

CITY CLERK

City of Crossville, Tennessee

**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

June 30, 2007

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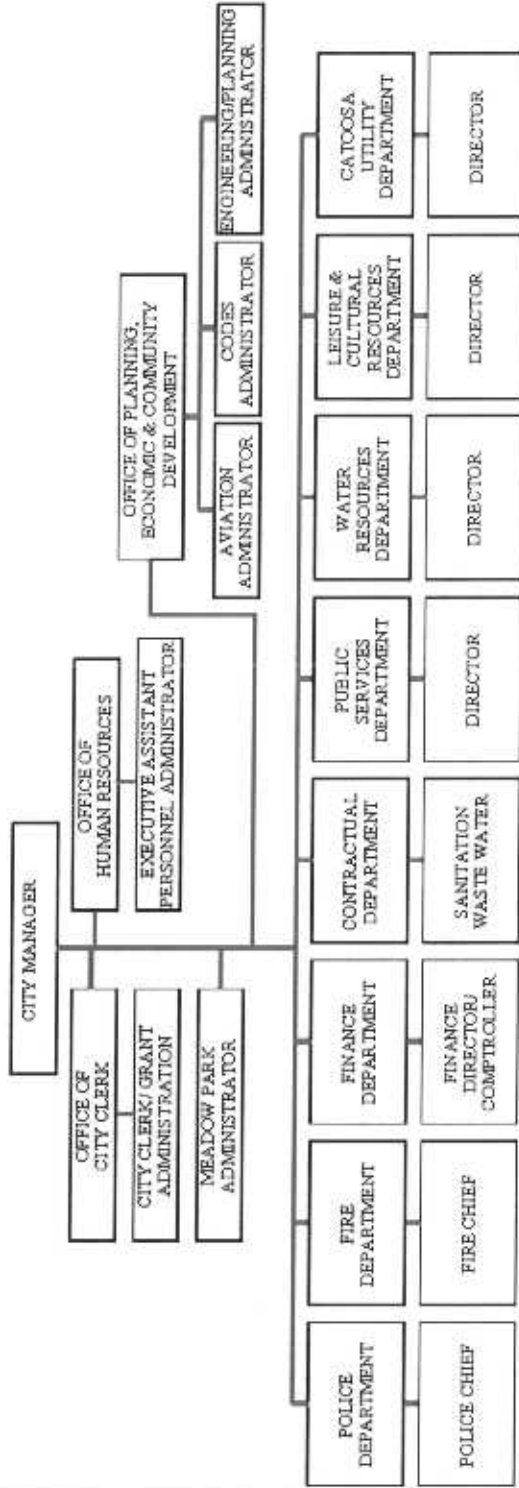
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**INTRODUCTORY SECTION**

# MANAGEMENT STRUCTURE - EXECUTIVE BRANCH CROSSVILLE CITY GOVERNMENT



**City of Crossville, Tennessee**  
**DIRECTORY OF PUBLIC OFFICIALS**  
**June 30, 2007**

ELECTED OFFICIALS

Mayor	J. H. Graham, III
Mayor Pro-Tem	Boyd Wyatt, Sr.
Council Member	Earl Dean
Council Member	Carl Duer
Council Member	Jesse Kerley

APPOINTED OFFICIALS

City Manager	Jack E. Miller, PhD
City Clerk	Sally Oglesby, MMC
Finance Director	Fred C. Houston, CPA
City Attorney	Kenneth Chadwell
City Judge	Thomas L. Bean

**FINANCIAL SECTION**



PLEMMONS-JACKSON & CABANISS, PLLC  
CERTIFIED PUBLIC ACCOUNTANTS

Janice Plemmons - Jackson, CPA

Mark W. Cabaniss, CPA

INDEPENDENT AUDITOR'S REPORT

To the City Council  
City of Crossville, Tennessee

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 City of Crossville, Tennessee, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Crossville, Tennessee's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

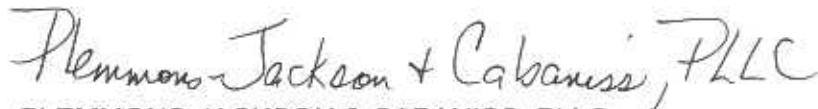
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Crossville, Tennessee, as of June 30, 2007, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund and the major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2007, on our consideration of the City of Crossville, Tennessee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



The management's discussion and analysis on pages 3 through 11 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Crossville, Tennessee's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of City of Crossville, Tennessee. The combining and individual nonmajor fund financial statements, other supplementary information, and the schedule of expenditures of federal and state awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.



PLEMMONS-JACKSON & CABANISS, PLLC  
Certified Public Accountants

Crossville, Tennessee  
January 24, 2007

**REQUIRED SUPPLEMENTARY INFORMATION**



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This discussion and analysis of the City of Crossville's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2007. Please read it in conjunction with the City's financial statements.

### **USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements for governmental activities tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

### **Reporting the City as a Whole**

#### **The Statement of Net Assets and the Statement of Activities**

The Statement of Net Assets and the Statement of Activities report information about the City as a whole. They show whether or not the City's financial condition is better or worse as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Basically, the reporting shows what was earned or owed at June 30.

These two statements report the City's net assets and changes in them. Net assets, or the difference between assets and liabilities, are one way to measure the City's financial health. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. Other factors such as changes in the City's property tax base, sales tax collections, and road conditions, also measure the overall health of the City.

In the Statement of Net Assets and the Statement of Activities, the City is divided into two kinds of activities:

1. Governmental activities—Most of the City’s basic services are reported here, including the police, fire, general administration, streets, and leisure and cultural activities. Sales taxes, state-shared taxes, franchise fees, fines, and property taxes finance most of these activities.
2. Business-type activities—The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City’s water and sewer system is reported here.

## **Reporting the City’s Most Significant Funds**

### **Fund Financial Statements**

The fund financial statements provide detailed information about the most significant funds, not the City as a whole. Some funds are required to be established by State law and by bond covenants. The City Council establishes many other funds to help it control and manage money for particular purposes, like the Industrial Development Fund. Other funds show that the City is meeting legal responsibilities for using certain taxes, grants, and other money, like the Drug Fund and State Street Aid Fund. The City’s two kinds of funds, governmental and proprietary, use different accounting methods.

- Governmental funds—Most of the City’s basic services are reported in governmental funds, which focus on how money flows into and out of those funds. The balances left at the end of the year are available for the next year’s spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City’s general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or less financial resources that can be spent in the near future to finance the City’s programs. The difference between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is shown in a reconciliation at the bottom of the fund financial statements.
- Proprietary funds—When the City charges customers for the services it provides—whether to outside customers or to other units of the City--these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. The City’s enterprise fund is the same as the business-type activities reported in the government-wide statements but with more information such as cash flows.

## THE CITY AS A WHOLE

For the year ended June 30, 2007, net assets changed as follows:

	NET ASSETS					
	Governmental Activities		Business-Type Activities		Total Government	
	2007	2006	2007	2006	2007	2006
Current and other assets	19,756,254	17,956,401	9,048,675	9,012,634	28,804,929	26,969,035
Capital assets	26,484,714	24,095,251	47,778,954	47,479,288	74,263,668	71,574,539
Total assets	46,240,968	42,051,652	56,827,629	56,491,922	103,068,597	98,543,574
Other liabilities	3,051,288	3,097,224	585,136	423,839	3,636,424	3,521,063
Long-term liabilities outstanding	1,912,293	1,222,247	19,600,539	21,022,996	21,512,832	22,245,243
Total liabilities	4,963,581	4,319,471	20,185,675	21,446,835	25,149,256	25,766,306
Net assets:						
Investment in capital assets, net of related debt	24,816,833	24,020,251	28,386,995	26,438,101	53,203,628	50,458,352
Restricted	337,789	0	1,608,857	222,831	1,946,646	222,831
Unrestricted	16,122,965	13,711,930	6,646,102	8,384,155	22,769,067	22,096,085
Total net assets (deficit)	41,277,387	37,732,181	36,641,954	35,045,087	77,919,341	72,777,268

By far, the largest portion of the City's net assets (68%) reflects its investment in capital assets (e.g. land, buildings, utility plant, machinery, equipment, and infrastructure), net of any related debt used to acquire those assets that are still outstanding. The City uses these assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (2%) represents resources that are subject to external restriction on how they may be used. The remaining unrestricted net assets of \$22,769,067 may be used to meet the City's ongoing obligations to citizens and creditors. Of the unrestricted net assets, \$6.6 Million is attributable to business-type activities and \$16.1 Million is attributed to governmental activities. The governmental activities have \$337,789 of restricted net assets.

**CHANGE IN NET ASSETS**

	Governmental Activities		Business-Type Activities		Total Government	
	2007	2006	2007	2006	2007	2006
<b>REVENUES</b>						
Program revenues:						
Charges for services	1,270,823	1,191,258	7,373,938	7,018,411	8,644,761	8,209,669
Operating grants and contributions	367,255	636,600	0	0	367,255	636,600
Capital grants and contributions	972,100	76,438	1,197,503	606,545	2,169,603	682,983
General revenues:						
Taxes:						
Property taxes	1,869,319	1,702,535	0	0	1,869,319	1,702,535
Local options sales tax	7,030,103	6,812,244	0	0	7,030,103	6,812,244
State shared taxes	1,207,121	887,626	0	0	1,207,121	887,626
Other taxes	1,360,703	1,197,202	0	0	1,360,703	1,197,202
Unrestricted investment earnings	690,374	478,784	428,756	361,784	1,119,130	840,568
Gain (loss) on sale of capital assets	0	0	0	0	0	0
<b>Total revenues</b>	<b>14,767,798</b>	<b>12,982,687</b>	<b>9,000,197</b>	<b>7,986,740</b>	<b>23,767,995</b>	<b>20,969,427</b>
<b>EXPENSES</b>						
Governmental activities:						
General government	2,767,006	2,764,755	0	0	2,767,006	2,764,755
Public safety	4,892,160	4,482,045	0	0	4,892,160	4,482,045
Highways and streets	1,830,652	1,488,969	0	0	1,830,652	1,488,969
Sanitation	342,857	306,773	0	0	342,857	306,773
Leisure and culture	1,034,020	1,055,266	0	0	1,034,020	1,055,266
Airport	179,685	179,198	0	0	179,685	179,198
Industrial development	16,933	45,089	0	0	16,933	45,089
Tourism development	69,855	49,958	0	0	69,855	49,958
Cemeteries	47,625	44,860	0	0	47,625	44,860
Interest on long-term debt	41,799	34,440	0	0	41,799	34,440
Business-type activities:						
Water and sewer	0	0	6,993,273	6,689,781	6,993,273	6,689,781
<b>Total expenses</b>	<b>11,222,592</b>	<b>10,451,353</b>	<b>6,993,273</b>	<b>6,689,781</b>	<b>18,215,865</b>	<b>17,141,134</b>
Excess (deficiency) before extraordinary item	3,545,206	2,531,334	2,006,924	1,296,959	5,552,130	3,828,293
Extraordinary item-contribution from merger	0	0	0	4,848,888	0	4,848,888
Special Item: Loss on Tanks	0	0	(410,057)	0	(410,057)	0
Transfers in (out)	0	64,168	0	(64,168)	0	0
<b>Increase (decrease) in net assets</b>	<b>3,545,206</b>	<b>2,595,502</b>	<b>1,596,867</b>	<b>6,081,679</b>	<b>5,142,073</b>	<b>8,677,181</b>

## Governmental Activities

In comparison to last year, revenues for the City's governmental activities increased 14% while total expenses also increased 8%. The police, fire, and highways and streets departments had the biggest increase in expenditures, compared to last year, due to new personnel and/or capital outlay. The revenues increased due to donations of infrastructure, increase in property taxes, sales tax, State shared taxes, other taxes, and interest from investments.

Additional information may be needed to understand the Statement of Activities. The format is significantly different from a typical Statement of Revenues, Expenses, and Changes in Fund Balance. You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the City's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants. Some of the individual line item revenues and departments reported for major functions are:

General government	Revenues include licenses and permits, franchise fees, interest earnings, sale of property, GIS contributions, public works transfers from the water and sewer fund to share costs, and insurance recoveries. Departmental expenses include administrative costs, City Hall, central staff, city court, legislative, codes administration, public works building, maintenance department, tree board, engineering, and planning and zoning.
Public safety	Revenues include Federal grants for vests, State education grants, TEMA disaster relief grants, State operating grants, and city court fines. Departmental expenses include police, fire, auxiliary police, public safety building, animal control, Drug Fund, and Block Grant Fund.
Streets	Includes all street operations. During the last fiscal year, the Street Department received revenue from servicing Cumberland County's traffic signals and State funding as well.
Sanitation	Revenues include refuse disposal charges and sale of garbage container. The General Fund transfers money for all other operations.

Leisure and culture	Revenues include concessions stand operations, tournament fees, Palace Theatre souvenirs, Meadow Park Lake fishing derby sponsors, Palace Theatre donations, State Arts Commission grants, and private donations for the construction of the horseshoe pit area. Departmental expenses include operations of the Centennial Park, Garrison Park, Meadow Park Lake, and the Palace Theatre.
Airport	Revenues include State grants for maintenance, FBO operating revenue, hangar rentals, and miscellaneous revenues for FAA rent, charts, and maps.
Industrial development	Revenues include contributions from Granitifiandre/Stone Peak Ceramics, and interest earnings on specially designated funds.
Tourism development	Revenues include proceeds and sponsorships for local and regional golf tournaments. Department expenses include advertisements, travel guides, tourism video, maps, Chamber of Commerce publications, and golf tournament sponsorships promoting the City of Crossville as the Golf Capitol of Tennessee.
Cemetery	Revenues are from the sale of cemetery lots in the Crossville City Cemetery. Expenses are for labor, equipment, and materials in maintaining the grounds.

All other governmental revenues are reported as general. It is important to note that all taxes, except for business taxes and licenses and state shared gasoline taxes are classified as general revenue even if restricted for a specific purpose.

### **Business-Type Activities**

The business-type activities showed approximately 13% increase in total income this fiscal year over last fiscal year. This income is due to an increase in water sales of approximately 5%. The capital contributions from waterlines given to the City by owners of subdivisions increased by 98% over last year. Interest income increased approximately 19%. The expenses of the business-type funds increased by 5%.



## **THE CITY'S FUNDS**

At the close of the City's fiscal year on June 30, 2007, the governmental funds of the City reported a combined fund balance of \$15,611,314. This ending balance includes an increase in fund balance of \$2,480,539 in the City's General Fund. In addition, these other changes in fund balances should be noted:

- The City received \$295,029 in State of Tennessee Street Aid funding and spent \$450,877. This ultimately led to a decrease in the fund balance of (\$140,427), which left an ending fund balance of \$248,937.
- The Industrial Development Fund decreased \$502,551, with an ending balance of \$504,415.

### **General Fund Budgetary Highlights**

Over the course of the year, the City Council revised the City budget several times. The significant amendments can be categorized as follows:

1. The Holiday Hills Bridge project was approved by City Council in December of 2006. This project costs were approved for \$1,910,000. At this time, the engineering costs incurred are \$40,017.
2. Increases to prevent budget overrun—the budget was amended to cover additional costs that were approved by City Council.

Even with these adjustments, the actual charges to expenditures were \$6.0 Million below the final budget amounts for the General Fund and \$.8 Million below final budget amounts for the Consolidated Water and Sewer Enterprise Fund. The most significant favorable variances occurred in the General Fund's transfer to Capital Projects (\$4,176,951), Police Department (\$184,934), and the Municipal Airport (\$501,946). This was due to capital projects which were not completed by June 30, 2007. The expenses were carried over into the following year's budget.

Revenues were below the final budgeted amount in the General Fund by approximately \$2.0 million. This is due to grants and loans on projects that did not get started. Water and Sewer Fund revenue was under budget by \$471,578. This was due to over budget in water sales, sewer sales, and grinder pump sales. The budgeted operating revenues and expenses were consistent with that of prior years, with expenses being well below the budgeted figures.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

As of June 30, 2007, the City had \$74.26 million invested in a broad range of capital assets, including police and fire equipment, buildings, park facilities, roads, water and sewer lines. This represents a net increase (including additions and deductions) of 4% over last year.

	Capital Assets at Year-End (In Millions)					
	Governmental Activities		Business-Type Activities		Totals	
	2007	2006	2007	2006	2007	2006
Land	2.69	2.73	0.42	0.42	3.11	3.15
Water and Sewer Treatment and Distribution Plant	-	-	67.57	65.89	67.57	64.89
Buildings & Improvements	12.80	12.78	-	-	12.80	12.78
Machinery & Equipment	5.35	5.03	3.41	3.36	8.76	8.39
Infrastructure	13.96	12.28	-	-	13.96	12.28
Construction In Progress	2.08	0.76	1.30	1.22	3.38	1.98
Less Accumulated Depreciation	(10.40)	(9.49)	(24.92)	(23.42)	(35.32)	(32.90)
<b>Net</b>	<b>26.48</b>	<b>24.10</b>	<b>47.78</b>	<b>47.48</b>	<b>74.26</b>	<b>71.57</b>

This year's additions included street projects and the start of a soccer complex for the general fund. The business-type activities had capital additions for waterline projects and water plant improvements.

### Debt

At year-end, the City had \$21.5 Million in bonds and notes outstanding versus \$22.2 Million last year—a decrease of 3% as shown below.

	Outstanding Debt at Year-End					
	Governmental Activities		Business-type Activities		Totals	
	2007	2006	2007	2006	2007	2006
General obligation bonds (backed by the City)	262,711	283,247	4,271,650	4,830,980	4,534,361	5,114,228
Revenue bonds and notes (backed by specific tax and fee revenues)	1,649,582	939,000	15,328,889	16,210,208	16,978,471	17,149,208
<b>Totals</b>	<b>1,912,293</b>	<b>1,222,247</b>	<b>19,600,539</b>	<b>21,041,188</b>	<b>21,512,832</b>	<b>22,263,436</b>

In the governmental activities, the City of Crossville borrowed monies to fund the soccer field's project. At June 30, the City had drawn \$750,581 from the loan. The City has an interest bearing note of \$899,000. An inter-local agreement was signed between the City of Crossville, Cumberland County, and Cumberland County E-911, which obligates the Cumberland County E-911 to repay the debt. This agreement is reflected in the Government-Wide Statement of Net Assets as outstanding debt to the Tennessee Municipal Bond Fund and as a receivable from Cumberland County E-911.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The new General Fund Budget effective July 1, 2007 maintained the same tax rate as the fiscal year ended June 30, 2007. Since the last sales tax increase in 1999, the City has had an average sales tax growth rate, excluding the rate increase, of 20% in comparison to the 1998 level of sales.

Some of the significant capital asset items budgeted for next year includes \$660,000 for airplane hangars at the airport, completion of the soccer fields at a cost of \$4.5 million, \$178,000 for four fully-equipped police vehicles, \$1,910,000 for the Holiday Hills bridge repair, and \$961,000 on other street related capital projects. Grants and specially designated state funding will offset some of these large expenses.

Major utility capital additions include \$950,000 for the State funded Highway 127S sewer expansion, \$600,000 for improving the Holiday Hills dam, \$600,000 for use of waterline rehabilitation savings, \$556,000 in wastewater improvements and \$644,700 for Holiday Hills Water Plant improvements. Loans and grants from state and federal agencies, as well as savings, will fund construction costs. Some of these projects will be finished within the fiscal year while others will progress into the next few fiscal years.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's integrity and accountability. If you have questions about these financial statements or need additional information, contact the Finance Department at 99 Municipal Avenue, Crossville, Tennessee.

**BASIC FINANCIAL STATEMENTS**

**Government-wide Financial Statements**

**City of Crossville, Tennessee**  
**GOVERNMENT-WIDE STATEMENT OF NET ASSETS**  
June 30, 2007

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 14,813,378	\$ 6,011,488	\$ 20,824,866
Receivables (net)	4,712,140	953,656	5,665,796
Inventories	115,440	266,095	381,535
Deferred financing costs	31,501	208,580	240,081
Restricted cash and cash equivalents	83,795	1,608,856	1,692,651
Capital assets			
Land & construction in progress	4,775,728	1,721,296	6,497,024
Other capital assets, net of depreciation	21,708,986	46,057,658	67,766,644
Total capital assets	<u>26,484,714</u>	<u>47,778,954</u>	<u>74,263,668</u>
<b>Total assets</b>	<u>46,240,968</u>	<u>56,827,629</u>	<u>103,068,597</u>
<b>LIABILITIES</b>			
Accounts payable & accrued expenses	1,202,603	585,136	1,787,739
Deferred revenue	1,848,685	0	1,848,685
Long-term liabilities			
Due within one year	66,000	1,526,388	1,592,388
Due in more than one year	1,846,293	18,074,151	19,920,444
<b>Total liabilities</b>	<u>4,963,581</u>	<u>20,185,675</u>	<u>25,149,256</u>
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt	24,816,633	28,386,995	53,203,628
Restricted			
Highways & streets	248,937	0	248,937
Debt service	0	1,608,857	1,608,857
Drug enforcement	78,420	0	78,420
Sanitation	10,432	0	10,432
Unrestricted	<u>16,122,965</u>	<u>6,646,102</u>	<u>22,769,067</u>
<b>Total net assets</b>	<u>\$ 41,277,387</u>	<u>\$ 36,641,954</u>	<u>\$ 77,919,341</u>

The notes to the basic financial statements are an integral part of this statement.

	Net (Expense) Revenue and Changes in Net Assets		
	Primary Government		
Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
972,100	\$ (892,709)	\$ 0	\$ (892,709)
0	(4,666,436)	0	(4,666,436)
0	(1,490,638)	0	(1,490,638)
0	(342,857)	0	(342,857)
0	(872,377)	0	(872,377)
0	(171,185)	0	(171,185)
0	(16,933)	0	(16,933)
0	(69,855)	0	(69,855)
0	(47,625)	0	(47,625)
0	(41,799)	0	(41,799)
<u>972,100</u>	<u>(8,612,414)</u>	<u>0</u>	<u>(8,612,414)</u>
1,197,503	0	1,578,168	1,578,168
<u>1,197,503</u>	<u>0</u>	<u>1,578,168</u>	<u>1,578,168</u>
<u>\$ 2,169,603</u>			
	1,869,319	0	1,869,319
	7,030,103	0	7,030,103
	1,207,121	0	1,207,121
	544,844	0	544,844
	568,169	0	568,169
	143,179	0	143,179
	690,374	428,756	1,119,130
	104,511	0	104,511
	0	(410,057)	(410,057)
	0	0	0
	<u>12,157,620</u>	<u>18,699</u>	<u>12,176,319</u>
	3,545,206	1,596,867	5,142,073
	<u>37,732,181</u>	<u>35,045,087</u>	<u>72,777,268</u>
	<u>\$ 41,277,387</u>	<u>\$ 36,641,954</u>	<u>\$ 77,919,341</u>

The notes to the basic financial statements are an integral part of this statement.

**City of Crossville, Tennessee**  
**BALANCE SHEET**  
**Governmental Funds**  
**June 30, 2007**

	General	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash	\$ 12,451,768	\$ 946,147	\$ 1,415,463	\$ 14,813,378
Cash - restricted	23,315	0	60,480	83,795
Receivables, net of allowance for uncollectible				
Property taxes	1,857,597	0	0	1,857,597
Accounts	166,465	0	0	166,465
Grants	14,417	0	0	14,417
Notes	3,300	0	0	3,300
Due from other governments	1,712,321	0	59,040	1,771,361
Inventories	104,856	0	10,584	115,440
<b>TOTAL ASSETS</b>	<b>\$ 16,334,039</b>	<b>\$ 946,147</b>	<b>\$ 1,545,567</b>	<b>\$ 18,825,753</b>
<b>LIABILITIES &amp; FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	\$ 144,827	\$ 995,983	\$ 3,363	1,144,173
Customer deposits	895	0	0	895
Accrued expenses	57,535	0	0	57,535
Due to other funds	(700,000)	0	700,000	0
Deferred tax revenues	2,011,836	0	0	2,011,836
<b>Total liabilities</b>	<b>1,515,093</b>	<b>995,983</b>	<b>703,363</b>	<b>3,214,439</b>
<b>Fund balances</b>				
<b>Reserved</b>				
Highways & streets	0	0	248,937	248,937
Sanitation	0	0	10,432	10,432
Drug enforcement	0	0	78,420	78,420
<b>Unreserved, reported in nonmajor</b>				
Special revenue funds	0	0	504,415	504,415
Unreserved	14,818,946	(49,836)	0	14,769,110
<b>Total fund balances</b>	<b>14,818,946</b>	<b>(49,836)</b>	<b>842,204</b>	<b>15,611,314</b>
<b>TOTAL LIABILITIES &amp; FUND BALANCES</b>	<b>\$ 16,334,039</b>	<b>\$ 946,147</b>	<b>\$ 1,545,567</b>	<b>\$ 18,825,753</b>
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.				26,484,714
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.				1,093,652
Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.				(1,912,293)
<b>Net assets of governmental activities</b>				<b>\$ 41,277,387</b>

The notes to the basic financial statements are an integral part of this statement.



**City of Crossville, Tennessee**  
**STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**Governmental Funds**  
**For the Year Ended June 30, 2007**

	General	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUE</b>				
Local taxes	\$ 10,127,736	\$ 0	\$ 0	\$ 10,127,736
Licenses and permits	159,312	0	0	159,312
Intergovernmental revenue	1,223,280	0	301,855	1,525,135
Interest income	612,731	0	77,643	690,374
Fines and forfeits	138,682	0	17,934	156,616
Charges and services	229,369	0	0	229,369
Public enterprise revenue	0	0	12,955	12,955
Grants	49,241	0	0	49,241
Donations	7,200	0	0	7,200
Miscellaneous	524,865	0	15,524	540,389
Total Revenue	<u>13,072,416</u>	<u>0</u>	<u>425,911</u>	<u>13,498,327</u>
<b>EXPENDITURES</b>				
Current				
General government	2,640,624	0	0	2,640,624
Public safety	5,213,835	0	36,918	5,250,753
Street	1,066,651	0	450,877	1,517,528
Sanitation	0	0	341,361	341,361
Leisure and culture	856,033	0	0	856,033
Airport	93,450	0	0	93,450
Industrial development	0	0	16,933	16,933
Tourism development	69,855	0	0	69,855
Cemeteries	45,842	0	0	45,842
Debt service				
Principal retirement	65,000	0	0	65,000
Interest charges	41,799	0	0	41,799
Capital outlay - facilities acquisition and construction	<u>0</u>	<u>1,456,323</u>	<u>0</u>	<u>1,456,323</u>
Total expenditures	<u>10,093,089</u>	<u>1,456,323</u>	<u>846,089</u>	<u>12,395,501</u>
<b>EXCESS (DEFICIENCY) REVENUE OVER EXPENDITURES</b>				
	<u>2,979,327</u>	<u>(1,456,323)</u>	<u>(420,178)</u>	<u>1,102,826</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Capital-related debt issued	0	719,081	0	719,081
Operating transfers in	550,000	698,049	350,739	1,598,788
Operating transfers (out)	<u>(1,048,788)</u>	<u>0</u>	<u>(550,000)</u>	<u>(1,598,788)</u>
Net other financial sources (uses)	<u>(498,788)</u>	<u>1,417,130</u>	<u>(199,261)</u>	<u>719,081</u>
<b>NET CHANGE IN FUND BALANCE</b>				
	2,480,539	(39,193)	(619,439)	1,821,907
<b>FUND BALANCES, beginning of year</b>				
	<u>12,338,407</u>	<u>(10,643)</u>	<u>1,461,643</u>	<u>13,789,407</u>
<b>FUND BALANCES, end of year</b>				
	<u>\$ 14,818,946</u>	<u>\$ (49,836)</u>	<u>\$ 842,204</u>	<u>\$ 15,611,314</u>

The notes to the basic financial statements are an integral part of this statement.

City of Crossville, Tennessee  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
 BALANCES OF GOVERNMENTAL ACTIVITIES**  
 For the Year Ended June 30, 2007

<b>NET CHANGE IN FUND BALANCES--TOTAL GOVERNMENTAL FUNDS</b>	<b>\$ 1,821,907</b>
Governmental funds report capital outlays as expenditures. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$2,224,488) exceeded depreciation (\$1,112,115) in the current period.	1,112,373
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets.	1,106,320
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	163,151
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	65,000
Issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, but the long-term debt increases long-term liabilities in the Statement of Net Assets	(719,081)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	<u>(4,464)</u>
<b>Change in net assets of governmental activities (p 14)</b>	<b><u>\$ 3,545,206</u></b>

City of Crossville, Tennessee  
**STATEMENT OF NET ASSETS**  
 Proprietary Funds  
 June 30, 2007

	<u>Enterprise Funds</u>
	<u>Water &amp; Sewer</u>
<b>ASSETS</b>	
<b>Current assets</b>	
Cash	\$ 6,011,488
Accounts receivable, net of allowance for doubtful accounts	841,206
Inventories of materials	266,095
Total current assets	<u>7,118,789</u>
<b>Noncurrent assets</b>	
Restricted cash	1,608,856
Capital assets	
Land	424,236
Plant in service	67,567,792
Construction in progress	1,297,060
Machinery and equipment	3,412,852
Less accumulated depreciation	(24,922,986)
Deferred financing cost	208,580
Special assessment receivable	112,450
Total other assets	<u>49,708,840</u>
Total assets	<u>56,827,629</u>
<b>LIABILITIES</b>	
<b>Current liabilities</b>	
Accounts payable	510,419
Accrued liabilities	74,717
Current portion of notes/bond payable	1,526,388
Total current liabilities	<u>2,111,524</u>
<b>Noncurrent liabilities</b>	
Notes and bonds payable, less current portion	<u>18,074,151</u>
Total noncurrent liabilities	<u>18,074,151</u>
Total liabilities	<u>20,185,675</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	28,386,995
Restricted for debt service	1,608,857
Unrestricted	6,646,102
Total net assets	<u>\$ 36,641,954</u>

The notes to the basic financial statements are an integral part of this statement.

City of Crossville, Tennessee  
**STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS**  
 Proprietary Fund  
 For the Year Ended June 30, 2007

	<u>Enterprise Funds</u>
	<u>Water &amp; Sewer</u>
<b>OPERATING REVENUE</b>	
Charges for services	\$ 7,373,938
Total operating revenue	<u>7,373,938</u>
<b>OPERATING EXPENSES</b>	
Personnel services	1,603,647
Repair and maintenance	13,877
Materials and supplies	536,431
Contractual services	1,558,309
Other	575,926
Depreciation and amortization	1,958,978
Total operating expenses	<u>6,247,168</u>
<b>OPERATING INCOME (LOSS)</b>	<u>1,126,770</u>
<b>NONOPERATING REVENUE (EXPENSES)</b>	
Interest expense	(746,105)
Interest income	428,756
Total nonoperating revenue (expenses)	<u>(317,349)</u>
<b>INCOME (LOSS) BEFORE OTHER REVENUES, SPECIAL ITEMS AND TRANSFERS</b>	809,421
Contributions in aid of construction	1,197,503
Impairment loss on water tanks	<u>(410,057)</u>
<b>CHANGE IN NET ASSETS</b>	1,596,867
<b>Total Net Assets--beginning of year</b>	<u>35,045,087</u>
<b>Total Net Assets--end of year</b>	<u>\$ 36,641,954</u>

The notes to the basic financial statements are an integral part of this statement.

City of Crossville, Tennessee  
**STATEMENT OF CASH FLOWS**  
Proprietary Fund  
For the Year Ended June 30, 2007

	<u>Enterprise Funds</u>
	<u>Water &amp; Sewer</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 7,305,818
Payments to suppliers	(2,588,261)
Payments to employees	(1,603,647)
Net cash provided by operating activities	<u>3,113,910</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Principal paid on capital debt	(1,422,457)
Interest paid on capital debt	(746,105)
Purchases of capital assets	(2,668,700)
Contributions in aid of construction	1,197,503
Other receipts (payments)	(10,772)
Net cash provided (used) by capital and financing activities	<u>(3,650,531)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Net cash (used) by noncapital financing activities	<u>0</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest received on investments	<u>428,756</u>
Net cash provided (used) by investing activities	<u>428,756</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	(107,865)
<b>CASH AND RESTRICTED CASH, beginning of year</b>	<u>7,728,210</u>
<b>CASH AND RESTRICTED CASH, end of year</b>	<u>\$ 7,620,345</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	
Operating income (loss)	\$ 1,126,770
Adjustments to reconcile operating income to net cash provided	
by operating activities:	
Depreciation expense	1,958,978
Change in assets and liabilities	
Receivables, net	(68,120)
Inventories	(65,015)
Accounts and other payables	177,897
Accrued expenses	(16,600)
Net cash provided by operating activities	<u>\$ 3,113,910</u>

The notes to the basic financial statements are an integral part of this statement.

City of Crossville, Tennessee  
**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL**  
**General Fund**  
**For the Year Ended June 30, 2007**

	BUDGET		Actual	Variance with
	Original	Final		Final Budget
				Fav. (Unfavorable)
<b>REVENUE</b>				
Taxes				
Property taxes	\$ 1,940,000	\$ 1,940,000	\$ 1,788,236	\$ (151,764)
Business taxes	460,000	460,000	544,844	84,844
Penalties and interest on taxes	33,000	33,000	29,962	(3,038)
Wholesale beer and liquor taxes	560,000	560,000	568,169	8,169
Payments in lieu of taxes	189,600	189,600	143,179	(46,421)
Local option sales taxes	7,300,000	7,300,000	7,030,103	(269,897)
Special tax assessments	26,790	26,790	23,243	(3,547)
<b>Total taxes</b>	<b>10,509,390</b>	<b>10,509,390</b>	<b>10,127,736</b>	<b>(381,654)</b>
Licenses and Permits				
Building, plumbing, and related permits	194,000	194,000	141,073	(52,927)
Beer permits and other	19,000	19,000	18,239	(761)
<b>Total licenses and permits</b>	<b>213,000</b>	<b>213,000</b>	<b>159,312</b>	<b>(53,688)</b>
Intergovernmental Revenues				
State income tax	78,725	78,725	157,019	78,294
State beer and liquor tax	65,450	65,450	76,682	11,232
State sales tax	745,000	745,000	753,858	8,858
Excise taxes	53,250	53,250	65,056	11,806
City street and transportation	23,000	23,000	22,985	(15)
Reimbursements/donations	113,865	128,855	145,935	17,080
Grant revenue	748,970	2,031,970	49,241	(1,982,729)
Telecommunications tax	1,700	1,700	1,745	45
<b>Total intergovernmental revenue</b>	<b>1,829,960</b>	<b>3,127,950</b>	<b>1,272,521</b>	<b>(1,855,429)</b>
Interest	425,000	425,000	612,731	187,731
Fines and Forfeits				
City court fines and other	143,300	143,300	138,682	(4,618)
Charges for Services:				
Clerk fees	6,000	6,000	5,265	(735)
Park and recreation charges	180,500	180,500	161,643	(18,857)
Reimbursements	26,000	26,000	26,421	421
Driver and safety school fees	25,500	25,500	36,040	10,540
<b>Total charge for services</b>	<b>238,000</b>	<b>238,000</b>	<b>229,369</b>	<b>(8,631)</b>

The notes to the basic financial statements are an integral part of this statement.

City of Crossville, Tennessee  
**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL**  
**General Fund**  
**For the Year Ended June 30, 2007**

	BUDGET		Actual	Variance with Final Budget
	Original	Final		Fav. (Unfavorable)
Miscellaneous Revenue				
Cemetery revenue	35,000	35,000	34,400	(600)
Sale of land and equipment	3,000	3,000	156,895	153,895
Airport	82,930	82,930	79,435	(3,495)
Donations	9,500	9,500	7,200	(2,300)
Cable tv royalties	120,000	120,000	111,131	(8,869)
GIS revenue	7,500	7,500	7,712	212
Other miscellaneous	125,700	125,700	135,292	9,592
	<u>383,630</u>	<u>383,630</u>	<u>532,065</u>	<u>148,435</u>
Total miscellaneous revenue				
	<u>383,630</u>	<u>383,630</u>	<u>532,065</u>	<u>148,435</u>
<b>TOTAL REVENUE</b>	<u>13,742,280</u>	<u>15,040,270</u>	<u>13,072,416</u>	<u>(1,967,854)</u>
 <b>EXPENDITURES</b>				
General government				
Legislative				
Personnel services	40,000	44,835	39,776	5,059
Contractual services	4,850	4,925	4,124	801
Materials & supplies	1,450	1,160	857	303
	<u>46,300</u>	<u>50,920</u>	<u>44,757</u>	<u>6,163</u>
Total legislative				
	<u>46,300</u>	<u>50,920</u>	<u>44,757</u>	<u>6,163</u>
City court				
Personnel services	13,115	13,115	12,000	1,115
Contractual services	350	350	0	350
Materials & supplies	1,500	1,500	1,127	373
	<u>14,965</u>	<u>14,965</u>	<u>13,127</u>	<u>1,838</u>
Total city court				
	<u>14,965</u>	<u>14,965</u>	<u>13,127</u>	<u>1,838</u>
Central staff				
Personnel services	601,400	601,179	585,879	15,300
Contractual services	48,450	47,659	35,699	11,960
Materials & supplies	19,450	20,445	22,166	(1,721)
Capital outlay	5,000	20,728	15,728	5,000
	<u>674,300</u>	<u>690,011</u>	<u>659,472</u>	<u>30,539</u>
Total central staff				
	<u>674,300</u>	<u>690,011</u>	<u>659,472</u>	<u>30,539</u>

The notes to the basic financial statements are an integral part of this statement.

City of Crossville, Tennessee  
**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL**  
**General Fund**  
**For the Year Ended June 30, 2007**

	BUDGET		Actual	Variance with Final Budget
	Original	Final		Fav. (Unfavorable)
Engineering				
Personnel services	251,700	280,607	243,914	36,693
Contractual services	89,320	87,625	42,517	45,108
Materials & supplies	24,550	24,158	16,663	7,495
Other services & charges	1,000	680	140	540
Capital outlay	60,000	60,000	20,727	39,273
Total engineering	<u>426,570</u>	<u>453,070</u>	<u>323,961</u>	<u>129,109</u>
Planning & zoning				
Personnel services	1,600	1,600	770	830
Contractual services	9,500	9,500	8,707	793
Materials & supplies	1,200	1,200	40	1,160
Total planning & zoning	<u>12,300</u>	<u>12,300</u>	<u>9,517</u>	<u>2,783</u>
Municipal buildings				
Personnel services	32,010	32,010	28,356	3,654
Contractual services	55,140	54,905	46,035	8,870
Materials & supplies	4,400	4,400	3,977	423
Other services & charges	1,000	1,235	1,231	4
Total municipal buildings	<u>92,550</u>	<u>92,550</u>	<u>79,599</u>	<u>12,951</u>
Maintenance				
Personnel services	604,160	603,360	583,198	20,162
Contractual services	68,780	69,510	47,340	22,170
Materials & supplies	99,900	102,562	92,755	9,807
Other services & charges	1,000	1,220	1,215	5
Capital outlay	23,000	20,188	15,025	5,163
Total maintenance	<u>796,840</u>	<u>796,840</u>	<u>739,533</u>	<u>57,307</u>
Administrative				
Personnel services	131,656	130,324	86,098	44,226
Contractual services	116,500	117,070	74,838	42,232
Materials & supplies	7,500	8,262	8,140	122
Other services & charges	225,500	225,500	217,307	8,193
Capital outlay	0	0	0	0
Grants, contributions & other	3,650	3,650	3,650	0
Total administrative	<u>484,806</u>	<u>484,806</u>	<u>390,033</u>	<u>94,773</u>

The notes to the basic financial statements are an integral part of this statement.



City of Crossville, Tennessee  
**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL**  
**General Fund**  
**For the Year Ended June 30, 2007**

	BUDGET		Actual	Variance with Final Budget
	Original	Final		Fav. (Unfavorable)
Tree board				
Personnel services	1,260	1,260	705	555
Contractual services	6,840	5,140	0	5,140
Materials & supplies	8,500	10,200	10,089	111
Total tree board	<u>16,600</u>	<u>16,600</u>	<u>10,794</u>	<u>5,806</u>
Nonprofit organizations				
Grants, contributions & other	211,572	211,572	201,572	10,000
Total nonprofit organizations	<u>211,572</u>	<u>211,572</u>	<u>201,572</u>	<u>10,000</u>
Public works				
Personnel services	206,375	204,850	118,973	85,877
Contractual services	37,250	32,285	16,754	15,531
Materials & supplies	12,000	18,490	6,594	11,896
Other services & charges	28,700	28,700	25,938	2,762
Total public works	<u>284,325</u>	<u>284,325</u>	<u>168,259</u>	<u>116,066</u>
Total general government	<u>3,061,128</u>	<u>3,107,959</u>	<u>2,640,624</u>	<u>467,335</u>
Public safety				
Public safety building				
Personnel services	37,885	37,540	36,492	1,048
Contractual services	270,112	272,227	266,510	5,717
Materials & supplies	4,900	3,550	2,946	604
Other services & charges	1,500	1,500	1,297	203
Grants, contributions & other	17,000	17,000	17,000	0
Capital outlay	375,000	374,580	364,276	10,304
Total public safety building	<u>706,397</u>	<u>706,397</u>	<u>688,521</u>	<u>17,876</u>
Auxiliary police				
Personnel services	15,850	15,850	13,315	2,535
Contractual services	0	0	0	0
Materials & supplies	5,000	5,000	3,136	1,864
Total auxiliary police	<u>20,850</u>	<u>20,850</u>	<u>16,451</u>	<u>4,399</u>

The notes to the basic financial statements are an integral part of this statement.

City of Crossville, Tennessee  
**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL**  
**General Fund**  
**For the Year Ended June 30, 2007**

	BUDGET		Actual	Variance with Final Budget
	Original	Final		Fav. (Unfavorable)
Police				
Personnel services	2,171,500	2,185,550	2,127,685	57,865
Contractual services	99,385	105,675	130,652	(24,977)
Materials & supplies	216,250	211,920	163,177	48,743
Other services & charges	1,750	1,745	45	1,700
Grants, contributions & other	0	0	0	0
Capital outlay	288,500	298,495	196,892	101,603
Total police	<u>2,777,385</u>	<u>2,803,385</u>	<u>2,618,451</u>	<u>184,934</u>
Fire				
Personnel services	1,270,990	1,281,520	1,259,030	22,490
Contractual services	146,801	148,393	123,352	25,041
Materials & supplies	158,680	152,658	163,708	(11,050)
Other services & charges	1,200	1,200	902	298
Grants, contributions & others	26,821	26,821	26,821	0
Capital outlay	130,100	124,000	55,700	68,300
Total fire	<u>1,734,592</u>	<u>1,734,592</u>	<u>1,629,513</u>	<u>105,079</u>
Codes administration				
Personnel services	171,975	171,675	168,472	3,203
Contractual services	7,750	7,750	4,962	2,788
Materials & supplies	26,980	27,263	16,250	11,013
Capital outlay	0	17	17	0
Total codes administration	<u>206,705</u>	<u>206,705</u>	<u>189,701</u>	<u>17,004</u>
Animal control				
Personnel services	37,025	37,025	35,102	1,923
Contractual services	2,500	2,500	852	1,648
Materials & supplies	5,731	5,731	3,994	1,737
Other services & charges	0	0	0	0
Grants, contributions & other	31,250	31,250	31,250	0
Capital outlay	0	0	0	0
Total animal control	<u>76,506</u>	<u>76,506</u>	<u>71,198</u>	<u>5,308</u>
Total public safety	<u>5,522,435</u>	<u>5,548,435</u>	<u>5,213,835</u>	<u>334,600</u>

The notes to the basic financial statements are an integral part of this statement.

City of Crossville, Tennessee  
**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL**  
**General Fund**  
**For the Year Ended June 30, 2007**

	BUDGET		Actual	Variance with
	Original	Final		Final Budget
				Fav. (Unfavorable)
Highways and streets				
Personnel services	534,750	530,880	495,190	35,690
Contractual services	103,335	104,835	63,992	40,843
Materials & supplies	506,975	509,345	444,262	65,083
Other services & charges	6,200	6,200	897	5,303
Capital outlay	72,500	80,990	62,310	18,680
<b>Total highways and streets</b>	<b>1,223,760</b>	<b>1,232,250</b>	<b>1,066,651</b>	<b>165,599</b>
Cemeteries				
Personnel services	73,510	71,510	37,363	34,147
Contractual services	8,705	10,705	6,092	4,613
Materials & supplies	6,700	6,700	2,387	4,313
Capital outlay	10,000	10,000	0	10,000
<b>Total cemeteries</b>	<b>98,915</b>	<b>98,915</b>	<b>45,842</b>	<b>53,073</b>
Leisure and cultural				
Recreation parks				
Personnel services	362,200	355,010	307,087	47,923
Contractual services	187,530	222,800	188,584	34,216
Materials & supplies	124,050	124,470	116,213	8,257
Other services & charges	1,500	1,500	486	1,014
Grants, contributions & other	25,000	25,000	15,284	9,716
Capital outlay	66,500	66,500	21,073	45,427
<b>Total recreation parks</b>	<b>766,780</b>	<b>795,280</b>	<b>648,727</b>	<b>146,553</b>
Meadow Park Lake				
Personnel services	73,900	73,390	63,488	9,902
Contractual services	49,345	48,499	25,927	22,572
Materials & supplies	32,885	34,241	25,209	9,032
Capital outlay	15,000	15,000	0	15,000
<b>Total Meadow Park Lake</b>	<b>171,130</b>	<b>171,130</b>	<b>114,624</b>	<b>56,506</b>

The notes to the basic financial statements are an integral part of this statement.

City of Crossville, Tennessee  
**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL**  
**General Fund**  
**For the Year Ended June 30, 2007**

	BUDGET		Actual	Variance with Final Budget
	Original	Final		Fav. (Unfavorable)
Palace Theatre				
Personnel services	68,750	68,476	41,279	27,197
Contractual services	68,750	67,769	37,773	29,996
Materials & supplies	18,200	19,455	13,630	5,825
Other services & charges	0	0	0	0
Capital outlay	0	0	0	0
Total Palace Theatre	<u>155,700</u>	<u>155,700</u>	<u>92,682</u>	<u>63,018</u>
Total Leisure and cultural	<u>1,093,610</u>	<u>1,122,110</u>	<u>856,033</u>	<u>266,077</u>
Airport				
Personnel services	24,250	25,388	25,047	341
Contractual services	49,776	48,178	42,410	5,768
Materials & supplies	4,270	4,688	4,325	363
Other services & charges	5,700	5,725	5,251	474
Capital outlay	511,400	511,417	16,417	495,000
Total airport	<u>595,396</u>	<u>595,396</u>	<u>93,450</u>	<u>501,946</u>
Tourism Development				
Contractual services	13,500	13,575	11,300	2,275
Supplies	2,000	920	731	189
Grants, contributions & others	69,250	70,255	57,824	12,431
Total Tourism Development	<u>84,750</u>	<u>84,750</u>	<u>69,855</u>	<u>14,895</u>
Debt service				
Principal	65,000	65,000	65,000	0
Interest	37,685	41,415	41,414	1
Fiscal agent fees	5,000	1,270	385	885
Total debt service	<u>107,685</u>	<u>107,685</u>	<u>106,799</u>	<u>886</u>
<b>TOTAL EXPENDITURES</b>	<u>11,787,679</u>	<u>11,897,500</u>	<u>10,093,089</u>	<u>1,804,411</u>

The notes to the basic financial statements are an integral part of this statement.

City of Crossville, Tennessee  
**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES  
 IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL**  
 General Fund  
 For the Year Ended June 30, 2007

	BUDGET		Actual	Variance with Final Budget
	Original	Final		Fav. (Unfavorable)
<b>REVENUE OVER (UNDER) EXPENDITURES</b>	1,954,601	3,142,770	2,979,327	(163,443)
<b>OTHER FINANCING SOURCES (USES)</b>				
Capital-related debit issued	2,000,000	2,000,000	0	(2,000,000)
Operating transfers in				
UDAG Industrial Development fund	0	0	550,000	550,000
Operating transfers out				
Solid waste fund	(373,350)	(375,840)	(350,739)	25,101
Capital projects fund	(3,365,000)	(4,875,000)	(698,049)	4,176,951
Total other finan. sources (uses)	(1,738,350)	(3,250,840)	(498,788)	2,752,052
<b>NET CHANGE IN FUND BALANCE</b>	216,251	(108,070)	2,480,539	2,588,609
<b>FUND BALANCE, beginning of yr</b>	12,338,407	12,338,407	12,338,407	0
<b>FUND BALANCE, end of year</b>	<u>\$ 12,554,658</u>	<u>\$ 12,230,337</u>	<u>\$ 14,818,946</u>	<u>\$ 2,588,609</u>

The notes to the basic financial statements are an integral part of this statement.

City of Crossville, Tennessee  
**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES  
 IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL**  
**Capital Projects Fund**  
**For the Year Ended June 30, 2007**

	BUDGET		Actual	Variance with Final Budget
	Original	Final		Fav. (Unfavorable)
<b>REVENUE</b>				
Intergovernmental revenue	\$ 0	\$ 0	\$ 0	\$ 0
Charges for services	0	0	0	0
Fines and costs	0	0	0	0
Public enterprise revenue	0	0	0	0
Interest income	0	0	0	0
Donations--DARE	0	0	0	0
Grants	0	0	0	0
Miscellaneous	0	0	0	0
<b>Total revenue</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>EXPENDITURES</b>				
Capital outlay	<u>3,365,000</u>	<u>4,875,000</u>	<u>1,456,323</u>	<u>3,418,677</u>
<b>Total expenditures</b>	<u>3,365,000</u>	<u>4,875,000</u>	<u>1,456,323</u>	<u>3,418,677</u>
<b>EXCESS (DEFICIENCY OF REVENUE OVER EXPENDITURES)</b>	(3,365,000)	(4,875,000)	(1,456,323)	3,418,677
<b>OTHER FINANCING SOURCES (USES)</b>				
Capital-related debt issued	0	0	719,081	719,081
Operating transfers in	<u>3,365,000</u>	<u>4,875,000</u>	<u>698,049</u>	<u>(4,176,951)</u>
<b>Total other financing sources (uses)</b>	<u>3,365,000</u>	<u>4,875,000</u>	<u>1,417,130</u>	<u>(3,457,870)</u>
<b>NET CHANGE IN FUND BALANCE</b>	0	0	(39,193)	(39,193)
<b>FUND BALANCE , beginning of year</b>	<u>(10,643)</u>	<u>(10,643)</u>	<u>(10,643)</u>	<u>0</u>
<b>FUND BALANCE, end of year</b>	<u>\$ (10,643)</u>	<u>\$ (10,643)</u>	<u>\$ (49,836)</u>	<u>\$ (39,193)</u>

The notes to the basic financial statements are an integral part of this statement.

**City of Crossville, Tennessee**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2007**

**NOTE 1: DESCRIPTION OF THE CITY AND REPORTING ENTITY**

The City of Crossville (the "City") is a municipal corporation, incorporated under the laws of the State of Tennessee in 1901. The City is organized as a Mayor/Council form of government. The Mayor and Council are elected to four-year terms. The Council appoints the City Manager; other positions of management are appointed by the City Manager.

**Reporting Entity**

A reporting entity consists of the primary government, component units, and other organizations that are included to ensure that financial statements are not misleading. The primary government of the City consists of all funds, departments, boards, and agencies that are not legally separate from the City. For the City of Crossville, this includes various services including police and fire protection, animal control, recreation (including parks, Meadow Park Lake, and the Palace Theatre), planning and zoning, street maintenance and repair, sanitation, water and sewer services, and general administrative services. The operation of each of these activities is directly controlled by Council through the budgetary process.

Component units are legally separate organizations for which the City is financially accountable. The City has no component units.

**Related Organizations**

The City's officials are responsible for appointing the members of the boards of other organizations, but the City's accountability for these organizations does not extend beyond the appointments.

The following are related organizations, which have not been included in the reporting entity:

Crossville Housing Authority—The Board of the Authority is appointed by the Mayor, but the City provides no funding and has no obligation for the debt issued by the Authority. The City has no means to impose its will upon the operations of the Authority.

Public Building Authority of City of Crossville, Tennessee—The Board of the Authority is appointed by City Council, but the City provides no funding and has no obligation for the debt issued by the Authority. The City has no means to impose its will upon the operations of the Authority.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City of Crossville have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The City also applied Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its enterprise funds provided they do not conflict with or contradict GASB pronouncements. The City has elected not to apply FASB

**City of Crossville, Tennessee**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2007**

pronouncements issued after November 30, 1989 to its business-type activities or enterprise funds. The most significant of the City's accounting policies are described below:

**A. BASIS OF PRESENTATION**

The City's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

**Government-wide Financial Statements**—The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for business-type activities of the City. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program. Revenues that are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the City.

**Fund Financial Statements**—During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

**B. FUND ACCOUNTING**

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds:

**Governmental Funds**—Governmental funds are those through which most governmental functions of the City are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between



**City of Crossville, Tennessee**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2007**

governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

**General Fund**—The general fund accounts for all financial resources except those required to be accounted for in another fund. The general fund is available to the City for any purpose provided it is expended or transferred according to the general laws of Tennessee.

**Capital Projects Fund**—The capital projects fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by enterprise funds).

The other governmental funds of the City are used to account for grants and other resources whose use is restricted to a particular purpose.

**Proprietary Funds**—Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. The City's proprietary funds are all classified as enterprise funds. Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. All of the City's enterprise funds are major funds.

**Water and Sewer Fund**—The water and sewer fund is used to account for the revenues generated from the charges for the distribution of water and for sanitary sewer services provided to the residential and commercial users of the City. The fund includes the revenues and expenses from the merger of the former Catoosa Utility District that is now accounted for as a department of this fund.

**Fiduciary Funds**—Fiduciary fund reporting focuses on net assets and changes in net assets. The City has no fiduciary funds.

### **C. MEASUREMENT FOCUS**

**Government-wide Financial Statements**—The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the statement of net assets.

**Fund Financial Statements**—All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

**City of Crossville, Tennessee**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2007**

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of fund net assets. The statement of changes in revenues, expenses, and changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about the City finances and meets the cash flow needs of its proprietary activities.

**D. BASIS OF ACCOUNTING**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting; proprietary and fiduciary also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenues, and in the presentation of expenses versus expenditures.

**Revenues—Exchange and Non-exchange Transactions**—Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is reported on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is reported in the year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within sixty days of year-end.

Non-exchange transactions, in which the City received value without directly giving equal value in return, includes income taxes, property taxes, grants, entitlements, and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the taxpayer earns income. Revenue from property taxes is recognized in the year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the City must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from a non-exchange transaction must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: income taxes, hotel taxes, charges for services, state-levied locally shared taxes (including gasoline tax and motor vehicle license fees), interest, grants, fees, and rentals.

**Deferred Revenue**—Deferred revenues arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of January 1, 2007, but which were levied to finance year 2008 operations, have been reported as deferred revenue. Grants and

**City of Crossville, Tennessee**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2007**

entitlements received before the eligibility requirements were met also have been reported as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period also have been reflected as deferred revenue.

**Expenses/Expenditures**—On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

**Grant Policy**—Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

#### **E. BUDGET PROCESS**

The City charter established the fiscal year as a twelve-month period beginning July 1. The departments submit to the Finance Director and the City Manager a budget of estimated expenditures for the ensuing fiscal year, after which the budget of estimated expenditures and revenues is submitted to the City Council by May 15.

Upon receipt of the budget estimates, the Council holds a public hearing on the proposed budget to obtain taxpayer comments.

Prior to June 30, the budget is legally enacted through passage of an ordinance.

The City Manager is authorized to transfer budgeted amounts between line items within any department; however, any revisions that alter the total appropriations of any department or fund must be approved by City Council.

Budgeted amounts are as originally adopted or as amended by the City Council.

**The Statement of Revenues, Expenditures and Changes in Fund Balances**—Budget and Actual presents a comparison of budgetary data to actual results. The funds of the City utilize the same basis of accounting for both budgetary purposes and actual results. Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

**City of Crossville, Tennessee**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2007**

**F. CASH AND CASH EQUIVALENTS**

To improve cash management, cash received by the City is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through City records.

The City has segregated cash accounts for various amounts that are invested with the State of Tennessee in the Local Government Investment Pool (LGIP). During the fiscal year ended June 30, 2007, investments were limited to deposits with the State of Tennessee in the Local Government Investment Pool. The pool's investments are reported at fair value at June 30, 2007 based on market prices. Earnings on the pooled funds are apportioned and paid or credited to the funds monthly.

Investments with an original maturity of three months or less at the time of purchase and investments of the cash management pool are presented on the financial statements as cash and cash equivalents because the LGIP is sufficiently liquid to permit withdrawal of cash at any time with prior notice or penalty.

**G. INVENTORY**

Inventory consists of expendable supplies held for consumption.

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On the fund financial statements, inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. The cost of inventory items is reported as an expenditure in the governmental fund types when used, and inventories of the proprietary funds are expensed when used.

**H. ACCRUED UNBILLED REVENUE**

During the year, customer water meters are read and bills rendered throughout monthly periods. Because not every meter is read on the same date, revenue for water distributed but not yet billed is accrued at fiscal year-end to match revenues with related expenses. At June 30, 2007, accrued unbilled revenues were \$246,818.

**I. RESTRICTED ASSETS**

Restricted assets are liquid assets (generated from revenues and not bond proceeds) that have third party (statutory, bond covenant, or granting agency) limitations on their use. The restricted assets in the enterprise fund represent cash and cash equivalents and investments set aside for bond interest and sinking funds.

**City of Crossville, Tennessee**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2007**

<u>Governmental Activities</u>	<u>Amount</u>
Restricted for specific uses	\$ 83,795
<u>Business-Type Activities</u>	
Restricted for bond interest and sinking funds	<u>1,608,856</u>
Total government-wide restricted assets	<u>\$ 1,692,651</u>

**J. CAPITAL ASSETS**

General capital assets are capital assets, which are associated with and generally arise from governmental activities. They generally result from expenditures in the governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective fund.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are reported at their fair market value as of the date received. The City maintains a capitalization threshold ranging from \$5,000 for land, buildings, equipment, and improvements to \$20,000 for streellights, traffic signals, and drainage systems. The City's infrastructure consists of City streets, curbs and guttering, streetlights, traffic signals, drainage systems, and water and sewer systems. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All capital assets are depreciated, except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvement and replacement. Depreciation is computed using the straight-line method over the following useful lives:

	Governmental Activities	Business-Type Activities
<u>Description</u>	<u>Estimated Lives</u>	<u>Estimated Lives</u>
Buildings and Improvements	20--40 years	20--40 years
Machinery and Equipment	3--10 years	3--10 years
Vehicles	5 years	5 years
Infrastructure	40 years	40 years

**City of Crossville, Tennessee**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2007**

**K. CAPITALIZATION OF INTEREST**

In conformity with Financial Accounting Standards No. 34, "Capitalization of Interest Cost," the City capitalizes interest costs for business-type activities only, net of related interest earned, from the date of the borrowing until the projects acquired with those funds are ready for their intended use. During the fiscal year ended June 30, 2007, no interest costs were capitalized as fixed assets in the Water and Sewer Fund as part of the costs of constructing various projects. Total interest costs for the Water and Sewer fund amounted to approximately \$746,105.

**L. COMPENSATED ABSENCES**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. The liability for vacation benefits is reported as "compensated absences".

City policy provides for the accumulation of unused vacation days above those earned in the current year to a maximum accumulation of 240 hours. It also provides for the accumulation of sick days, which has no maximum limitation. When an employee accumulates over 240 hours of vacation, it is transferred to sick hours. No amounts of sick leave are vested in the event of employee termination. However, sick leave time is credited to service time upon retirement.

Amounts accrued at June 30, 2007 for compensated absences are not expected to be liquidated with expendable available financial resources, and accordingly, the liability is not reported on the governmental fund financial statements. The government-wide statement of net assets does include the liability for compensated absences.

**M. ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS**

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements. All payables, accrued liabilities, and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Long-term loans are recognized as a liability on the governmental fund financial statements when due.

**N. FUND BALANCE RESERVES**

The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent expendable resources and therefore are not available for appropriation or expenditure.

City of Crossville, Tennessee  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2007

**O. EQUITY CLASSIFICATIONS—NET ASSETS**

**Government-wide Statements**

Equity is classified as net assets and displayed in three components:

- 1) **Invested in capital assets, net of related debt**—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- 2) **Restricted net assets**—Consists of net assets with constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
- 3) **Unrestricted net assets**—All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

The primary government assets include restricted cash of \$1,692,651. Net assets of governmental funds restricted by enabling legislation to specific purposes include state street aid taxes of \$248,937, drug enforcement funds of \$78,420, and sanitation revenues of \$10,432.

**Fund Statements**

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Proprietary fund equity is classified the same as in the government-wide statements.

**P. OPERATING REVENUES AND EXPENSES**

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

**Q. CONTRIBUTIONS OF CAPITAL**

Contributions of capital in the proprietary fund financial statements arise from outside contributions of capital assets, tap-in fees to the extent they exceed the cost of the connection to the system, or from grants or outside contributions of resources restricted to capital acquisition and construction.

**R. INTERFUND ACTIVITY**

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another

**City of Crossville, Tennessee**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2007**

without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported other financing sources/uses in governmental funds and after nonoperating revenue/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

**S. ESTIMATES**

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**NOTE 3: NEW REPORTING STANDARD**

The City of Crossville, Tennessee has implemented GASB Statement No. 45 (GASB 46), "Net Assets Restricted by Enabling Legislation". This statement clarifies the meaning of legal enforceability as it relates to restricted net assets. At June 30, 2007, the City of Crossville, Tennessee has net assets restricted by enabling legislation for drug enforcement, sanitation, and highways and streets improvements.

**NOTE 4: DEPOSITS AND INVESTMENTS**

**Deposits**—State statutes require that all deposits in financial institutions be fully collateralized by an amount equal to 105 percent of the face amount of uninsured deposits. The collateral must be considered as category 1 for credit risk. The City's deposits were fully insured or collateralized as required by state statutes at June 30, 2007. At year-end, the carrying amount of the City's deposits was \$22,519,684 and the respective bank balances totaled \$23,187,229.

Deposits of \$20,438,571 were held in the State of Tennessee Local Government Investment Pool (LGIP); cash held in checking was covered by the Federal Depository Insurance Corporation (FDIC) for \$100,000; additionally the bank had assets pledged to the City with collateral at a value of \$1,500,000.

**Cash on Hand**—At year end; the City had \$3,022 in undeposited cash on hand, which is included on the balance sheet of the City as part of "Cash and cash equivalents". Cash and cash equivalents are all highly liquid investments with a maturity of three months or less when purchased.

**Custodial Credit Risk**—Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. The City does not have an investment policy, but adheres to the requirements of the State of Tennessee that 105% of deposits must be secured by collateral valued at market or par, less the amount of the Federal Deposit Insurance Corporation insurance (FDIC).



**City of Crossville, Tennessee**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2007**

**NOTE 5: RECEIVABLES**

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include property taxes, intergovernmental taxes, and grants. Business-type activities report utilities as its major receivable. A long-term note receivable of \$939,000 is also included, which represents long-term debt to the Tennessee Municipal League Bond Fund as more detailed in Note 13.

**Property Taxes**—Property taxes include amounts levied against all real, public utilities, and also for industrial and commercial taxpayers on tangible personal property located in the City. Property tax revenue received during 2007 for real and public utility property taxes represents collections of the 2006 taxes.

2007 real property taxes are levied each July 1 on the assessed value as of January 1, 2007, the lien date. Assessed values are established by the State of Tennessee at the following rates of assumed market value:

Public utility property	55% (Railroads 40%)
Industrial and commercial property	
Real	40%
Personal	30%
Residential property	25%

Taxes were levied at the rate of \$.70 per \$100. Payment may be made during the period from August 1 through November 30 and become delinquent on December 1 of each tax year. Current tax collections of \$1,751,766 for the fiscal year ended June 30, 2007 were approximately 99.39% of the tax levy for 2006 taxes.

**Intergovernmental Receivables**—A summary of intergovernmental receivables follows:

<u>Governmental Activities</u>	<u>Amount</u>
Local option sales tax	\$ 1,299,556
State sales tax	131,060
Other	7,100
Gasoline taxes	56,028
Mixed drink tax	12,192
Wholesale beer tax	108,406
State income tax	<u>157,019</u>
	<u>1,771,361</u>
 <u>Business-Type Activities</u>	
Intergovernmental receivable	<u>0</u>
Total Intergovernmental Receivables	<u>\$ 1,771,361</u>

**City of Crossville, Tennessee**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2007**

**NOTE 6—RISK MANAGEMENT**

The City of Crossville is exposed to various risks, general liability and property and casualty losses. The City has decided it is more economically feasible to join a public entity risk pool as opposed to purchasing commercial insurance for general liability and property and casualty coverage. The City participates in the TML Insurance Pool, which is a public entity risk pool established by the Tennessee Municipal League. The City pays an annual premium to TML for its general liability, property and casualty insurance coverage. The pool reinsures through commercial insurance companies.

**NOTE 7—CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2007, is as follows:

	Balance July 1, 2006	Additions	Disposals	Balance June 30, 2007
<b>Governmental Activities:</b>				
Capital assets not being depreciated				
Land	\$ 2,726,130	\$ 16,417	\$ 52,384	\$ 2,690,163
Construction in progress	759,323	2,133,215	806,973	2,085,565
Total capital assets not being depreciated	<u>3,485,453</u>	<u>2,149,632</u>	<u>859,357</u>	<u>4,775,728</u>
Capital assets being depreciated				
Buildings	5,505,066	0	0	5,505,066
Machinery and equipment	5,034,667	494,790	176,475	5,352,982
Improvements other than bldgs	7,270,760	39,000	0	7,309,760
Infrastructure	<u>12,284,704</u>	<u>1,684,113</u>	<u>0</u>	<u>13,968,817</u>
Total capital assets being depreciated	<u>30,095,197</u>	<u>2,217,903</u>	<u>176,475</u>	<u>32,136,625</u>
Less accumulated depreciation				
Buildings	(1,438,887)	(118,317)	0	(1,557,204)
Machinery and equipment	(3,837,129)	(469,963)	(169,875)	(4,137,217)
Improvements other than bldgs	(1,198,063)	(209,860)	0	(1,407,923)
Infrastructure	<u>(3,011,320)</u>	<u>(313,975)</u>	<u>0</u>	<u>(3,325,295)</u>
Total accumulated depreciation	<u>(9,485,399)</u>	<u>(1,112,115)</u>	<u>(169,875)</u>	<u>(10,427,639)</u>
Net capital assets being depreciated	<u>20,609,798</u>	<u>1,105,788</u>	<u>6,600</u>	<u>21,708,986</u>
Governmental Activities Capital Assets, Net	<u>\$ 24,095,251</u>	<u>\$ 3,255,420</u>	<u>\$ 865,957</u>	<u>\$ 26,484,714</u>

**City of Crossville, Tennessee**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2007

	Balance <u>July 1, 2006</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>June 30, 2007</u>
<b>Business-Type Activities</b>				
Capital assets not being depreciated				
Land	\$ 422,978	\$ 1,258	\$ 0	\$ 424,236
Construction in progress	<u>1,222,550</u>	<u>1,326,304</u>	<u>1,251,794</u>	<u>1,297,060</u>
Total capital assets not being depreciated	<u>1,645,528</u>	<u>1,327,562</u>	<u>1,251,794</u>	<u>1,721,296</u>
Capital assets being depreciated				
Buildings and distribution lines	65,894,380	2,470,337	796,925	67,567,792
Machinery and equipment	<u>3,358,047</u>	<u>232,631</u>	<u>177,826</u>	<u>3,412,852</u>
Total capital assets being depreciated	<u>69,252,427</u>	<u>2,702,968</u>	<u>974,751</u>	<u>70,980,644</u>
Less accumulated depreciation				
Buildings and distribution lines	(20,935,707)	(1,289,330)	(399,130)	(21,825,907)
Machinery and equipment	<u>(2,482,960)</u>	<u>(669,648)</u>	<u>(55,529)</u>	<u>(3,097,079)</u>
Total accumulated depreciation	<u>(23,418,667)</u>	<u>(1,958,978)</u>	<u>(454,659)</u>	<u>(24,922,986)</u>
Net capital assets being depreciated	<u>45,833,760</u>	<u>743,990</u>	<u>520,092</u>	<u>46,057,658</u>
Business-Type Activities Capital Assets, Net	<u>\$ 47,479,288</u>	<u>\$ 2,071,552</u>	<u>\$ 1,771,886</u>	<u>\$ 47,778,954</u>

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 173,398
Public safety	258,292
Streets	375,434
Cemeteries	1,783
Leisure and cultural	199,060
Airport	102,652
Sanitation	<u>1,496</u>
Total depreciation expense	<u>\$ 1,112,115</u>

**City of Crossville, Tennessee**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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Construction in progress for the City of Crossville consists of the following:

**Governmental Activities:**

	Total <u>Project Cost</u>	Expended to <u>June 30, 2007</u>	Remaining <u>Costs</u>	<u>Source of Funds</u>
Recreation Park Development Soccer Complex	\$ 4,500,000	\$ 884,920	\$ 3,615,080	City funds
Public safety building imp.	412,494	412,494	0	City funds
Garrison Park improvements	1,573	1,573	0	City funds
TN Ave causeway project	147,303	147,303	0	\$26,000 property owners/City funds
Turner Field correctional Improvements	100,000	1,575	99,475	\$94,120 bond co/City funds
Holiday Hills bridge	1,910,000	40,017	1,907,983	City funds
Cook Road widening	2,300,000	375,786	1,924,214	City funds and State of TN
Northwest connector	<u>250,000</u>	<u>221,897</u>	<u>28,103</u>	City funds
<b>Total Government Activities</b>	<b>\$ <u>9,621,370</u></b>	<b>\$ <u>2,085,565</u></b>	<b>\$ <u>7,535,805</u></b>	

**Business-Type Activities:**

	Total <u>Project Cost</u>	Expended to <u>June 30, 2007</u>	Remaining <u>Costs</u>	<u>Source of Funds</u>
127S utility relocation	\$ 1,050,000	\$ 9,993	\$ 1,040,007	City rehabilitation savings/or State
127S Sewer	980,000	33,160	946,840	Grants & contributions
Holiday Hills plant improvement	693,236	661,222	32,014	City funds
I/I Wastewater improvements	533,000	49,640	483,360	City funds
Peavine Road sewer	15,000	1,282	13,718	City funds
Holiday Hills dam overflow	1,080,000	232,756	847,244	City funds
Water tanks repaint/resurface	293,585	285,585	8,000	City funds
Cumberland Cove	215,500	475	215,025	City funds
Tate/Fox/Potato Rd waterline	328,000	10,198	317,802	City funds
Livingston/Miller utility relocat	<u>91,169</u>	<u>12,749</u>	<u>78,420</u>	State grant
<b>Total Business-Type Act.</b>	<b>\$ <u>5,279,490</u></b>	<b>\$ <u>1,297,060</u></b>	<b>\$ <u>3,982,430</u></b>	

**NOTE 8: LONG-TERM DEBT**

The reporting entity's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities.

**City of Crossville, Tennessee**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2007**

**Governmental Activities**

As of June 30, 2007, the governmental long-term debt of the City of Crossville consisted of the following:

\$1,000,000 note dated 11/17/04, variable interest rate est. average 3.5% with principal ranging from \$22,000--\$66,000 annually	\$ 899,000
\$4,500,000 note dated June 7, 2007, variable interest rate est. average 3.94% with principal ranging from \$230,000--\$433,000 annually; partial draw down	750,582
\$250,000 Capital outlay note, date 1/26/00, annual payment of \$25,000 with 0% interest.	50,000
Accrued compensated absences	<u>212,711</u>
Total Governmental Activities Debt	<u>\$ 1,912,293</u>

**Business-Type Activities**

As of June 30, 2007, the business-type long-term debt of the City of Crossville consisted of the following:

\$1,931,989 dated April 1, 1985, State of Tennessee bonds, monthly payments of \$14,224 through March 2014, average interest rate of 3.31%	\$ 938,651
\$4,713,500 General obligation loan dated February 25, 1999, interest payable monthly at variable rates, annual principal payments of \$154,340 - \$371,450 beginning May 25, 2001	3,456,850
\$5,355,000 Water System Refunding Bonds, Series 2005, dated March 31, 2005, due in annual installments from \$302,512 to \$362,721 beginning March 2006, interest at 3.5% - 5.0%	4,925,000
\$2,650,000 State of Tennessee loan dated May 5, 1992, monthly payments of \$14,224 at 2.64% interest through July 2014	1,101,583
\$4,200,000 General obligation loan dated June 26, 1996, interest payable monthly at variable rate, annual principal payment of \$229,700 - \$436,000 began May 1999	814,800

**City of Crossville, Tennessee**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2007**

\$7,500,000 State of Tennessee loan, initial amounts drawn down of \$5,759,366 with \$1,740,634 available for one year; monthly payment of \$28,512 at 1.77% interest through March 2024	4,909,397
\$1,675,000 State of Tennessee loan, initial amounts drawn down of \$1,210,042 with \$464,958 available for one year; monthly payments of \$5,822 at 1.47% interest through November 2024	1,054,720
\$575,000 State of Tennessee loan, initial rate of 1.47%; monthly payments of \$2,284 until August 2024	415,574
\$2,600,000 RUD loan dated November 12, 2003, monthly payments of \$11,518 at 4.25% interest through April 2042	2,205,125
Plus: premium on refunding	17,368
Less: deferred amount on refunding	<u>(238,529)</u>
Total Business-Type Debt	<u>\$19,600,539</u>

**Changes in Long-term Debt**

The following is a summary of changes in long-term debt for the year ended June 30, 2007:

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Due Within One Year
<b>Governmental Activities:</b>					
TML 2004 note	\$ 939,000	\$ 0	\$ 40,000	\$ 899,000	\$ 41,000
TML 2007 note	0	750,582	0	750,582	0
Gen Obligation Capital Outlay Note	75,000	0	25,000	50,000	25,000
Compensated absences	<u>208,247</u>	<u>4,464</u>	<u>0</u>	<u>212,711</u>	<u>0</u>
Total Governmental Activ.	<u>\$ 1,222,247</u>	<u>\$ 755,046</u>	<u>\$ 65,000</u>	<u>\$ 1,912,293</u>	<u>\$ 66,000</u>

**City of Crossville, Tennessee**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2007</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
<b>Business-Type Activities:</b>					
Gen Obligation loan 1999 TMBF	\$ 3,663,680	\$ 0	\$ 206,830	\$ 3,456,850	\$ 217,180
Gen Obligation loan 1996 TMBF	1,167,300	0	352,500	814,800	371,900
Tennessee Local Dev Authority loan	1,241,179	0	139,596	1,101,583	143,332
Tennessee Local Dev Authority loan	1,051,512	0	112,861	938,651	112,740
SRF loan	5,167,913	0	258,516	4,909,397	263,136
RUD loan	2,360,313	0	155,188	2,205,125	186,324
SRF loan	436,706	0	21,132	415,574	21,444
SRF loan	1,109,236	0	54,516	1,054,720	55,332
Series 2005 Refunding Bonds	<u>5,075,000</u>	<u>0</u>	<u>150,000</u>	<u>4,925,000</u>	<u>155,000</u>
Total Business-Type Act.	21,272,839	0	1,451,139	19,821,700	1,526,388
Plus premium on refunding	18,192	0	824	17,368	827
Less deferred amount on refunding	<u>(249,843)</u>	<u>0</u>	<u>(11,314)</u>	<u>(238,529)</u>	<u>(11,314)</u>
Net Business-Type Activities Debt	<u>\$21,041,188</u>	<u>\$ 0</u>	<u>\$1,440,649</u>	<u>\$ 19,600,539</u>	<u>\$ 1,515,901</u>

**Annual Debt Service Requirements**

The annual debt service requirements to maturity, including principal and interest for long-term debt as of June 30, 2007 are as follows:

**City of Crossville, Tennessee**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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Year Ending June 30	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 66,000	\$ 61,038	\$ 1,526,388	\$ 688,950
2009	109,203	59,603	1,588,098	635,965
2010	86,826	56,475	1,289,338	580,574
2011	89,514	53,247	1,283,379	533,546
2012	92,267	49,918	1,329,825	485,929
2013 – 2017	514,159	195,463	6,268,718	1,701,133
2018 – 2022	611,613	92,725	4,035,463	769,922
2023 -- 2027	130,000	6,860	2,150,491	269,977
2028	0	0	350,000	8,094
Plus premium on refunding	0	0	17,368	0
Less deferred amount on refunding	0	0	(238,529)	0
	<u>\$ 1,699,582</u>	<u>\$ 575,329</u>	<u>\$ 19,600,539</u>	<u>\$ 5,674,090</u>

**Advance Refunding of Debt**

In prior years, the City defeased certain bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service requirements on the retired bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. As of June 30, 2007, \$4,925,000 of bonds outstanding are considered defeased.

**NOTE 9—INTERFUND TRANSFERS**

Interfund transfers for the year ended June 30, 2007, consisted of the following:

<u>Transfers From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Purpose</u>
General fund	Sanitation fund	\$ 350,739	Residential garbage collection costs
General fund	Capital Projects fund	698,049	Construction costs for capital assets
UDAG Industrial Dev	General fund	550,000	Proceeds from property sales

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them; to move unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; and to segregate money for anticipated capital projects.



**City of Crossville, Tennessee**  
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**NOTE 10—PENSION FUND**

**Plan Description**

Employees of Crossville are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 17, 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 Crossville participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10<sup>th</sup> Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at [www.treasury.state.tn.us](http://www.treasury.state.tn.us). Copies of footnotes in PDF format can be accessed at <http://www.treasury.state.tn.us/tcrs/PS/>.

**Funding Policy**

Crossville has adopted a noncontributory retirement plan for its employees by assuming employee contributions up to 5.0 percent of annual covered payroll.

Crossville is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2007 was 15.08% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Crossville is established and may be amended by the TCRS Board of Trustees.

**Annual Pension Cost**

For the year ending June 30, 2007, Crossville's annual pension cost of \$780,837 to TCRS was equal to Crossville's required and actual contributions. The required contribution was determined as part of the July 1, 2005 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5 percent annual increase in the Social Security wage base, and (d) projected post retirement increases of 3.0 percent

**City of Crossville, Tennessee**  
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annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. Crossville's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2005 was 10 years. An actuarial valuation was performed as of July 1, 2005, which established contribution rates effective July 1, 2006.

**Trend Information**

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>% of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2007	\$780,837	100.00%	\$ 0
June 30, 2006	\$796,141	100.00%	\$ 0
June 30, 2005	\$585,068	100.00%	\$ 0

**NOTE 11: GARBAGE COLLECTION AND WASTEWATER TREATMENT CONTRACTS**

The City has a contract with Waste Industries of Tennessee, LLC doing business as Cumberland Waste Disposal for a five-year period for the City's garbage collection until August 2012. The rates for residential customers provide for one pickup per week. Commercial customers pay fees directly to the contractor. Annual garbage fees paid during the fiscal year ended June 30, 2007 for residential pickups were \$327,075.

The City has a contract with U.S. Filter for operation of wastewater and related treatment facilities, and to provide service for the collection system rehabilitation program until 2009. The annual expense for the year ended June 30, 2007 was \$190,526 for sewer rehabilitation and \$865,118 for wastewater facilities operations.

**NOTE 12: LOAN RECEIVABLE AND PAYABLE FOR E911 PROJECT**

On November 17, 2004, the City closed a \$1,000,000 loan from the Tennessee Municipal League Bond Fund for the benefit of the Cumberland County Emergency Communications District. These funds were used by the District to construct a facility to house the 911 Call Center, the Crossville/Cumberland County Central Communications Center, the 911 Addressing Office, the Crossville/Cumberland County Emergency Management Office, and the Crossville, Cumberland County Emergency Operations Center. The District and Cumberland County have encumbered the property and the funds of the District to secure the indebtedness incurred by the City. Repayment of the loan is being made by the District over a 20-year period at a variable rate.

The government-wide balance sheet includes the loan receivable from the District at June 30, 2007 of \$899,000 and reflects the City's related liability to the Tennessee Municipal League Bond Fund of the same. Principal paid during the fiscal year of \$40,000 and interest and expenses paid of \$35,948 have been included in the financial statements by the City as operating grants and contributions and debt expenditures.

**City of Crossville, Tennessee**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2007**

**NOTE 13: RESTRICTIONS AND CONTINGENCIES**

The City participates in certain federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Any liability for reimbursement that may arise as a result of these audits is not believed to be material.

Various claims and lawsuits are pending against the City. In the opinion of City management, after consultation with legal counsel, the potential loss on all claims and lawsuits will not materially effect the City's financial position.

**NOTE 14: OTHER POST-EMPLOYMENT BENEFITS**

In addition to pension benefits described in Note 10, the City provides post-employment benefit options for health care to eligible retirees, disabled employees, and their families. The benefits are provided in accordance with City ordinances and the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA). The criteria to determine eligibility include: years of service, employee age, and disability due to line of duty. The City funds the benefits on a pay-as-you-go basis. The City pays the cost of the health insurance premiums until they are eligible for Medicare benefits. During the fiscal year ended June 30, 2007, expenses of \$18,199 including \$600 administration fees were recognized for post-employment benefits. There are 3 participants currently eligible. Expenses for post-retirement health care benefits are recognized as eligible employee claims are paid.

**NOTE 15: OTHER COMMITMENTS**

The State of Tennessee has a road project on Miller Avenue that required relocation of utility lines at an estimated cost to the City of \$348,339. These funds were transferred to a LGIP account during September 2001. Utility relocations are completed, but the project has not been closed out.

The City's commitment to purchase right of way and the relocation of all utilities for the Genesis Road expansion costs were originally estimated at \$1,414,500 but estimates have been raised to \$2,351,522. The State is providing approximately \$1,030,424 and the City will be responsible for all other costs. To date the city has expended \$1,450,876 for water and sewer line relocation. The City has deposited \$510,603 in an LGIP account for this purpose.

The City has contracted with an engineering firm to perform preliminary work and a feasibility study, obtain permits, and do the necessary planning to raise the dam at Meadow Park Lake for \$467,913 to date. Funds were paid to the U.S. Army Corp of Engineers for \$297,975 for additional studies. Total project costs are unknown at this time, but \$10 million is estimated for construction in progress projections. No additional obligations exist at the present time regarding this potential project.

The State of Tennessee is requiring the City to repair and improve the dam at Holiday Lake, along with repair to the bridge and enlarging the spillway. The costs for this project are estimated to be near \$1,000,000. Plans for the dam repair have been approved by the State. A 50% grant from TDOT is expected of \$200,000 for bridge improvements. Preliminary design costs are estimated to be \$29,700.

**City of Crossville, Tennessee**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2007**

The City has received monies from the bonding company on the project at Turner field with MPACT Construction Company for problems with retaining walls at the recreation parks additional fields. The city is in the process of bidding the work out at the end of 2007.

A joint project with TDOT to build the northwest connector is beginning, with a remaining commitment of \$115,278 by the City for engineering for Phase I and II of the project. Total cost of the project has not been determined. City Council added \$250,000 for this project to include a traffic light on 127N at the intersection of Interstate Drive and the 127 Northwest Connector.

The City has agreed to annex Cumberland Mountain State Park and provide sanitary sewer services to the park. A grant of \$980,000 will provide funding to extend sewer lines to the area, and the State of Tennessee will pay the costs of sewer within the park boundaries.

Various contracts for engineering services have been executed for projects of the City. Remaining costs on these contracts at June 30, 2006 are \$742,822.

The City has accepted the low bid of \$498,750 for a sewer inflow and infiltration project for work on two pump stations that will begin in late fall of 2007.

**NOTE 17: RELATED PARTY TRANSACTIONS**

The City of Crossville leased a building in the Catoosa Water Department's service area on an annual lease term at \$925 per month until September 30, 2007 from two City employees, who were former Catoosa Utility District management. Together they own a 50% interest in the building. The annual lease was renewed on October 1, 2007 at \$950 per month for twelve months.

**OTHER REQUIRED SUPPLEMENTARY INFORMATION**

**City of Crossville, Tennessee**  
**SCHEDULE OF FUNDING PROGRESS - PENSION PLAN**  
(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)
07/01/05	\$ 9,030	\$ 10,246	\$ 1,216	88.13%	\$ 4,674	26.02%
07/01/03	7,705	9,076	1,371	84.89%	4,100	33.44%
07/01/01	6,658	8,107	1,449	82.13%	3,508	41.31%

**SUPPLEMENTARY INFORMATION**

**COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS**



**City of Crossville, Tennessee**  
**COMBINING BALANCE SHEET**  
**Nonmajor Governmental Funds**  
**June 30, 2007**

	SPECIAL REVENUE FUNDS				TOTAL
	State Street Aid	Solid Waste Management	Drug Fund	UDAG Ind. Development Fund	NONMAJOR GOVERNMT FUNDS
<b>ASSETS</b>					
Cash	\$ 199,784	\$ 0	\$ 18,090	\$ 1,197,589	\$ 1,415,463
Cash - restricted	0	0	60,480	0	60,480
Accounts receivable, net	0	0	0	0	0
Inventory	0	10,584	0	0	10,584
Due from other governments	52,214	0	0	6,826	59,040
<b>TOTAL ASSETS</b>	<b>\$ 251,998</b>	<b>\$ 10,584</b>	<b>\$ 78,570</b>	<b>\$ 1,204,415</b>	<b>\$ 1,545,567</b>
<b>LIABILITIES &amp; FUND BALANCE</b>					
<b>LIABILITIES</b>					
Accounts payable	\$ 3,061	\$ 152	\$ 150	\$ 0	\$ 3,363
Due to other funds	0	0	0	700,000	700,000
Unearned grant revenue	0	0	0	0	0
<b>Total liabilities</b>	<b>3,061</b>	<b>152</b>	<b>150</b>	<b>700,000</b>	<b>703,363</b>
<b>FUND BALANCE</b>					
Designated	0	0	0	0	0
Undesignated	248,937	10,432	78,420	504,415	842,204
<b>Total fund equity</b>	<b>248,937</b>	<b>10,432</b>	<b>78,420</b>	<b>504,415</b>	<b>842,204</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 251,998</b>	<b>\$ 10,584</b>	<b>\$ 78,570</b>	<b>\$ 1,204,415</b>	<b>\$ 1,545,567</b>

The notes to the basic financial statements are an integral part of this statement.

**City of Crossville, Tennessee**  
**COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2007**

	SPECIAL REVENUE FUNDS				TOTAL NONMAJOR GOVERNMENTAL FUNDS
	State Street Aid Fund	Solid Waste Fund	Drug Fund	UDAG Industrial Development Fund	
<b>REVENUE</b>					
Intergovernmental revenue	\$ 295,029	\$ 0	\$ 0	\$ 6,826	\$ 301,855
Charges for services	0	0	0	0	0
Fines and forfeits	0	0	17,934	0	17,934
Public enterprise revenue	0	0	12,955	0	12,955
Interest income	15,421	0	4,666	57,556	77,643
Donations	0	0	0	0	0
Grants	0	0	0	0	0
Miscellaneous	0	80	15,444	0	15,524
Total revenue	<u>310,450</u>	<u>80</u>	<u>50,999</u>	<u>64,382</u>	<u>425,911</u>
<b>EXPENDITURES</b>					
Street lighting	208,442	0	0	0	208,442
Collection fees	0	327,075	0	0	327,075
DARE program	0	0	1,124	0	1,124
Landfill	0	14,286	0	0	14,286
Drug enforcement	0	0	23,837	0	23,837
Capital outlay	240,735	0	8,799	0	249,534
Materials and supplies	1,700	0	3,158	0	4,858
Repairs and maintenance	0	0	0	0	0
Debt service	0	0	0	0	0
Other	0	0	0	16,933	16,933
Total expenditures	<u>450,877</u>	<u>341,361</u>	<u>36,918</u>	<u>16,933</u>	<u>846,089</u>
<b>EXCESS (DEFICIENCY) REVENUE OVER EXPENDITURES</b>	<u>(140,427)</u>	<u>(341,281)</u>	<u>14,081</u>	<u>47,449</u>	<u>(420,178)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceeds from sale of assets	0	0	0	0	0
Operating transfers in	0	350,739	0	0	350,739
Operating transfers (out)	0	0	0	(550,000)	(550,000)
Total other financing sources (uses)	<u>0</u>	<u>350,739</u>	<u>0</u>	<u>(550,000)</u>	<u>(199,261)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>(140,427)</u>	<u>9,458</u>	<u>14,081</u>	<u>(502,551)</u>	<u>(619,439)</u>
<b>FUND BALANCE, beginning</b>	<u>389,364</u>	<u>974</u>	<u>64,339</u>	<u>1,006,966</u>	<u>1,461,643</u>
<b>FUND BALANCE, ending</b>	<u>\$ 248,937</u>	<u>\$ 10,432</u>	<u>\$ 78,420</u>	<u>\$ 504,415</u>	<u>\$ 842,204</u>

The notes to the basic financial statements are an integral part of this statement.

City of Crossville, Tennessee  
**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES  
 IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL**  
**State Street Aid Fund**  
 For the Year Ended June 30, 2007

	BUDGET		Actual	Variance with
	Original	Final		Final Budget
				Fav. (Unfavorable)
<b>REVENUE</b>				
Intergovernmental revenue	\$ 298,500	\$ 298,500	\$ 295,029	\$ (3,471)
Charges for services	0	0	0	0
Fines and costs	0	0	0	0
Public enterprise revenue	0	0	0	0
Interest income	25,000	25,000	15,421	(9,579)
Grants	0	0	0	0
Miscellaneous	0	0	0	0
Total revenue	<u>323,500</u>	<u>323,500</u>	<u>310,450</u>	<u>(13,050)</u>
<b>EXPENDITURES</b>				
Street lighting	210,000	210,000	208,442	1,558
Capital outlay	480,000	480,000	240,735	239,265
Materials and supplies	73,580	73,580	1,700	71,880
Total expenditures	<u>763,580</u>	<u>763,580</u>	<u>450,877</u>	<u>312,703</u>
<b>EXCESS (DEFICIENCY OF REVENUE OVER EXPENDITURES)</b>	(440,080)	(440,080)	(140,427)	299,653
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in (out)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>NET CHANGE IN FUND BALANCE</b>	(440,080)	(440,080)	(140,427)	299,653
<b>FUND BALANCE , beginning of year</b>	<u>389,364</u>	<u>389,364</u>	<u>389,364</u>	<u>0</u>
<b>FUND BALANCE, end of year</b>	<u>\$ (50,716)</u>	<u>\$ (50,716)</u>	<u>\$ 248,937</u>	<u>\$ 299,653</u>

The notes to the basic financial statements are an integral part of this statement.

**City of Crossville, Tennessee**  
**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL**  
**Solid Waste Fund**  
**For the Year Ended June 30, 2007**

	BUDGET		Actual	Variance with
	Original	Final		Final Budget
				Fav. (Unfavorable)
<b>REVENUE</b>				
Intergovernmental revenue	\$ 0	\$ 0	\$ 0	\$ 0
Charges for services	0	0	0	0
Fines and costs	0	0	0	0
Public enterprise revenue	0	0	0	0
Interest income	0	0	0	0
Grants	0	0	0	0
Miscellaneous	150	150	80	(70)
<b>Total revenue</b>	<u>150</u>	<u>150</u>	<u>80</u>	<u>(70)</u>
<b>EXPENDITURES</b>				
Collection fees	349,000	349,000	327,075	21,925
Materials and supplies	11,500	11,500	0	11,500
Landfill	13,000	15,490	14,286	1,204
<b>Total expenditures</b>	<u>373,500</u>	<u>375,990</u>	<u>341,361</u>	<u>34,629</u>
<b>EXCESS (DEFICIENCY OF REVENUE OVER EXPENDITURES)</b>	(373,350)	(375,840)	(341,281)	34,559
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	373,350	375,840	350,739	(25,101)
<b>NET CHANGE IN FUND BALANCE</b>	0	0	9,458	9,458
<b>FUND BALANCE , beginning of year</b>	<u>974</u>	<u>974</u>	<u>974</u>	<u>0</u>
<b>FUND BALANCE, end of year</b>	<u>\$ 974</u>	<u>\$ 974</u>	<u>\$ 10,432</u>	<u>\$ 9,458</u>

The notes to the basic financial statements are an integral part of this statement.

City of Crossville, Tennessee  
**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES  
 IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL  
 Drug Fund  
 For the Year Ended June 30, 2007**

	BUDGET		Actual	Variance with Final Budget
	Original	Final		Fav (Unfavorable)
<b>REVENUE</b>				
Intergovernmental revenue	\$ 0	\$ 0	\$ 0	\$ 0
Charges for services	0	0	0	0
Fines and costs	25,500	25,500	17,934	(7,566)
Public enterprise revenue	25,000	25,000	12,955	(12,045)
Interest income	5,000	5,000	4,666	(334)
Donations--DARE	500	500	0	(500)
Miscellaneous	0	0	15,444	15,444
<b>Total revenue</b>	<u>56,000</u>	<u>56,000</u>	<u>50,999</u>	<u>(5,001)</u>
<b>EXPENDITURES</b>				
DARE program	6,000	6,000	1,124	4,876
Drug enforcement	64,500	63,200	23,837	39,363
Capital outlay	22,500	23,800	8,799	15,001
Materials and supplies	7,000	7,000	3,158	3,842
<b>Total expenditures</b>	<u>100,000</u>	<u>100,000</u>	<u>36,918</u>	<u>63,082</u>
<b>EXCESS (DEFICIENCY OF REVENUE OVER EXPENDITURES</b>	(44,000)	(44,000)	14,081	58,081
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	0	0	0	0
<b>NET CHANGE IN FUND BALANCE</b>	(44,000)	(44,000)	14,081	58,081
<b>FUND BALANCE , beginning of year</b>	<u>64,339</u>	<u>64,339</u>	<u>64,339</u>	<u>0</u>
<b>FUND BALANCE, end of year</b>	<u>\$ 20,339</u>	<u>\$ 20,339</u>	<u>\$ 78,420</u>	<u>\$ 58,081</u>

The notes to the basic financial statements are an integral part of this statement.

City of Crossville, Tennessee  
**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES  
 IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL**  
**UDAG Industrial Development Fund**  
**For the Year Ended June 30, 2007**

	BUDGET		Actual	Variance with Final Budget
	Original	Final		Fav. (Unfavorable)
<b>REVENUE</b>				
Intergovernmental revenue	\$ 15,000	\$ 15,000	\$ 6,826	\$ (8,174)
Charges for services	0	0	0	0
Interest income	25,000	25,000	57,556	32,556
Other income	600,000	600,000	0	(600,000)
Grants	0	0	0	0
<b>Total revenue</b>	<u>640,000</u>	<u>640,000</u>	<u>64,382</u>	<u>(575,618)</u>
<b>EXPENDITURES</b>				
Capital outlay	600,000	600,000	0	600,000
Contractual services	35,000	35,000	16,933	18,067
<b>Total expenditures</b>	<u>635,000</u>	<u>635,000</u>	<u>16,933</u>	<u>618,067</u>
<b>EXCESS (DEFICIENCY OF REVENUE OVER EXPENDITURES</b>	5,000	5,000	47,449	42,449
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers out	0	0	(550,000)	(550,000)
<b>NET CHANGE IN FUND BALANCE</b>	5,000	5,000	(502,551)	(507,551)
<b>FUND BALANCE , beginning of year</b>	<u>1,006,966</u>	<u>1,006,966</u>	<u>1,006,966</u>	<u>0</u>
<b>FUND BALANCE, end of year</b>	<u>\$ 1,011,966</u>	<u>\$ 1,011,966</u>	<u>\$ 504,415</u>	<u>\$ (507,551)</u>

The notes to the basic financial statements are an integral part of this statement.

City of Crossville, Tennessee  
**STATEMENT OF NET ASSETS**  
 Proprietary Funds  
 June 30, 2007

	<u>Enterprise Funds</u>
	<u>Water &amp; Sewer</u>
<b>ASSETS</b>	
<b>Current assets</b>	
Cash	\$ 6,011,488
Accounts receivable, net of allowance for doubtful accounts	841,206
Inventories of materials	266,095
Total current assets	<u>7,118,789</u>
<b>Noncurrent assets</b>	
Restricted cash	1,608,856
Capital assets	
Land	424,236
Plant in service	67,567,792
Construction in progress	1,297,060
Machinery and equipment	3,412,852
Less accumulated depreciation	(24,922,986)
Deferred financing cost	208,580
Special assessment receivable	112,450
Total other assets	<u>49,708,840</u>
<b>TOTAL ASSETS</b>	<u>\$ 56,827,629</u>
<b>LIABILITIES</b>	
<b>Current liabilities</b>	
Accounts payable	\$ 510,419
Accrued liabilities	74,717
Current portion of notes/bond payable	1,526,388
Total current liabilities	<u>2,111,524</u>
<b>Noncurrent liabilities</b>	
Notes and bonds payable, less current portion	<u>18,074,151</u>
Total noncurrent liabilities	<u>18,074,151</u>
Total liabilities	<u>20,185,675</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	28,386,995
Restricted for debt service	1,608,857
Unrestricted	6,646,102
Total net assets	<u>\$ 36,641,954</u>

The notes to the basic financial statements are an integral part of this statement.

City of Crossville, Tennessee  
**STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS--BUDGET TO ACTUAL**  
**Water and Sewer Fund**  
For the Year Ended June 30, 2007

	BUDGET		Actual	Variance with
	Original	Final		Final Budget
				Fav. (Unfavorable)
<b>OPERATING REVENUE</b>				
Metered water sales	\$ 4,603,000	\$ 4,603,000	\$ 4,463,170	\$ (139,830)
Sewer services charges	1,950,000	1,950,000	1,750,172	(199,828)
Tap fees	425,000	425,000	443,018	18,018
Grinder pump sales and repairs	251,200	251,200	147,706	(103,494)
Rental	57,850	57,850	57,550	(300)
Forfeited discount and penalties	72,250	72,250	60,308	(11,942)
Other operating revenues	324,600	375,077	452,014	76,937
Total operating revenue	<u>7,683,900</u>	<u>7,734,377</u>	<u>7,373,938</u>	<u>(360,439)</u>
<b>OPERATING EXPENSES</b>				
Water plant				
Personnel services	665,400	655,922	653,542	2,380
Contractual services	481,950	477,208	360,639	116,569
Fixed charges	13,000	13,000	12,307	693
Supplies	210,000	224,220	211,748	12,472
Total water plant	<u>1,370,350</u>	<u>1,370,350</u>	<u>1,238,236</u>	<u>132,114</u>
Water distribution				
Personnel services	638,570	631,126	597,440	33,686
Contractual services	82,825	88,537	73,677	14,860
Materials and supplies	115,000	162,020	131,026	30,994
Other	90,950	76,939	55,813	21,126
Total water distribution	<u>927,345</u>	<u>958,622</u>	<u>857,956</u>	<u>100,666</u>
Sewer plant and collection				
Personnel services	198,725	198,095	157,042	41,053
Material and supplies	19,500	32,500	31,560	940
Contract service	873,018	873,648	871,959	1,689
Other	23,700	10,700	7,094	3,606
Total sewer plant and collection	<u>1,114,943</u>	<u>1,114,943</u>	<u>1,067,655</u>	<u>47,288</u>
Sewer rehabilitation				
Contract services	190,526	190,527	190,526	1
Repairs and maintenance	10,000	0	13,877	(13,877)
Materials and supplies	10,000	9,999	2,089	7,910
Total sewer rehabilitation	<u>210,526</u>	<u>200,526</u>	<u>206,492</u>	<u>(5,966)</u>

The notes to the basic financial statements are an integral part of this statement.



City of Crossville, Tennessee  
**STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS--BUDGET TO ACTUAL**  
**Water and Sewer Fund**  
**For the Year Ended June 30, 2007**

	BUDGET		Actual	Variance with
	Original	Final		Final Budget
				Fav. (Unfavorable)
Grinder pumps				
Personnel services	99,850	99,850	94,458	5,392
Contractual services	33,450	33,450	22,770	10,680
Materials and supplies	261,750	261,750	155,940	105,810
Other	250	250	50	200
Total grinder pumps	<u>395,300</u>	<u>395,300</u>	<u>273,218</u>	<u>122,082</u>
Public works				
Personnel services	0	0	73,397	(73,397)
Contractual services	0	0	10,336	(10,336)
Supplies	0	0	4,068	(4,068)
Other	91,000	91,000	384	90,616
Total public works	<u>91,000</u>	<u>91,000</u>	<u>88,185</u>	<u>2,815</u>
General and administrative				
Customer acct/collection	455,450	456,950	427,781	29,169
Personnel services	50,050	50,050	27,768	22,282
Contractual services	121,100	121,100	28,402	92,698
Other	106,050	109,608	72,497	37,111
Total general and administrative	<u>732,650</u>	<u>737,708</u>	<u>556,448</u>	<u>181,260</u>
Depreciation and amortization	<u>2,189,600</u>	<u>2,186,042</u>	<u>1,958,978</u>	<u>227,064</u>
Total operating expenses	<u>7,031,714</u>	<u>7,054,491</u>	<u>6,247,168</u>	<u>807,323</u>
<b>OPERATING INCOME</b>	<u>652,186</u>	<u>679,886</u>	<u>1,126,770</u>	<u>446,884</u>
<b>NONOPERATING REVENUE (EXPENSES)</b>				
Interest expense	(759,718)	(759,718)	(746,105)	13,613
Interest income	365,000	365,000	428,756	63,756
Total nonoperating revenue (expenses)	<u>(394,718)</u>	<u>(394,718)</u>	<u>(317,349)</u>	<u>77,369</u>
<b>INCOME (LOSS) BEFORE OTHER REVENUES, SPECIAL ITEMS, AND TRANSFERS</b>	257,468	285,168	809,421	524,253
Contributions in aid of construction	1,300,000	1,372,398	1,197,503	(174,895)
Impairment loss on water tanks	(355,000)	(355,000)	(410,057)	(55,057)
<b>CHANGE IN NET ASSETS</b>	1,202,468	1,302,566	1,596,867	294,301
<b>Total Net Assets--beginning of year</b>	<u>35,045,087</u>	<u>35,045,087</u>	<u>35,045,087</u>	<u>0</u>
<b>Total Net Assets--end of year</b>	<u>\$ 36,247,555</u>	<u>\$ 36,347,653</u>	<u>\$ 36,641,954</u>	<u>\$ 294,301</u>

The notes to the basic financial statements are an integral part of this statement.

**City of Crossville, Tennessee**  
**STATEMENT OF CASH FLOWS**  
**Enterprise Fund**  
**For the Year Ended June 30, 2007**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from customers	\$ 7,305,818
Payments to suppliers	(2,588,261)
Payments to employees	(1,603,647)
Net cash provided by operating activities	<u>3,113,910</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Principal paid on capital debt	(1,422,457)
Interest paid on capital debt	(746,105)
Purchases of capital assets	(2,668,700)
Financing costs	(10,772)
Contributions in aid of construction	1,197,503
Net cash provided (used) by capital and financing activities	<u>(3,650,531)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Net cash (used) by noncapital financing activities	<u>0</u>
----------------------------------------------------	----------

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest received on investments	<u>428,756</u>
Net cash provided (used) by investing activities	<u>428,756</u>

**NET INCREASE (DECREASE) IN CASH**

(107,865)

**CASH AND RESTRICTED CASH, beginning of year**

7,728,210

**CASH AND RESTRICTED CASH, end of year**

\$ 7,620,345

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET  
CASH PROVIDED (USED) BY OPERATING ACTIVITIES**

Operating income (loss)	\$ 1,126,770
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation & amortization expense	1,958,978
Change in assets and liabilities	
Receivables, net	(68,120)
Inventories	(65,015)
Accounts and other payables	177,897
Accrued expenses	(16,600)
Net cash provided by operating activities	<u>\$ 3,113,910</u>

The notes to the basic financial statements are an integral part of this statement.

City of Crossville, Tennessee  
**SCHEDULE OF CHANGES IN PROPERTY TAX RECEIVABLES**  
 General Fund  
 For the Year Ended June 30, 2007

Tax Year	Balance June 30, 2006	Tax Levy	Collections	Exemptions and Abatements	Balance June 30, 2007
2007	\$ 0	\$ 1,848,684	\$ 0	\$ 0	\$ 1,848,684
2006	1,785,020	0	1,751,766	(4,398)	28,856
2005	37,644	0	21,567	(282)	15,795
2004	28,582	0	7,930	(54)	20,598
2003	10,746	0	4,367	0	6,379
2002	5,447	0	3,385		2,062
2001	2,206	0	41	(2,123)	42
2000	3,737	0	41	(3,648)	48
1999	1,179	0	0	(1,121)	58
1998	1,254	0	4	(1,208)	42
1997	556	0	3	(486)	67
1996	42	0	0	0	42
1995	376	0	0	0	376
	1,876,789	1,848,684	1,789,104	(13,320)	1,923,049
Less Allowance for Uncollectible Taxes	(67,740)	0	0	2,288	(65,452)
<b>TAXES RECEIVABLE, June 30</b>	<u>\$ 1,809,049</u>	<u>\$ 1,848,684</u>	<u>\$ 1,789,104</u>	<u>\$ (11,032)</u>	<u>\$ 1,857,597</u>

Delinquent taxes are turned over to the County Clerk and Master for collection.

The notes to the basic financial statement are an integral part of this schedule.

City of Crossville, Tennessee  
**SCHEDULE OF DEBT SERVICE REQUIREMENTS**  
 General Obligation Debt  
 June 30, 2007

Fiscal Year	Capital Outlay Note		TML Bond Fund Note 2005		TMBF Series 2005		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 25,000	\$ 0	\$ 41,000	\$ 31,465	\$ 0	\$ 29,573	\$ 66,000	\$ 61,038
2009	25,000	0	43,000	30,030	41,203	29,573	109,203	59,603
2010	0	0	44,000	28,525	42,826	27,950	86,826	56,475
2011	0	0	45,000	26,985	44,514	26,262	89,514	53,247
2012	0	0	46,000	25,410	46,267	24,508	92,267	49,918
2013	0	0	48,000	23,800	48,090	22,685	96,090	46,485
2014	0	0	49,000	22,120	49,985	20,791	98,985	42,911
2015	0	0	51,000	20,405	51,954	18,821	102,954	39,226
2016	0	0	52,000	18,620	54,001	16,774	106,001	35,394
2017	0	0	54,000	16,800	56,129	14,647	110,129	31,447
2018	0	0	56,000	14,910	58,341	12,435	114,341	27,345
2019	0	0	57,000	12,950	60,639	10,136	117,639	23,086
2020	0	0	59,000	10,955	63,028	7,747	122,028	18,702
2021	0	0	61,000	8,890	65,512	5,264	126,512	14,154
2022	0	0	63,000	6,755	68,093	2,683	131,093	9,438
2023	0	0	64,000	4,550	0	0	64,000	4,550
2024	0	0	66,000	2,310	0	0	66,000	2,310
<b>Total</b>	<b>\$ 50,000</b>	<b>\$ 0</b>	<b>\$ 899,000</b>	<b>\$ 305,480</b>	<b>\$ 750,582</b>	<b>\$ 269,849</b>	<b>\$ 1,699,582</b>	<b>\$ 575,329</b>

The notes to the general purpose financial statements are an integral part of this schedule.

RUD Loan		State Revolving Fund 01-156		State of TN Loan		Refunding Bonds Series 2005		Totals	
Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
\$ 186,324	\$ 90,108	\$ 21,444	\$ 5,964	\$ 143,332	\$ 27,356	\$ 155,000	\$ 207,221	\$ 1,526,388	\$ 688,950
194,399	82,033	21,756	5,652	147,162	23,526	160,000	201,709	1,588,098	635,965
202,823	73,609	22,080	5,328	151,095	19,593	165,000	196,021	1,289,338	580,574
211,613	64,819	22,404	5,004	155,132	15,556	170,000	190,159	1,283,379	533,546
220,784	55,648	22,740	4,668	159,278	11,410	175,000	183,990	1,329,825	485,929
230,352	46,080	23,076	4,332	163,534	7,154	185,000	177,328	1,383,154	435,943
240,335	36,997	23,412	3,984	182,050	2,784	190,000	170,201	1,415,153	383,494
250,751	25,681	23,760	3,648	0	0	200,000	162,544	1,139,243	335,546
261,618	14,814	24,120	3,288	0	0	205,000	154,188	1,176,971	294,456
206,126	3,705	24,468	2,940	0	0	215,000	145,263	1,154,197	251,694
0	-	24,840	2,568	0	0	225,000	135,772	981,734	214,837
0	-	25,200	2,208	0	0	235,000	125,563	1,016,336	180,028
0	-	25,572	1,836	0	0	245,000	114,763	661,925	143,623
0	-	25,956	1,452	0	0	255,000	103,513	679,092	125,209
0	-	26,340	1,068	0	0	265,000	91,813	696,376	106,225
0	-	26,724	684	0	0	280,000	79,550	718,781	86,558
0	-	27,120	288	0	0	295,000	66,613	472,148	67,629
0	-	4,562	8	0	0	305,000	53,113	309,562	53,121
0	-	0	0	0	0	320,000	38,850	320,000	38,850
0	-	0	0	0	0	330,000	23,819	330,000	23,819
0	-	0	0	0	0	350,000	8,094	350,000	8,094
<u>\$ 2,205,125</u>	<u>\$ 492,594</u>	<u>\$ 415,574</u>	<u>\$ 54,920</u>	<u>\$ 1,101,583</u>	<u>\$ 107,379</u>	<u>\$ 4,925,000</u>	<u>\$ 2,630,087</u>	19,821,700	5,674,090
								17,368	
								(238,529)	0
								<u>\$ 19,600,539</u>	<u>\$ 5,674,090</u>

The notes to the general purpose financial statements are an integral part of this schedule.

City of Crossville, Tennessee  
SCHEDULE OF PRINCIPAL OFFICIALS' AND SURETY BONDS  
For the Year Ended June 30, 2007

<u>OFFICIAL TITLE</u>	<u>SURETY BOND</u>
Mayor	\$ 155,000
City Manager	100,000
City Clerk	100,000
City Finance Director	155,000
Council Members	10,000

**City of Crossville, Tennessee**  
**SCHEDULE OF INSURANCE COVERAGE**  
**June 30, 2007**

<u>Subject of Insurance</u>	<u>Type of Coverage</u>	<u>Amount of Coverage</u>
Buildings and contents	Fire, lightning, extended coverage, 80% coinsurance, \$1,000 deductible	\$ 46,514,176
General liability	Comprehensive general & personal injury liability	1,000,000
	Public officials personal liability (\$5,000 deductible)	100,000
Automobile liability	Bodily injury or personal injury liability	
	Per person	250,000
	Per occurrence	600,000
	Property damage	85,000
	Automobile physical damage	
	Actual cash value (collision deductible ranges up to \$1,000) Excess auto physical damage fire department - aggregate	2,288,500
Employee Dishonesty		100,000
Workmen's compensation	Statutory limits	
	Employer's liability	600,000
Running surety bond	Contract replacement	2,500
Equipment	Extended coverage (deductible range up to \$1,000)	2,330,148
Airport	Bodily injury and property damage liability	5,000,000

**City of Crossville, Tennessee**  
**SUPPLEMENTARY SCHEDULE OF FEDERAL AND STATE FINANCIAL ASSISTANCE**  
**For the Year Ended June 30, 2007**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Accrued (Deferred) Grant Revenues June 30, 2006	Grant Revenues Received	Contributions and Miscellaneous Revenues	Expenditures	Accrued (Deferred) Grant Revenues June 30, 2007
<b>U.S. DEPARTMENT OF JUSTICE</b>							
Office of Justice Programs							
Police Vests	none	none	\$ 0	\$ 1,081	\$ 0	\$ 1,081	\$ 0
<b>FEDERAL EMERGENCY MANAGEMENT AGENCY</b>							
TN Dept of Military TEMA	97.036	Z-06-034026-00	26,821	47,833	0	21,012	0
<b>TOTAL FEDERAL GRANTS</b>			<u>26,821</u>	<u>48,914</u>	<u>0</u>	<u>22,093</u>	<u>0</u>
<b>STATE GRANTS</b>							
TN Dept of Agriculture Tree Grant	n/a	Z-07-33334-00	\$ 0	\$ 4,037	\$ 0	\$ 4,037	\$ 0
Three Star Program	n/a	GG-07-21392-00	0	0	0	0	0
Three Star Program	n/a	GG-06-12526-00	0	1,500	0	1,500	0
Airport Maintenance	n/a	Z-07-03-5682-00	0	3,934	0	8,500	4,566
Airport Maintenance	n/a	Z-06-02-8707-00	744	744	0	0	0
TDOT 2006 Network Coordinator	20.605	Z-07-03-5683-00	0	1,736	0	9,611	7,875
TDOT High Visibility Law Enforcement Campaign	20.601	Z-07-03-5762-00	0	3,024	0	5,000	1,976
Dept of Transportation	n/a	Z-06-02-9413-00	7,285	7,285	0	0	0
<b>TOTAL STATE GRANTS</b>			<u>8,029</u>	<u>22,280</u>	<u>0</u>	<u>28,648</u>	<u>14,417</u>
<b>TOTAL GRANTS</b>			<u>\$ 34,850</u>	<u>\$ 71,174</u>	<u>\$ 0</u>	<u>\$ 50,741</u>	<u>\$ 14,417</u>

**Basis of Presentation:**

The accompanying Schedule of Federal and State Financial Assistance summarizes the expenditures of grants for the year ending June 30, 2007. It is presented using the modified accrual basis of accounting.



**City of Crossville, Tennessee**  
**TAX RATES AND ASSESSMENTS**  
**Ten Year Summary**

<u>Tax Year</u>	<u>Assessments</u>	<u>Rate</u>	<u>Levy</u>	<u>Collections in Year of Levy</u>	
				<u>Amount</u>	<u>Percentage</u>
2007	\$ 264,097,714	\$ 0.70	\$ 1,848,684	\$ 0	0.00%
2006	254,353,428	0.70	1,780,474	1,751,766	98.39%
2005	243,531,287	0.70	1,704,184	1,668,728	97.92%
2004	242,689,143	0.70	1,688,791	1,640,193	97.12%
2003	236,291,000	0.70	1,654,037	1,618,668	97.86%
2002	228,255,500	0.60	1,361,574	1,319,769	96.93%
2001	188,585,615	0.70	1,321,018	1,283,796	97.18%
2000	188,252,571	0.70	1,317,768	1,273,232	96.62%
1999	175,403,000	0.70	1,227,821	1,199,275	97.68%
1998	172,378,000	0.70	1,206,646	1,171,755	97.11%
1997	165,294,463	0.56	925,764	883,178	95.40%

**City of Crossville, Tennessee  
UTILITY STATISTICAL DATA  
For the Year Ended June 30, 2007**

**RATES**

<u>Water and Sewer Rates</u>	<u>Inside City Limits</u>	<u>Outside City Limits</u>
First 2,000 gallons - water	\$7.38 minimum bill	\$11.08 minimum bill
- sewer	\$9.00 minimum bill	\$13.50 minimum bill
All over 2,000 gallons - water	\$3.69 per 1,000 gallons	\$5.54 per 1,000 gallons
- sewer	\$4.50 per 1,000 gallons	\$6.75 per 1,000 gallons
Utility districts (except CUD)		\$2.67 per 1,000 gallons

**NUMBER OF CUSTOMERS AT YEAR'S END**

	<u>Inside City Limits</u>	<u>Outside City Limits</u>
Water Customers		
Residential	3,589	6,673
Commercial	1,128	84
Industrial	32	2
Utility district (taps)	0	8
TOTAL WATER CUSTOMERS	<u>4,749</u>	<u>6,767</u>
TOTAL SEWER CUSTOMERS	<u>4,531</u>	<u>17</u>

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



PLEMMONS-JACKSON & CABANISS, PLLC  
CERTIFIED PUBLIC ACCOUNTANTS

Janice Plemmons - Jackson, CPA

Mark W. Cabaniss, CPA

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

To the City Council  
City of Crossville, Tennessee

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Crossville, Tennessee, as of and for the year ended June 30, 2007, which collectively comprise the City of Crossville, Tennessee's basic financial statements and have issued our report thereon dated January 24, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Crossville, Tennessee's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Crossville, Tennessee's financial statements that is more than inconsequential will not be prevented or detected by the City of Crossville, Tennessee's internal control. We consider the deficiencies described in the accompanying schedule of findings, recommendations, and management's response to be significant deficiencies in internal control over financial reporting, which are reported as findings 07-1, 07-3, 07-5, 07-6, 07-9, 07-12, 07-13, and 07-14.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Crossville, Tennessee's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider findings 07-1, 07-3, 07-5, 07-12, 07-13, and 07-14 to be material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Crossville, 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings, recommendations, and management's response as findings 07-2, 07-3, 07-4, 07-5, 07-7, 07-8, 07-10, and 07-11.

City of Crossville, Tennessee's response to the findings identified in our audit is described in the accompanying schedule of findings, recommendations, and management's response. We did not audit City of Crossville, Tennessee's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

  
PLEMMONS-JACKSON & CABANISS, PLLC  
Certified Public Accountants

Crossville, Tennessee  
January 24, 2007

**City of Crossville, Tennessee**  
**SCHEDULE OF FINDINGS, RECOMMENDATIONS & MANAGEMENT'S RESPONSE**  
**For the Year Ended June 30, 2007**

**FINDING 07 – 1: LACK OF DOCUMENTATION FOR ACTUAL HOURS WORKED BY SALARIED PERSONNEL**

Although the City requires its hourly employees to use a time clock to document hours worked, the salaried personnel are not required to report all hours worked based upon actual time spent on the job. The lax reporting of hours worked has permitted employees to take time off for personal events, such as doctor appointments, golf activities, etc, while time reported for payroll purposes shows a full day worked, rather than actual hours on the job. No deduction for sick hours or vacation was reported in several instances where a salaried person had been absent from the job.

Management explained its policy that if a salaried employee worked five hours during a day, that this was considered a full day, and no hours were required to be used from vacation or sick hours. This unofficial policy permits abuse and could have a direct and material impact on the City's finances, as personnel costs are its largest recurring expense. The current practice of reporting a full day worked, without requiring the time to be actual hours on the job, makes it impossible to determine the extent of any abuse.

The policy permitting salaried time off without deductions for personal time allows employees to accumulate more vacation hours and related sick time than actually available. Although the City policy prohibits paying sick time unless actually being used for illness, the accumulation of sick time carries forward to retirement benefits, which has an undetermined impact upon the City's liability for the retirement contributions.

**Recommendation:**

Accurate and complete reporting of actual hours worked should be required for all employees—both hourly and salary. The daily reporting submitted by salaried employees should reflect hours worked and hours taken for sick time or vacation time.

**Management's Response:**

We concur. We agree that salaried personnel hours are not documented. However, the former city manager allowed salaried employees to take time off as the employee deemed necessary. There are salaried personnel at city hall, police, fire, water, streets, and etc. The salaried personnel for vital and emergency services are on call 24 hours a day. They can be called in at any time so they may need to adjust their time on occasions. This should not be an everyday occurrence for any salaried employee. If abuse is reported, this will be handled by the city manager on a case by case basis. This is not a city wide problem.

**Auditor's Rebuttal:**

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 2, Chapter 3, sets forth required payroll and personnel documentation and procedures necessary for precise maintenance and centralized control of these records. Specifically it states:

**City of Crossville, Tennessee**  
**SCHEDULE OF FINDINGS, RECOMMENDATIONS & MANAGEMENT'S RESPONSE**  
**For the Year Ended June 30, 2007**

"Time cards or honor system time sheets (approved by department heads) should be maintained for all employees in order to eliminate unauthorized pay....".

Management's policy should require all employees to accurately document actual hours worked for the City within its time reporting system to comply with the State of Tennessee guidelines.

**FINDING 07-2: NEPOTISM**

The City of Crossville, Tennessee has a Personnel Rules and Regulations Manual which states "No member of an immediate family, as defined in Section III, shall be employed under the same line of supervision. This does not preclude employment of immediate family members under other lines of supervision." In two departments, this policy has been violated. In recreation, a husband and wife worked together during the summer months. In the water resources department, a father and son, and a brother/uncle work closely together which is in violation of the City's policy. A city councilman is also an immediate family member of those employees in violation of the policy within the water resources department.

**Recommendation:**

The Personnel Rules and Regulations were established to provide direction and clearly define acceptable employment practices. When policies are not followed, there is a potential for many problems to develop.

The manual establishing employment guidelines should be followed: if the City does not plan to follow its own rules and regulations, they should be amended.

To correct these violations, the city should consider placement of those employees in violation of its policies within other departments or direct lines of supervision. Since there is second water department, the movement of supervision for those employees to an unrelated supervisor could provide additional controls.

**Management's Response:**

We concur. The City of Crossville has not followed its policy regarding nepotism for many years. Management is currently working to revise the Personnel Rules and Regulations, and this section will be deleted, when the revisions are completed.

**FINDING 07-3: UNAUTHORIZED NEW POSITION & LACK OF NOTIFICATION & ADVERTISING FOR POSITION**

During the budget process for the next fiscal year, a new position for a water quality/laboratory manager was requested, but the position was denied. Subsequently, on August 31, 2007, the promotion of the son of the department head was approved by his father and the city manager. The newly created position provided an increase in annual pay of 30% to the employee.

**City of Crossville, Tennessee**  
**SCHEDULE OF FINDINGS, RECOMMENDATIONS & MANAGEMENT'S RESPONSE**  
**For the Year Ended June 30, 2007**

The City's personnel manual states

1. "The City Manager, or designee, shall prepare recruiting notices to publicize vacancies and to secure applicants for vacant positions. Such various media of publicity shall be used as might be expected to bring notice of vacancies to as many qualified persons as possible."
2. "Vacancies or new positions shall be advertised to present city employees at the same time they are advertised outside the organization. Regional or national advertising may be conducted as appropriate for the position. Promotion from within the organization is encouraged."
3. "Minimum qualifications, as required by the nature of the work to be performed, will be included in all notices."

The new position, which had been denied by Council during the budget process, was not advertised. No other applicants were interviewed for the position, and the committee that normally assists with interviewing was not a part of the process.

**Recommendation:**

The salary increase and promotion that were given that were not formally approved by Council in the budget should be immediately changed back to the position and salary that was approved in the budget. All new positions should be advertised and follow the documented policies of the City for hiring, advancement, and salary increases.

**Management's Response:**

We concur. The city agrees that the position was not budgeted and that all the steps to hire this position were ignored; however, the employee has taken this job in good faith. The employee should not be punished for something the city manager did. This was done under the direction of the former city manager who was terminated. This will be watched more closely by the new management.

**Auditor's Rebuttal:**

Any payments made that are not approved in the budget are not legal expenditures of the City; accordingly, any positions created without Council approval should be eliminated. Council approval and a budget amendment are required to authorize this position and salary.

**FINDING 07-4: UNAUTHORIZED SALARY INCREASES**

The Crossville Municipal Code, Article IX, Section 5 states "that City council shall fix the salaries of the city judge, city attorney, clerk, finance director, as well as all other employees of said city." Each year extensive hours are spent during the budget process to schedule cost of living raises, and/or merit raises for city employees. Council reviews a worksheet detailing each employee's compensation as the basis for budgeted salaries expense in the budget document.



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Audit reports for the fiscal years ending on June 30, 2000, 2001, 2002, 2003, and 2004 repeated the finding that salary increases are given without formal Council approval. The City Manager's approval has always been indicated, but there is not indication in the minutes of the City Council that they have given approval to these raises, which violates the City code.

No legal authority exists for the City Manager to authorize any salary changes without formal Council approval, as established in the Crossville Municipal Code.

Salary increases continue to be given by the City Manager over and above the cost of living raises given to employees during the budget process. A five percent increase was given to the water resources director on December 10, 2007 as a "non-merit" increase; similarly, a five percent increase was given to the water resources operating and maintenance supervisor on November 19, 2007, which was called an equity adjustment. Other increases have been given for added duties, lab certifications, etc. to various employees.

In no situations has Council voted to approve any salary increases.

**Recommendation:**

All changes to personnel pay should be approved by Council during a meeting to document in the minutes the established increase in pay and the reasons for the change. No changes to salaries should occur otherwise.

**Management's Response:**

We concur. This issue needs to be addressed by amending the Crossville Municipal Charter to reflect the Council's true duties delegated to the City Manager. During the upcoming year, management will be evaluating both the personnel handbook and the charter. This will provide formal documentation of council's expectations for the city manager's personnel duties as well as coordinate any conflicts between the two authoritative sources.

**FINDING 07-5: UNAUTHORIZED PAYMENT OF SICK HOURS**

The City of Crossville, Tennessee Personnel Rules and Regulations Manual states "An employee who ceases employment, other than retirement, forfeits all accrued sick leave." It also states "Employees who resign or are dismissed from City employment shall not be paid for any accrued sick leave and shall lose all accrued sick leave credit except in the case of retirement . . . ."

In the fall of 2007, Council made changes to the airport operations, and the part-time employee who worked at the airport was terminated. Although City policy prohibited the payout of accrued sick time, payment of \$15,017.90 was paid to the terminated employee on November 10, 2007, without Council approval.

Payment of the sick hours was requested by a department head, approved by the city manager, and issued by the payroll clerk.

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When Council gained knowledge of this unauthorized payment, the city manager was terminated, and the payment was returned to the City.

**Recommendation:**

All city employees should be required to report any and all instances of policy violations, fraud, abuse, errors or irregularities to which they have knowledge. Procedures should be established to allow the reporting to be confidential, so that there is not a hostile workplace.

**Management's Response:**

We concur. When management became aware of the prohibited payment of accumulated sick hours, immediate action was taken by City Council to correct the situation. The payment has been refunded to the City in full. Management will work to create an environment conducive to encourage reporting of abuse and policy violations.

**FINDING 07- 6: UNDOCUMENTED CUSTOMER COUNT FOR GARBAGE COLLECTION**

In August 2007, the City's contract with a private business for garbage collection was extended for a five year period until the year 2012. The City is billed based on the number of residential pickups plus a fuel surcharge. The contract does not provide a way to monitor the residential pickups number; the City has relied upon information provided by the private business. The customer count was increased by the number of building permits issued during the year, but the base count has never been verified by a reliable method.

The customer count provided to us by the City's water billing office was 302 customers less for single family dwelling units and duplexes being sold water than the customer count being billed to the city for residential garbage collection. The estimated cost for the variance in customer count approximates \$25,000 per year.

**Recommendation:**

The City should require an accurate methodology be established for the charges it pays for garbage collection. Since the City bills each water customer and can establish an accurate number for service, this should be the basis for billing for garbage service. Any other method of obtaining a customer count will be an estimate, and subject to under/over billing.

**Management's Response:**

We concur. Management will review the terms of this contract and determine a reasonable way to monitor the customer count for billing purposes.

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**FINDING 07- 7: AIRPORT OPERATIONS**

In a prior year, the City of Crossville contracted with a fixed base operator that required \$650 per month in rent and fuel flowage fees of \$.05 per gallon of fuel sold each month. During May 2007, the operator requested that his monthly payments be deferred for at least six months, with his payments to increase after six months. Subsequent to this request, Council approved a decrease in rent, requiring \$10 per month for six months, and then \$300 for six months, with \$650 rent per month to begin in April 2008.

On August 14, 2007, Council approved the termination of the contract with the operator because he did not comply with the contract. The city manager was allowed to place an interim fixed base operator until all options could be researched.

On August 30, 2007, a contract was signed by the City with a fixed base operator for rent of \$10 per month for six months, with an automatic renewal clause for 2 additional 6 month time frames. No fuel flowage fees were established in this contract.

No notification or advertising was done to recruit a new fixed base operator; additionally, no request for bidding of this service was done. The terms of the contract appear to be much more favorable than were previously given to the former operator, including the required reimbursement of capital expenditures or start-up expenses of the operator from the City or another incoming fixed base operator. The newly formed company created to perform the fixed base operations is composed of some of the members of the former airport committee, which was also eliminated by Council during this time.

The placement of a new fixed base operator within two weeks of termination of the contract with the former operator, with no advertising or bidding, in addition to basically an 18 month contract seem to indicate that no other options were or are being considered.

The airport has received various grants through the years, and currently has grants in existence with the State of Tennessee. Various terms of the grants include specific assurances about nondiscrimination. The grants also state that reimbursements shall be subject to the Grantee's compliance with applicable federal procurement requirements, which includes the use of competitive bidding procedures, where applicable.

**Recommendation:**

A careful study should be made of the proper structure to operate the airport for the City of Crossville. If it is determined that a fixed base operator is the optimal approach for airport operations, adequate advertising for bid request should be made for the operator. Credentials for the operator should be established, as well as required minimum rental charges by the City. Care should be taken to document compliance with federal and state regulations for grant requirements.

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**Management's Response:**

We concur. City council realized that problems existed at the airport. By appointing the fixed base operator, the problems could be corrected. When these problems are corrected, the fixed base operator position can be bid.

**FINDING 07- 8: REQUIRED BIDDING NOT ALWAYS DONE**

The Crossville Municipal Code, Section 5-602, states that "all purchases or transactions totaling five thousand dollars (\$5,000) or more shall be competitively bid. In several instances, we observed that competitive bidding was not done.

The City contracted with a company for telephone services without taking sealed bids; similarly, Council approved adding a new waterline for eight customers to a previously bid project, without bidding on the additional line. It was added on as a change order, rather than being viewed as an additional project. During the year, there were several "post facto" requests for approval of actions taken by the city manager, which were not emergency purchases, such as sponsorship of TPGA Sectional golf tournament for \$5,500.

**Recommendation:**

Competitive bids should be solicited for all purchases or transactions of \$5,000 or more, as required by the Crossville Municipal Code. The award of purchases and leases should be made by the city council to the lowest responsible bidder meeting specifications. Emergency expenditures with subsequent approval of the Council should be restricted to true emergencies.

**Management's Response:**

We concur. Competitive bids will be required for all purchases or transactions of \$5,000 or more, as required by Crossville Municipal Code. Post facto requests will only be made during emergency situations.

**FINDING 07- 9: CITY RECORDS DO NOT SHOW THE STATUS OF CASES & ALLOW VERIFICATION OF FINE REVENUES**

The City holds court for traffic tickets, beer license violations, water theft, and animal control issues. All other cases are handled by the Cumberland County General Sessions Court or Criminal Court. The county courts do not provide informational reporting to the city regarding the disposition of the cases it handles. No one in the City has been assigned the responsibility for maintaining detailed information about the status of court cases—whether they are open or closed, and the nature of the disposition. As a result, the department was unable to determine if it had received all fine revenue due from the county court. Regarding drug-related cases, Section 39-17-420, Tennessee Code Annotated, states:

All fines and forfeitures of appearance bonds received because of a violation

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of any provision of this part and that are specifically set forth in this part, and the proceeds of goods seized and forfeited under the provisions of §53-11-451 and disposed of according to law, shall be accounted for in a special revenue fund of the jurisdiction that initiated the arrest.

State statutes provide that fines from cases involving driving under the influence (DUI) offenses be paid to the jurisdiction that initiates the arrest. Regarding DUI cases, Section 55-10-303, Tennessee Code Annotated, states, "The fines, penalties, and forfeitures of bonds imposed or collected under §55-10-401 shall be paid to the jurisdiction which initiated the arrest..."

**Recommendation:**

An employee should be assigned the responsibility of knowing the status of all cases. Records should be maintained on a current basis that list cases that are open and closed based on the court proceedings. The City should verify that all fine revenue due from the county court is being received.

**Management's Response:**

We concur. The police department has addressed this situation with the Clerk of the Cumberland County courts. Information will be provided to the City annotating each case file with the disposition and court continuations on a regular basis, so that the status of all cases is known by City personnel.

**FINDING 07- 10: VIOLATION OF SECTION 39-17-428(c)(1) TN CODE ANNOTATED**

The applicable portion of the drug-related fines was not allocated to the general fund. The entire amount was deposited into the drug fund and used exclusively for the police department.

Section 39-17-428 (c) (1), Tennessee Code Annotated, establishes minimum fines for violations of Tennessee's drug control statutes. The section also establishes the distribution of those fines as follows:

Fifty percent (50%) of any fine collected pursuant to subsection (b) shall be allocated in the manner set out in § 39-17-420. The remaining fifty percent (50%) shall be paid to the general fund of the governing body of the law enforcement agency responsible for the investigation and arrest which resulted in the drug conviction...

**Recommendation:**

The fines should be deposited into the drug fund and then the general fund should be reimbursed fifty percent of the deposit to follow the State of Tennessee guidelines.

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**Management's Response:**

We concur. This will be corrected in the future by the finance director and the police chief.

**FINDING 07- 11: DESTRUCTION OF EVIDENCE NOT IN ACCORDANCE WITH STATE OF TENNESSEE GUIDELINES**

We observed several old items in the evidence room from 2002 and earlier that were for closed cases.

Section 53-11-45(j) Tennessee Code Annotated, states:

Any property of the type set forth in subdivisions (a) (1) and (7) which is in the custody and possession of a clerk of any court of this state by virtue of the property having been held as evidence or exhibits in any criminal prosecution where all appeals or potential appeals of a judgment have ended, or when the case has been dismissed or otherwise brought to a conclusion, shall be disposed of as follows:

(1) The clerk of the court having custody of the property to be disposed of shall, no less than once annually, inventory the same and prepare a list of the property proposed to be destroyed with references to the cases involved and the name of the case, the case number and date when such property was used;

(2) The clerk shall submit the inventory list with a filed petition to the court and shall serve a copy of the petition upon the district attorney general. After determining that the listed property is not needed as evidence in any pending or potential judicial proceeding, the court shall order the property to be destroyed; and

(3) The clerk, or such deputy as the clerk may designate, shall completely destroy each item by cutting, crushing, burning or melting and shall file, together with the petition and order relating to the destroyed property, an affidavit concerning such destruction, showing a description of each item, the method of destruction, the date and place of destruction, and the name and address of all witnesses to the destruction.

**Recommendation:**

The employee responsible for updating the status of the cases should prepare a list each month of the cases that are closed and give the list to the custodian of the evidence room. No less

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than annually, the custodian should propose a list of items to be destroyed and request court approval to destroy those items. When the items are approved for destruction, the white copies of the evidence report should be pulled from the file maintained in the evidence room and taken with the evidence to the place the evidence will be destroyed. At least two or three witnesses should be there to monitor the destruction of the evidence. Each item of evidence should be examined and verified to the white copy of the evidence report before its destruction. Each white copy should be initialed that the evidence was verified and properly destroyed.

After the destruction has occurred, all white evidence reports that have been verified, stamped "destroyed" and dated should be agreed to the court order authorizing the destruction, filed with this report, and retained in the central police office records. At the same time, the pink copy of the evidence report that is filed in the case file should be stamped "destroyed on (date)" to provide a complete record of events.

**Management's Response:**

We concur. The police department has worked diligently to follow the practice and procedures set forth by General Sessions and Criminal Courts and the District Attorney's office in the destruction and documentation of evidence. The timely reporting of the status of cases to City personnel will assist us with information needed to request destruction of evidence for cases that are closed.

**FINDING 07- 12: WEAKNESSES IN SEGREGATION OF DUTIES**

Certain employees have been assigned responsibilities for collection, reviewing cash collections and postings, making deposits, counting the daily collections, and recording funds. Also, corrections of errors can be made by the same employee. Passwords for data entry in the computer system are known by other employees. The Internal Control and Compliance Manual for Tennessee Municipalities, Title 1, Chapter 2, Section 2, states:

"Municipal officials should enforce division of duties to provide a system of checks and balances so that no one person has control over a complete transaction from beginning to end. When possible, different persons should be responsible for the authorization, record keeping (posting), custodial (cash and materials handling), and review procedures, to prevent manipulation of records and minimize the possibility of collusion."

**Recommendation:**

To decrease the risk of undetected errors and irregularities, responsibilities of employees should be segregated to insure that no employee has control over a complete transaction. The same person who collects money should not post collections to customer accounts, if possible. The person making the deposit and verifying information should not have access to make changes in the system for items previously posted by the clerks. The passwords for computer log-in should be known only to the individual and the system administrator. Passwords should be changed regularly.

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**Management's Response:**

We concur. The finance director will monitor this more closely. Passwords will be required to change more frequently, and knowledge of the password will be kept with each individual.

**FINDING 07- 13: INCOMPLETE ACCOUNTING RECORDS**

The financial records of the City did not include all accounting entries as required by generally accepted government accounting standards. Year-end accruals were not recorded for various taxes receivable, unbilled water revenues, and deferred tax revenues. Also, Statement No. 34 of the Governmental Accounting Standards Board Basis Financial Statements—and Management's Discussion and Analysis—for State and Local Governments requires that donated assets and infrastructure be recorded at the government-wide level. The value of donated streets, water lines, and sewer lines of \$1,810,153 was not recorded prior to the audit, but the recording of these assets was approved by management as an adjustment. A total of twenty-two adjusting journal entries totaling \$12.5 million were proposed and accepted by management.

**Recommendation:**

Year-end adjustments should be recorded to properly record the City's transactions in accordance with generally accepted government accounting standards. Included in those entries, but not limited to, should be receivables for revenues collected within 60 days of year-end. Inventory should be adjusted to actual amounts on hand; infrastructure should be recorded, including donated streets, lines, etc. Disposed assets should be removed from the accounting records, and constructed assets (completed projects) should be added to depreciation records. Grants earned, but not received, should be recorded at the amount owed to the City at year-end.

**Management's Response:**

We concur. The finance director has changed the way donations of infrastructure are recorded by the City to record these on an on-going basis during the year. Year-end adjustments and accruals will be recorded by the finance department under the finance director's supervision.

**DISPOSITION OF PRIOR YEAR FINDINGS:**

**FINDING 07- 14: DETAILS OF CONTRACTS NOT FOLLOWED (repeats finding 06-1 from audit ending June 30, 2006)**

Contracts were awarded to the lowest bidders for two road construction projects during the fiscal year. A new roadway project to extend Tulip Drive for approximately 3,685 linear feet was awarded on August 30, 2005 for \$323,095, which required substantial completion by May 1, 2006. Although an additional 522 cubic yards of borrow excavation was needed, a change order to the contract was never issued or brought before City Council for approval at \$5,220. The bid specifications called for 875.65 tons of base gravel that were not used, which should



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have lowered the price by \$8,765.50. Substantial completion of the project was 128 days late, which cost the City an additional \$27,674. On November 14, 2006, Council approved a final payment to the contractor that was \$10,000 below the City's additional costs.

On September 1, 2005, a contract was awarded to the lowest bidder for \$232,840, with substantial completion set for April 17, 2006. Approximately five weeks later, the contractor was approved for a 15% increase to his original bid because of increased costs for fuel and materials (Hurricane Katrina impact). If the contractor had not been awarded the increased request, the bid bond would have paid the City \$23,284, if he failed to keep the contract; however, an increase was approved to set the contract at \$250,000.

During the performance of the second contract, repeated communications from the City engineers (both in-house and outside engineers) indicated problems with the work, with notations that the work was not performed to job specifications. Engineers documented to City leaders that excavation and grading was only 19.2% completed, according to the contract specifications. The job was 92 days late in substantial completion. Recommendations by in-house engineers and outside engineers working for the City were that the contract price should range from \$188,457 to \$199,902, rather than the full \$250,000. The City approved a payment to the contractor totaling \$242,763, which exceeded engineering recommendations by a range from \$42,861 to \$54,306.

The bidding process and related contract establishes expected costs, job requirements, and specifications as to how the work is to be completed. Engineers are hired to protect the City and ensure that the work being performed meets the specifications, as outlined in the contract.

**Recommendation:**

After the bidding process has been performed, no changes should be made to the contract regarding performance, specifications, or pricing without Council approval of a change order. Job specifications should always be met, with required approval by the City's engineers before the work is accepted and payment is made.

**Management's Response:**

We concur. The city engineer will review all requested change orders and make City Council aware of any change orders relevant to its contracts. Council will be required to approve all contract amendments before they are paid.