

CITY OF CROSSVILLE
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2010
(WITH INDEPENDENT AUDITOR'S REPORT THEREON)

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INTRODUCTORY SECTION

CITY OF CROSSVILLE, TENNESSEE

DIRECTORY OF OFFICIALS
(UNAUDITED)

ELECTED OFFICIALS

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

APPOINTED OFFICIALS

City Attorney	Kenneth Chadwell
City Judge	Thomas L. Bean
City Manager	Curtis Adams
City Recorder	Sally Oglesby, MMC
Director of Finance	Fred C. Houston, CPA

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

HONORABLE MAYOR AND CITY COUNCIL

City of Crossville, Tennessee

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the budgetary comparison for the general fund of the City of Crossville, Tennessee as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of 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 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, 2010, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, during 2010 the City of Crossville, Tennessee changed the estimated useful lives of its street lighting assets used in governmental activities.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2010, 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 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited

HONORABLE MAYOR AND CITY COUNCIL

Crossville, Tennessee

Page Two

procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Crossville, Tennessee's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements and schedules, 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 awards and state financial assistance 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 financial statements. The combining and individual nonmajor fund financial statements and schedules and the schedule of expenditures of federal awards and state financial assistance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section and the other supplementary information section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.



December 9, 2010

CITY OF CROSSVILLE, TENNESSEE

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Crossville, Tennessee's ("City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2010. Please read it in conjunction with the City's financial statements, which begin on page 11.

FINANCIAL HIGHLIGHTS

The City's governmental activity total assets decreased by \$789,000 in 2010 or 1.6%, while business-type activity total assets increased by \$5,182,000 or 9.2%, resulting in a increase in total primary government assets of \$4,393,000 or about 4.2%. Governmental activity total revenues for the City decreased \$1,618,000 or 11.3%, while business-type total revenues increased by \$2,019,000 or 23.2%, resulting in an increase in total primary government revenues of \$401,000, or 1.7%. The City's governmental activity total program costs for 2010 increased \$718,000 or 5.9%, while business-activity total program costs decreased by \$91,000 or 1.3%, resulting in an increase in total primary government program costs of \$627,000 or 3.3%. With respect to the City's governmental activities, while total revenues decreased, net assets decreased by \$591,000. On a budgetary basis of accounting for the General Fund, there was a net excess of expenditures over revenues and other financing sources and other uses of \$1,197,000. The City's General Fund balance at fiscal year-end was approximately \$9,235,000.

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 start on page 14. For governmental activities, these statements 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

For an analysis of the City's financial operation as a whole, we must examine the statement of net assets and the statement of activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most companies in the private sector. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. In reviewing these financial statements, we must ask, "Is the City of Crossville as a whole financially better or worse as a result of this year's activities?"

One way to answer this question of the City's financial position and stability is to review the City's statements of net assets (the difference between assets and liabilities) and the changes in these net assets over time. Tables 1 and 2 of this discussion and analysis offer this information in a comparative format which provides an excellent opportunity to evaluate the City's financial health. In reviewing these statements you will also need to consider other non-financial factors, such as, changes in the City's property and sales tax base and the condition of the City's infrastructure facilities and equipment.

As illustrated in Table 1, total assets of the City's governmental activities were \$48,315,000 in 2010 versus \$49,104,000 in 2009, representing a decrease of \$789,000 or 1.6%. Table 1 also shows that total assets of the City's business-type activities were \$61,385,000 in 2010 versus \$56,203,000 in 2009, representing an increase of \$5,182,000 or 9.2%.

REPORTING THE CITY AS A WHOLE, continued

**Table 1
Net Assets
(in Thousands)**

	Governmental Activities			Business-Type Activities			Total Primary Government		
	2010	2009	Change	2010	2009	Change	2010	2009	Change
Current and other assets	\$ 13,423	\$ 14,818	\$ (1,395)	\$ 3,419	\$ 5,853	\$ (2,434)	\$ 16,842	\$ 20,671	\$ (3,829)
Capital assets	34,892	34,286	606	57,966	50,350	7,616	92,858	84,636	8,222
Total assets	<u>\$ 48,315</u>	<u>\$ 49,104</u>	<u>\$ (789)</u>	<u>\$ 61,385</u>	<u>\$ 56,203</u>	<u>\$ 5,182</u>	<u>\$ 109,700</u>	<u>\$ 105,307</u>	<u>\$ 4,393</u>
Long-term liabilities	\$ 1,091	\$ 1,125	\$ (34)	\$ 16,019	\$ 16,583	\$ (564)	\$ 17,110	\$ 17,708	\$ (598)
Other liabilities	2,479	2,643	(164)	2,259	294	1,965	4,738	2,937	1,801
Total liabilities	<u>3,570</u>	<u>3,768</u>	<u>(198)</u>	<u>18,278</u>	<u>16,877</u>	<u>1,401</u>	<u>21,848</u>	<u>20,645</u>	<u>1,203</u>
Net assets:									
Invested in capital assets, net of related debt	33,896	33,471	425	39,985	29,757	10,228	73,881	63,228	10,653
Restricted	871	805	66	2,886	1,467	1,419	3,757	2,272	1,485
Unrestricted	9,978	11,060	(1,082)	236	8,102	(7,866)	10,214	19,162	(8,948)
Total net assets	<u>44,745</u>	<u>45,336</u>	<u>(591)</u>	<u>43,107</u>	<u>39,326</u>	<u>3,781</u>	<u>87,852</u>	<u>84,662</u>	<u>3,190</u>
Total liabilities and net assets	<u>\$ 48,315</u>	<u>\$ 49,104</u>	<u>\$ (789)</u>	<u>\$ 61,385</u>	<u>\$ 56,203</u>	<u>\$ 5,182</u>	<u>\$ 109,700</u>	<u>\$ 105,307</u>	<u>\$ 4,393</u>

The significant elements and causes for the changes in the City's governmental activities total assets in 2010 were: (1) current and other assets decreased by \$1,395,000 which was attributed in part to the operations of the City for the year; and (2) capital assets, net increased by \$606,000 which was made up of machinery and equipment, and infrastructure additions.

The significant aspect of the increase in the City's business-type activities total assets in 2010 was a decrease in current and other assets of \$2,434,000 which was attributed in part to capital acquisitions and debt payoff and an increase in capital assets of \$7,616,000.

As shown in Table 1, total liabilities of the City's governmental activities decreased by \$198,000 or 5.3% to \$3,570,000 in 2010 from \$3,768,000 in 2009. Table 1 also shows total liabilities of the City's business-type activities increased by \$1,401,000 or 8.3% to \$18,278,000 in 2010 from \$16,877,000 in 2009. The significant elements and causes for the changes in the City's total liabilities in 2010 were: (1) decrease of other liabilities of \$164,000 in the governmental activities and an increase of \$1,965,000 in the business activities; and (2) long-term liabilities decreased by \$34,000 in the governmental activities and \$564,000 in the business activities mainly due to debt.

Therefore, total net assets of the City's governmental activities decreased to \$44,745,000 in 2010 from \$45,336,000 in 2009 representing a decrease of \$591,000 or 1.3%, and total net assets of the City's business-type activities increased to \$43,107,000 from \$39,326,000, representing an increase of \$3,781,000 or 9.6%.

The City's governmental activities net assets decreased \$591,000 due to: (1) net assets invested in capital assets, net of related debt, increased by \$425,000; (2) restricted net assets increased by \$66,000; and (3) unrestricted net assets decreased by \$1,082,000. The City's business-type activities net assets increased \$3,781,000 due to: (1) net assets invested in capital assets, net of related debt, increased by \$10,228,000; (2) restricted net assets increased by \$1,419,000; and (3) unrestricted net assets decreased by \$7,866,000.

REPORTING THE CITY AS A WHOLE, continued

Table 2 illustrates the changes in net assets. As stated earlier, the changes in net assets over time provide an excellent opportunity to evaluate the financial health of the City of Crossville. Total revenues for the City's governmental activities decreased to \$12,730,000 in 2010 from \$14,348,000 in 2009, representing a decrease of \$1,618,000 or 11.3%. Total revenues for the City's business-type activities increased to \$10,724,000 in 2010 from \$8,705,000 in 2009, representing an increase of \$2,019,000 or approximately 23.2%.

Table 2
Changes in Net Assets
(in Thousands)

	Governmental Activities			Business-Type Activities (Restated)			Total Primary Government (Restated)		
	2010	2009	Change	2010	2009	Change	2010	2009	Change
Revenues									
Program revenues:									
Charges for services	\$ 643	\$ 729	\$ (86)	\$ 6,813	\$ 6,910	\$ (97)	\$ 7,456	\$ 7,639	\$ (183)
Grants and contributions:									
For operations	402	364	38	-	-	-	402	364	38
For capital projects	494	2,225	(1,731)	3,892	1,703	2,189	4,386	3,928	458
General revenues:									
Property taxes	1,977	1,899	78	-	-	-	1,977	1,899	78
Intergovernmental revenues	8,984	8,671	313	-	-	-	8,984	8,671	313
Interest earnings	34	229	(195)	14	95	(81)	48	324	(276)
Other revenue	172	222	(50)	5	2	3	177	224	(47)
Gain (loss) on disposal of assets	24	9	15	-	(5)	5	24	4	20
Total revenues	12,730	14,348	(1,618)	10,724	8,705	2,019	23,454	23,053	401
Program expenses:									
General government	2,772	2,730	42	-	-	-	2,772	2,730	42
City court	16	16	-	-	-	-	16	16	-
Airport	292	220	72	-	-	-	292	220	72
Cemetery	57	51	6	-	-	-	57	51	6
Parks and recreation	1,336	1,257	79	-	-	-	1,336	1,257	79
Planning and zoning	245	188	57	-	-	-	245	188	57
Public safety	5,354	5,104	250	-	-	-	5,354	5,104	250
Sanitation	339	361	(22)	-	-	-	339	361	(22)
Streets	2,402	2,165	237	-	-	-	2,402	2,165	237
Tourism development	140	34	106	-	-	-	140	34	106
Interest on long-term debt	3	112	(109)	-	-	-	3	112	(109)
Water and sewer department	-	-	-	6,943	7,034	(91)	6,943	7,034	(91)
Total expenses	12,956	12,238	718	6,943	7,034	(91)	19,899	19,272	627
Contributions to non-profits	(365)	(815)	450	-	-	-	(365)	(815)	450
CHANGE IN NET ASSETS	(591)	1,295	(1,886)	3,781	1,671	2,110	3,190	2,966	224
NET ASSETS, Beginning	45,336	44,041	1,295	39,326	37,655	1,671	84,662	81,696	2,966
NET ASSETS, Ending	\$ 44,745	\$ 45,336	\$ (591)	\$ 43,107	\$ 39,326	\$ 3,781	\$ 87,852	\$ 84,662	\$ 3,190

The decrease in total revenues of the City's governmental activities for 2010 as compared to 2009 totaled \$1,618,000 or 11.3%. Revenues excluding grants and contributions were up in the current year \$75,000 due to the economy, however, revenues in total decreased due to a decrease in federal and state grants and contributions of \$1,693,000 in 2010 compared to 2009.

The increase in total revenues of the City's business-type activities for 2010 as compared to 2009 totaled \$2,019,000 or 23.2%. Water and sewer revenues excluding grants and contributions were down in the current year \$170,000 due to the economy, however, revenues in total increased due to an increase in federal and state grants and contributions of \$2,189,000 in 2010 compared to 2009.

REPORTING THE CITY AS A WHOLE, continued

Table 2 shows that total program expenses for the City's governmental activities increased to \$12,956,000 in 2010 from \$12,238,000 in 2009, representing an increase of \$718,000 or 5.9%. Total program expenses for the City's business-type activities decreased to \$6,943,000 in 2010 from \$7,034,000 in 2009, representing a decrease of \$91,000 or 1.3%.

The increase in total program expenses of \$718,000 or 5.9% for the City's governmental activities was primarily due to: (1) general government expenses increased by \$42,000; (2) street expenses also increased by \$237,000; (3) public safety expenses increased by \$250,000; (4) parks and recreation expenses increased by \$79,000; and (5) all other departments' expenses and interest expense on long-term debt increased by \$110,000.

The decrease in total program expenses of \$91,000 or 1.3% for the City's business-type activities was primarily due to a decrease in repairs and maintenance expense.

Governmental Activities

The City's fiscal operating year is the twelve-month period beginning each July 1. An annual operating budget is submitted to Mayor and City Council members prior to the commencement of the related fiscal year, and a budget ordinance for the year is subsequently adopted. Any revisions or amendments require Mayor and City Council action. All annual appropriations not expended lapse at fiscal year-end. The budgetary appropriations constitute maximum expenditure authorizations during the fiscal year, and cannot legally be exceeded unless subsequently amended by the Mayor and City Council.

CAPITAL ASSETS

Table 3 provides a comparative view of the capital assets of the City's governmental and business-type activities in six major categories: land and construction in progress; buildings and improvements; machinery and equipment, infrastructure, utility plant in service and accumulated depreciation.

Table 3
Capital Assets at Year-End
(in Thousands)

	Governmental Activities			Business-Type Activities			Total		
	2010	2009	Change	2010	2009	Change	2010	2009	Change
Land and construction in progress	\$ 7,202	\$ 7,106	\$ 96	\$ 8,160	\$ 3,613	\$ 4,547	\$ 15,362	\$ 10,719	\$ 4,643
Buildings and improvements	17,803	16,292	1,511	-	-	-	17,803	16,292	1,511
Machinery and equipment	6,450	6,241	209	3,454	3,436	18	9,904	9,677	227
Infrastructure	17,468	17,219	249	-	-	-	17,468	17,219	249
Utility plant in service	-	-	-	77,154	71,982	5,172	77,154	71,982	5,172
Total capital assets	48,923	46,858	2,065	88,768	79,031	9,737	137,691	125,889	11,802
Accumulated depreciation	(14,031)	(12,572)	(1,459)	(30,802)	(28,681)	(2,121)	(44,833)	(41,253)	(3,580)
Net capital assets	<u>\$ 34,892</u>	<u>\$ 34,286</u>	<u>\$ 606</u>	<u>\$ 57,966</u>	<u>\$ 50,350</u>	<u>\$ 7,616</u>	<u>\$ 92,858</u>	<u>\$ 84,636</u>	<u>\$ 8,222</u>

Governmental Activities

In June 2009, the City's governmental activities had \$34,286,000 (net of accumulated depreciation) invested in a broad range of capital assets, including police and fire equipment, municipal buildings, park facilities, roads, and various other capital assets. In June 2010 capital assets were \$34,892,000 (net of accumulated depreciation), representing an increase of \$606,000 or 1.8%.

CAPITAL ASSETS, continued**Governmental Activities, continued***Accounting Policy*

In 2010 the City revised the estimated useful lives of some infrastructure asset classes to more accurately match the City's actual experience with asset lives. The City believes the new method more accurately reflects the depreciation of its infrastructure assets.

Business-type Activities

In June 2009, the City's business-type activities, consisting of the Water and Sewer Department, had \$50,350,000 (net of accumulated depreciation) invested in land, machinery and equipment, and utility plant in service which is by far the most significant component of the Water and Sewer Department's capital assets. In June 2010 capital assets were \$57,966,000 (net of accumulated depreciation), representing an increase of \$7,616,000 or 15.1% over 2009. The net increase in capital assets was primarily due to water and sewer line projects during the year.

BUDGETARY HIGHLIGHTS

Table 4 illustrates the significant components of the City's budget for the general fund for the year ended June 30, 2010. The original budget revenue estimates total \$13,764,000. Final budget revenues for the period amounted to \$15,418,000. Final actual revenues for the period amounted to \$12,272,000. The City's original budget estimated expenditures for the 2010 year-end were \$14,320,000. Final budget expenditures for the period amounted to \$16,792,000. Final actual expenditures for the period amounted to \$11,983,000. Therefore, the City realized an actual budget overage of revenues over expenditures of \$289,000, which was \$1,663,000 better than the final budget. This overage was decreased by other financing uses and contributions to non-profit organizations which were under budget by \$487,000. At the end of this period the City's actual general fund - fund balance was \$9,235,000.

Table 4
General Fund Budget Comparison
(in Thousands)

	Original Budget	Final Budget	Actual	Variance with Final Budget - Over/(Under)
Revenues				
Taxes	\$ 1,910	\$ 1,910	\$ 1,964	\$ 54
Intergovernmental revenues	9,044	9,044	8,986	(58)
Federal and state grants	1,792	3,446	443	(3,003)
Other revenues	1,018	1,018	879	(139)
Total revenues	13,764	15,418	12,272	(3,146)
Expenditures				
General government	2,821	2,844	2,591	(253)
Parks and recreation	1,267	1,290	1,031	(259)
Public safety	5,369	5,414	4,975	(439)
Streets	1,700	1,783	1,564	(219)
Capital outlay	2,417	4,683	1,166	(3,517)
Other expenditures	746	778	656	(122)
Total expenditures	14,320	16,792	11,983	(4,809)
Revenues Over (Under) Expenditures	(556)	(1,374)	289	1,663
Other financing sources (uses)	(1,272)	(1,582)	(1,121)	461
Contributions to non-profit organizations	367	391	365	(26)
NET CHANGE IN FUND BALANCES	(2,195)	(3,347)	(1,197)	2,150
Fund Balance, Beginning	10,432	10,432	10,432	-
Fund Balance, Ending	\$ 8,237	\$ 7,085	\$ 9,235	\$ 2,150

Business-type Activities

The Water and Sewer Department adopts an Operating Budget to assist in planning and forecasting for the fiscal year. The Budget is approved and is in effect for the entire fiscal year. Management uses the budget as a planning tool for the coming year.

DEBT ADMINISTRATION

Governmental Activities

At the end of the current fiscal year the City's governmental activities had outstanding long-term debt of \$1,091,000 including accrued compensated absences and other post employment benefits. The prior year total of long-term liabilities amounted to \$1,125,000; consequently long-term liabilities decreased during the year by \$34,000 or 3.0%. This decrease was primarily due to the payoff of long-term debt offset by increases in accrued compensated absences and other post employment benefit obligations.

Business-type Activities

At the end of the current fiscal year the City's business-type activities, comprised of the Water and Sewer Department, had outstanding long-term debt of \$16,019,000 including accrued compensated absences and other post employment benefits. The prior year total of long-term liabilities amounted to \$16,583,000; consequently long-term liabilities decreased during the year by \$564,000 or 3.4%. This decrease was primarily due to principal long-term debt payments.

The Water and Sewer Department has outstanding debt of \$16,019,330 payable to the State of Tennessee for TMBF loans, State Revolving Funds, RUD Funds and Refunding Bonds. As reflected in the statement of net assets for the proprietary fund, current liabilities at year end were \$2,258,686. In addition to this amount the current portion of long term debt is \$986,482.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Annual Budget assures the efficient, effective and economic uses of the City's resources, as well as, establishing that the highest priority objectives are accomplished. Through the budget, the Board of Mayor and Council members sets the direction of the City, allocates its resources and establishes its priorities.

In terms of the future, while we are in good financial shape at this time, with revenue streams limited and the large amount of growth the City is facing, we need to be alert to the public benefit versus the costs of the services we provide. In short, as the budget better reflects actual revenues and as we move into the future, we need to be careful of our spending so that we do not find ourselves in the position of expenditures outpacing revenues.

The City is continuing to grow at a steady pace. To that end, it is important that the Board update its comprehensive plan and goals and maintains its communication efforts through the budgeting process. The housing development trend is decreasing, although new business development has continued to grow. This allows the City's sales tax revenue to continue to be steady. The City continues to face many challenges in maintaining a necessary level of infrastructure. As it relates to the City's Water and Sewer Department, an important goal is to incorporate the City's Master Plan priorities into the Five-Year Capital Improvement Budget as well as increase the level of service and customer satisfaction. The rate of infrastructure failures on aged equipment will determine many of the City's priorities for the upcoming years.

The significant changes in the economy decreased the revenues for the City this year. The federal and state grants that were received by the City kept the revenues of the City from falling lower than expected. This decrease has not affected the City's overall services to the community. The increased sales tax base will have a significant impact on the City's revenues in the upcoming years. The City has been able to maintain services without a tax increase for the past few years, which will continue to be a major challenge with continued growth.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need any additional financial information, please contact the Director of Finance at the City of Crossville, 99 Municipal Avenue, Crossville, Tennessee 38555, (931) 456-5991 or fchouston@crossvilletn.gov.

CITY OF CROSSVILLE, TENNESSEE

STATEMENT OF NET ASSETS

JUNE 30, 2010

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 5,705,326	\$ 35,076	\$ 5,740,402
Net receivables	3,846,931	1,538,980	5,385,911
Internal balances	2,085,494	(2,085,494)	-
Unbilled revenues	-	555,761	555,761
Note receivable	771,000	-	771,000
Materials and supplies	148,849	313,069	461,918
Restricted cash and cash equivalents	865,582	2,706,528	3,572,110
Capital assets:			
Land and construction in progress	7,202,453	8,159,739	15,362,192
Other capital assets, net of depreciation	27,689,705	49,806,472	77,496,177
Other assets	-	189,030	189,030
Unamortized debt issuance costs	-	165,566	165,566
	<u>\$ 48,315,340</u>	<u>\$ 61,384,727</u>	<u>\$ 109,700,067</u>
LIABILITIES			
Accounts payable	\$ 313,742	\$ 2,182,171	\$ 2,495,913
Retainage payable	25,000	-	25,000
Accrued payroll and payroll taxes	167,990	39,604	207,594
Other accrued liabilities	14,932	28,451	43,383
Accrued interest	-	8,460	8,460
Deferred revenues	1,957,943	-	1,957,943
Noncurrent liabilities			
Due within one year	155,041	986,482	1,141,523
Due in more than one year	935,541	15,032,848	15,968,389
	<u>3,570,189</u>	<u>18,278,016</u>	<u>21,848,205</u>
NET ASSETS			
Invested in capital assets, net of related debt	33,895,964	39,985,364	73,881,328
Restricted for:			
Capital projects and street maintenance	157,074	2,706,528	2,863,602
Debt service	-	179,030	179,030
Drug enforcement	111,148	-	111,148
Industrial development	552,940	-	552,940
Low income housing assistance	49,819	-	49,819
Unrestricted	9,978,206	235,789	10,213,995
Total net assets	<u>\$ 48,315,340</u>	<u>\$ 61,384,727</u>	<u>\$ 109,700,067</u>

See notes to financial statements.

CITY OF CROSSVILLE, TENNESSEE

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2010

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expense) / Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
GOVERNMENTAL ACTIVITIES:					
General government	\$ 2,771,787	\$ 188,534	\$ 3,573	\$ -	\$ (2,579,680)
City court	16,094	152,097	-	-	136,003
Airport	292,397	76,015	23,400	226,888	33,906
Cemetery	57,147	31,600	-	-	(25,547)
Parks and recreation	1,335,865	165,136	1,997	-	(1,168,732)
Planning and zoning	243,833	-	-	-	(243,833)
Public safety	5,353,929	29,290	95,690	-	(5,228,949)
Sanitation	339,055	-	-	-	(339,055)
Streets	2,401,558	-	277,106	267,125	(1,857,327)
Tourism development	139,597	-	-	-	(139,597)
Interest on long-term debt	3,108	-	-	-	(3,108)
	<u>12,954,370</u>	<u>642,672</u>	<u>401,766</u>	<u>494,013</u>	<u>(11,415,919)</u>
BUSINESS-TYPE ACTIVITIES					
Water and sewer department	6,942,867	6,812,633	-	3,892,015	3,761,781
TOTAL GOVERNMENT	<u>\$ 19,897,237</u>	<u>\$ 7,455,305</u>	<u>\$ 401,766</u>	<u>\$ 4,386,028</u>	<u>\$ (7,654,138)</u>
			Governmental Activities	Business-Type Activities	Total
NET (EXPENSE) / REVENUE			\$ (11,415,919)	\$ 3,761,781	\$ (7,654,138)
GENERAL REVENUES					
Property taxes			1,976,900	-	1,976,900
Intergovernmental revenues			8,983,788	-	8,983,788
Interest earnings			33,582	13,647	47,229
Other revenue			172,427	5,332	177,759
Gain (loss) on disposition of capital assets			23,618	-	23,618
Total general revenues			<u>11,190,315</u>	<u>18,979</u>	<u>11,209,294</u>
CONTRIBUTIONS TO NON-PROFIT ORGANIZATIONS			<u>(365,221)</u>	<u>-</u>	<u>(365,221)</u>
TOTAL GENERAL REVENUES AND CONTRIBUTIONS			<u>10,825,094</u>	<u>18,979</u>	<u>10,844,073</u>
CHANGE IN NET ASSETS			<u>\$ (590,825)</u>	<u>\$ 3,780,760</u>	<u>\$ 3,189,935</u>

See notes to financial statements.

CITY OF CROSSVILLE, TENNESSEE

STATEMENT OF CHANGES IN NET ASSETS

JUNE 30, 2010

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
NET ASSETS, June 30, 2009, as previously reported	\$ 45,335,976	\$ 39,107,900	\$ 84,443,876
PRIOR PERIOD ADJUSTMENT, as discussed in Note S	-	218,051	218,051
NET ASSETS, June 30, 2009, as restated	45,335,976	39,325,951	84,661,927
CHANGE IN NET ASSETS	<u>(590,825)</u>	<u>3,780,760</u>	<u>3,189,935</u>
NET ASSETS, June 30, 2010	<u>\$ 44,745,151</u>	<u>\$ 43,106,711</u>	<u>\$ 87,851,862</u>

See notes to financial statements.

CITY OF CROSSVILLE, TENNESSEE

BALANCE SHEET

GOVERNMENTAL FUNDS

JUNE 30, 2010

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 5,705,326	\$ -	\$ 5,705,326
Net receivables	3,796,014	50,917	3,846,931
Due from other funds	2,085,494	-	2,085,494
Materials and supplies	144,441	4,408	148,849
Restricted cash and cash equivalents	49,819	815,763	865,582
	<u>\$ 11,781,094</u>	<u>\$ 871,088</u>	<u>\$ 12,652,182</u>
LIABILITIES			
Accounts payable	\$ 215,421	\$ 98,322	\$ 313,743
Retainage payable	25,000	-	25,000
Accrued payroll and payroll taxes	167,990	-	167,990
Other accrued liabilities	14,932	-	14,932
Deferred revenues	2,122,614	-	2,122,614
	<u>2,545,957</u>	<u>98,322</u>	<u>2,644,279</u>
FUND BALANCES			
Reserved for:			
Capital projects and street maintenance	-	157,074	157,074
Drug enforcement	-	111,148	111,148
Industrial development	-	552,940	552,940
Low income housing assistance	49,819	-	49,819
Unreserved:			
General fund	9,185,318	-	9,185,318
Capital projects	-	(52,804)	(52,804)
Solid waste	-	4,408	4,408
Total fund balances	<u>9,235,137</u>	<u>772,766</u>	<u>10,007,903</u>
	<u>\$ 11,781,094</u>	<u>\$ 871,088</u>	<u>\$ 12,652,182</u>

See notes to financial statements.

CITY OF CROSSVILLE, TENNESSEE
 BALANCE SHEET
 GOVERNMENTAL FUNDS - CONTINUED

JUNE 30, 2010

**RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO NET ASSETS OF
 GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET ASSETS**

Total governmental fund balances above	\$ 10,007,903
Capital assets not reported above	34,892,158
Note receivable not reported above	771,000
Notes payable not reported above	(771,000)
Compensated absence accrual not reported above	(255,805)
Other postemployment benefits not reported above	(63,777)
Deferred revenues from property taxes and intergovernmental revenues reported above, reported as revenues in the government-wide statement of net assets	<u>164,672</u>
Net assets of governmental activities in the statement of net assets	<u><u>\$ 44,745,151</u></u>

See notes to financial statements.

CITY OF CROSSVILLE, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR END JUNE 30, 2010

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES			
Taxes	\$ 1,964,022	\$ -	\$ 1,964,022
Intergovernmental revenues	8,986,336	277,106	9,263,442
Federal and state grants	443,453	-	443,453
Charges for services	302,041	-	302,041
Licenses and permits	188,534	-	188,534
Fines and forfeitures	130,184	21,913	152,097
Interest revenue	30,699	2,883	33,582
Miscellaneous	226,707	15,675	242,382
Total revenues	<u>12,271,976</u>	<u>317,577</u>	<u>12,589,553</u>
EXPENDITURES			
Current operations:			
General government	2,591,492	-	2,591,492
City court	16,094	-	16,094
Airport	171,341	-	171,341
Cemetery	49,640	-	49,640
Parks and recreation	1,031,387	-	1,031,387
Planning and zoning	231,456	-	231,456
Public safety	4,974,689	42,452	5,017,141
Sanitation	-	337,559	337,559
Streets	1,564,186	226,338	1,790,524
Tourism development	139,597	-	139,597
Capital outlay	1,166,039	832,459	1,998,498
Debt service:			
Principal	44,000	-	44,000
Interest	3,108	-	3,108
Total expenditures	<u>11,983,029</u>	<u>1,438,808</u>	<u>13,421,837</u>
REVENUES OVER (UNDER)	288,947	(1,121,231)	(832,284)
OTHER FINANCING SOURCES (USES):			
Transfer from other funds	-	1,120,422	1,120,422
Transfer to other funds	(1,120,422)	-	(1,120,422)
	<u>(1,120,422)</u>	<u>1,120,422</u>	<u>-</u>
CONTRIBUTIONS TO NON-PROFIT ORGANIZATIONS			
	<u>365,221</u>	<u>-</u>	<u>365,221</u>
NET CHANGE IN FUND BALANCES	(1,196,696)	(809)	(1,197,505)
FUND BALANCE, June 30, 2009	<u>10,431,833</u>	<u>773,575</u>	<u>11,205,408</u>
FUND BALANCE, June 30, 2010	<u>\$ 9,235,137</u>	<u>\$ 772,766</u>	<u>\$ 10,007,903</u>

See notes to financial statements.

CITY OF CROSSVILLE, TENNESSEE

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - CONTINUED

GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2010

RECONCILIATION OF NET CHANGE IN FUND BALANCES TO CHANGE IN NET ASSETS OF
GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES

Net change in fund balances as reported in the governmental funds statements	\$ (1,197,505)
Property contributions not recorded in the governmental funds statements but recognized as revenue in the government-wide statements	175,220
Increase in deferred revenues for property taxes including allowance for doubtful accounts, in the governmental funds not recognized in the government-wide statements	10,330
Collections on note receivable recorded as revenue in the governmental funds statements but reflected as a reduction to the note receivable balance in the government-wide statements	(44,000)
Proceeds from capital asset dispositions recorded as revenue in the governmental funds statements but recorded as a component of gain on disposition of capital assets in the government-wide statements	(25,956)
Amounts reported as expenditures in the governmental funds statements not included as expenses in the government-wide statements:	
Capital outlays	1,998,498
Payments on long-term debt	44,000
Expenses and revenues in the government-wide statements not included in the governmental fund statements:	
Depreciation expense	(1,565,079)
Decrease in accrued compensated absences	19,986
Increase in other postemployment benefits	(29,937)
Gain on disposal of capital assets	23,618
Change in net assets of governmental activities in the statement of activities	<u>\$ (590,825)</u>

See notes to financial statements.

LIABILITIES AND NET ASSETS	<u>Water and Sewer Department</u>
CURRENT LIABILITIES	
Accounts payable	\$ 2,182,171
Due to other funds	2,085,494
Accrued payroll and payroll taxes	39,604
Other accrued liabilities	28,451
Compensated absences	33,616
Accrued interest	8,460
	<u>4,377,796</u>
LIABILITIES PAYABLE FROM RESTRICTED ASSETS	
Current maturities of long-term debt	952,866
ACCRUED COMPENSATED ABSENCES	
	44,588
LONG-TERM DEBT, less current maturities	
	14,955,153
OTHER POST EMPLOYMENT BENEFITS OBLIGATION	
	33,107
NET ASSETS	
Invested in capital assets, net of related debt	39,985,364
Restricted for:	
Capital projects	2,706,528
Debt service	179,030
Unrestricted	235,789
	<u>43,106,711</u>
	<u>\$ 63,470,221</u>



CITY OF CROSSVILLE, TENNESSEE

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

PROPRIETARY FUND

YEAR ENDED JUNE 30, 2010

	<u>Water and Sewer Department</u>	<u>Percent of Revenues</u>
OPERATING REVENUES		
Water revenues	\$ 4,538,097	66.6%
Sewer revenues	1,835,054	26.9%
	<u>6,373,151</u>	<u>93.5%</u>
Other operating revenues	439,482	6.5%
	<u>6,812,633</u>	<u>100.0%</u>
OPERATING EXPENSES		
Transmission and distribution	3,544,961	52.0%
Customer accounting and collection	659,066	9.7%
Administrative and general	133,555	2.0%
Depreciation and amortization	2,138,982	31.4%
	<u>6,476,564</u>	<u>95.1%</u>
OPERATING INCOME	336,069	4.9%
NONOPERATING INCOME (EXPENSES)		
Interest income	13,647	0.2%
Interest expense	(466,303)	-6.8%
Other income (expenses)	5,332	0.1%
	<u>(447,324)</u>	<u>-6.5%</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	(111,255)	-1.6%
CAPITAL CONTRIBUTIONS	<u>3,892,015</u>	<u>57.1%</u>
INCREASE IN NET ASSETS	3,780,760	<u>55.5%</u>
NET ASSETS, June 30, 2009, as previously reported	39,107,900	
PRIOR PERIOD ADJUSTMENT, as discussed in Note S	218,051	
NET ASSETS, June 30, 2010	<u>\$ 43,106,711</u>	

See notes to financial statements.



CITY OF CROSSVILLE, TENNESSEE

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

YEAR ENDED JUNE 30, 2010

	<u>Water and Sewer Department</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 6,893,541
Payments to suppliers for goods and services	(2,398,423)
Payments to or on behalf of employees for services	(1,796,952)
Net cash provided by operating activities	<u>2,698,166</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES	
Loans from other funds	2,085,494
Net cash provided by noncapital and related financing activities	<u>2,085,494</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital contributions	2,866,039
Acquisition of utility plant	(7,132,571)
Payments of short-term payable for prior year utility plant additions	(158,839)
Interest paid (net of interest capitalized to utility plant)	(447,354)
Principal payments on long-term debt	(1,294,209)
Proceeds from long-term debt	697,212
Other nonoperating income	5,332
Net cash used by capital and related financing activities	<u>(5,464,390)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income received	13,647
Net cash provided by investing activities	<u>13,647</u>
NET DECREASE IN CASH	(667,083)
CASH AND CASH EQUIVALENTS, June 30, 2009	<u>3,408,687</u>
CASH AND CASH EQUIVALENTS, June 30, 2010	<u>\$ 2,741,604</u>

See notes to financial statements.



CITY OF CROSSVILLE, TENNESSEE

STATEMENT OF CASH FLOWS - CONTINUED

PROPRIETARY FUND

YEAR ENDED JUNE 30, 2010

	<u>Water and Sewer Department</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 336,069
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	2,138,982
Changes in operating assets and liabilities	
Accounts receivable	99,701
Unbilled revenue	(18,793)
Materials and supplies	86,776
Other current assets	(10,000)
Accounts payable	37,567
Accrued payroll and payroll taxes	12,449
Other accrued liabilities	1,441
Accrued compensated absences	(9,902)
Other post employment benefits obligation	23,876
Total adjustments	<u>2,362,097</u>
Net cash provided by operating activities	<u>\$ 2,698,166</u>
 NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES	
Utility plant contributed to the City by developers	\$ 536,778
Purchase of utility plant financed by accounts payable	2,072,828

See notes to financial statements.

CITY OF CROSSVILLE, TENNESSEE

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

YEAR ENDED JUNE 30, 2010

	Original Budget	Final Budget	Actual Amounts
REVENUES			
Taxes	\$ 1,910,000	\$ 1,910,000	\$ 1,964,022
Intergovernmental revenues	9,044,254	9,044,254	8,986,336
Federal and state grants	1,792,150	3,446,460	443,453
Charges for services	323,000	323,000	302,041
Licenses and permits	240,000	240,000	188,534
Fines and forfeitures	108,850	108,850	130,184
Interest revenue	100,000	100,000	30,699
Miscellaneous	245,265	245,265	226,707
Total revenues	<u>13,763,519</u>	<u>15,417,829</u>	<u>12,271,976</u>
EXPENDITURES			
General government	2,821,296	2,844,175	2,591,492
City court	22,750	19,200	16,094
Airport	193,975	208,885	171,341
Cemetery	66,925	56,325	49,640
Parks and recreation	1,267,250	1,290,212	1,031,387
Planning and zoning	269,300	274,842	231,456
Public safety	5,368,931	5,413,786	4,974,689
Streets	1,700,499	1,783,131	1,564,186
Tourism development	119,270	145,685	139,597
Capital outlay	2,417,482	4,683,337	1,166,039
Debt service:			
Principal	44,000	44,000	44,000
Interest	28,525	28,525	3,108
Total expenditures	<u>14,320,203</u>	<u>16,792,103</u>	<u>11,983,029</u>
REVENUES OVER (UNDER) EXPENDITURES	(556,684)	(1,374,274)	288,947
OTHER FINANCING SOURCES (USES) -			
Transfer to other funds	(1,271,790)	(1,581,790)	(1,120,422)
CONTRIBUTIONS TO NON-PROFIT ORGANIZATIONS	<u>366,920</u>	<u>390,663</u>	<u>365,221</u>
NET CHANGE IN FUND BALANCES	(2,195,394)	(3,346,727)	(1,196,696)
FUND BALANCE, June 30, 2009	<u>10,431,833</u>	<u>10,431,833</u>	<u>10,431,833</u>
FUND BALANCE, June 30, 2010	<u>\$ 8,236,439</u>	<u>\$ 7,085,106</u>	<u>\$ 9,235,137</u>

See notes to financial statements.

CITY OF CROSSVILLE, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2010

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Crossville, Tennessee (“City”) is a municipal corporation, incorporated under the laws of the State of Tennessee in 1901 under Chapter 362. The City provides planning and zoning, public safety, public works, parks and recreation, solid waste, and water and sewer services to residents and businesses of the City among other things. The City is governed by a mayor, mayor pro-tem and three council members.

The accounting and financial reporting policies of the City in its basic financial statements conform to generally accepted accounting principles applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (“GASB”) and by the Financial Accounting Standards Board (when applicable). As allowed in Section P80 of GASB’s *Codification of Governmental Accounting and Financial Reporting Standards*, the City has elected not to apply to its proprietary activities Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989.

1. Financial Reporting Entity

The City’s basic financial statements include the accounts of all City operations. The criteria for including organizations as component units within the City’s reporting entity, as set forth in Section 2100 of GASB’s *Codification of Governmental Accounting and Financial Reporting Standards*, include whether:

- The organization is legally separate (can sue and be sued in their own name)
- The City holds the corporate powers of the organization
- The City appoints a voting majority of the organization’s board
- The City is able to impose its will on the organization
- The organization has the potential to impose a financial benefit/burden on the City
- There is a fiscal dependency by the organization on the City

Based on the aforementioned criteria, the City of Crossville, Tennessee has no component units.

2. Basis of Presentation**Government-wide financial statements**

The City’s basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City’s funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The City’s police and fire protection, public works, parks and recreation, planning and zoning, solid waste, and general administrative services, among other things, are classified as governmental activities. Services provided by the City’s Water and Sewer Department are classified as business-type activities. In the government-wide statement of net assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, (b) and are reported on a full accrual, economic resource basis, which recognized all long-term assets and receivables as well as long-term obligations.

CITY OF CROSSVILLE, TENNESSEE

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2010

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2. Basis of Presentation - continued

The City's net assets are reported in three categories – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as they are needed. Also, the City does not allocate indirect costs to functions.

The government-wide statement of activities reports both the gross and net cost of each of the City's governmental functions and business-type activities. The functions are also supported by general government revenues such as property taxes and intergovernmental revenues. The statement of activities reflects gross expenses (including depreciation) reduced by related charges for services, operating grants and contributions, and capital grants and contributions. Charges for services must be directly associated with the function or a business-type activity. Operating grants and contributions include operating-specific and discretionary (either operating or capital) grants while the capital grants and contributions column reflects capital-specific grants.

The government-wide focus is more on the sustainability of the City as an entity and the change in the City's net assets resulting from the current year's activities.

Fund financial statements

The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. The various funds are reported by generic classification within the financial statements.

The City uses the following fund types:

Governmental funds

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the City:

General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in other funds.

Special revenue funds are used to account for the proceeds of specific revenue sources that are legally or administratively restricted to expenditures for specified purposes. The special revenue funds of the City consist of the Capital Projects Fund, Drug Fund, Industrial Development Fund, Solid Waste Fund and State Street Aid Fund.

CITY OF CROSSVILLE, TENNESSEE

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2010

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2. Basis of Presentation - continuedProprietary funds

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The only proprietary fund of the City is an enterprise fund which is used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or (c) establishes fees and charges based on a pricing policy designed to recover similar costs. The City's only enterprise fund consists of the Water and Sewer Department Fund, which accounts for the operation of the City's water and sewer service.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Non-major funds by category are summarized into a single column. GASB Statement No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues, or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The City's major governmental fund is the General Fund, and the City's major proprietary fund is the Water and Sewer Department Fund. The City's non-major governmental funds are the Capital Projects Fund, Drug Fund, Industrial Development Fund, Solid Waste Fund and State Street Aid Fund.

3. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied. Both governmental and business-type activities in the government-wide financial statements and the proprietary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when they are both measurable and available. "Available" means collectible within the current period or within 60 days after the end of the year.

Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. Principal and interest on general obligation long-term debt, if any, is recognized when due.

CITY OF CROSSVILLE, TENNESSEE

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2010

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Basis of Accounting - continued

Since the governmental funds financial statements are presented on a different basis than the governmental activities column of the government-wide financial statements, a reconciliation is provided immediately following each fund statement. These reconciliations briefly explain the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements.

On the proprietary fund financial statements, operating revenues are those that flow directly from the operations of the activity such as charges to customers for the purchase of goods and services. Operating expenses are those that are incurred to provide those goods and services. Non-operating revenues and expenses are items related to financing and investing activities.

4. Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and highly liquid investments purchased with maturities of ninety days or less from the date of acquisition.

5. Restricted Assets and Reservations of Fund Balances

Restricted assets include cash and cash equivalents of the General Fund (governmental fund) to upgrade low income housing. Restricted assets also include cash and cash equivalents in the Nonmajor Governmental Funds (governmental funds) to be used for capital projects, street maintenance and improvements, drug enforcement and industrial development. Restricted assets also include cash and cash equivalents in the Water and Sewer Department Fund to be used solely for capital projects. Reservations of fund balances consist of governmental fund balances that are legally segregated for specific usage or commitments to outside third parties.

6. Inventories

Inventories in the governmental funds represent supplies for the solid waste department and street department. Inventories in the proprietary fund consist of materials and supplies used in the water and sewer department. Materials and supplies in governmental and proprietary funds are stated at cost determined by the first-in, first-out (FIFO) method.

7. Internal Balances

If there are any residual receivable or payable balances outstanding between the governmental activities and business-type activities, they are reported in the government-wide financial statements as "internal balances".

CITY OF CROSSVILLE, TENNESSEE

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2010

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

8. Receivables

In the government-wide financial statements receivables consist of all revenues earned at June 30 and not yet received. Major receivable balances for the governmental activities include property taxes (\$2,013,187), intergovernmental revenues (\$1,637,018), and other receivables (\$196,726). Major receivable balances for the business-type activities consist of billed and unbilled charges to water and sewer customers. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. The allowance for uncollectible accounts at June 30, 2010 totals \$80,756 for the governmental activities and \$14,339 for the business-type activities. Additionally, the City wrote off approximately \$57,000 of accounts receivable during the year which is included in revenues in the statement of revenues, expenses and changes in net assets of the proprietary fund.

In the governmental funds financial statements non-exchange transactions, such as assessed property taxes that are collectible but not available, are recorded as deferred revenues in accordance with the modified accrual basis of accounting.

The Water and Sewer Fund receivables consist of billed charges to customers and unbilled charges net of an allowance for doubtful accounts. Unbilled revenues represent the estimated receivable amount for services that have not been billed to customers at the balance sheet date. The amounts are a result of a timing difference between the end of the financial statement cycle (month end) and the billing cycle (various dates within the month for each billing period).

9. Capital Assets and Depreciation

Capital assets, which include property, plant, equipment and infrastructure assets, are reported in the applicable governmental or business-type activities column in the government-wide financial statements and in the fund financial statements for proprietary funds. Capital assets used in governmental fund operations are accounted for as capital expenditures of the governmental fund upon acquisition. All purchased capital assets are valued at historical cost or estimated historical cost if actual cost is not available. Donated capital assets are recorded at their estimated fair value on the date donated.

Assets capitalized, not including general government infrastructure assets, have an original cost of \$5,000 or more and an estimated useful life in excess of one year. General government infrastructure assets capitalized have an original cost of \$10,000 or more for streets, sidewalks, curbs and guttering and an original cost of \$20,000 or more for traffic signals, street lighting, and drainage systems. Maintenance and repairs, including the renewal of minor items of plant not comprising a

CITY OF CROSSVILLE, TENNESSEE

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2010

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

9. Capital Assets and Depreciation - continued

retirement unit, are charged to the appropriate maintenance or other expense accounts. Depreciation of capital assets is computed and recorded in the statement of activities with accumulated depreciation reflected in the statement of net assets.

Depreciation is provided over the assets' estimated useful lives using the straight-line method. The range of estimated useful lives by type of asset is as follows:

	<u>Depreciable Life</u>
Governmental activities:	
Buildings and building improvements	40 years
Infrastructure assets	20 – 40 years
Machinery and equipment	3 – 7 years
Business-type activities:	
Water and sewer plant	20 – 40 years
Machinery and equipment	3 – 7 years

During the year ended June 30, 2010, the City decreased the estimated useful lives of its street light assets (which are included in Infrastructure assets) from 40 years to 20 years to more accurately reflect the City's actual experience with asset lives. The effect of the change was to increase governmental activity expenses and increase the decrease in governmental activity net assets for 2010 by approximately \$72,000.

10. Unpaid Compensated Absences

The City's policies permit employees to accumulate earned but unused vacation leave up to a maximum of 240 hours, except fire department employees may accumulate up to a maximum of 318 hours. Any unused earned vacation leave in excess of the maximum is rolled over to accrued sick leave. In addition, contingent to annual budget approval, employees may be eligible to convert a maximum of 80 hours (96 for fire department employees) of accumulated vacation leave to cash each year provided the employee has a remaining balance of at least 60 hours (72 for fire department employees) after converting. Employees are paid their unused vacation hours upon termination. Also, all employees may accumulate sick leave without limitation. At retirement, employees are not paid for unused sick leave, but unused sick leave time is credited to service time for retirement purposes. Any employee who ceases employment, other than due to retirement, forfeits all unused earned sick leave. The liability for compensated absences (unused vacation time) is recorded as long-term debt in the government-wide statements for government activities and for business-type activities. The current portion of the compensated absences is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources.

CITY OF CROSSVILLE, TENNESSEE

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2010

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

11. Bond Discounts, Premiums and Issuance Costs

Bond discounts and premiums are capitalized and amortized using the straight-line method over the term of the debt issues which does not differ significantly from the interest method. Also, debt issuance costs are capitalized and amortized using the straight-line method over the term of the debt issues.

12. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates in the near term and these variations can have a material effect on these financial statements.

B. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

1. Budgetary Control

The City's fiscal operating year is the twelve-month period beginning each July 1st. An annual operating budget is submitted to the Mayor and Council Members prior to the commencement of the related fiscal year, and a budget resolution for the year is subsequently adopted. The City Manager is authorized to transfer budget amounts between line items within each department, but any other revisions or amendments require Council Members approval. All annual appropriations not expended lapse at fiscal year-end. The budgetary appropriations constitute maximum expenditure authorizations during the fiscal year, and cannot legally be exceeded unless subsequently amended by the Mayor and Council Members.

2. Inter-fund Transactions

Inter-fund receivable and payable balances at June 30, 2010 consist of the following:

<u>Purpose</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Interfund loans	General	Water & Sewer	<u>\$ 2,085,494</u>

CITY OF CROSSVILLE, TENNESSEE

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2010

B. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – CONTINUED

2. Inter-fund Transactions - continued

Operating transfers by individual funds of the City for the fiscal year ended June 30, 2010 consist of the following:

<u>Purpose</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
<u>Transfers:</u>			
Solid waste collection costs	Solid Waste	General	\$ 334,344
Capital asset construction and acquisition costs	Capital Projects	General	786,078
			<u>\$ 1,120,422</u>

C. DEPOSITS AND INVESTMENTS

The City is authorized by state statute to invest idle funds in obligations of the U.S. Government and nonconvertible debt securities of the Federal Home Loan Bank, Federal National Mortgage Association, Federal Farm Credit Bank, and Federal Home Loan Mortgage Corporation and other obligations that are guaranteed as to principal and interest by the U.S. Government or any of its agencies, provided that such securities are rated in the highest category by at least two nationally recognized rating services. The City also may invest in certificates of deposit and other evidences of deposit at state and federal chartered banks and savings and loan associations if those deposits are insured or otherwise collateralized. The City also may invest in obligations of the U.S. Government or its agencies under a repurchase agreement, if the state director of local finance approves repurchase agreements as an authorized investment. Finally, the City also may invest in the local government investment pool established by title 9, chapter 4, part 7 of the *Tennessee Code Annotated*.

State statutes require the City’s investments to have a final maturity date not to exceed forty-eight months, unless the state director of local finance approves an investment maturity in excess of forty-eight months. The City has no formal investment policies that further restrict interest rate risk, credit risk or custodial risk beyond the requirements of state statutes. Also, the City has no formal policy to limit the amount the City may invest in any one issuer.

At June 30, 2010, the City’s only investment consists of the Tennessee Local Government Investment Pool (a cash equivalent), an unrated external investment pool that operates in a manner consistent with the Security and Exchange Commission’s Rule 2a7 of the Investment Company Act of 1940. Investments held by the Tennessee Local Government Investment Pool have a weighted average maturity of less than 90 days. The City’s investment in the Tennessee Local Government Investment Pool totals \$8,806,723 (at fair value) at June 30, 2010.

D. PROPERTY TAX

Property taxes include amounts levied against all real property and tangible personal property used in businesses located in the City. Property taxes are levied as of January 1 and become due and payable

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2010

D. PROPERTY TAX - CONTINUED

from August 1 through the end of November of each year. Taxes not paid by December 1 are considered delinquent. The lien for taxes levied each year attaches on the first day of January and continues until such taxes and any penalties, interest or other charges accruing thereon are paid. Assessed values are established by the State of Tennessee at the following rates of appraised value:

Real property:	
Public utility property	55%
Industrial and commercial property	40%
Residential property	25%
Farm property	25%
Personal property:	
Public utility property	55%
Business personal property	30%

A revaluation of all property is required to be completed every five years. The last revaluation was completed in 2007. The City's tax rate applicable to 2010 was \$0.55 on each \$100 of tax valuation.

E. NOTE RECEIVABLE

In November 2004, the City obtained a \$1,000,000 loan from the Tennessee Municipal League Bond Fund (see note H) for the benefit of the Cumberland County Emergency Communications District ("District"). These funds were used by the District to construct a facility to house a 911 Emergency Call Center, the Crossville and Cumberland County Central Communications Center, the 911 Addressing Office, the Crossville and Cumberland County Emergency Management Office and the Crossville and 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 maturing on May 25, 2024 at a variable interest rate (0.44% at June 30, 2010). The government-wide balance sheet includes the loan receivable from the District at June 30, 2010 and the obligation of the City to Tennessee Municipal League Bond Fund of \$771,000.

F. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City participates in the Tennessee Municipal League Risk Management Pool ("the Pool"). The Pool operates as a common risk-sharing pool by which governments pool risks and funds and share in the costs of losses. The City pays annual premiums to the Pool for its general liability insurance coverage, law enforcement liability, errors and omissions liability, auto liability, workers' compensation and property coverage. The City's workers' compensation coverage is retrospectively rated, whereby premiums are accrued based on the ultimate costs of the experience of the City. Claims arising are paid by the Pool. The Pool has the right to assess participants for loss experience in excess of premiums collected. The City's settled claims have not exceeded insurance coverage in any of the past three fiscal years.

CITY OF CROSSVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2010

G. CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for governmental activities for the year ended June 30, 2010 was as follows:

	Balance June 30, 2009	Additions and Transfers	Retirements	Balance June 30, 2010
<u>Governmental activities</u>				
Capital assets not being depreciated:				
Land	\$ 5,298,472	\$ 327,032	\$ -	\$ 5,625,504
Construction in progress	1,807,910	(230,961)	-	1,576,949
Subtotal	<u>7,106,382</u>	<u>96,071</u>	<u>-</u>	<u>7,202,453</u>
Other capital assets:				
Buildings and improvements	6,396,236	26,368	-	6,422,604
Machinery and equipment	6,240,658	314,816	(105,789)	6,449,685
Other improvements	9,895,866	1,484,406	-	11,380,272
Infrastructure assets	17,218,579	249,720	-	17,468,299
Subtotal	<u>39,751,339</u>	<u>2,075,310</u>	<u>(105,789)</u>	<u>41,720,860</u>
Total capital assets	46,857,721	2,171,381	(105,789)	48,923,313
Less accumulated depreciation:				
Buildings, machinery and equipment and other improvements	(8,475,075)	(945,511)	105,789	(9,314,797)
Infrastructure assets	(4,096,789)	(619,569)	-	(4,716,358)
Subtotal	<u>(12,571,864)</u>	<u>(1,565,080)</u>	<u>105,789</u>	<u>(14,031,155)</u>
Net capital assets	<u>\$ 34,285,857</u>	<u>\$ 606,301</u>	<u>\$ -</u>	<u>\$ 34,892,158</u>

Depreciation was charged to governmental activities as follows:

General government	\$ 150,198
Public safety	351,246
Public works	619,569
Cemetery	7,507
Airport	121,056
Sanitation	1,496
Parks and recreation	303,464
Planning and zoning	10,544
	<u>\$ 1,565,080</u>

CITY OF CROSSVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2010

G. CAPITAL ASSETS AND DEPRECIATION - CONTINUED

Capital asset activity for business-type activities for the year ended June 30, 2010 was as follows:

	Balance June 30, 2009	Additions and Transfers	Retirements	Balance June 30, 2010
<u>Business-type activities</u>				
Capital assets not being depreciated:				
Land	\$ 424,236	\$ -	\$ -	\$ 424,236
Construction in progress	3,189,069	4,546,434	-	7,735,503
Subtotal	3,613,305	4,546,434	-	8,159,739
Other capital assets:				
Water and sewer plant	71,982,481	5,171,268	-	77,153,749
Machinery and equipment	3,435,098	24,476	(5,098)	3,454,476
Subtotal	75,417,579	5,195,744	(5,098)	80,608,225
Total capital assets	79,030,884	9,742,178	(5,098)	88,767,964
Less accumulated depreciation:				
Water and sewer plant	(25,823,709)	(1,960,206)	(289,944)	(28,073,859)
Machinery and equipment	(2,856,768)	(166,168)	295,042	(2,727,894)
Subtotal	(28,680,477)	(2,126,374)	5,098	(30,801,753)
Net capital assets	<u>\$ 50,350,407</u>	<u>\$ 7,615,804</u>	<u>\$ -</u>	<u>\$ 57,966,211</u>

Depreciation expense related to capital assets used in business-type activities for 2010 totaled \$2,126,374.

CITY OF CROSSVILLE, TENNESSEE

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2010

H. LONG-TERM DEBT

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

The following table summarizes the City's governmental long-term debt at June 30, 2010:

Governmental Activities

Loan payable to the Public Building Authority of The City of Clarksville, Tennessee, dated November 17, 2004, maturing between May 25, 2005 and 2024 at a variable interest rate determined by the remarketing agent (0.44% at June 30, 2010), interest payable monthly, and principal payments ranging from \$22,000 to \$66,000 payable annually on May 25th of each year.	\$ 771,000
Accrued compensated absences	255,805
Other post employment benefit obligation	<u>63,777</u>
Total governmental activity debt	1,090,582
Less amounts due within one year	<u>(155,041)</u>
Long-term governmental activity debt	<u><u>\$ 935,541</u></u>

In November 2004, the City entered into a loan agreement with The Public Building Authority of The City of Clarksville, Tennessee. The note principal and related interest is a direct obligation of the City and is backed by the full faith and credit of the City. Also, the City pledges to levy and collect ad valorem taxes sufficient to pay the debt service obligations under this agreement.

CITY OF CROSSVILLE, TENNESSEE

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2010

H. LONG-TERM DEBT – CONTINUED

The following table summarizes the City’s business-type activity long-term debt at June 30, 2010:

Business-Type Activities

Loan payable to the Public Building Authority of The City of Crossville, Tennessee, Water System Refunding Bonds, Series 2005, maturing between July 1, 2005 and 2028 at fixed interest rates ranging from 3.85% to 5.00% payable semiannually on January 1 and July 1, and principal payments ranging from \$135,000 to \$350,000 are payable annually on July 1st of each year.	\$ 4,445,000
Note payable to State of Tennessee, Wastewater Facility Revolving Loan Fund, due in monthly installments of \$28,989, including interest at 1.77%, through September 2023.	4,105,865
Loan payable to the Public Building Authority of The City of Clarksville, Tennessee, Series 1997, maturing between May 25, 2001 and 2019 at a variable interest rate determined by the remarketing agent (0.50% at June 30, 2010) payable monthly and principal payments ranging from \$154,350 to \$371,450 are payable annually on May 25th of each year.	2,772,190
USDA Water and Sewer Revenue and Tax Bonds, Series 2003, due in monthly installments of \$11,518, including interest at 4.25%, through November 2028.	1,621,638
Note payable to State of Tennessee, Wastewater Facility Revolving Loan Fund, due in monthly installments of \$5,872, including interest at 1.47%, through May 2024.	886,264
Note payable to State of Tennessee, Wastewater Facility Revolving Loan Fund, due in monthly installments of \$14,224, including interest at 2.64%, through July 2014.	660,007
Note payable to State of Tennessee, Local Development Authority, due in monthly installments of \$9,991, plus variable interest (3.31% at June 30, 2009), through April 2015.	559,241
Note payable to State of Tennessee, Wastewater Facility Revolving Loan Fund, due in monthly installments of \$2,284, including interest at 1.47%, through August 2024.	350,294
Financing from the State Revolving Fund Loan Program up to a maximum amount of \$4,500,000 which includes \$2,250,000 of ARRA funds. At the conclusion of the project \$1,800,000 of the principal shall be forgiven by the State of Tennessee. Principal to be paid monthly over 20 years once the project is complete or 90% of the maximum amount has been disbursed, whichever occurs earlier. Interest is currently paid monthly at 2.80%.	293,899
Financing from the State Revolving Fund Loan Program up to a maximum amount of \$5,000,000 which includes \$2,500,000 of ARRA funds. At the conclusion of the project \$2,000,000 of the principal shall be forgiven by the State of Tennessee. Principal to be paid monthly over 20 years once the project is complete or 90% of the maximum amount has been disbursed, whichever occurs earlier. Interest is currently paid monthly at 2.83%.	282,577
Financing from the State Revolving Fund Loan Program up to a maximum amount of \$500,000. Principal to be paid monthly over 20 years once the project is complete or 90% of the maximum amount has been disbursed, whichever occurs earlier. Interest is currently paid monthly at 2.78%.	120,736
	<hr/> 16,097,711
Accrued compensated absences	78,204
Other post employment benefit obligation	33,107
Plus net premium on debt refunding	14,897
Less deferred loss on defeasance	(204,589)
Total business activity debt	<hr/> 16,019,330
Less amounts due within one year, net of current portion of net premium on debt refunding and deferred loss on defeasance	(986,482)
Long-term business-activity debt	<hr/> <hr/> \$ 15,032,848

CITY OF CROSSVILLE, TENNESSEE

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2010

H. LONG-TERM DEBT - CONTINUED

The City entered into a loan agreement with The Public Building Authority of The City of Crossville, Tennessee in connection with the Water System Refunding Bonds, Series 2005. As security for the payment of principal and interest on the bonds, the City has pledged the net revenues to be derived from the operation of the water system. In addition, the payment of principal and interest on the bonds is guaranteed by an insurance policy issued by MBIA Insurance Corporation. MBIA Insurance Corporation was rated BBB by Standard and Poor's and Ba3 by Moody's Investor Service at June 30, 2009 and was downgraded to BB+ by Standard and Poor's on September 28, 2009. In accordance with the loan agreement, the City is required to maintain a Bond and Interest Sinking Fund. Monthly cash transfers to the Bond and Interest Sinking Fund must be sufficient to pay the interest due on the next succeeding interest payment date and the principal due on the next succeeding principal payment date. This fund is restricted for specific purposes and has no balance at June 30, 2010 because the bond principal and interest payment is made at the end of the fiscal year. Finally, the loan agreement also requires the City to establish rates to its customers in order to maintain a debt service coverage ratio of not less than 1.20 to 1. The City is in compliance with this debt covenant at June 30, 2010.

The four notes payable to the State of Tennessee, Wastewater Facility Revolving Loan Fund, the two loans payable to the Public Building Authority of the City of Clarksville, Tennessee (Series 1997 and Series 1995), the USDA Series 2003 Bonds and the note payable to State of Tennessee Local Development Authority are direct obligations of the City, are backed by the full faith and credit of the City, and are secured by a lien upon and pledge of the net revenues of the water and sewer system. Also, the City pledges to levy and collect additional taxes, to the extent necessary, to meet the debt service obligations under these agreements. In addition, the City also pledges and assigns other additional available sources of revenues as necessary to secure the payment equal to the maximum annual debt service requirements.

In fiscal year ended June 30, 2007, the City issued refunding bonds (Series 2005) to defease certain outstanding bonds for the purpose of debt consolidation and to achieve debt service savings. The City has placed the proceeds from the refunding issue in an irrevocable escrow account with a trust agent to insure payment of all future debt service on the refunded bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the City's financial statements. Although defeased, the refunded debt will not actually be retired until the first call dates or until maturity if they are not callable issues. At June 30, 2010, \$4,610,000 of bonds outstanding is considered defeased.

CITY OF CROSSVILLE, TENNESSEE

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2010

H. LONG-TERM DEBT - CONTINUED

The annual debt service requirements to maturity, including principal and interest, for long-term debt (excluding accrued compensated absences and other post employment benefit obligation) as of June 30, 2010, are as follows:

Year Ending June 30,	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2011	\$ 45,000	\$ 3,392	\$ 48,392	\$ 963,355	\$ 403,350	\$ 1,366,705
2012	46,000	3,194	49,194	1,176,711	391,884	1,568,595
2013	48,000	2,992	50,992	1,209,351	365,768	1,575,119
2014	49,000	2,781	51,781	1,248,026	338,661	1,586,687
2015	51,000	2,565	53,565	1,084,356	312,436	1,396,792
2016 - 2020	278,000	9,332	287,332	5,108,833	1,220,577	6,329,410
2021 - 2025	254,000	2,829	256,829	3,583,000	623,566	4,206,566
2026 - 2030	-	-	-	1,680,725	122,969	1,803,694
2031	-	-	-	43,354	1,241	44,595
	<u>\$ 771,000</u>	<u>\$ 27,085</u>	<u>\$ 798,085</u>	<u>\$ 16,097,711</u>	<u>\$ 3,780,452</u>	<u>\$ 19,878,163</u>

I. CHANGES IN LONG-TERM LIABILITIES

Following is a summary of changes in governmental activity long-term debt for the year ended June 30, 2010:

	Balance June 30, 2009	Increases	Decreases	Balance June 30, 2010	Amounts Due Within One Year
Governmental Activities					
Loans payable to the Public Building Authority of The City of Clarksville, TN	\$ 815,000	\$ -	\$ (44,000)	\$ 771,000	\$ 45,000
Plus other post employment benefit obligation	33,839	53,635	(23,697)	63,777	-
Plus accrued compensated absences	275,791	109,270	(129,256)	255,805	110,041
	<u>\$ 1,124,630</u>	<u>\$ 162,905</u>	<u>\$ (196,953)</u>	<u>\$ 1,090,582</u>	<u>\$ 155,041</u>

The general fund has been used in prior years to liquidate long-term liabilities.



CITY OF CROSSVILLE, TENNESSEE

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2010

I. CHANGES IN LONG-TERM LIABILITIES - CONTINUED

Following is a summary of changes in business-type activity long-term debt for the year ended June 30, 2010:

	Balance June 30, 2009	Increases	Decreases	Balance June 30, 2010	Amounts Due Within One Year
Business-Type Activities					
Loan payable to the Public Building Authority of The City of Crossville, TN	\$ 4,610,000	\$ -	\$ (165,000)	\$ 4,445,000	\$ -
Notes payable to the State of Wastewater Facility Facility Revolving Loan Fund	6,505,170	-	(502,740)	6,002,430	512,795
Loans payable to the Public Building Authority of The City of Clarksville, TN	3,062,230	-	(290,040)	2,772,190	251,410
USDA Water and Sewer Revenue and Tax Bonds, Series 2003	1,824,402	-	(202,764)	1,621,638	70,663
Notes payable to the State of Tennessee, Local Development Authority	692,906	-	(133,665)	559,241	119,892
Notes payable to the State of Wastewater Facility Facility Revolving Loan Fund	-	293,899	-	293,899	3,628
Notes payable to the State of Wastewater Facility Facility Revolving Loan Fund	-	282,577	-	282,577	3,460
Notes payable to the State of Wastewater Facility Facility Revolving Loan Fund	-	120,736	-	120,736	1,507
	<u>16,694,708</u>	<u>697,212</u>	<u>(1,294,209)</u>	<u>16,097,711</u>	<u>963,355</u>
Plus net premium on debt refunding	15,721	-	(824)	14,897	824
Less deferred loss on defeasance	(215,902)	-	11,313	(204,589)	(11,313)
Plus other post employment benefit obligation	9,231	23,876	-	33,107	-
Plus accrued compensated absences	88,106	33,380	(43,282)	78,204	33,616
	<u>\$ 16,591,864</u>	<u>\$ 754,468</u>	<u>\$ (1,327,002)</u>	<u>\$ 16,019,330</u>	<u>\$ 986,482</u>

CITY OF CROSSVILLE, TENNESSEE

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2010

J. OPERATING LEASES

The City has entered into an operating lease for office space expiring in 2013. Rent expense in connection with this operating lease totaled \$11,934 for 2010. The minimum future rental payments under the terms of the operating lease as of June 30, 2010 are:

<u>Year Ending June 30,</u>	<u>Amount</u>
2011	\$ 24,120
2012	24,120
2013	12,456
	<u>\$ 60,696</u>

K. DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary to future years subject to maximum deferral limitations provided in the plan. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The plan assets are held in trust for the exclusive benefit of participating employees under the Small Business Job Protection Act of 1996. Also, the City has little administrative involvement and does not perform the investing function for the plan. As a result, the assets and liabilities associated with the plan are excluded from the City's balance sheets. The City does not contribute to the plan.

L. PENSION PLAN

Plan Description

Employees of the City 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 became disabled and cannot engage in gainful employment. There is no service requirement for disability that is a result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statutes 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 City of Crossville, Tennessee 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.

CITY OF CROSSVILLE, TENNESSEE

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2010

L. PENSION PLAN - CONTINUED

Plan Description – Continued

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

Funding Policy

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

The City is required to contribute at an actuarially determined rate; the rate for the fiscal year ended June 30, 2010 was 14.41% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the City is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ended June 30, 2010, the City’s annual pension cost of \$825,746 to TCRS was equal to the City’s required and actual contributions. The required contribution was determined as part of the July 1, 2007 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of seven and one-half percent per year compounded annually, (b) projected salary increases of four and three-fourths percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected three and one-half percent annual increase in the Social Security wage base, and (d) projected post retirement increases of three percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. The City’s unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2007 was eight years. An actuarial valuation was performed as of July 1, 2009, which established contribution rates effective July 1, 2010.

Trend Information

Year Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2010	\$ 825,746	100.0%	\$ -
2009	803,119	100.0%	-
2008	807,351	100.0%	-

CITY OF CROSSVILLE, TENNESSEE

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2010

L. PENSION PLAN - CONTINUED

Funded Status and Funding Progress

As of July 1, 2009, the most recent actuarial valuation date, the plan was 82.16% percent funded. The actuarial accrued liability for benefits was \$15,711,000, and the actuarial value of assets was \$12,908,000, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,803,000. The covered payroll (annual payroll of active employees covered by the plan) was \$5,933,000, and the ratio of the UAAL to the covered payroll was 47.24%.

The schedule of funding progress presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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

The following is a schedule of funding progress for the City:

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2009	\$ 12,908,000	\$ 15,711,000	\$ 2,803,000	82.16%	\$ 5,933,000	47.24%
July 1, 2007	11,637,000	13,566,000	1,929,000	85.78%	5,294,000	36.44%

The Governmental Accounting Standards Board (GASB) requires the plan to prepare the schedule of funding progress using the entry age actuarial cost method. The requirement to present the schedule of funding progress using the entry age actuarial cost method went into effect during the year of the 2007 actuarial valuation, therefore, only the two most recent valuations are presented.

M. OTHER POSTEMPLOYMENT BENEFITS

During the year ended June 30, 2009, the City implemented the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The provisions of this Statement were applied prospectively with respect to the City's postemployment benefits other than pensions (OPEB). This statement requires the accrual of OPEB obligations over the working careers of plan members rather than as expenses for medical coverage are paid, which was the method of accounting prior to 2009.

CITY OF CROSSVILLE, TENNESSEE

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2010

M. OTHER POSTEMPLOYMENT BENEFITS - Continued

Plan Description - The City provides post-employment medical coverage to all employees and their families until they are eligible for Medicare benefits who retire with at least 30 years of service and are not less than age 55 or with at least 20 years of service and are not less than age 60. Any cost related to family coverage to the retiree is deducted from their retirement check. At July 1, 2007, the date of the last actuarial valuation, the plan had 130 participants not eligible for benefits, 6 participants eligible for benefits and 2 retirees receiving benefits. The Plan does not issue a financial report that includes financial statements and required supplementary information.

Funding Policy - The City currently pays for postemployment medical benefits on a pay-as-you-go basis. During 2010, the City paid \$23,697 for postemployment medical benefits for seven retirees. During 2009, the City paid \$18,252 for postemployment medical benefits for four retirees.

Annual OPEB Cost and Net OPEB Obligation - The City's annual other postemployment benefits ("OPEB") cost ("expense") is calculated based on the annual required contribution ("ARC") of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) of each individual included in the actuarial valuation, over the average remaining working lives of the employees. The following table presents the components of the City's annual OPEB cost, the amounts contributed to the plan, and changes in the City's net OPEB obligation for 2010:

	Governmental Activities	Business Activities	Total
Annual required contribution (ARC)	\$ 53,635	\$ 23,876	\$ 77,511
Interest on net OPEB obligation	-	-	-
Adjustment to annual required contribution	-	-	-
Annual OPEB expense	53,635	23,876	77,511
Contributions made	(23,697)	-	(23,697)
Increase in net OPEB obligation	29,938	23,876	53,814
Net OPEB obligation - beginning of year	33,839	9,231	43,070
Net OPEB obligation - end of year	\$ 63,777	\$ 33,107	\$ 96,884

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010 and 2009 are as follows:

Fiscal Year Ended June 30,	Annual OPEB Cost	Annual Employer Contribution	% of Annual OPEB Cost Contributed	Net Ending OPEB Obligation / (Asset)
2010	\$ 77,511	\$ 23,697	30.6%	\$ 53,814
2009	\$ 61,322	\$ 18,252	29.8%	\$ 43,070

CITY OF CROSSVILLE, TENNESSEE

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2010

M. OTHER POSTEMPLOYMENT BENEFITS - Continued

Funded Status and Funding Progress – As of July 1, 2007, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$679,970, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$5,294,000 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 12.8 percent.

The projection of future benefits payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and as new estimates are made about the future. The schedule of funding progress, presented below, presents trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liabilities for benefits. Since the City implemented GASB Statement No. 45 in 2009 (prospectively), only one year is presented.

Actuarial Methods and Assumptions - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2007 actuarial valuation, the projected unit credit method was used. Active plan members were assumed to retire between age 55 and 65. Group annuity mortality tables were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid. The actuarial assumptions included a 3.0 percent investment rate of return (net of administrative expenses), based on the City's expected returns, and an annual healthcare cost trend rate of 8.5 percent reduced each year by 0.5 percent until 3.5 percent is reached. The rate of inflation (assumed rate of increase in payroll) was assumed at 3.0 percent. The unfunded actuarial accrued liability (UAAL) is being amortized over thirty years. The remaining amortization period as of the July 1, 2007 actuarial valuation is thirty years.

Schedule of Funding Progress for the OPEB Plan:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
July 1, 2007	\$ -	\$ 679,970	\$ 679,970	0.0%	\$ 5,294,000	12.8%

CITY OF CROSSVILLE, TENNESSEE

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2010

N. DEFICIT FUND BALANCE

At June 30, 2010, the Capital Projects Fund has a deficit fund balance in the amount of \$52,804. The City plans to fund the deficit with assets from the General Fund.

O. WATER SALES AGREEMENTS

In May 2007, the City entered into a water sales agreement with Fall Creek Falls Utility District ("FCFUD") as purchaser, and South Cumberland Utility District ("SCUD") as transporter. The term of the contract is for twenty-five years beginning from the date the transporter of the water begins delivering water to the purchaser. The contract stipulates that the City will sell potable treated water up to 10,000,000 gallons per month to FCFUD. The initial contract price of the water is \$2.77 for each 1,000 gallons which is subject to rate adjustment annually on January 1st. During the year ended June 30, 2010 no water was sold by the City to FCFUD under the terms of this contract.

In November 2006, the City entered into a water services contract with SCUD to provide all SCUD's potable water needs so long as SCUD's demands do not exceed the City's capacity to furnish potable water to all City's customers. The contract became effective January 1, 2007 and terminates on December 31, 2017, unless extended by mutual agreement by both parties. The initial contract price of the water is \$2.67 for each 1,000 gallons which is subject to rate adjustment annually on January 1st. The parties have agreed that any rate increase to SCUD will be the same percentage rate increase as established by the City for inside of City customers and shall become effective at the same time as the rate increase to the City's inside of City customers. During the year ended June 30, 2010, the City sold 200,454,000 gallons (19.6% of total gallons sold) totaling \$541,805 (11.9% of total water revenues) under the terms of this contract. Additionally, SCUD owes the City \$47,779 at June 30, 2010.

P. RELATED ORGANIZATIONS

The Mayor and City Council are responsible for appointing the board members of the Crossville Housing Authority and the Public Building Authority of City of Crossville, Tennessee. The City's accountability for these organizations does not extend beyond making the appointments.

Q. RELATED PARTY TRANSACTION

The City of Crossville leases a building from two City employees who together own a 50% interest in the building. The lease is for a one year term expiring September 30, 2010 and requires the City to pay \$1,000 per month.

R. COMMITMENTS AND CONTINGENCIES

At June 30, 2010, the City is committed on future capital expenditures of approximately \$8,271,000. Also, the City has been approved for various capital grants totaling approximately \$4,672,000. Of the \$4,672,000 of capital grants, \$3,532,000 represents federal grants and \$1,140,000 represents state grants. In connection with these grants the City has committed to spend \$6,005,000 of its own funds. These

CITY OF CROSSVILLE, TENNESSEE

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2010

R. COMMITMENTS AND CONTINGENCIES - CONTINUED

grants are for the construction costs of a building a fire station, transportation upgrades, and water and sewer system upgrades.

The City also has been approved for a \$1,284,000 loan from the U.S. Department of Agriculture, Rural Development that is payable monthly over 38 years at an annual interest rate of 3.625% and an \$800,000 grant in connection with the estimated construction costs of \$5,300,000 for the Cumberland Cove water line extensions to provide water service to Cumberland Cove property owners. Additionally, the Cumberland Cove Property Owners Association (“Association”) entered into a contract with the City in April 2008 that requires the Association to pay the City an infrastructure development fee of \$3,000,000 to be paid in annual payments of \$1,000,000 with the first payment due on the date of the commencement of the work. The contract also requires the Association to pay various tap fees that are estimated to be approximately \$216,000. The City also has obtained a \$1,300,000 letter of credit from the Association that the City may draw upon if the Association is 30 days or more past due. As of June 30, 2010, \$1,698,002 of costs has been incurred related to this project. In addition the City received one installment payment (which is included in capital contributions for the year ending June 30, 2010) of \$1,000,000 from the Association.

The City has entered into a contract in lieu of a performance bond with the State of Tennessee, Department of Environment and Conservation for proper operation and closure or post closure of the Crossville Sanitary Landfill. The contract includes a provision allowing the Commissioner of the Department of Environment and Conversation to collect up to \$824,343 from the City from any funds being disbursed from the State of Tennessee to the City as financial assurance for proper operation, closure and post-closure of the Crossville Sanitary Landfill.

S. PRIOR PERIOD ADJUSTMENT

The following discloses the restatement of the net assets of the Water and Sewer Fund as of the beginning of the year due to an error discovered in the current year:

	<u>Water and Sewer Fund</u>
<u>Business-Type Activities</u>	
Net assets, beginning of year, as previously reported	\$ 39,107,900
Increase due to failure to record capital contributions receivable	218,051
Net assets, beginning of year, as restated	<u>\$ 39,325,951</u>

The restatement increased the previously reported change in net assets of the Water and Sewer fund for the year ended June 30, 2009 by \$218,051.

T. SUBSEQUENT EVENTS

In October 2010, the City entered into a loan agreement with The Public Building Authority of The City of Clarksville, Tennessee not to exceed \$6,000,000 to finance the cost of repairs, extensions and

CITY OF CROSSVILLE, TENNESSEE

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2010

T. SUBSEQUENT EVENTS – CONTINUED

improvements to the water and sewer system. The loan will bear interest at a variable rate based on the Securities Industry and Financial Markets Association (SIFMA) rate, and the maturity date shall not exceed twenty years. As security for the payment of principal and interest on the loan, the City has irrevocably pledged the full faith and credit of the City.

In October 2010, the City became a defendant in a lawsuit filed in the Circuit Court for Cumberland County, Tennessee by approximately 200 property owners in the Lake Tansi area of Cumberland County, Tennessee. The plaintiffs petition the court for inverse condemnation requesting that each plaintiff be awarded in excess of \$100,000, the specific amount to be proven at trial, for the City's taking of their property rights and damages relating to decrease in their property values. The plaintiffs are also seeking \$100,000 for punitive damages and attorney fees and other costs incurred in prosecuting this action. The suit relates to the City's use of Lake Tansi to supply water to the City's Water Department customers. The damages claimed in the lawsuit are monetary damages and do not seek to stop construction of any projects. Presently, the City does not concede any of the allegations in the suit or believe that they are meritorious. City management does not believe any potential losses related to this suit are covered under the City insurance policies. No amounts are included in the financial statements related to this lawsuit.

U. NEW ACCOUNTING PRONOUNCEMENT

The Governmental Accounting Standards Board issued Statement No. 54 (GASBS No. 54) *Fund Balance Reporting and Governmental Fund Type Definitions* in March 2009. GASBS No. 54 enhances the usefulness of fund balance information presented in the governmental funds by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. Fund balance in the governmental funds will be classified as follows:

1. Nonspendable – amounts that cannot be spent because they are either (1) not in spendable form (such as inventories, prepaids, etc...) or (2) legally or contractually required to be maintained intact (such as corpus or principal of a permanent fund).
2. Restricted - amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
3. Committed - amounts that can be used only for the specific purposes determined by a formal action (e.g. ordinance or resolution) of the government's highest level of decision-making authority.
4. Assigned – amounts intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed.
5. Unassigned – represents the residual classification for the government's general fund and includes all amounts not contained in the other classifications. For funds other than the general fund, this category includes a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

Governments are required to disclose information about the processes through which constraints are imposed on amounts in the committed and assigned classifications.



CITY OF CROSSVILLE, TENNESSEE

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2010

U. NEW ACCOUNTING PRONOUNCEMENT – CONTINUED

The City is required to implement GASBS No. 54 no later than during its fiscal year ending June 30, 2011 with earlier implementation encouraged. Upon implementation of GASB 54, all fund balances presented for prior years (e.g. June 30, 2010) must be restated to conform to GASBS 54. The City has elected not to implement GASBS No. 54 for the fiscal year ended June 30, 2010.

**COMBINING AND INDIVIDUAL
NONMAJOR FUND STATEMENTS
AND SCHEDULES**

CITY OF CROSSVILLE, TENNESSEE
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
 YEAR ENDED JUNE 30, 2010

GRANTOR	CFDA NO.	PASS THROUGH ENTITY	STATE CONTRACT NO.	FEDERAL / STATE	BEGINNING ACCRUED BALANCE	CASH RECEIPTS	EXPENDITURES	ENDING ACCRUED BALANCE
U.S. Environmental Protection Agency:								
<u>Pass-through programs:</u>								
Capitalization Loans for Clean Water State Revolving Funds	66.458	State of Tennessee, Department of Environment, and Conservation	CWA 09-225	Federal	\$ -	\$ 204,097	\$ 435,932	\$ 231,835
American Recovery and Reinvestment Act Capitalization Loans for Clean Water State Revolving Funds	66.458	State of Tennessee, Department of Environment, and Conservation	CWA 09-225	Federal	-	48,983	104,624	55,641
American Recovery and Reinvestment Act Capitalization Grants for Clean Water State Revolving Funds	66.458	State of Tennessee, Department of Environment, and Conservation	CWA 09-225	Federal	-	195,933	418,495	222,562
Capitalization Loans for Clean Water State Revolving Funds	66.458	State of Tennessee, Department of Environment, and Conservation	SRF 10-261	Federal	-	100,613	155,081	54,468
Capitalization Loans for Drinking Water State Revolving Funds	66.468	State of Tennessee, Department of Environment, and Conservation	DWA 09-087	Federal	-	196,226	711,787	515,561
American Recovery and Reinvestment Act Capitalization Loans for Drinking Water State Revolving Funds	66.468	State of Tennessee, Department of Environment, and Conservation	DWA 09-087	Federal	-	47,096	170,831	123,735
American Recovery and Reinvestment Act Capitalization Grants for Drinking Water State Revolving Funds	66.468	State of Tennessee, Department of Environment, and Conservation	DWA 09-087	Federal	-	188,385	683,325	494,940
Total U.S. Environmental Protection Agency					-	981,333	2,680,075	1,698,742
U.S. Housing and Urban Development Agency:								
<u>Pass-through programs:</u>								
American Recovery and Reinvestment Act Community Block Development Grants/ State's Program	14.255	State of Tennessee, Department of Economic and Community Development	GG-10-29409-00	Federal	-	127,134	154,577	27,443
Total U.S. Housing and Urban Development Agency					-	127,134	154,577	27,443
U.S. Department of Commerce:								
<u>Direct programs:</u>								
American Recovery and Reinvestment Act Investments for Public Works and Economic Development Facilities	11.3	N/A	04-01-06064	Federal	-	-	308,223	308,223
Total U.S. Department of Commerce					-	-	308,223	308,223

See independent auditor's report.



CITY OF CROSSVILLE, TENNESSEE
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE - CONTINUED
 YEAR ENDED JUNE 30, 2010

GRANTOR	CFDA NO.	PASS THROUGH ENTITY	STATE CONTRACT NO.	FEDERAL / STATE	BEGINNING ACCRUED BALANCE	CASH RECEIPTS	EXPENDITURES	ENDING ACCRUED BALANCE
U.S. Department of Justice:								
<u>Direct programs:</u>								
Recovery Act JAG Program	16.607	N/A	N/A	Federal	\$ -	\$ 41,329	\$ 41,329	\$ -
Total U.S. Department of Justice					-	41,329	41,329	-
U.S. Department of Transportation:								
<u>Pass-through programs:</u>								
Airport Improvement Program	20.106	State of Tennessee, Department of Transportation, Aeronautics Division	Z-08200754-00	Federal	20,824	99,627	78,803	-
Highway Planning and Construction	20.205	State of Tennessee, Department of Transportation	50135	Federal	166,044	257,949	91,905	-
Alcohol Open Container Requirements	20.607	State of Tennessee, Department of Transportation	Z-09-214306-00	Federal	2,145	17,452	19,195	3,888
State and Community Highway Safety	20.600 /	State of Tennessee, Department of Transportation						
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	State of Tennessee, Department of Transportation	Z-09-214592-00	Federal	6,751	6,751	-	-
State and Community Highway Safety	20.600 /	State of Tennessee, Department of Transportation						
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	State of Tennessee, Department of Transportation	154AL-09-24	Federal	-	7,119	7,119	-
State and Community Highway Safety	20.600 /	State of Tennessee, Department of Transportation						
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	State of Tennessee, Department of Transportation	Z-09-214305-00	Federal	-	3,561	5,025	1,464
Alcohol Open Container Requirements	20.607	State of Tennessee, Department of Transportation	DG-10-28726-00	Federal	-	7,378	7,378	-
Total U.S. Department of Transportation					195,764	399,837	209,425	5,352
Total Federal Awards					\$ 195,764	\$ 1,549,633	\$ 3,393,629	\$ 2,039,760

See independent auditor's report.



CITY OF CROSSVILLE, TENNESSEE
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
 YEAR ENDED JUNE 30, 2010

GRANTOR	CFDA NO.	PASS THROUGH ENTITY	STATE CONTRACT NO.	FEDERAL / STATE	BEGINNING ACCRUED BALANCE	CASH RECEIPTS	EXPENDITURES	ENDING ACCRUED BALANCE
State of Tennessee, Dept of Environment and Conservation	N/A	N/A	CWA 09-225	State	\$ -	\$ 40,819	\$ 87,187	\$ 46,368
State of Tennessee, Dept of Environment and Conservation	N/A	N/A	SRF 10-261	State	-	20,123	31,016	10,893
State of Tennessee, Dept of Environment and Conservation	N/A	N/A	DWA 09-087	State	-	39,255	142,369	103,114
State of Tennessee, Department of Transportation, Aeronautics Division	N/A	N/A	Z-09-21-3980-00	State	5,910	57,575	51,665	-
State of Tennessee, Department of Transportation, Aeronautics Division	N/A	N/A	Z-09-213943-00	State	50,535	67,380	16,845	-
State of Tennessee, Department of Transportation, Aeronautics Division	N/A	N/A	Z-09-21-3371	State	14,792	14,792	-	-
State of Tennessee, Department of Transportation, Aeronautics Division	N/A	N/A	Z-09-21-4029-00	State	-	68,139	68,139	-
State of Tennessee, Department of Transportation, Aeronautics Division	N/A	N/A	Z-09-21-3933-00	State	-	10,886	10,886	-
State of Tennessee, Department of Transportation, Aeronautics Division	N/A	N/A	Z-09-21-4036-00	State	-	-	552	552
State of Tennessee, Department of Transportation, Aeronautics Division	N/A	N/A	DG-10-28727-00	State	-	14,346	23,400	9,054
State of Tennessee, Department of Economic and Community Development	N/A	N/A	Z-09-217117-00	State	1,387	1,387	-	-
State of Tennessee, Department of Finance and Administration	N/A	N/A	BC-7782	State	391,493	572,649	226,730	45,574
Total State Awards					\$ 464,117	\$ 907,351	\$ 658,789	\$ 215,555
Total Federal and State Awards					\$ 659,881	\$ 2,456,984	\$ 4,052,418	\$ 2,255,315

Note 1: The outstanding balance on the loan obtained in previous years through the Tennessee State Revolving Loan Fund (SRLF) totaled \$660,007 at June 30, 2010. Additionally, the City has an outstanding loan balance on a United States Development Agency (USDA) loan obtained in previous years which totals \$1,621,638 at June 30, 2010. The SRLF loans were 80% federally funded and the USDA loan was 100% federally funded. Principal payments made on the SRF loan during the current year totaled \$151,092 and principal payments made on the USDA loan during the current year totaled \$202,764.

Note 2: The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance summarizes the expenditures of City of Crossville, Tennessee under programs of federal and state governments for the fiscal year ended June 30, 2010. The schedule is presented using the modified accrual basis of accounting.

See independent auditor's report.



CITY OF CROSSVILLE, TENNESSEE

SCHEDULE OF REVENUES

GENERAL FUND

YEAR ENDED JUNE 30, 2010

REVENUES

Taxes	
Property taxes	\$ 1,948,347
Special tax assessments	15,675
Intergovernmental revenues	
Business taxes	531,179
Local sales tax	6,482,870
Payments in lieu of taxes	187,076
State sales and income tax	774,027
Wholesale, state beer and liquor tax	941,793
Other taxes	69,391
Federal and state grants	
Federal grants	187,775
State grants	255,678
Charges for services	
Airport charges	76,015
Cemetery charges	31,600
Driver safety school charges	29,290
Park facility and concession charges	165,136
Licenses and permits	
Beer and liquor license fees	19,554
Building permits	48,657
Franchise fees	108,756
Other permits	11,567
Fines and forfeitures	
Court fines and costs	115,796
Other fines and costs	8,129
Drug related fines and forfeitures	6,259
Interest revenue	30,699
Miscellaneous	
Insurance recoveries	36,682
Sale of property and equipment	1,994
Other revenues	188,031
	<u>\$ 12,271,976</u>

See independent auditor's report.

CITY OF CROSSVILLE, TENNESSEE

SCHEDULE OF EXPENDITURES

GENERAL FUND

YEAR ENDED JUNE 30, 2010

EXPENDITURES

General government	
Payroll and payroll taxes	\$ 1,378,031
Employee benefits	422,370
Supplies	151,995
Utilities	72,694
Repairs and maintenance	55,906
Other operating expenses	510,496
Capital outlay	110,162
City court	
Payroll and payroll taxes	14,400
Supplies	947
Other operating expenses	747
Airport	
Supplies	2,148
Utilities	23,488
Repairs and maintenance	25,932
Other operating expenses	119,773
Capital outlay	420,246
Cemetery	
Payroll and payroll taxes	30,108
Employee benefits	11,304
Supplies	3,667
Utilities	1,532
Repairs and maintenance	3,029
Capital outlay	65,579
Parks and recreation	
Payroll and payroll taxes	427,771
Employee benefits	101,585
Supplies	165,077
Utilities	181,162
Repairs and maintenance	92,013
Other operating expenses	63,779
Capital outlay	101,877

See independent auditor's report.

CITY OF CROSSVILLE, TENNESSEE

SCHEDULE OF EXPENDITURES - CONTINUED

GENERAL FUND

YEAR ENDED JUNE 30, 2010

EXPENDITURES - CONTINUED

Planning and zoning	
Payroll and payroll taxes	128,518
Employee benefits	43,899
Supplies	10,485
Utilities	4,901
Repairs and maintenance	3,512
Other operating expenses	40,141
Public Safety	
Payroll and payroll taxes	2,919,243
Employee benefits	863,940
Supplies	371,571
Utilities	49,669
Repairs and maintenance	130,121
Other operating expenses	640,145
Capital outlay	468,175
Streets	
Payroll and payroll taxes	483,579
Employee benefits	186,100
Supplies	730,610
Utilities	30,888
Repairs and maintenance	109,364
Other operating expenses	23,645
Tourism development	
Payroll and payroll taxes	48,074
Employee benefits	13,724
Supplies	1,565
Utilities	600
Other operating expenses	75,634
Debt service	
Principal	44,000
Interest	3,108
	\$ 11,983,029

See independent auditor's report.



CITY OF CROSSVILLE, TENNESSEE

COMBINING BALANCE SHEET

NON-MAJOR GOVERNMENTAL FUNDS

JUNE 30, 2010

	Capital Projects Fund	Drug Fund	Industrial Development Fund	Solid Waste Fund	State Street Aid Fund	Total Nonmajor Government Funds
ASSETS						
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net receivables	-	-	-	-	50,917	50,917
Materials and supplies	-	-	-	4,408	-	4,408
Restricted cash and cash equivalents	43,218	111,148	552,940	-	108,457	815,763
Total assets	<u>\$ 43,218</u>	<u>\$ 111,148</u>	<u>\$ 552,940</u>	<u>\$ 4,408</u>	<u>\$ 159,374</u>	<u>\$ 871,088</u>
LIABILITIES						
Accounts payable	\$ 96,022	\$ -	\$ -	\$ -	\$ 2,300	\$ 98,322
Total liabilities	<u>96,022</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,300</u>	<u>98,322</u>
FUND BALANCES						
Reserved	-	111,148	552,940	-	157,074	821,162
Unreserved	(52,804)	-	-	4,408	-	(48,396)
Total fund balances	<u>(52,804)</u>	<u>111,148</u>	<u>552,940</u>	<u>4,408</u>	<u>157,074</u>	<u>772,766</u>
Total liabilities an fund balances	<u>\$ 43,218</u>	<u>\$ 111,148</u>	<u>\$ 552,940</u>	<u>\$ 4,408</u>	<u>\$ 159,374</u>	<u>\$ 871,088</u>

See independent auditor's report.

CITY OF CROSSVILLE, TENNESSEE

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES

NON-MAJOR GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2010

	Capital Projects Fund	Drug Fund	Industrial Development Fund	Solid Waste Fund	State Street Aid Fund	Total Nonmajor Government Funds
REVENUES						
Intergovernmental revenues						
State gasoline and motor fuel tax	\$ -	\$ -	\$ -	\$ -	\$ 277,106	\$ 277,106
Fines and forfeitures						
Drug related fines and forfeitures	-	21,913	-	-	-	21,913
Interest revenue	307	358	1,961	-	257	2,883
Miscellaneous						
Donations and contributions	-	12,067	-	-	-	12,067
Sale of property and equipment	-	3,505	-	103	-	3,608
Total revenues	307	37,843	1,961	103	277,363	317,577
EXPENDITURES						
Current operations:						
Public safety						
Supplies	-	450	-	-	-	450
Other operating expenses	-	42,002	-	-	-	42,002
Sanitation						
Repairs and maintenance	-	-	-	853	-	853
Other operating expenses	-	-	-	336,706	-	336,706
Streets						
Supplies	-	-	-	-	-	-
Street lighting	-	-	-	-	226,338	226,338
Capital outlay	826,084	6,375	-	-	-	832,459
Total expenditures	826,084	48,827	-	337,559	226,338	1,438,808
REVENUES OVER (UNDER)						
EXPENDITURES	(825,777)	(10,984)	1,961	(337,456)	51,025	(1,121,231)
OTHER FINANCING SOURCES (USES) -						
Transfer from other funds	786,078	-	-	334,344	-	1,120,422
NET CHANGE IN FUND BALANCE	(39,699)	(10,984)	1,961	(3,112)	51,025	(809)
FUND BALANCE, June 30, 2009	(13,105)	122,132	550,979	7,520	106,049	773,575
FUND BALANCE, June 30, 2010	<u>\$ (52,804)</u>	<u>\$ 111,148</u>	<u>\$ 552,940</u>	<u>\$ 4,408</u>	<u>\$ 157,074</u>	<u>\$ 772,766</u>

See independent auditor's report.

CITY OF CROSSVILLE, TENNESSEE
BUDGETARY COMPARISON SCHEDULE
CAPITAL PROJECTS FUND

YEAR ENDED JUNE 30, 2010

	Original Budget	Final Budget	Actual Amounts
REVENUES			
Interest revenue	\$ -	\$ -	\$ 307
EXPENDITURES			
Capital outlay	-	-	826,084
Total expenditures	-	-	826,084
REVENUES OVER (UNDER) EXPENDITURES	-	-	(825,777)
OTHER FINANCING SOURCES (USES) -			
Transfer from other funds	1,196,340	1,196,340	786,078
NET CHANGE IN FUND BALANCE	1,196,340	1,196,340	(39,699)
FUND DEFICIT, June 30, 2009	(13,105)	(13,105)	(13,105)
FUND BALANCE (DEFICIT), June 30, 2010	\$ 1,183,235	\$ 1,183,235	\$ (52,804)

See independent auditor's report.

CITY OF CROSSVILLE, TENNESSEE
BUDGETARY COMPARISON SCHEDULE
DRUG FUND

YEAR ENDED JUNE 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>
REVENUES			
Fines and forfeitures	\$ 15,000	\$ 15,000	\$ 21,913
Interest revenue	1,500	1,500	358
Miscellaneous	10,000	10,000	15,572
Total revenues	<u>26,500</u>	<u>26,500</u>	<u>37,843</u>
EXPENDITURES			
Public safety	43,860	43,860	42,452
Capital outlay	20,640	20,640	6,375
Total expenditures	<u>64,500</u>	<u>64,500</u>	<u>48,827</u>
REVENUES OVER (UNDER) EXPENDITURES AND NET CHANGE IN FUND BALANCE			
	(38,000)	(38,000)	(10,984)
FUND BALANCE, June 30, 2009			
	<u>122,132</u>	<u>122,132</u>	<u>122,132</u>
FUND BALANCE, June 30, 2010			
	<u>\$ 84,132</u>	<u>\$ 84,132</u>	<u>\$ 111,148</u>

See independent auditor's report.

CITY OF CROSSVILLE, TENNESSEE
 BUDGETARY COMPARISON SCHEDULE
 INDUSTRIAL DEVELOPMENT FUND

YEAR ENDED JUNE 30, 2010

	Original Budget	Final Budget	Actual Amounts
REVENUES			
Interest revenue	\$ 10,000	\$ 10,000	\$ 1,961
EXPENDITURES			
Industrial development	-	-	-
REVENUES OVER (UNDER) EXPENDITURES AND NET CHANGE IN FUND BALANCE	10,000	10,000	1,961
FUND BALANCE, June 30, 2009	550,979	550,979	550,979
FUND BALANCE, June 30, 2010	\$ 560,979	\$ 560,979	\$ 552,940

See independent auditor's report.

CITY OF CROSSVILLE, TENNESSEE
 BUDGETARY COMPARISON SCHEDULE
 SOLID WASTE FUND

YEAR ENDED JUNE 30, 2010

	Original Budget	Final Budget	Actual Amounts
REVENUES			
Miscellaneous	\$ 150	\$ 150	\$ 103
EXPENDITURES			
Sanitation	385,600	385,600	337,559
Total expenditures	385,600	385,600	337,559
REVENUES OVER (UNDER) EXPENDITURES	(385,450)	(385,450)	(337,456)
OTHER FINANCING SOURCES (USES) -			
Transfer from other funds	385,450	385,450	334,344
NET CHANGE IN FUND BALANCE	-	-	(3,112)
FUND BALANCE, June 30, 2009	7,520	7,520	7,520
FUND BALANCE, June 30, 2010	\$ 7,520	\$ 7,520	\$ 4,408

See independent auditor's report.

CITY OF CROSSVILLE, TENNESSEE
BUDGETARY COMPARISON SCHEDULE
STATE STREET AID FUND

YEAR ENDED JUNE 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>
REVENUES			
Intergovernmental revenues	\$ 275,000	\$ 275,000	\$ 277,106
Interest revenue	1,700	1,700	257
Total revenues	<u>276,700</u>	<u>276,700</u>	<u>277,363</u>
EXPENDITURES			
Street maintenance	260,000	260,000	226,338
Capital outlay	-	-	-
Total expenditures	<u>260,000</u>	<u>260,000</u>	<u>226,338</u>
REVENUES OVER (UNDER) EXPENDITURES AND NET CHANGE IN FUND BALANCE			
	16,700	16,700	51,025
FUND BALANCE, June 30, 2009	106,049	106,049	106,049
FUND BALANCE, June 30, 2010	<u>\$ 122,749</u>	<u>\$ 122,749</u>	<u>\$ 157,074</u>

See independent auditor's report.

CITY OF CROSSVILLE, TENNESSEE



SCHEDULES OF LONG-TERM DEBT

JUNE 30, 2010

Governmental Activities Long-Term Debt

Year Ending June 30,	Loan Payable to Public Building Authority of the City of Clarksville, Tennessee, dated November 17, 2004		
	Principal	Interest	Total
2011	\$ 45,000	\$ 3,392	\$ 48,392
2012	46,000	3,194	49,194
2013	48,000	2,992	50,992
2014	49,000	2,781	51,781
2015	51,000	2,565	53,565
2016	52,000	2,341	54,341
2017	54,000	2,112	56,112
2018	56,000	1,874	57,874
2019	57,000	1,628	58,628
2020	59,000	1,377	60,377
2021	61,000	1,118	62,118
2022	63,000	849	63,849
2023	64,000	572	64,572
2024	66,000	290	66,290
	<u>\$ 771,000</u>	<u>\$ 27,085</u>	<u>\$ 798,085</u>

See independent auditor's report.

CITY OF CROSSVILLE, TENNESSEE

SCHEDULES OF LONG-TERM DEBT - CONTINUED

JUNE 30, 2010

Business-Type Activities Long-Term Debt

Year Ending June 30,	Loan Payable to the Public			Note Payable to the State of Tennessee, Wastewater Facility Revolving Loan # 00-0020			Loan Payable to the Public Building Authority of the City of Clarksville, Tennessee, Series 1997			USDA Water and Sewer Revenue and Tax Bonds, Series 2003		
	Principal	Interest		Principal	Interest		Principal	Interest		Principal	Interest	
2011	\$ -	\$ 193,137	\$ -	\$ 277,436	\$ 70,432	\$ -	\$ 251,410	\$ 13,861	\$ -	\$ 70,663	\$ 67,553	\$ -
2012	170,000	187,187	282,388	282,388	65,480	263,980	263,980	12,604	73,725	64,491	64,491	73,725
2013	175,000	180,799	287,428	287,428	60,440	277,180	277,180	11,284	76,919	61,297	61,297	76,919
2014	185,000	173,861	292,554	292,554	55,314	291,040	291,040	9,898	80,254	57,962	57,962	80,254
2015	190,000	166,546	297,776	297,776	50,092	305,590	305,590	8,443	83,731	54,485	54,485	83,731
2016	200,000	158,546	303,089	303,089	44,779	320,870	320,870	6,915	87,359	50,857	50,857	87,359
2017	205,000	149,833	308,499	308,499	39,369	336,910	336,910	5,311	91,146	47,070	47,070	91,146
2018	215,000	140,695	314,003	314,003	33,865	353,760	353,760	3,626	95,095	43,121	43,121	95,095
2019	225,000	130,851	319,605	319,605	28,263	371,450	371,450	1,857	99,217	38,999	38,999	99,217
2020	235,000	120,276	325,310	325,310	22,558	-	-	-	103,518	34,698	34,698	103,518
2021	245,000	109,251	331,115	331,115	16,753	-	-	-	108,003	30,213	30,213	108,003
2022	255,000	97,776	337,023	337,023	10,845	-	-	-	112,684	25,532	25,532	112,684
2023	265,000	85,851	343,037	343,037	4,831	-	-	-	117,569	20,647	20,647	117,569
2024	280,000	73,251	86,602	86,602	256	-	-	-	122,661	15,555	15,555	122,661
2025	295,000	59,976	-	-	-	-	-	-	127,979	10,237	10,237	127,979
2026	305,000	46,251	-	-	-	-	-	-	133,525	4,691	4,691	133,525
2027	320,000	31,451	-	-	-	-	-	-	37,590	278	278	37,590
2028	330,000	16,188	-	-	-	-	-	-	-	-	-	-
2029	350,000	-	-	-	-	-	-	-	-	-	-	-
	\$ 4,445,000	\$ 2,121,726	\$ 4,105,865	\$ 4,105,865	\$ 503,277	\$ 2,772,190	\$ 2,772,190	\$ 73,799	\$ 1,621,638	\$ 627,686	\$ 627,686	\$ 1,621,638

See independent auditor's report.



CITY OF CROSSVILLE, TENNESSEE

SCHEDULES OF LONG-TERM DEBT - CONTINUED

JUNE 30, 2010

Business-Type Activities Long-Term Debt - (Continued)

Year Ending June 30,	Note Payable to the State of Tennessee, Wastewater Facility		Note Payable to the State of Tennessee, Wastewater Facility Revolving Loan SRF # 92-043		Note Payable to the State of Tennessee, Local Development Authority Loan # 400-03		Note Payable to the State of Tennessee, Wastewater Facility Revolving Loan SRF # 01-156	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 57,825	\$ 12,641	\$ 155,130	\$ 15,558	\$ 119,892	\$ 18,511	\$ 22,404	\$ 5,004
2012	58,681	11,785	159,275	11,413	119,892	14,542	22,740	4,668
2013	59,549	10,917	163,531	7,157	119,892	10,574	23,076	4,332
2014	60,430	10,036	167,901	2,787	119,892	6,606	23,412	3,996
2015	61,325	9,141	14,170	31	79,673	2,637	23,760	3,648
2016	62,232	8,234	-	-	-	-	24,120	3,288
2017	63,153	7,313	-	-	-	-	24,468	2,940
2018	64,088	6,378	-	-	-	-	24,840	2,568
2019	65,036	5,430	-	-	-	-	25,200	2,208
2020	65,999	4,467	-	-	-	-	25,572	1,836
2021	66,976	3,490	-	-	-	-	25,956	1,452
2022	67,967	2,499	-	-	-	-	26,340	1,068
2023	68,973	1,493	-	-	-	-	26,724	684
2024	64,030	571	-	-	-	-	27,120	288
2025	-	-	-	-	-	-	4,562	6
	\$ 886,264	\$ 94,395	\$ 660,007	\$ 36,946	\$ 559,241	\$ 52,870	\$ 350,294	\$ 37,986

See independent auditor's report.



CITY OF CROSSVILLE, TENNESSEE

SCHEDULES OF LONG-TERM DEBT - CONTINUED

JUNE 30, 2010

Year Ending June 30,	Business-Type Activities Long-Term Debt - (Continued)							
	Note Payable to the State of Tennessee, Wastewater Facility Revolving Loan CWA # 09-225		Note Payable to the State of Tennessee, Wastewater Facility Revolving Loan DWA # 09-087		Note Payable to the State of Tennessee, Wastewater Facility Revolving Loan SRF # 10-261			
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 3,628	\$ 2,821	\$ 3,460	\$ 2,713	\$ 1,507	\$ 1,119		
2012	10,988	8,360	10,480	8,039	4,562	3,315		
2013	11,305	8,043	10,782	7,737	4,689	3,188		
2014	11,630	7,718	11,093	7,426	4,820	3,057		
2015	11,965	7,383	11,412	7,107	4,954	2,923		
2016	12,310	7,038	11,741	6,778	5,091	2,786		
2017	12,664	6,684	12,079	6,440	5,233	2,644		
2018	13,029	6,319	12,427	6,092	5,378	2,499		
2019	13,404	5,944	12,785	5,734	5,528	2,349		
2020	13,790	5,558	13,153	5,366	5,682	2,195		
2021	14,187	5,161	13,532	4,987	5,839	2,038		
2022	14,596	4,752	13,922	4,597	6,002	1,875		
2023	15,016	4,332	14,323	4,196	6,169	1,708		
2024	15,449	3,899	14,735	3,784	6,340	1,537		
2025	15,894	3,454	15,159	3,360	6,516	1,361		
2026	16,352	2,996	15,596	2,923	6,698	1,179		
2027	16,822	2,526	16,045	2,474	6,884	993		
2028	17,307	2,041	16,507	2,012	7,075	802		
2029	17,805	1,543	16,983	1,536	7,272	605		
2030	18,318	1,030	17,472	1,047	7,474	403		
2031	17,440	502	18,891	544	7,023	195		
	\$ 293,899	\$ 98,104	\$ 282,577	\$ 94,892	\$ 120,736	\$ 38,771		

See independent auditor's report.

CITY OF CROSSVILLE, TENNESSEE

SCHEDULES OF LONG-TERM DEBT - CONTINUED

JUNE 30, 2010

Business-Type Activities Long-Term Debt - (Continued)

Year Ending June 30,	Total Principal	Total Interest	Total
2011	\$ 963,355	\$ 403,350	\$ 1,366,705
2012	1,176,711	391,884	1,568,595
2013	1,209,351	365,768	1,575,119
2014	1,248,026	338,661	1,586,687
2015	1,084,356	312,436	1,396,792
2016	1,026,812	289,221	1,316,033
2017	1,059,152	267,604	1,326,756
2018	1,097,620	245,163	1,342,783
2019	1,137,225	221,635	1,358,860
2020	788,024	196,954	984,978
2021	810,608	173,345	983,953
2022	833,534	148,944	982,478
2023	856,811	123,742	980,553
2024	616,937	99,141	716,078
2025	465,110	78,394	543,504
2026	477,171	58,040	535,211
2027	397,341	37,722	435,063
2028	370,889	21,043	391,932
2029	392,060	3,684	395,744
2030	43,264	2,480	45,744
2031	43,354	1,241	44,595
	<u>\$ 16,097,711</u>	<u>\$ 3,780,452</u>	<u>\$ 19,878,163</u>

See independent auditor's report.

CITY OF CROSSVILLE, TENNESSEE

SCHEDULE OF CHANGES IN PROPERTY TAXES RECEIVABLE

JUNE 30, 2010

Tax Year	Balance June 30, 2009	Tax Levy	Collections	Abatements and Adjustments	Balance June 30, 2010
2009	\$ -	\$ 1,955,058	\$ 1,929,921	\$ 18,490	\$ 43,627
2008	31,686	-	16,393	1,012	16,305
2007	15,253	-	5,551	(2,511)	7,191
2006	6,241	-	1,300	153	5,094
2005	3,254	-	884	9	2,379
2004	19,675	-	499	(425)	18,751
2003	5,542	-	435	(21)	5,086
2002	2,209	-	17	(746)	1,446
2001	-	-	-	-	-
2000	-	-	-	-	-
1999	15	-	-	-	15
1998	-	-	-	-	-
1997	34	-	-	-	34
1996	-	-	-	-	-
1995	330	-	-	-	330
	<u>\$ 84,239</u>	<u>\$ 1,955,058</u>	<u>\$ 1,955,000</u>	<u>\$ 15,961</u>	<u>100,258</u>

Penalty and interest	<u>35,742</u>
Subtotal	136,000
Deferred property tax revenues for 2010 accrued	<u>1,957,943</u>
	2,093,943
Less estimated uncollectible accounts	<u>(80,756)</u>
	<u>\$ 2,013,187</u>

As of June 30, 2009 the City has certified with the Cumberland County Clerk and Master delinquent taxes for the tax years from 1995 to 2007. In the fiscal year ended June 30, 2010 the City certified with the Cumberland County Clerk and Master delinquent taxes for the tax year 2008.

See independent auditor's report.

**OTHER SUPPLEMENTARY
INFORMATION**

CITY OF CROSSVILLE, TENNESSEE
SCHEDULE OF TAX RATES AND ASSESSMENTS
(UNAUDITED)

JUNE 30, 2010

<u>Year of Levy</u>	<u>Rate</u>	<u>Assessment</u>	<u>Amount of Tax Assessed</u>
2001	\$ 0.70	\$ 188,585,615	\$ 1,321,018
2002	0.60	228,255,500	1,361,574
2003	0.70	236,291,000	1,654,037
2004	0.70	242,689,143	1,688,791
2005	0.70	243,531,287	1,704,184
2006	0.70	254,353,428	1,780,474
2007	0.55	335,255,490	1,844,424
2008	0.55	348,200,080	1,915,107
2009	0.55	354,670,332	1,955,058
2010	0.55	355,988,256	1,957,943

See independent auditor's report.

CITY OF CROSSVILLE, TENNESSEE

**SCHEDULE OF WATER AND SEWER RATES AND NUMBER OF CUSTOMERS
(UNAUDITED)**

YEAR ENDED JUNE 30, 2010

WATER AND SEWER CUSTOMER RATES

	<u>Inside City Limits</u>	<u>Outside City Limits</u>
First 2,000 gallons		
Water	\$7.74 minimum bill	\$11.62 minimum bill
Sewer	9.49 minimum bill	14.20 minimum bill
All over 2,000 gallons		
Water	3.87 per 1,000 gallons	5.81 per 1,000 gallons
Sewer	4.73 per 1,000 gallons	7.10 per 1,000 gallons
Utility districts		2.80 per 1,000 gallons

NUMBER OF CUSTOMERS

	<u>Inside City Limits</u>	<u>Outside City Limits</u>	<u>Total</u>
Water customers			
Residential	3,646	6,779	10,425
Commercial	1,220	180	1,400
Industrial	34	7	41
Utility district taps	-	10	10
Total water customers	<u>4,900</u>	<u>6,976</u>	<u>11,876</u>
Total sewer customers	<u>4,641</u>	<u>21</u>	<u>4,662</u>

See independent auditor's report.

CITY OF CROSSVILLE, TENNESSEE

SCHEDULE OF UNACCOUNTED FOR WATER
(UNAUDITED)

YEAR ENDED JUNE 30, 2010

(All amounts in gallons)

Water Treated and Purchased

Water pumped (potable)	1,422,560,000	
Water purchased	0	
Total Water Treated and Purchased	1,422,560,000	1,422,560,000

Accounted for Water

Water sold	1,021,395,100	
Metered for consumption (in house usage)	0	
Fire department usage	102,940	
Flushing	7,475,753	
Tank cleaning/filling	0	
Street cleaning	0	
Bulk sales	0	
Water bill adjustments / plus or (minus)	0	
Total Accounted for Water	1,028,973,793	1,028,973,793
Unaccounted for Water		393,586,207
Percent Unaccounted for Water		27.7%

Other

See below

Explain other: For the year ended June 30, 2010, the City of Crossville, Tennessee also had 15,527,051 gallons of water in documented repair leaks which would reduce the unaccounted for water to 26.6%. All amounts included in this schedule are supported by documentation on file at the water system.

See independent auditor's report.



WORK & GREER, PC

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS**

HONORABLE MAYOR AND CITY COUNCIL

Crossville, Tennessee

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the budgetary comparison for the general fund of City of Crossville, Tennessee, ("City") as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 9, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City'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's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 10-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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

HONORABLE MAYOR AND CITY COUNCIL

Crossville, Tennessee

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no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Disposition of Prior Year Audit Findings

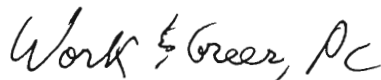
In the prior year report, we disclosed a material weakness (item 09-01) related to the City not maintaining its accounting records on the proper basis in order to prepare its financial statements in accordance with generally accepted accounting principles (GAAP). We recommended the City maintain the accounting records of the Water and Sewer Department on the full accrual basis of accounting and the governmental funds on the modified-accrual basis in order to properly prepare financial statements in accordance with generally accepted accounting principles as required by state law. The same material weakness is noted during the current year audit and is referred to in the schedule of findings and questioned costs as item 10-01.

In the prior year report, we disclosed a material weakness (item 09-02) related to the City's failure to record the land portion of infrastructure assets contributed by a developer and also recorded a developer contribution of water and sewer lines twice. We recommended procedures be implemented to insure the fair value of land contributed by developers be either obtained from the developer or from the State of Tennessee Comptroller of Treasury, Real Estate Assessment Data website and properly recorded. In addition we recommended procedures be implemented to insure contributions of infrastructure assets are not recorded twice on the City's records. During the current year, the City implemented procedures to properly record contributions from developers.

We noted certain matters that we reported to management of the City in a separate letter dated December 9, 2010.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, City Council, others within the City, the Comptroller of the Treasury, State of Tennessee, 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.



December 9, 2010



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

HONORABLE MAYOR AND CITY COUNCIL

City of Crossville, Tennessee

Compliance

We have audited the compliance of City of Crossville, Tennessee (City), with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, City of Crossville, Tennessee, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

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

HONORABLE MAYOR AND CITY COUNCIL

Crossville, Tennessee

Page Two

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, City Council, others within the entity, the Comptroller of the Treasury, State of Tennessee, 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.

Work & Greer, PC

December 9, 2010

CITY OF CROSSVILLE, TENNESSEE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2010

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of City of Crossville, Tennessee for the year ended June 30, 2010.
2. One material weakness disclosed during the audit of the financial statements of City of Crossville, Tennessee for the year ended June 30, 2010 is reported in the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters and is presented below in the Findings – Financial Statement Audit.
3. No instances of noncompliance material to the financial statements of City of Crossville, Tennessee for the year ended June 30, 2010 were disclosed during the audit.
4. No significant deficiencies or material weaknesses in internal control over major federal award programs of City of Crossville, Tennessee for the year ended June 30, 2010 were disclosed during the audit.
5. The auditor's report on compliance for the major federal award programs for City of Crossville, Tennessee expresses an unqualified opinion on all major federal programs.
6. There are no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs for City of Crossville, Tennessee included: U.S. Environmental Protection Agency Capitalization Loans and Grants for Clean Water State Revolving Loan Funds, CFDA 66.458, U.S. Environmental Protection Agency Capitalization Loans and Grants for Drinking Water State Revolving Loan Funds, CFDA 66.468, and U.S. Department of Commerce Investments for Public Works and Economic Development Facilities CFDA 11.3.
8. The dollar threshold for distinguishing between Type A and Type B programs was \$300,000.
9. City of Crossville, Tennessee was determined not to be a low-risk auditee.

FINDINGS - FINANCIAL STATEMENT AUDIT

Material Weakness

10-01 Basis of Accounting

Condition: Certain general ledger accounts of the governmental funds are not maintained on the modified-accrual basis of accounting and certain general ledger accounts of the Water and Sewer Fund are not maintained on the accrual basis of accounting in order to prepare financial statements in accordance with generally accepted accounting principles (GAAP).

Criteria: State law requires the City to maintain its records in order to prepare its financial statements in accordance with GAAP.

CITY OF CROSSVILLE, TENNESSEE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

YEAR ENDED JUNE 30, 2010

The modified-accrual basis of accounting is required for all governmental funds in order to present financial statements in accordance with GAAP, and the accrual basis of accounting is required for the Water and Sewer Fund in order to present its financial statements in accordance with GAAP.

Cause: General ledger account balances of the governmental funds for liquor taxes and franchise taxes are maintained on the cash basis of accounting and certain general ledger account balances of the Water and Sewer Fund for reimbursement grant revenues (capital contributions) are maintained on the cash basis of accounting.

Effect: The failure to properly maintain general ledger account balances for liquor taxes and franchise taxes in the governmental funds on the modified-accrual basis of accounting and the failure to properly maintain general ledger account balances for reimbursement grant revenues in the Water and Sewer fund during the year caused current year audit adjustments and a prior period adjustment to be necessary in order to present the City's financial statements in accordance with GAAP.

Recommendation: We recommend the City maintain all general ledger accounts of the governmental funds on the modified-accrual basis and maintain all general ledger accounts of the Water and Sewer Fund on the accrual basis in order to properly prepare financial statements in accordance with generally accepted accounting principles as required by state law. In addition we recommend the City implement adequate review procedures to insure the accounts of the various funds are maintained on the proper GAAP basis prior to the preparation of City financial statements.

Response: The City agrees with the finding and the recommendation will be implemented.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

No findings or questioned costs were noted.