

GASB Statement No. 65 establishes accounting and financial reporting standards that reclassifies, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The result of implementation was a direct adjustment to net position, in the amount of \$20,948, to eliminate bond issue costs.

In addition to the various changes in accounting principles, several prior period adjustments were recorded as direct adjustments to fund balance and net position. The effects of the adjustments to fund balance and net position are as follows:

	<u>General Fund</u>	<u>Government- wide Activities</u>	
Beginning balance, as previously stated	\$ 289,022	\$ 1,514,033	
Prior period adjustment			
Change in accounting principle (GASB 61)	-	(90,118)	
Correction of state shared revenue receivables	<u>(6,231)</u>	<u>(6,231)</u>	
Beginning balance, restated	<u>\$ 282,791</u>	<u>\$ 1,417,684</u>	
	<u>Water and Sewer Fund</u>	<u>Natural Gas Fund</u>	<u>Business- type Activities</u>
Beginning balance, as previously stated	\$ 9,897,330	\$ 1,340,837	\$ 11,238,167
Prior period adjustment			
Change in accounting principle (GASB 65)	-	(20,948)	(20,948)
Correction of utility receivables	<u>86,085</u>	<u>15,150</u>	<u>101,235</u>
Beginning balance, restated	<u>\$ 9,983,415</u>	<u>\$ 1,335,039</u>	<u>\$ 11,318,454</u>

CITY OF PIKEVILLE, TENNESSEE
REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2013

Tennessee Consolidated Retirement System

Schedule of Funding Progress (Dollar amounts in thousands):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/01/2011	\$ 1,770	\$ 1,983	\$ 213	89.27%	\$ 588	36.17%
7/01/2009	1,474	1,698	224	86.83	550	40.66
7/01/2007	1,373	1,445	72	95.02	487	14.78

OTHER SUPPLEMENTARY INFORMATION

CITY OF PIKEVILLE, TENNESSEE

NONMAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET

JUNE 30, 2013

	Industrial Development Board	Drug Fund	Total Nonmajor Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 3,455	\$ 2,621	\$ 6,076
Total assets	<u>3,455</u>	<u>2,621</u>	<u>6,076</u>
FUND BALANCES			
Restricted	<u>3,455</u>	<u>2,621</u>	<u>6,076</u>
Total fund balances	<u>\$ 3,455</u>	<u>\$ 2,621</u>	<u>\$ 6,076</u>

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

CITY OF PIKEVILLE, TENNESSEE

NONMAJOR GOVERNMENTAL FUNDS COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

YEAR ENDED JUNE 30, 2013

	Industrial Development Board	Drug Fund	Total Nonmajor Governmental Funds
REVENUES			
Fines and forfeitures	\$ -	\$ 2,249	\$ 2,249
Other revenue	4,138	-	4,138
Total revenues	4,138	2,249	6,387
EXPENDITURES			
Current -			
Public safety	-	1,200	1,200
Public welfare	20	-	20
Debt service -			
Principal	16,281	-	16,281
Interest	4,882	-	4,882
Total expenditures	21,183	1,200	22,383
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(17,045)	1,049	(15,996)
OTHER FINANCING SOURCES			
Transfers from other funds	20,500	-	20,500
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	3,455	1,049	4,504
FUND BALANCES			
Beginning	-	1,572	1,572
Ending	\$ 3,455	\$ 2,621	\$ 6,076

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

CITY OF PIKEVILLE, TENNESSEE

GENERAL FUND SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2013

	Budget Amounts		Actual	Variance with Final Budget
	Original	Final		
TAXES -				
Property taxes	\$ 245,000	\$ 245,000	\$ 218,847	\$ (26,153)
Local sales taxes	170,000	170,000	184,239	14,239
Business taxes	5,000	5,000	39,081	34,081
Local beer taxes	110,000	110,000	118,578	8,578
Franchise taxes	<u>6,500</u>	<u>6,500</u>	<u>6,279</u>	<u>(221)</u>
Total taxes	<u>536,500</u>	<u>536,500</u>	<u>567,024</u>	<u>30,524</u>
LICENSES AND PERMITS -				
Privilege licenses	<u>1,000</u>	<u>1,000</u>	<u>1,815</u>	<u>815</u>
Total licenses and permits	<u>1,000</u>	<u>1,000</u>	<u>1,815</u>	<u>815</u>
INTERGOVERNMENTAL -				
State sales tax	140,000	140,000	119,012	(20,988)
State beer tax	-	-	376	376
State income and excise tax	17,000	17,000	13,976	(3,024)
City streets and transportation	55,000	55,000	35,521	(19,479)
TVA in lieu of tax	15,000	15,000	18,337	3,337
State and other grants	1,081,046	1,093,688	25,059	(1,068,629)
Federal grants	<u>425,000</u>	<u>425,000</u>	<u>458,488</u>	<u>33,488</u>
Total intergovernmental	<u>1,733,046</u>	<u>1,745,688</u>	<u>670,769</u>	<u>(1,074,919)</u>
CHARGES FOR SERVICES -				
Sanitation fees	115,000	115,000	116,766	1,766
Other	<u>1,100</u>	<u>1,100</u>	<u>5,074</u>	<u>3,974</u>
Total charges for services	<u>116,100</u>	<u>116,100</u>	<u>121,840</u>	<u>5,740</u>
FINES AND FORFEITS -				
City court fines and fees	<u>9,000</u>	<u>9,000</u>	<u>15,122</u>	<u>6,122</u>
Total fines and forfeits	<u>9,000</u>	<u>9,000</u>	<u>15,122</u>	<u>6,122</u>

(Continued)

CITY OF PIKEVILLE, TENNESSEE

GENERAL FUND SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2013

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
MISCELLANEOUS				
Insurance recoveries	\$ -	\$ 2,610	\$ 5,199	\$ 2,589
Interest	1,600	1,600	537	(1,063)
Rent	7,300	7,300	12,875	5,575
Contributions	4,000	4,000	10,831	6,831
Refunds	10,000	10,000	16,020	6,020
Other	-	-	300	300
Total miscellaneous	<u>22,900</u>	<u>25,510</u>	<u>45,762</u>	<u>20,252</u>
Total revenues	<u>2,418,546</u>	<u>2,433,798</u>	<u>1,422,332</u>	<u>(1,011,466)</u>
GENERAL GOVERNMENT				
Legislative -				
Salaries	7,500	7,500	7,200	300
Payroll taxes	<u>575</u>	<u>575</u>	<u>391</u>	<u>184</u>
	<u>8,075</u>	<u>8,075</u>	<u>7,591</u>	<u>484</u>
Judicial -				
Salaries	4,800	4,800	4,800	-
Payroll taxes	<u>375</u>	<u>375</u>	<u>367</u>	<u>8</u>
	<u>5,175</u>	<u>5,175</u>	<u>5,167</u>	<u>8</u>
Mayor -				
Salaries	16,000	18,700	19,098	(398)
Payroll taxes	<u>1,224</u>	<u>1,374</u>	<u>1,375</u>	<u>(1)</u>
	<u>17,224</u>	<u>20,074</u>	<u>20,473</u>	<u>(399)</u>
Central Staff Agencies -				
Salaries	87,000	94,700	95,898	(1,198)
Payroll taxes	4,750	7,150	7,128	22
Pension	4,300	6,400	6,388	12
Data processing	7,500	6,100	6,054	46
Contract services	3,000	3,300	2,885	415
Professional services	7,500	11,825	11,373	452
Subscriptions	7,500	4,600	4,408	192
Telephone	6,000	5,500	5,421	79
Operating supplies	3,500	5,000	4,980	20
Repair and maintenance	1,000	1,100	1,097	3
Travel	<u>5,000</u>	<u>3,000</u>	<u>2,980</u>	<u>20</u>
	<u>137,050</u>	<u>148,675</u>	<u>148,612</u>	<u>63</u>

(Continued)

CITY OF PIKEVILLE, TENNESSEE

GENERAL FUND SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2013

	Budget Amounts		Actual	Variance with Final Budget
	Original	Final		
(Continued)				
City Hall Buildings -				
Utilities	16,500	13,985	14,883	(898)
Contract services	500	800	795	5
Operating supplies	500	5,505	5,466	39
Repair and maintenance	500	1,610	1,608	
Other	5,000	9,695	10,065	(370)
	<u>23,000</u>	<u>31,595</u>	<u>32,817</u>	<u>(1,224)</u>
Special Projects -				
City projects	1,000	-	-	-
	<u>1,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
General Government -				
Payroll taxes	2,500	-	750	(750)
Health insurance	85,017	105,272	105,268	4
Other insurance	40,000	45,775	45,766	9
Unemployment insurance	2,000	1,550	1,534	16
Professional services	20,000	25,550	23,082	2,468
Subscriptions and dues	500	950	947	3
Donations	500	-	-	-
Operating supplies	500	100	65	35
	<u>151,017</u>	<u>179,197</u>	<u>177,412</u>	<u>1,785</u>
TOTAL GENERAL GOVERNMENT	<u>342,541</u>	<u>392,791</u>	<u>392,072</u>	<u>717</u>
DEPARTMENT OF PUBLIC SAFETY				
Police -				
Salaries	151,500	140,500	139,013	1,487
Payroll taxes	12,000	10,700	10,637	63
Pension	9,000	9,215	9,213	2
Employee training	3,500	500	350	150
Subscriptions and dues	1,000	1,320	1,318	2
Telephone	3,000	2,350	2,340	10
Utilities	2,500	2,500	2,404	96
Travel	3,000	1,825	1,800	25
Operating supplies	28,000	21,975	19,387	2,588
Contract services	2,000	1,750	1,739	11
Repair and maintenance	7,750	9,785	9,774	11
	<u>223,250</u>	<u>202,420</u>	<u>197,975</u>	<u>4,445</u>

(Continued)

CITY OF PIKEVILLE, TENNESSEE

GENERAL FUND SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2013

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
(Continued)				
Fire -				
Bonuses	500	500	500	-
Employee training	4,250	3,950	3,943	7
Subscriptions and dues	1,000	700	623	77
Telephone	2,800	2,525	2,514	11
Utilities	7,900	7,150	7,059	91
Travel	2,300	1,525	1,504	21
Operating supplies	11,000	10,500	12,998	(2,498)
Contract services	3,300	3,800	3,778	22
Supplies and small equipment	1,200	1,200	1,200	-
Repair and maintenance	6,750	6,150	3,128	3,022
Land rental	500	500	500	-
Grant expenditure	39,000	24,000	24,810	(810)
	<u>80,500</u>	<u>62,500</u>	<u>62,557</u>	<u>(57)</u>
Custody of Property -				
Tow - in services	500	-	-	-
	<u>500</u>	<u>-</u>	<u>-</u>	<u>-</u>
Support Services -				
Employee training	1,000	375	351	24
Operating supplies	4,000	9,200	9,233	(33)
	<u>5,000</u>	<u>9,575</u>	<u>9,584</u>	<u>(9)</u>
TOTAL DEPARTMENT OF PUBLIC SAFETY	<u>309,250</u>	<u>274,495</u>	<u>270,116</u>	<u>4,379</u>
DEPARTMENT OF PUBLIC WORKS				
Highways and Streets -				
Contract services	-	6,275	6,270	5
Subscriptions and dues	-	45	41	4
Operating supplies	445,000	433,002	34,951	398,051
Repair and maintenance	3,500	3,705	3,666	39
	<u>448,500</u>	<u>443,027</u>	<u>44,928</u>	<u>398,099</u>
Sanitation -				
Contract services	115,100	115,100	105,114	9,986
	<u>115,100</u>	<u>115,100</u>	<u>105,114</u>	<u>9,986</u>
TOTAL DEPARTMENT OF PUBLIC WORKS	<u>563,600</u>	<u>558,127</u>	<u>150,042</u>	<u>408,085</u>

(Continued)

CITY OF PIKEVILLE, TENNESSEE

GENERAL FUND SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2013

	Budget Amounts		Actual	Variance with Final Budget
	Original	Final		
(Continued)				
DEPARTMENT OF STATE STREET AID				
State Street Aid -				
Salaries	45,000	43,100	44,759	(1,659)
Payroll taxes	3,500	3,300	3,267	33
Pension	2,000	2,000	1,971	29
Utilities	30,000	27,000	28,972	(1,972)
	80,500	75,400	78,969	(3,569)
TOTAL DEPARTMENT OF STATE STREET AID	80,500	75,400	78,969	(3,569)
DEPARTMENT OF PUBLIC WELFARE				
Parks and Recreation -				
Operating supplies	-	50	46	4
Contract services	250	50	-	50
Repair and maintenance	1,000	800	720	80
	1,250	900	766	134
TOTAL DEPARTMENT OF PUBLIC WELFARE	1,250	900	766	134
CAPITAL OUTLAY				
Central staff agencies	-	2,675	2,357	318
City hall buildings	500	-	-	-
Special projects	-	-	459,132	(459,132)
Police department	5,000	26,505	93,261	(66,756)
Fire department	9,000	9,600	5,345	4,255
Support services	2,000	-	-	-
Highways and streets	1,036,350	1,037,250	800	1,036,450
TOTAL CAPITAL OUTLAY	1,052,850	1,076,030	560,895	515,135

(Continued)

CITY OF PIKEVILLE, TENNESSEE

GENERAL FUND
 SCHEDULE OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2013

	Budget Amounts		Actual	Variance with Final Budget
	Original	Final		
(Continued)				
DEBT SERVICE				
Principal	30,000	17,000	64,310	(47,310)
Interest	<u>11,335</u>	<u>15,335</u>	<u>28,626</u>	<u>(13,291)</u>
TOTAL DEBT SERVICE	<u>41,335</u>	<u>32,335</u>	<u>92,936</u>	<u>(60,601)</u>
TOTAL EXPENDITURES	<u>2,391,326</u>	<u>2,410,078</u>	<u>1,545,796</u>	<u>864,280</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	27,220	23,720	(123,464)	(147,184)
OTHER FINANCING SOURCES (USES)				
Transfers to other funds	(3,500)	-	(20,500)	20,500
Capital lease proceeds	<u>-</u>	<u>-</u>	<u>86,067</u>	<u>86,067</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	23,720	23,720	(57,897)	<u>\$ (81,617)</u>
FUND BALANCES				
Beginning, <i>restated</i>	<u>282,791</u>	<u>282,791</u>	<u>282,791</u>	
Ending	<u>\$ 306,511</u>	<u>\$ 306,511</u>	<u>\$ 224,894</u>	

CITY OF PIKEVILLE, TENNESSEE

INDUSTRIAL DEVELOPMENT BOARD FUND
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2013

	Budget Amounts		Actual	Variance with Final Budget
	Original	Final		
MISCELLANEOUS				
Building rent	\$ -	\$ -	\$ 4,138	\$ 4,138
Total revenues	-	-	4,138	4,138
DEPARTMENT OF PUBLIC WELFARE				
Industrial Development -				
Subscriptions and dues	-	-	20	(20)
	-	-	20	(20)
DEBT SERVICE				
Principal	14,951	14,951	16,281	(1,330)
Interest	4,583	4,583	4,882	(299)
TOTAL DEBT SERVICE	19,534	19,534	21,163	(1,629)
TOTAL EXPENDITURES	19,534	19,534	21,183	(1,649)
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(19,534)	(19,534)	(17,045)	2,489
OTHER FINANCING SOURCES				
Transfers in from other funds	19,534	19,534	20,500	966
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	-	-	3,455	\$ 3,455
FUND BALANCES				
Beginning	-	-	-	
Ending	\$ -	\$ -	\$ 3,455	

CITY OF PIKEVILLE, TENNESSEE

DRUG FUND
 SCHEDULE OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2013

	Budget Amounts		Actual	Variance with Final Budget
	Original	Final		
FINES AND FORFEITS -				
City court fines and fees	\$ 500	\$ 500	\$ 2,249	\$ 1,749
Total revenues	<u>500</u>	<u>500</u>	<u>2,249</u>	<u>1,749</u>
DEPARTMENT OF PUBLIC SAFETY				
Drug enforcement	<u>500</u>	<u>500</u>	<u>1,200</u>	<u>(700)</u>
	<u>500</u>	<u>500</u>	<u>1,200</u>	<u>(700)</u>
TOTAL EXPENDITURES	<u>500</u>	<u>500</u>	<u>1,200</u>	<u>(700)</u>
EXCESS REVENUES OVER (UNDER)				
EXPENDITURES	-	-	1,049	<u>\$ 1,049</u>
FUND BALANCES				
Beginning	<u>1,572</u>	<u>1,572</u>	<u>1,572</u>	
Ending	<u>\$ 1,572</u>	<u>\$ 1,572</u>	<u>\$ 2,621</u>	

CITY OF PIKEVILLE, TENNESSEE

SCHEDULE OF PROPERTY TAX RATES AND ASSESSMENTS

JUNE 30, 2013

<u>Year</u>	<u>Tax Rate Per \$100</u>	<u>Assessment</u>	<u>Levy</u>
2004	0.7500	\$ 24,873,560	\$ 186,570
2005	0.6600	28,333,333	187,000
2006	0.6600	28,873,636	190,566
2007	0.6600	28,567,121	188,543
2008	0.6600	41,161,818	271,668
2009	0.8500	30,589,294	260,009
2010	0.8500	30,071,059	255,604
2011	0.8412	30,551,236	256,997
2012	0.8412	30,587,256	257,300
2013	0.8412	28,980,817	230,200

Uncollected Delinquent Accounts: The City of Pikeville has filed delinquent taxes with the Bledsoe County Trustee for collection at June 30, 2013.

CITY OF PIKEVILLE, TENNESSEE

SCHEDULE OF CHANGES IN PROPERTY TAX RECEIVABLE

JUNE 30, 2013

<u>Tax Year</u>	<u>Property Tax Receivable Balance June 30, 2012</u>	<u>Property Tax Levied</u>	<u>Anticipated Property Tax Levy</u>	<u>Abatements and Adjustments</u>	<u>Tax Collections</u>	<u>Property Tax Receivable Balance June 30, 2013</u>
2013	\$ -	\$ -	\$ 230,200	\$ -	\$ -	\$ 230,200
2012	-	257,300	-	(14,389)	(215,741)	27,170
2011	25,337	-	-	-	(13,296)	12,041
2010	9,118	-	-	-	(3,656)	5,462
2009	4,973	-	-	-	(3,320)	1,653
2008	1,259	-	-	-	(376)	883
2007	501	-	-	-	(228)	273
2006	184	-	-	-	(184)	-
2005	881	-	-	-	(43)	838
2004	114	-	-	-	-	114
2003	489	-	-	-	-	489
	<u>\$ 42,856</u>	<u>\$ 257,300</u>	<u>\$ 230,200</u>	<u>\$ (14,389)</u>	<u>\$ (236,844)</u>	<u>\$ 279,123</u>

CITY OF PIKEVILLE, TENNESSEE
SCHEDULE OF DEBT SERVICE REQUIREMENTS
GOVERNMENTAL ACTIVITIES
JUNE 30, 2013

Year Ending June 30,	Tennessee Municipal League Bond Fund Series 2006		General Obligation Note		Industrial Development Loan		Ford Motor Credit Capital Lease Obligation		Landfill Post-Closure Estimate		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 32,000	\$ 3,996	\$ 485,000	\$ 13,657	\$ 17,072	\$ 3,668	\$ 15,238	\$ 4,072	\$ 1,227	\$ 550,537	\$ 25,393	
2015	33,000	3,852	-	-	16,775	2,772	16,167	3,143	1,227	67,169	9,767	
2016	35,000	3,703	-	-	17,721	1,826	17,153	2,157	1,227	71,101	7,686	
2017	37,000	3,546	-	-	18,720	826	18,199	1,110	1,227	75,146	5,482	
2018	38,000	3,379	-	-	3,549	37	-	-	1,227	42,776	3,416	
2019	40,000	3,208	-	-	-	-	-	-	1,227	41,227	3,208	
2020	42,000	3,028	-	-	-	-	-	-	1,227	43,227	3,028	
2021	44,000	2,839	-	-	-	-	-	-	1,227	45,227	2,839	
2022	47,000	2,641	-	-	-	-	-	-	1,227	48,227	2,641	
2023	49,000	2,430	-	-	-	-	-	-	1,227	50,227	2,430	
2024	51,000	2,209	-	-	-	-	-	-	1,227	52,227	2,209	
2025	54,000	1,980	-	-	-	-	-	-	1,227	55,227	1,980	
2026	57,000	1,737	-	-	-	-	-	-	1,227	58,227	1,737	
2027	60,000	1,480	-	-	-	-	-	-	1,227	61,227	1,480	
2028	62,000	1,210	-	-	-	-	-	-	1,227	63,227	1,210	
2029	66,000	931	-	-	-	-	-	-	1,227	67,227	931	
2030	69,000	634	-	-	-	-	-	-	1,227	70,227	634	
2031	71,419	324	-	-	-	-	-	-	1,227	72,646	324	
2032	-	-	-	-	-	-	-	-	1,227	1,227	-	
Total	\$ 887,419	\$ 43,127	\$ 485,000	\$ 13,657	\$ 73,837	\$ 9,129	\$ 66,757	\$ 10,482	\$ 23,313	\$ 1,536,326	\$ 76,395	

CITY OF PIKEVILLE, TENNESSEE
SCHEDULE OF DEBT SERVICE REQUIREMENTS
WATER AND SEWER PROPRIETARY FUND
JUNE 30, 2013

Year Ending June 30,	USDA Rural Development	USDA Series 2002		USDA Series 2006	
	Principal	Principal	Interest	Principal	Interest
2014	\$ -	\$ 14,784	\$ 369	\$ 6,488	\$ 19,660
2015	1,552,502	-	-	6,777	19,371
2016	-	-	-	7,080	19,068
2017	-	-	-	7,396	18,752
2018	-	-	-	7,726	18,422
2019	-	-	-	8,071	18,077
2020	-	-	-	8,431	17,717
2021	-	-	-	8,808	17,340
2022	-	-	-	9,201	16,947
2023	-	-	-	9,612	16,536
2024	-	-	-	10,041	16,107
2025	-	-	-	10,489	15,659
2026	-	-	-	10,957	15,191
2027	-	-	-	11,446	14,702
2028	-	-	-	11,957	14,191
2029	-	-	-	12,491	13,657
2030	-	-	-	13,048	13,100
2031	-	-	-	13,631	12,517
2032	-	-	-	14,239	11,909
2033	-	-	-	14,875	11,273
2034	-	-	-	15,539	10,609
2035	-	-	-	16,233	9,915
2036	-	-	-	16,957	9,191
2037	-	-	-	17,714	8,434
2038	-	-	-	18,505	7,643
2039	-	-	-	19,331	6,817
2040	-	-	-	20,194	5,954
2041	-	-	-	21,095	5,053
2042	-	-	-	22,037	4,111
2043	-	-	-	23,020	3,128
2044	-	-	-	24,048	2,100
2045	-	-	-	25,121	1,027
2046	-	-	-	9,767	9,844
2047	-	-	-	-	-
2048	-	-	-	-	-
Total	<u>\$ 1,552,502</u>	<u>\$ 14,784</u>	<u>\$ 369</u>	<u>\$ 452,325</u>	<u>\$ 404,022</u>

Tennessee Municipal League Bond Fund Series 2007		USDA Series 2008		Total	
Principal	Interest	Principal	Interest	Principal	Interest
\$ 44,000	\$ 5,520	\$ 12,428	\$ 42,880	\$ 77,700	\$ 68,429
44,000	3,900	12,983	42,325	1,616,262	65,596
44,000	2,282	13,563	41,745	64,643	63,095
40,000	736	14,168	41,140	61,564	60,628
-	-	14,801	40,507	22,527	58,929
-	-	15,461	39,847	23,532	57,924
-	-	16,151	39,157	24,582	56,874
-	-	16,872	38,436	25,680	55,776
-	-	17,626	37,682	26,827	54,629
-	-	18,412	36,896	28,024	53,432
-	-	19,234	36,074	29,275	52,181
-	-	20,093	35,215	30,582	50,874
-	-	20,990	34,318	31,947	49,509
-	-	21,927	33,381	33,373	48,083
-	-	22,905	32,403	34,862	46,594
-	-	23,928	31,380	36,419	45,037
-	-	24,996	30,312	38,044	43,412
-	-	26,112	29,196	39,743	41,713
-	-	27,277	28,031	41,516	39,940
-	-	28,495	26,813	43,370	38,086
-	-	29,767	25,541	45,306	36,150
-	-	31,096	24,212	47,329	34,127
-	-	32,484	22,824	49,441	32,015
-	-	33,934	21,374	51,648	29,808
-	-	35,448	19,860	53,953	27,503
-	-	37,031	18,277	56,362	25,094
-	-	38,684	16,624	58,878	22,578
-	-	40,411	14,897	61,506	19,950
-	-	42,214	13,094	64,251	17,205
-	-	44,099	11,209	67,119	14,337
-	-	46,067	9,241	70,115	11,341
-	-	48,124	7,184	73,245	8,211
-	-	50,272	5,036	60,039	14,880
-	-	52,516	2,792	52,516	2,792
-	-	35,186	20,122	35,186	20,122
<u>\$ 172,000</u>	<u>\$ 12,438</u>	<u>\$ 985,755</u>	<u>\$ 950,025</u>	<u>\$ 3,177,366</u>	<u>\$ 1,366,854</u>

CITY OF PIKEVILLE, TENNESSEE
SCHEDULE OF DEBT SERVICE REQUIREMENTS
NATURAL GAS PROPRIETARY FUND
JUNE 30, 2013

Year Ending June 30,	Series 2002	
	Principal	Interest
2014	\$ 60,000	\$ 31,180
2015	60,000	28,780
2016	65,000	26,199
2017	65,000	23,436
2018	70,000	20,515
2019	75,000	17,325
2020	75,000	13,894
2021	80,000	10,213
2022	85,000	6,294
2023	90,000	4,275
Total	\$ 725,000	\$ 182,111

CITY OF PIKEVILLE, TENNESSEE

SCHEDULE OF MUNICIPAL UTILITY RATES AND NUMBERS OF CUSTOMERS

JUNE 30, 2013

WATER RATE SCHEDULE

	<u>Residential</u>	<u>Commercial</u>	<u>Outside City</u>
Water Rates:			
First 2,000 Gallons	\$17.76/month	\$20.42/month	\$17.76/month
2,001 to 12,000 Gallons	\$17.76/month	\$20.42/month	\$17.76/month
12,000 Gallons and over	\$17.76/month	\$20.42/month	\$17.76/month

SEWER RATE SCHEDULE

The City's sewer rate is 100% of the water rate

NATURAL GAS RATE SCHEDULE

Gas rates fluctuate on a monthly basis depending on the wholesale gas cost.

GARBAGE RATE SCHEDULE

\$12.95/month

NUMBER OF CUSTOMERS

Water	1525
Sewer	659
Garbage	676
Natural Gas	964

Schedule for Unaccounted for Water Loss

AWWA WLCC Free Water Audit Software: Reporting Worksheet				Back to Instructions
Copyright © 2010, American Water Works Association. All Rights Reserved.		WAS v4.2		
Water Audit Report for: City of Pikeville, TN				
Reporting Year: 2013 / 7/2012 - 6/2013				
Please enter data in the white cells below. Where available, metered values should be used; if metered values are unavailable please estimate a value. Indicate your confidence in the accuracy of the input data by grading each component (1-10) using the drop-down list to the left of the input cell. Hover the mouse over the cell to obtain a description of the grades				
All volumes to be entered as: MILLION GALLONS (US) PER YEAR				
WATER SUPPLIED				
<< Enter grading in column 'E'				
Volume from own sources:	?	9	226.801	Million gallons (US)/yr (MG/Yr)
Master meter error adjustment (enter positive value):	?	9	0.000	under-registered MG/Yr
Water imported:	?	10	7.203	MG/Yr
Water exported:	?	n/a	0.000	MG/Yr
WATER SUPPLIED:			234.004	MG/Yr
AUTHORIZED CONSUMPTION				
Billed metered:	?	7	111.068	MG/Yr
Billed unmetered:	?	9	0.027	MG/Yr
Unbilled metered:	?	n/a	0.000	MG/Yr
Unbilled unmetered:	?	7	11.588	MG/Yr
AUTHORIZED CONSUMPTION:			122.683	MG/Yr
WATER LOSSES (Water Supplied - Authorized Consumption)				
			111.322	MG/Yr
Apparent Losses				
Unauthorized consumption:	?		0.585	MG/Yr
Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed				
Customer metering inaccuracies:	?	7	11.659	MG/Yr
Systematic data handling errors:	?	7	0.020	MG/Yr
Apparent Losses:			12.264	
Real Losses (Current Annual Real Losses or CARL)				
Real Losses = Water Losses - Apparent Losses:	?		99.057	MG/Yr
WATER LOSSES:			111.322	MG/Yr
NON-REVENUE WATER				
NON-REVENUE WATER:			122.909	MG/Yr
= Total Water Loss + Unbilled Metered + Unbilled Unmetered				
SYSTEM DATA				
Length of mains:	?	7	72.0	miles
Number of active AND inactive service connections:	?	7	1,670	
Connection density:	?		23	conn./mile main
Average length of customer service line:	?	10	0.0	ft (pipe length between curbstop and customer meter or property boundary)
Average operating pressure:	?	6	105.0	psi
COST DATA				
Total annual cost of operating water system:	?	9	\$1,085,767	\$/Year
Customer retail unit cost (applied to Apparent Losses):	?	8	\$7.65	\$/1000 gallons (US)
Variable production cost (applied to Real Losses):	?	9	\$1,391.42	\$/Million gallons
PERFORMANCE INDICATORS				
Financial Indicators				
Non-revenue water as percent by volume of Water Supplied:				52.5%
Non-revenue water as percent by cost of operating system:				22.8%
Annual cost of Apparent Losses:				\$93,820
Annual cost of Real Losses:				\$137,830
Operational Efficiency Indicators				
Apparent Losses per service connection per day:				20.12 gallons/connection/day
Real Losses per service connection per day*:				N/A gallons/connection/day
Real Losses per length of main per day*:				3,769.31 gallons/mile/day
Real Losses per service connection per day per psi pressure:				gallons/connection/day/psi
Unavoidable Annual Real Losses (UARL):				24.53 million gallons/year
From Above, Real Losses = Current Annual Real Losses (CARL):				99.06 million gallons/year
Infrastructure Leakage Index (ILI) [CARL/UARL]:				4.04
* only the most applicable of these two indicators will be calculated				
WATER AUDIT DATA VALIDITY SCORE:				
*** YOUR SCORE IS: 83 out of 100 ***				
A weighted scale for the components of consumption and water loss is included in the calculation of the Water Audit Data Validity Score				
PRIORITY AREAS FOR ATTENTION:				
Based on the information provided, audit accuracy can be improved by addressing the following components:				
1: Billed metered				
2: Volume from own sources				
3: Unauthorized consumption				
For more information, click here to see the Grading Matrix worksheet				

SINGLE AUDIT SECTION

CITY OF PIKEVILLE, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDING JUNE 30, 2013

<u>Federal Grantor/Pass-Through/Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Contract Number</u>	<u>Beginning (Accrued) Deferred Grant Revenue</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Ending (Accrued) Deferred Grant Revenue</u>
APPALACHIAN REGIONAL COMMISSION						
Appalachian Area Development	23.002	91-22	\$ (6,627)	\$ 478,369	\$ 471,742	\$ -
Total Appalachian Regional Commission			(6,627)	478,369	471,742	-
U.S. DEPARTMENT OF AGRICULTURE						
USDA Rural Development Loan Proceeds	10.760	TN-16710	-	1,388,373	1,388,373	-
Total U. S. Department of Agriculture			-	1,388,373	1,388,373	-
U.S. DEPARTMENT OF TRANSPORTATION						
Passed through Tennessee Department of Transportation Highway Safety Grant	20.600	Z13GHS251	-	5,000	5,000	-
Total U.S. Department of Transportation			-	5,000	5,000	-
TOTAL EXPENDITURES OF FEDERAL AWARDS						
			(6,627)	1,871,742	1,865,115	-
STATE AWARDS						
Bledsoe County East Valley Water Project Tennessee Finance and Administration	N/A	GG-10-32494-00	-	408,500	408,500	-
Waterline & Water Treatment Plant/Correctional Facility	N/A	SBC-142-013-02-2004-24	-	2,938,279	2,938,279	-
TML Risk Management Pool "Safety Partners Loss Control Grant Tennessee Department of Agriculture		Fiscal Year 2013	-	1,500	1,500	-
Division of Forestry's Volunteer Fire Assistance Program		Fiscal Year 2013	-	3,000	3,000	-
TOTAL EXPENDITURES OF STATE AWARDS						
			-	3,351,279	3,351,279	-
TOTAL EXPENDITURES OF FEDERAL AWARDS						
			\$ (6,627)	\$ 5,223,021	\$ 5,216,394	\$ -

CITY OF PIKEVILLE, TENNESSEE

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

YEAR ENDED JUNE 30, 2013

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal and State Awards include the federal and state grant activity of the City of Pikeville, Tennessee and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



**HENDERSON HUTCHERSON
& MCCULLOUGH, PLLC**

Certified Public Accountants

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

Mayor and Aldermen
City of Pikeville, Tennessee
Pikeville, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Pikeville, Tennessee as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 8, 2013.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency as item 2013-01.

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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* as item 2013-02.

City of Pikeville, Tennessee's Response to Findings

The City of Pikeville, Tennessee's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Chattanooga, Tennessee
November 8, 2013

*Henderson Hutcherson
in McCullough, PLLC*



**HENDERSON HUTCHERSON
& MCCULLOUGH, PLLC**

Certified Public Accountants

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

Mayor and Aldermen
City of Pikeville, Tennessee
Pikeville, Tennessee

Report on Compliance for Each Major Federal Program

We have audited the City of Pikeville, Tennessee's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2013. The City of Pikeville, Tennessee's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on each of the City of Pikeville's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Compliance for Each Major Federal Program

In our opinion, the City of Pikeville, Tennessee complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we considered to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Chattanooga, Tennessee
November 8, 2013

Henderson Hutcherson
& McCullough, PLLC

CITY OF PIKEVILLE, TENNESSEE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2013

SUMMARY OF AUDIT RESULTS

Opinion on Financial Statements:

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

Internal Control Deficiencies:

Yes.

Material Noncompliance:

None disclosed.

Internal Control Deficiencies over Major Programs:

None disclosed.

Opinion on Compliance for Major Programs:

Unqualified opinion.

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

None disclosed.

Major Programs:

	CFDA #
Appalachian Regional Commission	
Appalachian Area Development	23.002
U.S. Department Agriculture	
USDA Rural Development Loan Proceeds	10.760

Dollar Threshold Level Between Type A and Type B Programs:

\$300,000

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

No.

CITY OF PIKEVILLE, TENNESSEE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2013

2013-01: Controls over the Financial Reporting Process

Condition: During the audit process, adjustments were made to the funds and government-wide financial statements. Management is current in a period of transition, in which internal control procedures have not been fully developed to detect and correct financial misstatements in a timely manner.

Criteria: Under current professional standards, the City is responsible for the internal control process which includes preparation of timely and accurate yearend financial statements in accordance with generally accepted accounting principles.

Effect: The City's financial statements contained misstatements throughout the fiscal year.

Recommendation: Management should continue to develop year end closeout procedures to ensure that all journal entries are posted at year. Management should also continue training and education within the finance department.

Management's Response: Management concurs with the finding. Management has implemented policies and procedures to ensure that all journal entries are posted in a timely manner. Management has also developed year end closeout procedures to ensure that the financial statements are accurately presented.

2013-02: Non-municipal Building Purchase

Condition: The City purchased a building in fiscal year 2009 for industrial purposes, and used the building as collateral for the loan to make the purchase. State law does not permit the building to be used as collateral for the loan to the City.

Criteria: Tennessee Code Annotated (TCA) Section 6-56-112 states that "all expenditures of money 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".

Effect: The City is in violation of state law.

Recommendation: The City should work with the Comptroller's office, their attorney and the lender to correct this matter as soon as possible.

Management's Response: Management concurs with the finding. The Mayor and management are currently in the process of marketing the building for sale.

CITY OF PIKEVILLE, TENNESSEE

SCHEDULE OF PRIOR YEAR FINDINGS

JUNE 30, 2013

2012-1: Accounting Expertise

Status: Finding currently being remediated; see current year finding 2013-01.

2012-2: Approvals and Documentation

Status: Corrected.

2012-3: Excessive Water Loss

Status: Corrected.

2012-4: Non-municipal Building Purchase

Status: Not corrected; see current year finding 2013-02.

2012-5: Enterprise Fund Operating Loss

Status: Corrected.

2012-6: Not Following Purchasing or Bidding Procedures

Status: Corrected.

2012-7: Unauthorized Health Insurance Benefits

Status: Corrected.

2012-8: Unauthorized Vehicle Allowance Benefits

Status: Corrected.

2012-9: Non-municipal Expenditures

Status: Corrected.