

CITY OF PIKEVILLE, TENNESSEE

FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

FOR THE FISCAL YEAR ENDED
JUNE 30, 2014



**HENDERSON HUTCHERSON
& MCCULLOUGH, PLLC**

CITY OF PIKEVILLE, TENNESSEE

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CITY OF PIKEVILLE, TENNESSEE

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INTRODUCTORY SECTION

CITY OF PIKEVILLE, TENNESSEE

CITY OFFICIALS

JUNE 30, 2014

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, 2014, 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, 2014, 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 40, respectively, 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 and state financial assistance are presented for purposes of additional analysis and are not a required part of the basic financial statements.

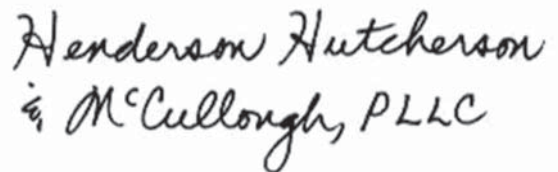
The budgetary comparison schedules, combining and individual nonmajor fund financial statements, financial schedules (all included as other supplementary information) and the schedule of expenditures of federal and state financial assistance is the responsibility of management and was derived from and 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 and state financial assistance 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 October 9, 2014, 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
October 9, 2014



Henderson Hutcherson
in McCullough, PLLC

CITY OF PIKEVILLE, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

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, 2014. 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, 2014 by \$16,540,381 (net position). The City's governmental funds reported a decrease in combined fund balance of \$141,507. Total government activities under GASB 34 operated at a decrease of \$137,293. 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, an 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 through 39 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 40 through 60 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 \$16,540,381 at the close of this fiscal year.

City of Pikeville, Tennessee’s Net Position

	Governmental Activities		Business-type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 394,880	\$ 539,986	\$ 1,633,218	\$ 1,543,225	\$ 2,028,098	\$ 2,083,211
Capital assets	<u>2,922,824</u>	<u>2,990,244</u>	<u>17,371,739</u>	<u>17,048,677</u>	<u>20,294,563</u>	<u>20,038,921</u>
Total assets	<u>3,317,704</u>	<u>3,530,230</u>	<u>19,004,957</u>	<u>18,591,902</u>	<u>22,322,661</u>	<u>22,122,132</u>
Non-current liabilities	1,471,994	1,536,326	3,942,166	3,902,366	5,414,160	5,438,692
Other liabilities	<u>32,104</u>	<u>43,005</u>	<u>105,816</u>	<u>109,791</u>	<u>137,920</u>	<u>152,796</u>
Total liabilities	<u>1,504,098</u>	<u>1,579,331</u>	<u>4,047,982</u>	<u>4,012,157</u>	<u>5,552,080</u>	<u>5,591,488</u>
Deferred inflows	<u>230,200</u>	<u>230,200</u>	<u>-</u>	<u>-</u>	<u>230,200</u>	<u>230,200</u>
Net position						
Net investment in capital assets	1,450,830	1,453,918	13,429,573	13,146,311	14,880,403	14,600,229
Unrestricted	<u>132,576</u>	<u>266,781</u>	<u>1,527,402</u>	<u>1,433,434</u>	<u>1,659,978</u>	<u>1,700,215</u>
Total net position	<u>\$ 1,583,406</u>	<u>\$ 1,720,699</u>	<u>\$ 14,956,975</u>	<u>\$ 14,579,745</u>	<u>\$ 16,540,381</u>	<u>\$ 16,300,444</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 \$1,659,978 in unrestricted net position is available to the City to meet ongoing obligations.

Changes in Net Position

Governmental activities decreased the City’s net position by \$137,293, while business-type activities increased the City’s net position by \$377,230. 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	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charges for services	\$ 116,091	\$ 141,026	\$ 2,456,091	\$ 1,990,214	\$ 2,572,182	\$ 2,131,240
Operating grants and contributions	88,023	23,259	-	-	88,023	23,259
Capital grants and contributions	-	465,288	525,120	3,401,033	525,120	3,866,321
General revenues:						
Property taxes	256,921	245,413	-	-	256,921	245,413
Other taxes	558,934	537,597	-	-	558,934	537,597
Other income	47,728	33,540	14,746	36,074	62,474	69,614
Total revenues	<u>1,067,697</u>	<u>1,446,123</u>	<u>2,995,957</u>	<u>5,427,321</u>	<u>4,063,654</u>	<u>6,873,444</u>
Expenses:						
General government	462,163	489,745	-	-	462,163	489,745
Public safety	461,231	336,754	-	-	461,231	336,754
Public works	205,575	181,534	-	-	205,575	181,534
Public welfare	814	786	-	-	814	786
State street aid	122,043	100,781	-	-	122,043	100,781
Interest	33,557	33,508	-	-	33,557	33,508
Water and sewer	-	-	1,683,006	1,403,771	1,683,006	1,403,771
Natural gas	-	-	855,328	762,259	855,328	762,259
Total expenses	<u>1,285,383</u>	<u>1,143,108</u>	<u>2,538,334</u>	<u>2,166,030</u>	<u>3,823,717</u>	<u>3,309,138</u>
Transfers	80,393	-	(80,393)	-	-	-
Change in net position	(137,293)	303,015	377,230	3,261,291	239,937	3,564,306
Net position – beginning	<u>1,720,699</u>	<u>1,417,684</u>	<u>14,579,745</u>	<u>11,318,454</u>	<u>16,300,444</u>	<u>12,736,138</u>
Net position – ending	<u>\$ 1,583,406</u>	<u>\$ 1,720,699</u>	<u>\$ 14,956,975</u>	<u>\$ 14,579,745</u>	<u>\$ 16,540,381</u>	<u>\$ 16,300,444</u>

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.

(Continued)

Governmental Funds (Continued)

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$89,463 a decrease of \$141,507 in comparison with the prior year. Ninety-nine percent (99%) 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 \$88,834. 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 7% of total general fund expenditures without transfers.

The fund balance of the City's general fund decreased by \$136,060 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 \$439,735 for the Water and Sewer Fund and \$1,087,667 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 changed slightly throughout the fiscal year. Revenue and expenditure amendments were made to account for variances in operations that were not originally planned. General Fund budgeted revenues increased \$45,000 and expenditures increased \$58,693.

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, 2014, amounted to \$2,922,824 (net of accumulated depreciation). Capital assets for its business-type activities as of June 30, 2014, amounted to \$17,371,739 (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:

- Road paving and related projects for \$145,219
- New police and fire public safety equipment for \$20,242
- Water and sewer equipment for \$81,955
- Water and sewer treatment and distribution system for \$5,947,115
- Water and sewer raw water wells project for \$46,159
- Land for \$105,000

(Continued)

Capital Assets (Continued)

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

	2014	2013
Governmental Activities:		
Land	\$ 160,761	\$ 160,761
Buildings and parks	1,348,074	1,399,955
Machinery and equipment	43,381	38,657
Vehicles	169,069	250,233
Infrastructure	1,105,391	1,042,056
Landfill	96,148	98,582
Total	<u>\$ 2,922,824</u>	<u>\$ 2,990,244</u>

	2014	2013
Business-type Activities:		
Land	\$ 169,847	\$ 64,847
Construction in progress	46,159	5,371,908
North Bledsoe system	2,253,363	2,328,595
Water treatment and distribution	12,127,612	6,452,185
Sewer collection and treatment	1,522,485	1,576,609
Buildings	101,418	106,711
Machinery and equipment	110,819	47,588
Vehicles	25,440	34,240
Gas lines and meters	1,002,597	1,047,469
Reservoirs and standpipes	11,999	18,525
Total	<u>\$ 17,371,739</u>	<u>\$ 17,048,677</u>

Additional information on the City's capital assets can be found on pages 32-33, Note 7.

Long-term Debt

At the end of the fiscal year, the City of Pikeville had long-term debt outstanding of \$5,431,539. Of that amount \$729,022 is due in the next fiscal year.

	2014	2013
Governmental Activities:		
Notes payable	\$ 1,398,388	\$ 1,446,256
Capital lease obligations	51,520	66,757
Landfill post-closure	22,086	23,313
Compensated absences	10,057	10,403
	<u>\$ 1,482,051</u>	<u>\$ 1,546,729</u>
Business-type Activities:		
Water and Sewer Fund –		
Notes payable	\$ 3,277,166	\$ 3,177,366
Compensated absences	4,802	8,789
	<u>3,281,968</u>	<u>3,186,155</u>
Natural Gas Fund –		
Bonds payable	665,000	725,000
Compensated absences	2,520	4,525
	<u>667,520</u>	<u>729,525</u>
Total	<u>\$ 3,949,488</u>	<u>\$ 3,915,680</u>

Additional information on outstanding debt can be found in Note 8 on pages 33-36.

Currently Known Conditions Affecting Future Years

The City of Pikeville, Tennessee is actively engaged in several projects that effect future years. 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, 2014

	Governmental Activities	Business-type Activities	Total Primary Government
ASSETS			
Cash and cash equivalents	\$ 63,379	\$ 1,358,235	\$ 1,421,614
Property tax receivable, net	263,372	-	263,372
Accounts receivable, net	56,716	233,971	290,687
Internal balances	11,403	(11,403)	-
Inventories	-	52,405	52,405
Other assets	10	10	20
Capital assets -			
Land and other nondepreciable assets	160,761	216,006	376,767
Capital assets, net of accumulated depreciation	2,762,063	17,155,733	19,917,796
Total assets	3,317,704	19,004,957	22,322,661
LIABILITIES			
Accounts payable	8,952	46,629	55,581
Accrued liabilities	13,095	22,893	35,988
Customer deposits	-	28,972	28,972
Compensated absences	10,057	7,322	17,379
Long-term liabilities, due within one year	552,169	159,474	711,643
Long-term liabilities, due in more than one year	919,825	3,782,692	4,702,517
Total liabilities	1,504,098	4,047,982	5,552,080
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	230,200	-	230,200
Total deferred inflows of resources	230,200	-	230,200
NET POSITION			
Net investment in capital assets	1,450,830	13,429,573	14,880,403
Unrestricted	132,576	1,527,402	1,659,978
Total net position	\$ 1,583,406	\$ 14,956,975	\$ 16,540,381

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

CITY OF PIKEVILLE, TENNESSEE

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2014

<u>Functions/Programs</u>	<u>Expenses</u>	Program Revenues		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
PRIMARY GOVERNMENT				
Governmental activities -				
General government	\$ 462,163	\$ 1,650	\$ 88,023	\$ -
Public safety	461,231	13,259	-	-
Public works	205,575	101,182	-	-
Public welfare	814	-	-	-
State street aid	122,043	-	-	-
Interest	33,557	-	-	-
Total governmental activities	<u>1,285,383</u>	<u>116,091</u>	<u>88,023</u>	<u>-</u>
Business-type activities -				
Water and sewer	1,683,006	1,571,174	-	525,120
Natural gas	855,328	884,917	-	-
Total business-type activities	<u>2,538,334</u>	<u>2,456,091</u>	<u>-</u>	<u>525,120</u>
Total primary government	<u>\$ 3,823,717</u>	<u>\$ 2,572,182</u>	<u>\$ 88,023</u>	<u>\$ 525,120</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				
TRANSFERS				
Total general revenues and transfers				
Change in net position				
NET POSITION				
Beginning				
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
\$ (372,490)	\$ -	\$ (372,490)
(447,972)	-	(447,972)
(104,393)	-	(104,393)
(814)	-	(814)
(122,043)	-	(122,043)
(33,557)	-	(33,557)
<u>(1,081,269)</u>	<u>-</u>	<u>(1,081,269)</u>
-	413,288	413,288
-	29,589	29,589
<u>-</u>	<u>442,877</u>	<u>442,877</u>
(1,081,269)	442,877	(638,392)
256,921	-	256,921
301,785	-	301,785
101,209	-	101,209
10,366	-	10,366
25,951	-	25,951
21,608	-	21,608
98,015	-	98,015
186	3,572	3,758
47,542	11,174	58,716
80,393	(80,393)	-
<u>943,976</u>	<u>(65,647)</u>	<u>878,329</u>
(137,293)	377,230	239,937
<u>1,720,699</u>	<u>14,579,745</u>	<u>16,300,444</u>
<u>\$ 1,583,406</u>	<u>\$ 14,956,975</u>	<u>\$ 16,540,381</u>

CITY OF PIKEVILLE, TENNESSEE

BALANCE SHEET GOVERNMENTAL FUNDS

JUNE 30, 2014

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 62,750	\$ 629	\$ 63,379
Property tax receivable, net	263,372	-	263,372
Accounts receivable, net	56,716	-	56,716
Due from other funds	11,403	-	11,403
Other assets	10	-	10
Total assets	\$ 394,251	\$ 629	\$ 394,880
LIABILITIES			
Accounts payable	\$ 8,952	\$ -	\$ 8,952
Accrued payroll liabilities	13,095	-	13,095
Total liabilities	22,047	-	22,047
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	283,370	-	283,370
Total deferred inflows of resources	283,370	-	283,370
FUND BALANCES			
Restricted	-	629	629
Unassigned	88,834	-	88,834
Total fund balances	88,834	629	89,463
Total liabilities, deferred inflows of resources, and fund balances	\$ 394,251	\$ 629	\$ 394,880

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, 2014

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

Fund balances – total governmental funds	\$	89,463
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.		2,922,824
Certain revenues will be collected after year end but are not available soon enough to pay for the current period's expenditures and therefore are deferred or not reported in the funds.		53,170
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		(855,419)
Notes payable		(542,969)
Capital leases		(51,520)
Compensated absences		(10,057)
Landfill post-closure costs		<u>(22,086)</u>
Net assets of governmental activities	\$	<u>1,583,406</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, 2014

	General	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes	\$ 616,529	\$ -	\$ 616,529
Licenses and permits	1,650	-	1,650
Intergovernmental	280,383	-	280,383
Charges for services	104,637	-	104,637
Fines and forfeitures	9,271	533	9,804
Other revenue	42,910	4,828	47,738
Total revenues	1,055,380	5,361	1,060,741
EXPENDITURES			
Current			
General government	376,343	-	376,343
Public safety	372,465	2,600	375,065
Public works	168,314	-	168,314
Public welfare	141	673	814
State street aid	98,755	-	98,755
Capital outlay	165,461	-	165,461
Debt service -			
Principal	47,238	15,867	63,105
Interest and other charges	31,116	3,668	34,784
Total expenditures	1,259,833	22,808	1,282,641
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(204,453)	(17,447)	(221,900)
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	80,393	12,000	92,393
Transfers to other funds	(12,000)	-	(12,000)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(136,060)	(5,447)	(141,507)
FUND BALANCES:			
Beginning	224,894	6,076	230,970
Ending	\$ 88,834	\$ 629	\$ 89,463

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, 2014

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

Net change in fund balances – total governmental funds \$ (141,507)

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. 165,461

Depreciation expense on governmental capital assets are included in the statement of activities. (232,881)

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.

Principal repayments	63,105	
Amortization	<u>1,227</u>	64,332

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 346

Certain governmental revenues will not be collected for several months after the fiscal year and are deferred in the governmental funds. 6,956

Change in net position of governmental activities \$ (137,293)

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, 2014

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 660,150	\$ 660,150	\$ 616,529	\$ (43,621)
Licenses and permits	1,500	1,500	1,650	150
Intergovernmental	293,725	338,725	280,383	(58,342)
Charges for services	120,200	120,200	104,637	(15,563)
Fines and forfeitures	15,000	15,000	9,271	(5,729)
Miscellaneous	32,560	32,560	42,910	10,350
Total revenue	1,123,135	1,168,135	1,055,380	(112,755)
EXPENDITURES				
Current -				
General government	334,885	367,626	376,343	(8,717)
Public safety	366,525	393,451	372,465	20,986
Public works	202,605	176,200	168,314	7,886
Public welfare	1,000	-	141	(141)
State street aid	107,800	97,705	98,755	(1,050)
Capital outlay	148,820	166,741	165,461	1,280
Debt service -				
Principal	25,000	43,250	47,238	(3,988)
Interest	5,000	15,855	31,116	(15,261)
Total expenditures	1,191,635	1,260,828	1,259,833	995
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	(68,500)	(92,693)	(204,453)	(111,760)
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	79,000	79,000	80,393	1,393
Transfers to other funds	(10,500)	-	(12,000)	(12,000)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES				
	-	(13,693)	(136,060)	\$ 122,367
FUND BALANCES:				
Beginning	224,894	224,894	224,894	
Ending	\$ 224,894	\$ 211,201	\$ 88,834	

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

CITY OF PIKEVILLE, TENNESSEE

PROPRIETARY FUNDS STATEMENT OF NET POSITION

JUNE 30, 2014

	Water and Sewer Fund	Natural Gas Fund	Total
ASSETS			
Current assets -			
Cash and cash equivalents	\$ 440,480	\$ 917,755	\$ 1,358,235
Accounts receivable, net	148,926	85,045	233,971
Due from other funds	-	100,230	100,230
Inventories	14,182	38,223	52,405
Other assets	-	10	10
Total current assets	603,588	1,141,263	1,744,851
Noncurrent assets -			
Capital assets -			
Land and other nondepreciable assets	204,868	11,138	216,006
Capital assets, net of accumulated depreciation	16,094,072	1,061,661	17,155,733
Total noncurrent assets	16,298,940	1,072,799	17,371,739
TOTAL ASSETS	16,902,528	2,214,062	19,116,590
LIABILITIES			
Current liabilities -			
Accounts payable	21,941	24,688	46,629
Accrued liabilities	14,590	8,303	22,893
Customer deposits	10,887	18,085	28,972
Due to other funds	111,633	-	111,633
Compensated absences	4,802	2,520	7,322
Long-term liabilities, due within one year	99,474	60,000	159,474
Total current liabilities	263,327	113,596	376,923
Noncurrent liabilities			
Long-term liabilities, due in more than one year	3,177,692	605,000	3,782,692
Total noncurrent liabilities	3,177,692	605,000	3,782,692
TOTAL LIABILITIES	3,441,019	718,596	4,159,615
NET POSITION			
Net investment in capital assets	13,021,774	407,799	13,429,573
Unrestricted	439,735	1,087,667	1,527,402
Total net position	\$ 13,461,509	\$ 1,495,466	\$ 14,956,975

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, 2014

	Water and Sewer Fund	Natural Gas Fund	Total
OPERATING REVENUES			
Charges for services	\$ 1,521,686	\$ 873,146	\$ 2,394,832
Customer penalties	14,034	-	14,034
Connection fees	31,617	11,741	43,358
Interest revenue	291	3,281	3,572
Other operating revenue	3,837	10	3,847
Total revenues	1,571,465	888,178	2,459,643
OPERATING EXPENSES			
Purchased gas	-	469,708	469,708
Transmission and distribution	762,310	110,131	872,441
Sewer collection, treatment and disposal	259,090	-	259,090
Administration	83,624	192,474	276,098
Depreciation	439,424	51,835	491,259
Total operating expenses	1,544,448	824,148	2,368,596
OPERATING INCOME (LOSS)	27,017	64,030	91,047
NONOPERATING REVENUES (EXPENSES)			
Capital contributions	525,120	-	525,120
Miscellaneous revenue	9,971	1,223	11,194
Interest expense	(138,558)	(31,180)	(169,738)
Total nonoperating revenues (expenses)	396,533	(29,957)	366,576
Income before transfers	423,550	34,073	457,623
Transfers in	-	108,048	108,048
Transfers out	(188,441)	-	(188,441)
Changes in net position	235,109	142,121	377,230
Net position, beginning	13,226,400	1,353,345	14,579,745
Net position, ending	\$ 13,461,509	\$ 1,495,466	\$ 14,956,975

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, 2014

	Water and Sewer Fund	Natural Gas Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 1,768,736	\$ 823,004	\$ 2,591,740
Receipts (payments) from other funds	63,586	(61,999)	1,587
Payments to suppliers	(693,869)	(622,957)	(1,316,826)
Payments to employees	(417,679)	(149,566)	(567,245)
Interest	291	3,281	3,572
Net cash from operating activities	721,065	(8,237)	712,828
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers in (out)	(188,441)	108,048	(80,393)
Miscellaneous revenue	9,971	1,223	11,194
Net cash from noncapital financing activities	(178,470)	109,271	(69,199)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from long-term liabilities	1,735,481	-	1,735,481
Proceeds of capital grants	525,120	-	525,120
Principal paid on long-term debt	(1,635,681)	(60,000)	(1,695,681)
Interest paid on long-term debt	(138,558)	(31,180)	(169,738)
Acquisition and construction of capital assets	(814,320)	-	(814,320)
Net cash from capital and related financing activities	(327,958)	(91,180)	(419,138)
Net change in cash and cash equivalents	214,637	9,854	224,491
Cash and cash equivalents, June 30, 2013	225,843	907,901	1,133,744
Cash and cash equivalents, June 30, 2014	\$ 440,480	\$ 917,755	\$ 1,358,235

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, 2014

	Water and Sewer Fund	Natural Gas Fund	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES			
OPERATING INCOME	\$ 27,017	\$ 64,030	\$ 91,047
ADJUSTMENTS NOT AFFECTING CASH			
Depreciation	439,424	51,835	491,259
(Increase) decrease in -			
Accounts receivable	198,312	(62,643)	135,669
Due from other funds	-	(61,999)	(61,999)
Inventories	(4,120)	1,361	(2,759)
Increase (decrease) in -			
Accounts payable	(1,678)	(841)	(2,519)
Accrued payables	3,261	1,275	4,536
Customer deposits	(750)	750	-
Due to other funds	63,586	-	63,586
Compensated absences	(3,987)	(2,005)	(5,992)
Total adjustments	694,048	(72,267)	621,781
Net cash from operating activities	\$ 721,065	\$ (8,237)	\$ 712,828

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

CITY OF PIKEVILLE, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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CITY OF PIKEVILLE, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements (Continued)

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.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgets and Budgetary Accounting (Continued)

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, 2014, General Fund expenditures exceeded budgeted appropriations within the general government, public welfare, state street aid and debt service functions by \$8,717, \$141, \$1,050, and \$19,249, 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 General Fund, Water and Sewer Fund and Natural Gas Fund are reported net of allowance of \$22,622, \$7,838, and \$4,476, 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.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (Continued)

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, 2014. 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.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position (Continued)

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	\$ -	\$ 554	\$ 554
Industrial Development	-	75	75
Unassigned	<u>88,834</u>	<u>-</u>	<u>88,834</u>
Total fund balances	<u>\$ 88,834</u>	<u>\$ 629</u>	<u>\$ 89,463</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 2014 are recorded as receivables and deferred inflows of resources. The allowance recorded for uncollectible taxes totaled \$22,007 and was based on historical collection data.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$505,844. 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, 2014, consist of the following:

	<u>General</u>	<u>Water and Sewer</u>	<u>Natural Gas</u>	<u>Total</u>
Funds				
Property taxes	\$ 285,379	\$ -	\$ -	\$ 285,379
Intergovernmental	45,034	-	-	45,034
Accounts	<u>12,297</u>	<u>156,764</u>	<u>89,521</u>	<u>258,582</u>
Gross receivables	342,710	156,764	89,521	588,995
Less: Allowance for uncollectibles	<u>(22,622)</u>	<u>(7,838)</u>	<u>(4,476)</u>	<u>(34,936)</u>
Net receivables	<u>\$ 320,088</u>	<u>\$ 148,926</u>	<u>\$ 85,045</u>	<u>\$ 554,059</u>

NOTE 5 – INTERFUND TRANSFERS

Transfers within the City are substantially for the purpose of subsidizing operating functions and transferring cash receipt collection on utility accounts. 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.

	<u>Transfers In</u>			
	<u>General Fund</u>	<u>Natural Gas Fund</u>	<u>Nonmajor Fund – IDB</u>	<u>Total</u>
Transfers Out				
Water and Sewer Fund	\$ 80,393	\$ 108,048	\$ -	\$ 188,441
Accounts	<u>-</u>	<u>-</u>	<u>12,000</u>	<u>12,000</u>
Total	<u>\$ 80,393</u>	<u>\$ 108,048</u>	<u>\$ 12,000</u>	<u>\$ 200,441</u>

NOTE 6 – INTERFUND RECEIVABLES AND PAYABLES

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

	<u>Payable Fund</u>
	<u>Water and Sewer Fund</u>
Receivables Fund	
General Fund	\$ 11,403
Natural Gas Fund	<u>100,230</u>
Total	<u>\$ 111,633</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	1,750,753	-	-	1,750,753
Machinery and equipment	413,951	17,942	-	431,893
Vehicles	649,609	2,300	-	651,909
Infrastructure	1,427,216	145,219	-	1,572,435
Landfill	121,706	-	-	121,706
	<u>4,363,235</u>	<u>165,461</u>	<u>-</u>	<u>4,528,696</u>
Less accumulated depreciation:				
Buildings and parks	350,798	51,881	-	402,679
Machinery and equipment	375,294	13,218	-	388,512
Vehicles	399,376	83,464	-	482,840
Infrastructure	385,160	81,884	-	467,044
Landfill	23,124	2,434	-	25,558
	<u>1,533,752</u>	<u>232,881</u>	<u>-</u>	<u>1,766,633</u>
Total depreciable assets, net	<u>2,829,483</u>	<u>(67,420)</u>	<u>-</u>	<u>2,762,063</u>
Total capital assets, net	<u>\$ 2,990,244</u>	<u>\$ (67,420)</u>	<u>\$ -</u>	<u>\$ 2,922,824</u>

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

General government	\$ 86,166
Public safety	86,166
Public works	37,261
Culture and recreation	<u>23,288</u>
Total	<u>\$ 232,881</u>

(Continued)

NOTE 7 – CAPITAL ASSETS (Continued)

	Beginning Balance	Additions	Adjustments/ Retirements	Ending Balance
Business-type Activities				
Non-depreciable capital assets:				
Land	\$ 64,847	\$ 105,000	\$ -	\$ 169,847
Construction in progress	<u>5,371,908</u>	<u>499,661</u>	<u>5,825,410</u>	<u>46,159</u>
Total non-depreciable assets	<u>5,436,755</u>	<u>604,661</u>	<u>5,825,410</u>	<u>216,006</u>
Depreciable capital assets:				
North Bledsoe system	3,008,661	-	-	3,008,661
Water treatment and distribution	9,078,991	5,947,115	-	15,026,106
Sewer collection and treatment	3,299,530	-	-	3,299,530
Buildings	184,075	-	-	184,075
Machinery and equipment	217,192	81,955	-	299,147
Vehicles	230,589	6,000	-	236,589
Gas lines and meters	1,862,260	-	-	1,862,260
Reservoirs and standpipes	<u>345,661</u>	<u>-</u>	<u>-</u>	<u>345,661</u>
	<u>18,226,959</u>	<u>6,035,070</u>	<u>-</u>	<u>24,262,029</u>
Less accumulated depreciation:				
North Bledsoe system	680,066	75,232	-	755,298
Water treatment and distribution	2,626,806	271,688	-	2,898,494
Sewer collection and treatment	1,722,921	54,124	-	1,777,045
Buildings	77,364	5,293	-	82,657
Machinery and equipment	169,604	18,724	-	188,328
Vehicles	196,349	14,800	-	211,149
Gas lines and meters	814,791	44,872	-	859,663
Reservoirs and standpipes	<u>327,136</u>	<u>6,526</u>	<u>-</u>	<u>333,662</u>
	<u>6,615,037</u>	<u>491,259</u>	<u>-</u>	<u>7,106,296</u>
Total depreciable assets, net	<u>11,611,922</u>	<u>5,543,811</u>	<u>-</u>	<u>17,155,733</u>
Total capital assets, net	<u>\$ 17,048,677</u>	<u>\$ 6,148,472</u>	<u>\$ 5,825,410</u>	<u>\$ 17,371,739</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% \$ 855,419

Note of \$500,000 to First National Bank, payable in annual installments of \$17,002 through February 2015, 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 57,969

\$ 1,398,388

(Continued)

NOTE 8 – LONG-TERM LIABILITIES (Continued)

Governmental Activities (Continued)

Capital lease obligations:

Payable to Ford Motor Credit Company in annual installments
\$19,310, including interest at 6.10%, through June 2017 \$ 51,520

Landfill post-closure estimate

Original estimate of \$36,810 amortized over thirty (30) years or
or \$1,227 per year \$ 22,086

Liability for compensated absences as discussed in Note 1 \$ 10,057

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
2015	\$ 534,775	\$ 16,167	\$ 1,227	\$ 10,057	\$ 562,226
2016	52,721	17,153	1,227	-	71,101
2017	55,720	18,200	1,227	-	75,147
2018	42,753	-	1,227	-	43,980
2019	40,000	-	1,227	-	41,227
2020-2024	233,000	-	6,135	-	239,135
2025-2029	299,000	-	6,135	-	305,135
2030-2032	<u>140,419</u>	<u>-</u>	<u>3,681</u>	<u>-</u>	<u>144,100</u>
	<u>\$ 1,398,388</u>	<u>\$ 51,520</u>	<u>\$ 22,086</u>	<u>\$ 10,057</u>	<u>\$ 1,482,051</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, 2014, consisted of the following:

Water and Sewer Fund

Notes:

Note of \$1,670,000 to USDA Rural Development, Series 2011,
payable in monthly installments of \$6,627, including interest
at 3.50% through June 2052 \$ 1,670,000

Note of \$60,000 to Tennessee Municipal League, Bond Fund,
Series 2014, payable in variable, annual installments, plus semi-
annual interest at 3.07% through February 2018 60,000

Note of \$483,000 to USDA Rural Development, Series 2006,
payable in monthly installments of \$2,179, including interest
at 4.375% through 2046 445,839

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 128,000

(Continued)

NOTE 8 – LONG-TERM LIABILITIES (Continued)

Water and Sewer Fund (Continued)

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

973,327

\$ 3,277,166

Liability for compensated absences as discussed in Note 1

\$ 4,802

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

For the Year Ending June 30,	Notes	Compensated Absences	Total
2015	\$ 99,474	\$ 4,802	\$ 104,276
2016	101,619	-	101,619
2017	99,729	-	99,729
2018	62,008	-	62,008
2019	48,159	-	48,159
2020-2024	271,303	-	271,303
2025-2029	330,241	-	330,241
2030-2034	402,171	-	402,171
2035-2039	490,004	-	490,004
2040-2043	597,300	-	597,300
2044-2049	549,010	-	549,010
2050-2052	<u>226,148</u>	<u>-</u>	<u>226,148</u>
	<u>\$ 3,277,166</u>	<u>\$ 4,802</u>	<u>\$ 3,281,968</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

\$ 665,000

Liability for compensated absences as discussed in Note 1

\$ 2,520

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

For the Year Ending June 30,	Notes	Compensated Absences	Total
2015	\$ 60,000	\$ 2,520	\$ 62,520
2016	65,000	-	65,000
2017	65,000	-	65,000
2018	70,000	-	70,000
2019	75,000	-	75,000
2020-2023	<u>330,000</u>	<u>-</u>	<u>330,000</u>
	<u>\$ 665,000</u>	<u>\$ 2,520</u>	<u>\$ 667,520</u>

(Continued)

NOTE 8 – LONG-TERM LIABILITIES (Continued)

During the year ended June 30, 2014, changes in long-term debt were as follows:

	Beginning Balance	Adjustments/ Additions	Retirements	Ending Balance	Amount Due Within One Year
Governmental Activities					
Notes payable	\$ 1,446,256	\$ -	\$ (47,868)	\$ 1,398,388	\$ 534,775
Capital lease obligations	66,757	-	(15,237)	51,520	16,167
Landfill post-closure	23,313	-	(1,227)	22,086	1,227
Compensated absences	<u>10,403</u>	<u>10,057</u>	<u>(10,403)</u>	<u>10,057</u>	<u>10,057</u>
	<u>\$ 1,546,729</u>	<u>\$ 10,057</u>	<u>\$ (74,735)</u>	<u>\$ 1,482,051</u>	<u>\$ 562,226</u>

	Beginning Balance	Adjustments/ Additions	Retirements	Ending Balance	Amount Due Within One Year
Business-type Activities					
Water and Sewer Fund:					
Notes payable	\$ 3,177,366	\$ 1,735,481	\$ (1,635,681)	\$ 3,277,166	\$ 99,474
Compensated absences	<u>8,789</u>	<u>4,802</u>	<u>(8,789)</u>	<u>4,802</u>	<u>4,802</u>
	<u>3,186,155</u>	<u>1,740,283</u>	<u>(1,644,470)</u>	<u>\$ 3,281,968</u>	<u>104,276</u>
Natural Gas Fund:					
Bonds payable	725,000	-	(60,000)	665,000	60,000
Compensated absences	<u>4,525</u>	<u>2,520</u>	<u>(4,525)</u>	<u>2,520</u>	<u>2,520</u>
	<u>729,525</u>	<u>2,520</u>	<u>(64,525)</u>	<u>667,520</u>	<u>62,520</u>
	<u>\$ 3,915,680</u>	<u>\$ 1,742,803</u>	<u>\$ (1,708,995)</u>	<u>\$ 3,949,488</u>	<u>\$ 166,796</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.

(Continued)

NOTE 9 – LANDFILL POST-CLOSURE COSTS (Continued)

- 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 \$200,782. 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 \$22,086. 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 PSPP. 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, 2014, was 6.81% or 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.

(Continued)

NOTE 10 – EMPLOYEE RETIREMENT SYSTEM (Continued)

Annual Pension Cost

For the year ended June 30, 2014, the City’s annual pension cost of \$46,983 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>
6/30/2014	\$ 46,983	100.00%	\$ -
6/30/2013	49,030	100.00%	-
6/30/2012	43,518	100.00%	-

Funded Status and Funding Progress

As of July 1, 2013, the most recent actuarial valuation date, the plan was 93.95% funded. The actuarial accrued liability for benefits (AAL) was \$2.14 million, and the actuarial value of assets was \$2.01 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.13 million. The covered payroll (annual payroll of active employees covered by the plan) was \$0.72 million, and the ratio of the UAAL to the covered payroll was 18.07%

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>
7/01/2013	\$ 2,008	\$ 2,137	\$ 129	93.95%	\$ 716	18.07%

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, 2014, the City contributed a total of \$33,150 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 \$14,762 from this business in the normal course of operations.

CITY OF PIKEVILLE, TENNESSEE

REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2014

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)
7/01/2013	\$ 2,008	\$ 2,137	\$ 129	93.95%	\$ 716	18.07%
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

OTHER SUPPLEMENTARY INFORMATION

CITY OF PIKEVILLE, TENNESSEE

NONMAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET

JUNE 30, 2014

	Industrial Development Board	Drug Fund	Total Nonmajor Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 75	\$ 554	\$ 629
Total assets	<u>75</u>	<u>554</u>	<u>629</u>
FUND BALANCES			
Restricted	<u>75</u>	<u>554</u>	<u>629</u>
Total fund balances	<u>\$ 75</u>	<u>\$ 554</u>	<u>\$ 629</u>

CITY OF PIKEVILLE, TENNESSEE

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

YEAR ENDED JUNE 30, 2014

	Industrial Development Board	Drug Fund	Total Nonmajor Governmental Funds
REVENUES			
Fines and forfeitures	\$ -	\$ 533	\$ 533
Other revenue	4,828	-	4,828
Total revenues	<u>4,828</u>	<u>533</u>	<u>5,361</u>
EXPENDITURES			
Current -			
Public safety	-	2,600	2,600
Public welfare	673	-	673
Debt service -			
Principal	15,867	-	15,867
Interest	3,668	-	3,668
Total expenditures	<u>20,208</u>	<u>2,600</u>	<u>22,808</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(15,380)	(2,067)	(17,447)
OTHER FINANCING SOURCES			
Transfers from other funds	<u>12,000</u>	-	<u>12,000</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(3,380)	(2,067)	(5,447)
FUND BALANCES			
Beginning	<u>3,455</u>	<u>2,621</u>	<u>6,076</u>
Ending	<u>\$ 75</u>	<u>\$ 554</u>	<u>\$ 629</u>

CITY OF PIKEVILLE, TENNESSEE

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

YEAR ENDED JUNE 30, 2014

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
TAXES -				
Property taxes	\$ 256,500	\$ 256,500	\$ 253,783	\$ (2,717)
Local sales taxes	175,000	175,000	187,033	12,033
Business taxes	45,150	45,150	25,951	(19,199)
Local beer taxes	115,000	115,000	100,448	(14,552)
Wholesale liquor tax	62,000	62,000	42,977	(19,023)
Franchise taxes	6,500	6,500	6,337	(163)
Total taxes	<u>660,150</u>	<u>660,150</u>	<u>616,529</u>	<u>(43,621)</u>
LICENSES AND PERMITS -				
Privilege licenses	1,500	1,500	1,650	150
Total licenses and permits	<u>1,500</u>	<u>1,500</u>	<u>1,650</u>	<u>150</u>
INTERGOVERNMENTAL -				
State sales tax	130,000	130,000	114,752	(15,248)
State beer tax	400	400	761	361
State income and excise tax	17,000	17,000	14,015	(2,985)
City streets and transportation	38,000	38,000	45,052	7,052
TVA in lieu of tax	17,125	17,125	17,790	665
State and other grants	91,200	136,200	4,575	(131,625)
Federal grants	-	-	83,438	83,438
Total intergovernmental	<u>293,725</u>	<u>338,725</u>	<u>280,383</u>	<u>(58,342)</u>
CHARGES FOR SERVICES -				
Sanitation fees	115,000	115,000	101,182	(13,818)
Other	5,200	5,200	3,455	(1,745)
Total charges for services	<u>120,200</u>	<u>120,200</u>	<u>104,637</u>	<u>(15,563)</u>
FINES AND FORFEITS -				
City court fines and fees	15,000	15,000	9,271	(5,729)
Total fines and forfeits	<u>15,000</u>	<u>15,000</u>	<u>9,271</u>	<u>(5,729)</u>

(Continued)

CITY OF PIKEVILLE, TENNESSEE

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

YEAR ENDED JUNE 30, 2014

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
MISCELLANEOUS				
Insurance recoveries	-	-	421	421
Interest	1,360	1,360	186	(1,174)
Rent	11,200	11,200	9,050	(2,150)
Contributions	5,000	5,000	8,744	3,744
Refunds	15,000	15,000	11,433	(3,567)
Other	-	-	13,076	13,076
Total miscellaneous	<u>32,560</u>	<u>32,560</u>	<u>42,910</u>	<u>10,350</u>
 Total revenues	 <u>1,123,135</u>	 <u>1,168,135</u>	 <u>1,055,380</u>	 <u>(112,755)</u>
GENERAL GOVERNMENT				
Legislative -				
Salaries	7,200	7,200	7,200	-
Payroll taxes	1,000	400	400	-
	<u>8,200</u>	<u>7,600</u>	<u>7,600</u>	<u>-</u>
Judicial -				
Salaries	4,800	4,800	4,800	-
Payroll taxes	375	367	367	-
Insurance	9,600	10,723	10,723	-
	<u>14,775</u>	<u>15,890</u>	<u>15,890</u>	<u>-</u>
Mayor -				
Salaries	13,000	13,000	13,000	-
Payroll taxes	1,000	942	779	163
Insurance	20,400	25,958	25,958	-
	<u>34,400</u>	<u>39,900</u>	<u>39,737</u>	<u>163</u>
Central Staff Agencies -				
Salaries	102,960	107,892	110,034	(2,142)
Payroll taxes	7,800	8,117	7,954	163
Insurance	19,200	28,429	28,375	54
Pension	7,000	7,873	7,292	581
Data processing	2,550	5,119	5,119	-
Contract services	3,500	2,557	3,162	(605)
Professional services	8,000	9,517	9,517	-
Subscriptions	5,000	1,600	1,578	22
Telephone	5,500	4,830	4,830	-
Operating supplies	4,000	4,610	11,346	(6,736)
Repair and maintenance	1,500	834	759	75
Travel	3,000	363	363	-
	<u>170,010</u>	<u>181,741</u>	<u>190,329</u>	<u>(8,588)</u>

(Continued)

CITY OF PIKEVILLE, TENNESSEE

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

YEAR ENDED JUNE 30, 2014

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
(Continued)				
City Hall Buildings -				
Utilities	13,500	15,711	17,113	(1,402)
Contract services	500	24,389	24,389	-
Operating supplies	1,500	20,500	20,479	21
Repair and maintenance	1,000	100	100	
Other	10,000	13,926	13,764	162
	<u>26,500</u>	<u>74,626</u>	<u>75,845</u>	<u>(1,219)</u>
Special Projects -				
City projects	45,000	-	-	-
	<u>45,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
General Government -				
Payroll taxes	800	-	-	-
Health insurance	-	1,173	1,172	1
Other insurance	12,200	23,818	23,818	-
Unemployment insurance	2,000	2,000	1,672	328
Professional services	20,000	20,000	19,312	688
Subscriptions and dues	500	556	646	(90)
Operating supplies	500	322	322	-
	<u>36,000</u>	<u>47,869</u>	<u>46,942</u>	<u>927</u>
TOTAL GENERAL GOVERNMENT	<u>334,885</u>	<u>367,626</u>	<u>376,343</u>	<u>(8,717)</u>
DEPARTMENT OF PUBLIC SAFETY				
Police -				
Salaries	140,000	144,933	144,933	-
Payroll taxes	11,500	10,989	10,826	163
Insurance	43,125	36,550	36,513	37
Pension	8,000	7,170	6,440	730
Employee training	3,500	5,088	5,088	-
Subscriptions and dues	1,000	960	960	-
Telephone	5,000	5,007	5,007	-
Utilities	2,500	2,425	2,757	(332)
Travel	3,000	1,154	1,154	-
Operating supplies	21,000	23,096	25,419	(2,323)
Contract services	21,500	20,060	745	19,315
Repair and maintenance	7,750	7,004	6,561	443
	<u>267,875</u>	<u>264,436</u>	<u>246,403</u>	<u>18,033</u>

(Continued)

CITY OF PIKEVILLE, TENNESSEE

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

YEAR ENDED JUNE 30, 2014

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
(Continued)				
Fire -				
Employee training	4,250	3,755	3,755	-
Insurance	11,800	26,847	26,847	-
Subscriptions and dues	1,000	672	672	-
Telephone	2,800	2,618	2,618	-
Utilities	8,500	8,430	8,336	94
Travel	2,300	1,800	1,442	358
Operating supplies	11,000	6,544	4,769	1,775
Contract services	4,300	2,812	2,813	(1)
Supplies and small equipment	1,200	1,200	1,200	-
Repair and maintenance	7,000	4,629	4,402	227
Land rental	500	500	500	-
Grant expenditure	39,000	65,553	65,553	-
	<u>93,650</u>	<u>125,360</u>	<u>122,907</u>	<u>2,453</u>
Support Services -				
Employee training	1,000	1,161	1,161	-
Operating supplies	4,000	2,494	1,994	500
	<u>5,000</u>	<u>3,655</u>	<u>3,155</u>	<u>500</u>
TOTAL DEPARTMENT OF PUBLIC SAFETY	<u>366,525</u>	<u>393,451</u>	<u>372,465</u>	<u>20,986</u>
DEPARTMENT OF PUBLIC WORKS				
Highways and Streets -				
Salaries	17,160	-	-	-
Insurance	42,800	35,794	35,794	-
Contract services	-	3,948	3,948	-
Telephone	2,550	2,550	2,550	-
Operating supplies	21,550	17,080	18,458	(1,378)
Repair and maintenance	3,500	1,783	1,605	178
	<u>87,560</u>	<u>61,155</u>	<u>62,355</u>	<u>(1,200)</u>
Sanitation -				
Contract services	115,045	115,045	105,959	9,086
	<u>115,045</u>	<u>115,045</u>	<u>105,959</u>	<u>9,086</u>
TOTAL DEPARTMENT OF PUBLIC WORKS	<u>202,605</u>	<u>176,200</u>	<u>168,314</u>	<u>7,886</u>

(Continued)

CITY OF PIKEVILLE, TENNESSEE

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

YEAR ENDED JUNE 30, 2014

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
(Continued)				
DEPARTMENT OF STATE STREET AID				
State Street Aid -				
Salaries	70,000	63,435	63,435	-
Payroll taxes	5,000	4,805	4,642	163
Pension	4,800	3,910	3,730	180
Utilities	28,000	25,555	26,948	(1,393)
	<u>107,800</u>	<u>97,705</u>	<u>98,755</u>	<u>(1,050)</u>
TOTAL DEPARTMENT OF STATE STREET AID	<u>107,800</u>	<u>97,705</u>	<u>98,755</u>	<u>(1,050)</u>
DEPARTMENT OF PUBLIC WELFARE				
Parks and Recreation -				
Operating supplies	-	-	141	(141)
Contract services	250	-	-	-
Repair and maintenance	750	-	-	-
	<u>1,000</u>	<u>-</u>	<u>141</u>	<u>(141)</u>
TOTAL DEPARTMENT OF PUBLIC WELFARE	<u>1,000</u>	<u>-</u>	<u>141</u>	<u>(141)</u>
CAPITAL OUTLAY				
Central staff agencies	500	-	-	-
Police department	5,000	3,383	3,383	-
Fire department	10,000	8,265	8,265	-
Support services	2,000	6,294	6,294	-
Highways and streets	131,320	148,799	147,519	1,280
	<u>148,820</u>	<u>166,741</u>	<u>165,461</u>	<u>1,280</u>
TOTAL CAPITAL OUTLAY	<u>148,820</u>	<u>166,741</u>	<u>165,461</u>	<u>1,280</u>
(Continued)				

CITY OF PIKEVILLE, TENNESSEE

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

YEAR ENDED JUNE 30, 2014

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
(Continued)				
DEBT SERVICE				
Principal	25,000	43,250	47,238	(3,988)
Interest	<u>5,000</u>	<u>15,855</u>	<u>31,116</u>	<u>(15,261)</u>
TOTAL DEBT SERVICE	<u>30,000</u>	<u>59,105</u>	<u>78,354</u>	<u>(19,249)</u>
TOTAL EXPENDITURES	<u>1,191,635</u>	<u>1,260,828</u>	<u>1,259,833</u>	<u>995</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(68,500)	(92,693)	(204,453)	(111,760)
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	79,000	79,000	80,393	(1,393)
Transfers to other funds	<u>(10,500)</u>	<u>-</u>	<u>(12,000)</u>	<u>(12,000)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	-	(13,693)	(136,060)	<u>\$ (122,367)</u>
FUND BALANCES				
Beginning	<u>224,894</u>	<u>224,894</u>	<u>224,894</u>	
Ending	<u>\$ 224,894</u>	<u>\$ 211,201</u>	<u>\$ 88,834</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, 2014

	Budget Amounts		Actual	Variance with Final Budget
	Original	Final		
MISCELLANEOUS				
Building rent	\$ 9,000	\$ 9,000	\$ 4,828	\$ (4,172)
Total revenues	<u>9,000</u>	<u>9,000</u>	<u>4,828</u>	<u>(4,172)</u>
DEPARTMENT OF PUBLIC WELFARE				
Industrial Development -				
Subscriptions and dues	-	-	673	(673)
	<u>-</u>	<u>-</u>	<u>673</u>	<u>(673)</u>
DEBT SERVICE				
Principal	15,000	15,000	15,867	(867)
Interest	<u>4,500</u>	<u>4,500</u>	<u>3,668</u>	<u>832</u>
TOTAL DEBT SERVICE	<u>19,500</u>	<u>19,500</u>	<u>19,535</u>	<u>(35)</u>
TOTAL EXPENDITURES	<u>19,500</u>	<u>19,500</u>	<u>20,208</u>	<u>(708)</u>
EXCESS REVENUES OVER (UNDER)				
EXPENDITURES	(10,500)	(10,500)	(15,380)	(4,880)
OTHER FINANCING SOURCES				
Transfers in from other funds	<u>10,500</u>	<u>10,500</u>	<u>12,000</u>	<u>1,500</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES				
	-	-	(3,380)	<u>\$ (3,380)</u>
FUND BALANCES				
Beginning	-	-	3,455	
Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 75</u>	

CITY OF PIKEVILLE, TENNESSEE

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

YEAR ENDED JUNE 30, 2014

	Budget Amounts		Actual	Variance with Final Budget
	Original	Final		
FINES AND FORFEITS -				
City court fines and fees	\$ -	\$ -	\$ 533	\$ 533
Total revenues	-	-	533	533
DEPARTMENT OF PUBLIC SAFETY				
Drug enforcement	-	-	2,600	(2,600)
	-	-	2,600	(2,600)
TOTAL EXPENDITURES	-	-	2,600	(2,600)
EXCESS REVENUES OVER (UNDER) EXPENDITURES	-	-	(2,067)	\$ (2,067)
FUND BALANCES				
Beginning	2,621	2,621	2,621	
Ending	\$ 2,621	\$ 2,621	\$ 554	

CITY OF PIKEVILLE, TENNESSEE

SCHEDULE OF PROPERTY TAX RATES AND ASSESSMENTS

JUNE 30, 2014

<u>Year</u>	<u>Tax Rate Per \$100</u>	<u>Assessment</u>	<u>Levy</u>
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	247,769
2014	0.8412	27,302,275	230,200

Uncollected Delinquent Accounts: The City of Pikeville has filed delinquent taxes with the Bledsoe County Trustee for collection at June 30, 2014.

CITY OF PIKEVILLE, TENNESSEE

SCHEDULE OF CHANGES IN PROPERTY TAX RECEIVABLE

JUNE 30, 2014

Tax Year	Property Tax Receivable Balance June 30, 2013	Property Tax Levied	Anticipated Property Tax Levy	Abatements and Adjustments	Tax Collections	Property Tax Receivable Balance June 30, 2014
2014	\$ -	\$ -	\$ 230,200	\$ -	\$ -	\$ 230,200
2013	-	247,769	-	(1,744)	(210,836)	35,189
2012	27,170	-	-	-	(17,297)	9,873
2011	12,041	-	-	-	(4,737)	7,304
2010	5,462	-	-	-	(5,382)	80
2009	1,653	-	-	-	(1,517)	136
2008	883	-	-	-	-	883
2007	273	-	-	-	-	273
2006	-	-	-	-	-	-
2005	838	-	-	-	-	838
2004	114	-	-	-	-	114
2003	489	-	-	-	-	489
	<u>\$ 48,923</u>	<u>\$ 247,769</u>	<u>\$ 230,200</u>	<u>\$ (1,744)</u>	<u>\$ (239,769)</u>	<u>\$ 285,379</u>

CITY OF PIKEVILLE, TENNESSEE
SCHEDULE OF DEBT SERVICE REQUIREMENTS
GOVERNMENTAL ACTIVITIES
JUNE 30, 2014

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	Principal	Interest
2015	\$ 33,000	\$ 3,852	\$ 485,000	\$ 13,657	\$ 16,775	\$ 2,772	\$ 16,167	\$ 3,143	\$ 1,227	\$ 552,169	\$ 23,424
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	18,200	1,110	1,227	75,147	5,482
2018	38,000	3,379	-	-	4,753	37	-	-	1,227	43,980	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	<u>\$ 855,419</u>	<u>\$ 39,131</u>	<u>\$ 485,000</u>	<u>\$ 13,657</u>	<u>\$ 57,969</u>	<u>\$ 5,461</u>	<u>\$ 51,520</u>	<u>\$ 6,410</u>	<u>\$ 22,086</u>	<u>\$ 1,471,994</u>	<u>\$ 64,659</u>

CITY OF PIKEVILLE, TENNESSEE
SCHEDULE OF DEBT SERVICE REQUIREMENTS
WATER AND SEWER PROPRIETARY FUND
JUNE 30, 2014

Year Ending June 30,	Tennessee Municipal League Bond Fund Series 2014		USDA Series 2011		USDA Series 2006	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 14,300	\$ 1,832	\$ 21,414	\$ 58,109	\$ 6,777	\$ 19,371
2016	14,800	1,402	22,176	57,347	7,080	19,068
2017	15,200	949	22,965	56,558	7,396	18,752
2018	15,700	482	23,781	55,742	7,726	18,422
2019	-	-	24,627	54,896	8,071	18,077
2020	-	-	25,503	54,020	8,431	17,717
2021	-	-	26,410	53,113	8,808	17,340
2022	-	-	27,350	52,173	9,201	16,947
2023	-	-	28,322	51,201	9,612	16,536
2024	-	-	29,330	50,193	10,041	16,107
2025	-	-	30,373	49,150	10,489	15,659
2026	-	-	31,453	48,070	10,957	15,191
2027	-	-	32,572	46,951	11,446	14,702
2028	-	-	33,730	45,793	11,957	14,191
2029	-	-	34,930	44,593	12,491	13,657
2030	-	-	36,172	43,351	13,048	13,100
2031	-	-	37,459	42,064	13,631	12,517
2032	-	-	38,791	40,732	14,239	11,909
2033	-	-	40,171	39,352	14,875	11,273
2034	-	-	41,599	37,924	15,539	10,609
2035	-	-	43,079	36,444	16,233	9,915
2036	-	-	44,611	34,912	16,957	9,191
2037	-	-	46,198	33,325	17,714	8,434
2038	-	-	47,841	31,682	18,505	7,643
2039	-	-	49,542	29,981	19,331	6,817
2040	-	-	51,305	28,218	20,194	5,954
2041	-	-	53,129	26,394	21,095	5,053
2042	-	-	55,019	24,504	22,037	4,111
2043	-	-	56,976	22,547	23,020	3,128
2044	-	-	59,002	20,521	24,048	2,100
2045	-	-	61,101	18,422	25,121	1,027
2046	-	-	63,274	16,249	9,769	9,842
2047	-	-	65,524	13,999	-	19,611
2048	-	-	67,855	11,668	-	-
2049	-	-	70,268	9,255	-	-
2050	-	-	72,767	6,756	-	-
2051	-	-	75,356	4,167	-	-
2052	-	-	78,025	1,486	-	-
Total	<u>\$ 60,000</u>	<u>\$ 4,665</u>	<u>\$ 1,670,000</u>	<u>\$ 1,351,862</u>	<u>\$ 445,839</u>	<u>\$ 403,971</u>

Tennessee Municipal League Bond Fund Series 2007		USDA Series 2008		Total	
Principal	Interest	Principal	Interest	Principal	Interest
\$ 44,000	\$ 3,900	\$ 12,983	\$ 42,325	\$ 99,474	\$ 125,537
44,000	2,282	13,563	41,745	101,619	121,844
40,000	736	14,168	41,140	99,729	118,135
-	-	14,801	40,507	62,008	115,153
-	-	15,461	39,847	48,159	112,820
-	-	16,151	39,157	50,085	110,894
-	-	16,872	38,436	52,090	108,889
-	-	17,626	37,682	54,177	106,802
-	-	18,412	36,896	56,346	104,633
-	-	19,234	36,074	58,605	102,374
-	-	20,093	35,215	60,955	100,024
-	-	20,990	34,318	63,400	97,579
-	-	21,927	33,381	65,945	95,034
-	-	22,905	32,403	68,592	92,387
-	-	23,928	31,380	71,349	89,630
-	-	24,996	30,312	74,216	86,763
-	-	26,112	29,196	77,202	83,777
-	-	27,277	28,031	80,307	80,672
-	-	28,495	26,813	83,541	77,438
-	-	29,767	25,541	86,905	74,074
-	-	31,096	24,212	90,408	70,571
-	-	32,484	22,824	94,052	66,927
-	-	33,934	21,374	97,846	63,133
-	-	35,448	19,860	101,794	59,185
-	-	37,031	18,277	105,904	55,075
-	-	38,684	16,624	110,183	50,796
-	-	40,411	14,897	114,635	46,344
-	-	42,214	13,094	119,270	41,709
-	-	44,099	11,209	124,095	36,884
-	-	46,067	9,241	129,117	31,862
-	-	48,124	7,184	134,346	26,633
-	-	50,272	5,036	123,315	31,127
-	-	52,516	2,792	118,040	36,402
-	-	35,186	1,295	103,041	12,963
-	-	-	-	70,268	9,255
-	-	-	-	72,767	6,756
-	-	-	-	75,356	4,167
-	-	-	-	78,025	1,486
<u>\$ 128,000</u>	<u>\$ 6,918</u>	<u>\$ 973,327</u>	<u>\$ 888,318</u>	<u>\$ 3,277,166</u>	<u>\$ 2,655,734</u>

CITY OF PIKEVILLE, TENNESSEE
SCHEDULE OF DEBT SERVICE REQUIREMENTS
NATURAL GAS PROPRIETARY FUND
JUNE 30, 2014

Year Ending June 30,	Series 2002	
	Principal	Interest
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	\$ 665,000	\$ 150,931

CITY OF PIKEVILLE, TENNESSEE

SCHEDULE OF MUNICIPAL UTILITY RATES AND NUMBERS OF CUSTOMERS

JUNE 30, 2014

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 Free Water Audit Software:
Reporting Worksheet

WAS v5.0
 American Water Works Association.
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? Click to access definition

+ Click to add a comment

Water Audit Report for: City of Pikeville (TN0000551)

Reporting Year: 2014 7/2013 - 6/2014

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 (n/a or 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

To select the correct data grading for each input, determine the highest grade where the utility meets or exceeds all criteria for that grade and all grades below it.

----- Enter grading in column 'E' and 'J' ----->

WATER SUPPLIED

Volume from own sources:	+	?	9	282.918	MG/Yr
Water imported:	+	?	10	5.026	MG/Yr
Water exported:	+	?	n/a	0.000	MG/Yr
WATER SUPPLIED:				287.944	MG/Yr

AUTHORIZED CONSUMPTION

Billed metered:	+	?	7	138.118	MG/Yr
Billed unmetered:	+	?	9	0.019	MG/Yr
Unbilled metered:	+	?	7	0.000	MG/Yr
Unbilled unmetered:	+	?		3.599	MG/Yr
AUTHORIZED CONSUMPTION:				141.737	MG/Yr

Default option selected for Unbilled unmetered - a grading of 5 is applied but not displayed

WATER LOSSES (Water Supplied - Authorized Consumption)

				146.208	MG/Yr
--	--	--	--	----------------	-------

Apparent Losses

Unauthorized consumption:	+	?		0.720	MG/Yr
Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed					
Customer metering inaccuracies:	+	?	7	13.660	MG/Yr
Systematic data handling errors:	+	?	7	0.020	MG/Yr
Apparent Losses:				14.400	MG/Yr

Real Losses (Current Annual Real Losses or CARL)

Real Losses = Water Losses - Apparent Losses:	?			131.808	MG/Yr
WATER LOSSES:				146.208	MG/Yr

NON-REVENUE WATER

				149.807	MG/Yr
--	--	--	--	----------------	-------

= Water Losses + Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

Length of mains:	+	?	7	72.0	miles
Number of <u>active AND inactive</u> service connections:	+	?	7	1,686	
Service connection density:	?			23	conn./mile main

Are customer meters typically located at the curbstop or property line? Yes (length of service line, beyond the property boundary, that is the responsibility of the utility)

Average length of customer service line has been set to zero and a data grading score of 10 has been applied

Average operating pressure:	+	?	6	105.0	psi
-----------------------------	---	---	---	-------	-----

COST DATA

Total annual cost of operating water system:	+	?	9	\$1,683,006	\$/Year
Customer retail unit cost (applied to Apparent Losses):	+	?	8	\$7.87	\$/1000 gallons (US)
Variable production cost (applied to Real Losses):	+	?	9	\$1,123.84	\$/Million gallons

Use Customer Retail Unit Cost to value real losses

WATER AUDIT DATA VALIDITY SCORE:

*** YOUR SCORE IS: 81 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: Volume from own sources

2: Billed metered

3: Unauthorized consumption

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Schedule for Unaccounted for Water Loss

AWWA Free Water Audit Software: System Attributes and Performance Indicators

WAS v5.0

American Water Works Association.
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Water Audit Report for:
Reporting Year:

*** YOUR WATER AUDIT DATA VALIDITY SCORE IS: 81 out of 100 ***

System Attributes:

Apparent Losses:	<input type="text" value="14.400"/>	MG/Yr
+ Real Losses:	<input type="text" value="131.808"/>	MG/Yr
= Water Losses:	<input type="text" value="146.208"/>	MG/Yr

Unavoidable Annual Real Losses (UARL): MG/Yr

Annual cost of Apparent Losses:

Annual cost of Real Losses:

Valued at **Variable Production Cost**
Return to Reporting Worksheet to change this assumption

Performance Indicators:

Financial: { Non-revenue water as percent by volume of Water Supplied:
Non-revenue water as percent by cost of operating system: Real Losses valued at Variable Production Cost

Operational Efficiency: { Apparent Losses per service connection per day: gallons/connection/day
Real Losses per service connection per day: gallons/connection/day
Real Losses per length of main per day*: gallons/mile/day
Real Losses per service connection per day per psi pressure: gallons/connection/day/psi

From Above, Real Losses = Current Annual Real Losses (CARL): million gallons/year

Infrastructure Leakage Index (ILI) [CARL/UARL]:

* This performance indicator applies for systems with a low service connection density of less than 32 service connections/mile of pipeline

CITY OF PIKEVILLE, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE FINANCIAL ASSISTANCE
YEAR ENDING JUNE 30, 2014

<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>
USDA Rural Development Loan Proceeds	10.760	TN-16710	\$ -	\$ 117,497	\$ 117,497	\$ -
Total U. S. Department of Agriculture			<u>-</u>	<u>117,497</u>	<u>117,497</u>	<u>-</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>-</u>	<u>117,497</u>	<u>117,497</u>	<u>-</u>
STATE AWARDS						
Waterline & Water Treatment Plant/Correctional Facility	N/A	SBC-142-013-02-2004-24	-	448,613	448,613	-
USDA Capital Grant	N/A	#00-26	<u>-</u>	<u>76,507</u>	<u>76,507</u>	<u>-</u>
TOTAL EXPENDITURES OF STATE AWARDS			<u>-</u>	<u>525,120</u>	<u>525,120</u>	<u>-</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ -</u>	<u>\$ 642,617</u>	<u>\$ 642,617</u>	<u>\$ -</u>

CITY OF PIKEVILLE, TENNESSEE

NOTES TO THE SCHEDULE OF EXPENDITURES

OF FEDERAL AND STATE ASSISTANCE

YEAR ENDED JUNE 30, 2014

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. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

COMPLIANCE SECTION



**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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 9, 2014.

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 2014-01.

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 2014-02.

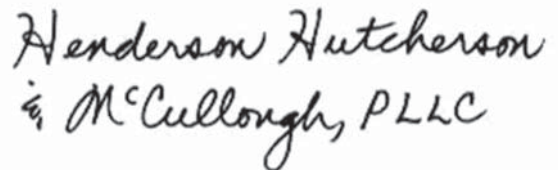
City of Pikeville, Tennessee's Response to Findings

The City of Pikeville, Tennessee's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. 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
October 9, 2014



Henderson Hutcherson
in McCullough, PLLC

CITY OF PIKEVILLE, TENNESSEE

SCHEDULE OF FINDINGS AND RESPONSES

JUNE 30, 2014

2014-01: Controls over the Financial Reporting Process

Condition: During the audit process, adjustments were made to the funds and government-wide financial statements. Management is currently in a period of transition, in which internal control procedures are in the process of being 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.

2014-02: 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, 2014

2013-01: Controls over the Financial Reporting Process

Status: Management is currently in the process of remediating the financial close/reporting process; see current year finding 2014-01.

2013-02: Non-municipal Building Purchase

Status: Management is actively marketing the property for sale; see current year finding 2014-02.