

CITY OF CROSSVILLE
FINANCIAL REPORT
JUNE 30, 2012

CONTENTS

	<u>Page</u>
INTRODUCTORY SECTION	
Directory of Officials	Intro 1
FINANCIAL SECTION	
Independent Auditors' Report on Financial Statements, Supplementary Information, and Schedule of Expenditures of Federal and State Awards	i-ii
Management's Discussion and Analysis	iii-viii
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	1
Statement of Activities	2-3
Fund Financial Statements	
Governmental Fund Financial Statements	
Balance Sheet	4
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	5
Statement of Revenues, Expenditures, and Changes in Fund Balances	6
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	7
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual – General Fund	8
Proprietary Fund Financial Statements	
Statement of Net Assets	9-10
Statement of Revenues, Expenses, and Changes in Net Assets	11
Statement of Cash Flows	12-13
Notes to Basic Financial Statements	14-33
REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MANAGEMENT'S DISCUSSION AND ANALYSIS	
Schedule of Required Supplementary Information: Public Employee Retirement Systems Schedule of Funding Progress	34

OTHER SUPPLEMENTARY INFORMATION

Combining Financial Statements

Combining Balance Sheet – Nonmajor Governmental Funds	35
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	36

Budgetary Comparison Schedules

General Fund	37-38
Special Revenue Funds	
Drug Fund	39
Solid Waste Fund	40
State Street Aid Fund	41

Financial Schedules

Combined Schedule of Changes in Taxes Receivable	42
Summary Schedule of Debt Service Requirements to Maturity	43
Analysis of Debt	44
Schedule of Bonds and Notes Payable - by Fiscal Year	45-52
Schedule of Tax Rates and Assessments	53
Schedule of Water and Sewer Rates and Number of Customers	54
Schedule of Unaccounted For Water	55
Schedule of Salaries and Official Bonds of Principal Officials	56

SINGLE AUDIT SECTION

Schedule of Expenditures of Federal and State Awards	57-59
Notes to Schedule of Expenditures of Federal and State Awards	60
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	61-62
Independent Auditors' Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	63-64
Schedule of Findings and Questioned Costs	65-67
Schedule of Prior Audit Findings	68

CITY OF CROSSVILLE
DIRECTORY OF OFFICIALS

ELECTED OFFICIALS

Mayor	J. H. Graham, III
Mayor Pro-Tem	Danny Wyatt
Council Member	Boyd Wyatt, Sr.
Council Member	Earl Dean
Council Member	George Marlow

APPOINTED OFFICIALS

City Attorney	Kenneth Chadwell
City Judge	Thomas L. Bean
City Manager	Bruce Wyatt
City Clerk	Sally Oglesby, MMC
Director of Finance	Fred C. Houston, CPA

Independent Auditors' Report on Financial Statements,
Supplementary Information, and Schedule of Expenditures
of Federal and State Awards

To the Honorable Mayor and
Members of the City Council
Crossville, Tennessee

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Crossville (the City), as of and for the year ended June 30, 2012, 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's management. Our responsibility is to express an opinion 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, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 9, 2012, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages iii through viii of the Financial Section and the required supplementary information on page 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Crossville's basic financial statements. The introductory section, combining nonmajor fund financial statements, the budgetary comparison schedules included as other supplementary information, and financial schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates 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 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 basic financial statements as a whole.

Haylett, Lewis & Bister, PLLC

Chattanooga, Tennessee
November 9, 2012

CITY OF CROSSVILLE

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Crossville's (the City) financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2012. Please read it in conjunction with the City's financial statements, which begin on page 1.

FINANCIAL HIGHLIGHTS

The City's governmental activity total assets increased by \$4,626,000 in 2012 or 9.2%, while business-type activity total assets increased by \$8,014,000 or 10.7%, resulting in a increase in total primary government assets of \$12,640,000 or 10.1%. Governmental activity total revenues for the City increased \$1,392,000 or 9.9%, while business-type total revenues decreased by \$3,541,000 or 26.1%, resulting in a decrease in total primary government revenues of \$2,149,000, or 7.8%. The City's governmental activity total program expenses for 2012 decreased \$331,000 or 2.5%, while business-activity total program expenses increased by \$875,000 or 12.3%, resulting in an increase in total primary government program expenses of \$544,000 or 2.6%. With respect to the City's governmental activities, net assets increased by \$1,723,000. General fund net assets increased during the year by \$192,000.

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 4. 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.

REPORTING THE CITY AS A WHOLE, continued

As illustrated in Table 1, total assets of the City's governmental activities were \$54,762,000 in 2012 versus \$50,136,000 in 2011, representing an increase of \$4,626,000 or 9.2%. Table 1 also shows that total assets of the City's business-type activities were \$82,693,000 in 2012 versus \$74,679,000 in 2011, representing an increase of \$8,014,000 or 10.7%.

Table 1 - Net Assets (in Thousands)

	Governmental Activities			Business-Type Activities			Total Primary Government		
	2012	2011	Change	2012	2011	Change	2012	2011	Change
Current and other assets	\$11,015	\$11,270	\$ (255)	\$ 7,837	\$ 5,711	\$ 2,126	\$ 18,852	\$ 16,981	\$ 1,871
Capital assets	43,747	38,866	4,881	74,856	68,968	5,888	118,603	107,834	10,769
Total assets	<u>\$54,762</u>	<u>\$50,136</u>	<u>\$ 4,626</u>	<u>\$82,693</u>	<u>\$74,679</u>	<u>\$ 8,014</u>	<u>\$137,455</u>	<u>\$124,815</u>	<u>\$12,640</u>
Long-term liabilities	\$ 4,314	\$ 1,801	\$ 2,513	\$28,620	\$23,477	\$ 5,143	\$ 32,934	\$ 25,278	\$ 7,656
Other liabilities	3,198	3,307	(109)	2,432	1,620	812	5,630	4,927	703
Total liabilities	7,512	5,108	2,404	31,052	25,097	5,955	38,564	30,205	8,359
Net assets:									
Invested in capital assets, net of related debt	39,717	37,333	2,384	46,471	45,728	743	86,188	83,061	3,127
Restricted	388	1	387	-	-	-	388	1	387
Unrestricted	<u>7,145</u>	<u>7,694</u>	<u>(549)</u>	<u>5,170</u>	<u>3,854</u>	<u>1,316</u>	<u>12,315</u>	<u>11,548</u>	<u>767</u>
Total net assets	<u>47,250</u>	<u>45,028</u>	<u>2,222</u>	<u>51,641</u>	<u>49,582</u>	<u>2,059</u>	<u>98,891</u>	<u>94,610</u>	<u>4,281</u>
Total liabilities and net assets	<u>\$54,762</u>	<u>\$50,136</u>	<u>\$ 4,626</u>	<u>\$82,693</u>	<u>\$74,679</u>	<u>\$ 8,014</u>	<u>\$137,455</u>	<u>\$124,815</u>	<u>\$12,640</u>

The significant elements and causes for the changes in the City's governmental activities total assets in 2012 were: (1) Current and other assets decreased by \$255,000 which was attributed in part to the operations of the City for the year. (2) Capital assets increased by \$4,881,000 which was made up of purchase of industrial development land and significant airport improvements, as well as purchases of machinery and equipment.

The significant aspect of the increase in the total assets of the City's business-type activities in 2012 was an increase in current and other assets of \$2,126,000 which was attributed in part to an increase in receivables at year-end related to grants and increased cash balances. Additionally, capital assets increased by \$5,888,000 related to additions and improvements to the water and sewer plant.

As shown in Table 1, total liabilities of the City's governmental activities increased by \$2,404,000 or 47.1% in 2012. Table 1 also shows total liabilities of the City's business-type activities increased by \$5,955,000 or 23.7% in 2012. The significant elements and causes for the changes in the City's total liabilities in 2012 were due to issuance of debt.

Therefore, total net assets of the City's governmental activities increased by \$2,222,000 or 4.9%, and total net assets of the City's business-type activities increased by \$2,059 or 4.2%.

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.

Table 2 – Change in Net Assets (in Thousands)

	Governmental Activities			Business-Type Activities			Total Primary Government		
	2012	2011	Change	2012	2011	Change	2012	2011	Change
Revenues									
Program revenues:									
Charges for services	\$ 747	\$ 691	\$ 56	\$ 8,671	\$ 8,492	\$ 179	\$ 9,418	\$ 9,183	\$ 235
Grants and contributions:									
For operations	588	586	2	1	1	-	589	587	2
For capital projects	2,314	1,360	954	1,349	5,066	(3,717)	3,663	6,426	(2,763)
General revenues:									
Property taxes	2,298	2,231	67	-	-	-	2,298	2,231	67
Intergovernmental revenues	9,435	9,119	316	-	-	-	9,435	9,119	316
Interest earnings	10	13	(3)	4	7	(3)	14	20	(6)
Total revenues	15,392	14,000	1,392	10,025	13,566	(3,541)	25,417	27,566	(2,149)
Program expenses:									
General government	3,072	2,994	78	-	-	-	3,072	2,994	78
City court	17	16	1	-	-	-	17	16	1
Airport	376	322	54	-	-	-	376	322	54
Cemetery	74	64	10	-	-	-	74	64	10
Parks and recreation	1,439	1,426	13	-	-	-	1,439	1,426	13
Planning and zoning	157	258	(101)	-	-	-	157	258	(101)
Public safety	5,337	5,574	(237)	-	-	-	5,337	5,574	(237)
Sanitation	374	362	12	-	-	-	374	362	12
Streets	1,951	2,106	(155)	-	-	-	1,951	2,106	(155)
Tourism development	336	375	(39)	-	-	-	336	375	(39)
Interest on long-term debt	37	4	33	-	-	-	37	4	33
Water and sewer department	-	-	-	7,966	7,091	875	7,966	7,091	875
Total expenses	13,170	13,501	(331)	7,966	7,091	875	21,136	20,592	544
CHANGE IN NET ASSETS	2,222	499	1,723	2,059	6,475	(4,416)	4,281	6,974	(2,693)
NET ASSETS, beginning	45,028	44,529	499	49,582	43,107	6,475	94,610	87,636	6,974
NET ASSETS, ending	\$47,250	\$45,028	\$ 2,222	\$51,641	\$49,582	\$ 2,059	\$98,891	\$94,610	\$ 4,281

Total revenues for the City's governmental activities increased \$1,392,000 or 9.9%. Revenues increased during the year primarily due to federal and state grants for the airport, which increased in 2012 by \$1,163,000 for airport improvements.

Total revenues for the City's business-type activities decreased \$3,541,000 or approximately 26.1%. This primarily related to a decrease in Federal and state grants in 2012 by \$3,717,000.

Table 2 shows that total program expenses for the City's governmental activities decreased \$331,000 or 2.5%. Total program expenses for the City's business-type activities increased \$875,000 or 12.3%.

REPORTING THE CITY AS A WHOLE, continued

Governmental Activities

The City's fiscal operating year is the twelve-month period beginning each July 1. An annual operating budget is submitted to the 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.

BUDGETARY HIGHLIGHTS

Table 3 illustrates the significant components of the City's budget for the general fund for the year ended June 30, 2012. The original budget revenue estimates total \$15,230,000. Final budget revenues for the period amounted to \$15,230,000. Final actual revenues for the period amounted to \$15,020,000. The City's original budget estimated expenditures for 2012 were \$16,329,000. Final budget expenditures for the period amounted to \$16,470,000. Final actual expenditures for the period amounted to \$14,223,000. At June 30, 2012, the fund balance of the City's general fund was \$7,191,000.

Table 3 – General Fund Budget Comparison (in Thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget – Over/(Under)</u>
Revenues				
Taxes	\$10,690	\$10,675	\$10,764	\$ 89
Intergovernmental revenues	3,813	3,813	3,334	(479)
Charges for services	327	327	363	36
Other revenues	<u>400</u>	<u>415</u>	<u>559</u>	<u>144</u>
Total revenues	15,230	15,230	15,020	(210)
Expenditures				
General government	3,397	3,387	2,959	(428)
Airport	2,689	2,689	2,573	(116)
Parks and recreation	1,274	1,274	1,100	(174)
Public safety	5,607	5,679	5,170	(509)
Street	2,171	2,249	1,695	(554)
Other expenditures	<u>1,191</u>	<u>1,192</u>	<u>726</u>	<u>(466)</u>
Total expenditures	16,329	16,470	14,223	(2,247)
Revenues Over (Under) Expenditures	(1,099)	(1,240)	797	2,037
Transfers out	(1,561)	(1,925)	(1,443)	482
Issuance of bonds and notes	<u>1,873</u>	<u>1,873</u>	<u>838</u>	<u>(1,035)</u>
NET CHANGE IN FUND BALANCES	(787)	(1,292)	192	1,484
FUND BALANCE, beginning	<u>6,999</u>	<u>6,999</u>	<u>6,999</u>	<u>-</u>
FUND BALANCE, ending	<u>\$ 6,212</u>	<u>\$ 5,707</u>	<u>\$ 7,191</u>	<u>\$ 1,484</u>

Business-type Activities

The Wastewater 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 \$4,031,000. The prior year outstanding long-term debt amounted to \$1,533,000; consequently long-term debt increased during the year by \$2,498,000. This increase was due to issuance of a note to purchase land for industrial development and draws on an existing loan to fund capital improvements.

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 \$28,700,000. The prior year outstanding long-term debt amounted to \$23,575,000. The increase of \$5,125,000 during the year was primarily due to issuance of three new notes for water and sewer systems improvements and extensions.

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 City was able to increase governmental revenues this year. The federal and state grants that were received by the City were a significant factor in this increase. 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) 484-5113 or fred.houston@crossvilletn.gov.

CITY OF CROSSVILLE
STATEMENT OF NET ASSETS
June 30, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 5,293,532	\$ 1,525,519	\$ 6,819,051
Receivables, net of allowance for uncollectibles	4,298,281	2,428,252	6,726,533
Unbilled revenues	-	585,292	585,292
Deferred charges	-	146,150	146,150
Inventories	164,974	401,140	566,114
Other assets	-	5,188	5,188
Restricted assets:			
Cash and cash equivalents	577,837	2,744,705	3,322,542
Note receivable	680,000	-	680,000
Land and other nondepreciable assets	13,223,592	8,377,569	21,601,161
Other capital assets, net of accumulated depreciation	30,523,873	66,478,767	97,002,640
Total assets	54,762,089	82,692,582	137,454,671
LIABILITIES			
Accounts payable and accrued liabilities	877,926	2,305,523	3,183,449
Unearned revenue	2,124,480	-	2,124,480
Accrued postclosure care	195,286	-	195,286
Accrued postemployment benefits	-	95,034	95,034
Other liabilities	-	31,334	31,334
Long-term liabilities:			
Due within one year	674,336	1,798,857	2,473,193
Due in more than one year	3,639,777	26,821,225	30,461,002
Total liabilities	7,511,805	31,051,973	38,563,778
NET ASSETS			
Invested in capital assets, net of related debt	39,716,651	46,470,928	86,187,579
Restricted for:			
Capital projects	1,393	-	1,393
State street aid	245,135	-	245,135
Drug fund	141,857	-	141,857
Unrestricted	7,145,248	5,169,681	12,314,929
Total net assets	\$47,250,284	\$ 51,640,609	\$98,890,893

The Notes to Basic Financial Statements are an integral part of this statement.

CITY OF CROSSVILLE
STATEMENT OF ACTIVITIES
Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT				
Governmental activities:				
General government	\$ 3,072,133	\$ 239,592	\$ 15,665	\$ 2,874
City court	16,882	136,599	-	-
Airport	376,128	107,795	-	2,229,721
Cemetery	74,038	30,450	105,137	-
Parks and recreation	1,438,751	198,760	1,000	-
Planning and zoning	157,300	170	-	-
Public safety	5,337,172	33,691	179,645	81,679
Sanitation	373,635	-	-	-
Streets	1,950,694	-	286,856	-
Tourism development	336,637	-	-	-
Interest on long-term debt	36,870	-	-	-
Total governmental activities	<u>13,170,240</u>	<u>747,057</u>	<u>588,303</u>	<u>2,314,274</u>
Business-type activities:				
Water and sewer	7,966,140	8,671,585	500	1,348,779
Total business-type activities	<u>7,966,140</u>	<u>8,671,585</u>	<u>500</u>	<u>1,348,779</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 21,136,380</u>	<u>\$ 9,418,642</u>	<u>\$ 588,803</u>	<u>\$ 3,663,053</u>

General revenues:
Property taxes
Other taxes
Liquor and beer taxes
Local sales taxes
Business taxes
Grants and contributions not allocated to specific programs:
City allocation of state sales and income taxes
City allocation of other shared taxes
Unrestricted investment earnings
Total general revenues
Change in net assets
Net assets, beginning
Net assets, ending

The Notes to Basic Financial Statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (2,814,002)	\$ -	\$ (2,814,002)
119,717	-	119,717
1,961,388	-	1,961,388
61,549	-	61,549
(1,238,991)	-	(1,238,991)
(157,130)	-	(157,130)
(5,042,157)	-	(5,042,157)
(373,635)	-	(373,635)
(1,663,838)	-	(1,663,838)
(336,637)	-	(336,637)
(36,870)	-	(36,870)
<u>(9,520,606)</u>	<u>-</u>	<u>(9,520,606)</u>
-	2,054,724	2,054,724
-	2,054,724	2,054,724
<u>(9,520,606)</u>	<u>2,054,724</u>	<u>(7,465,882)</u>
2,298,159	-	2,298,159
975,632	-	975,632
6,803,196	-	6,803,196
687,103	-	687,103
872,206	-	872,206
97,059	-	97,059
9,907	4,371	14,278
<u>11,743,262</u>	<u>4,371</u>	<u>11,747,633</u>
2,222,656	2,059,095	4,281,751
<u>45,027,628</u>	<u>49,581,514</u>	<u>94,609,142</u>
<u>\$ 47,250,284</u>	<u>\$ 51,640,609</u>	<u>\$ 98,890,893</u>

CITY OF CROSSVILLE
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$5,529,264	\$ 1,393	\$ 340,712	\$ 5,871,369
Receivables, net of allowance for uncollectibles:				
Property taxes	2,062,635	-	-	2,062,635
Accounts	37,432	-	-	37,432
Other	368,529	-	-	368,529
Due from other governments	1,780,000	-	49,685	1,829,685
Inventories	164,974	-	-	164,974
Total assets	<u>\$9,942,834</u>	<u>\$ 1,393</u>	<u>\$ 390,397</u>	<u>\$ 10,334,624</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 410,612	\$406,681	\$ 34,508	\$ 851,801
Due to other governments	1,795	-	-	1,795
Deferred revenue	2,339,870	-	-	2,339,870
Total liabilities	<u>2,752,277</u>	<u>406,681</u>	<u>34,508</u>	<u>3,193,466</u>
Fund balances (deficit):				
Nonspendable	164,974	-	-	164,974
Restricted	235,731	1,393	386,992	624,116
Committed	-	-	-	-
Assigned	554,766	-	-	554,766
Unassigned	6,235,086	(406,681)	(31,103)	5,797,302
Total fund balances	<u>7,190,557</u>	<u>(405,288)</u>	<u>355,889</u>	<u>7,141,158</u>
Total liabilities and fund balances	<u>\$9,942,834</u>	<u>\$ 1,393</u>	<u>\$ 390,397</u>	<u>\$ 10,334,624</u>

The Notes to Basic Financial Statements are an integral part of this statement.

CITY OF CROSSVILLE

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

June 30, 2012

Differences in amounts reported for governmental activities in the statement of net assets on page 1:

Fund balances - total governmental funds \$ 7,141,158

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

Capital assets used in government activities are not financial resources and, therefore, are not reported in the funds. 43,747,465

Certain revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds. 215,390

Notes receivable are not available to pay for current period expenditures and therefore are not reported in the funds. 680,000

The landfill postclosure care costs have not been funded, creating an accrued postclosure care liability. This liability is not due and payable in the current period and, therefore, is not reported in the funds. (195,286)

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net assets. This item consists of the following:

Notes payable	\$ (4,030,814)	
Compensated absences	(283,299)	
Accrued interest payable	(24,330)	
		(4,338,443)

Net assets of governmental activities \$ 47,250,284

The Notes to Basic Financial Statements are an integral part of this statement.

CITY OF CROSSVILLE

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 Year Ended June 30, 2012

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$10,764,089	\$ -	\$ -	\$ 10,764,089
Licenses and permits	197,239	-	-	197,239
Intergovernmental	3,334,339	-	279,856	3,614,195
Charges for services	363,305	-	-	363,305
Fines, forfeitures, and penalties	143,990	-	-	143,990
Investment income	9,539	-	368	9,907
Contributions and donations	12,700	-	-	12,700
Miscellaneous	194,660	-	140,646	335,306
Total revenues	<u>15,019,861</u>	<u>-</u>	<u>420,870</u>	<u>15,440,731</u>
EXPENDITURES				
Current:				
General government	2,959,430	-	-	2,959,430
City court	16,882	-	-	16,882
Airport	2,572,710	-	-	2,572,710
Cemetery	61,909	-	-	61,909
Parks and recreation	1,100,199	-	-	1,100,199
Planning and zoning	156,370	-	-	156,370
Public safety	5,169,662	-	89,451	5,259,113
Sanitation	-	-	372,139	372,139
Streets	1,695,254	-	233,003	1,928,257
Tourism development	337,736	-	-	337,736
Capital outlay/capital assets	-	1,463,342	-	1,463,342
Debt service:				
Principal retirement	140,186	-	-	140,186
Interest and fiscal charges	12,644	-	-	12,644
Total expenditures	<u>14,222,982</u>	<u>1,463,342</u>	<u>694,593</u>	<u>16,380,917</u>
Excess (deficiency) of revenues over (under) expenditures	<u>796,879</u>	<u>(1,463,342)</u>	<u>(273,723)</u>	<u>(940,186)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	1,081,037	362,051	1,443,088
Transfers out	(1,443,088)	-	-	(1,443,088)
Issuance of notes	838,067	-	-	838,067
Total other financing sources (uses)	<u>(605,021)</u>	<u>1,081,037</u>	<u>362,051</u>	<u>838,067</u>
Net change in fund balance	191,858	(382,305)	88,328	(102,119)
FUND BALANCE (DEFICIT), beginning	<u>6,998,699</u>	<u>(22,983)</u>	<u>267,561</u>	<u>7,243,277</u>
FUND BALANCE (DEFICIT), ending	<u>\$ 7,190,557</u>	<u>\$ (405,288)</u>	<u>\$ 355,889</u>	<u>\$ 7,141,158</u>

The Notes to Basic Financial Statements are an integral part of this statement.

CITY OF CROSSVILLE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2012

Differences in amounts reported for governmental activities in the statement of activities on pages 2 and 3:

Net change in fund balances - total governmental funds	\$ (102,119)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlay expenditures in governmental funds, that meet the capitalization threshold, are shown as capital assets in the statement of net assets.	4,797,882
Depreciation expense on governmental capital assets are included in the governmental activities in the statement of activities.	(1,854,405)
The net effect of various transactions involving capital assets is to increase net assets.	138,140
Proceeds of long-term debt (e.g., bonds, notes) provide financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of premiums, discounts, and deferred amounts on refundings when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(687,381)
Certain items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditure in the governmental funds.	(21,626)
Governmental revenues that provide current financial resources are reported in the governmental funds, while revenues that will not be collected for several months after the fiscal year are deferred. The statement of activities includes certain revenues that do not provide current financial resources.	<u>(47,835)</u>
Change in net assets of governmental activities	<u>\$ 2,222,656</u>

The Notes to Basic Financial Statements are an integral part of this statement.

CITY OF CROSSVILLE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$10,690,100	\$10,674,800	\$10,764,089	\$ 89,289
Licenses and permits	136,700	136,700	197,239	60,539
Intergovernmental	3,812,510	3,812,510	3,334,339	(478,171)
Charges for services	327,400	327,400	363,305	35,905
Fines, forfeitures, and penalties	117,800	117,800	143,990	26,190
Investment income	11,400	11,400	9,539	(1,861)
Contributions and donations	10,000	10,000	12,700	2,700
Miscellaneous	123,700	139,520	194,660	55,140
Total revenues	<u>15,229,610</u>	<u>15,230,130</u>	<u>15,019,861</u>	<u>(210,269)</u>
EXPENDITURES				
General government	3,396,831	3,386,831	2,959,430	(427,401)
City court	17,150	17,150	16,882	(268)
Airport	2,689,185	2,689,185	2,572,710	(116,475)
Cemetery	78,065	78,065	61,909	(16,156)
Parks and recreation	1,274,010	1,274,010	1,100,199	(173,811)
Planning and zoning	198,770	198,770	156,370	(42,400)
Public safety	5,606,785	5,678,630	5,169,662	(508,968)
Streets	2,170,650	2,248,738	1,695,254	(553,484)
Tourism development	396,545	397,545	337,736	(59,809)
Debt service:				
Principal	396,000	396,000	140,186	(255,814)
Interest	105,000	105,000	12,644	(92,356)
Total expenditures	<u>16,328,991</u>	<u>16,469,924</u>	<u>14,222,982</u>	<u>(2,246,942)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,099,381)</u>	<u>(1,239,794)</u>	<u>796,879</u>	<u>2,036,673</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(1,560,500)	(1,925,550)	(1,443,088)	482,462
Issuance of bonds and notes	1,873,000	1,873,000	838,067	(1,034,933)
Total other financing sources (uses)	<u>312,500</u>	<u>(52,550)</u>	<u>(605,021)</u>	<u>(552,471)</u>
Net change in fund balance	<u>(786,881)</u>	<u>(1,292,344)</u>	<u>191,858</u>	<u>1,484,202</u>
FUND BALANCE at beginning of year	<u>6,998,699</u>	<u>6,998,699</u>	<u>6,998,699</u>	<u>-</u>
FUND BALANCE at end of year	<u>\$ 6,211,818</u>	<u>\$ 5,706,355</u>	<u>\$ 7,190,557</u>	<u>\$ 1,484,202</u>

CITY OF CROSSVILLE
 PROPRIETARY FUND
 STATEMENT OF NET ASSETS
 June 30, 2012

	<u>Water and Sewer Department</u>
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 1,525,519
Receivables:	
Accounts Receivable	399,950
Other	8,521
Less allowance for doubtful accounts	(11,864)
Unbilled revenues	585,292
Inventories	401,140
Due from other governments	2,031,645
Other current assets	<u>5,188</u>
Total current assets	<u>4,945,391</u>
NONCURRENT ASSETS	
Restricted assets:	
Cash and cash equivalents	<u>2,744,705</u>
Total restricted assets	<u>2,744,705</u>
Capital assets:	
Land	574,816
Construction in progress	7,802,753
Water and sewer plant	95,906,115
Machinery and equipment	<u>5,995,506</u>
	110,279,190
Less accumulated depreciation	<u>(35,422,854)</u>
Net capital assets	<u>74,856,336</u>
Other assets:	
Deferred charges	<u>146,150</u>
Total other assets	<u>146,150</u>
Total noncurrent assets	<u>77,747,191</u>
Total assets	<u>\$ 82,692,582</u>

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	<u>Water and Sewer Department</u>
LIABILITIES	
CURRENT LIABILITIES	
Current maturities of long-term liabilities	\$ 1,798,857
Accounts payable and accrued liabilities	2,305,523
Other current liabilities	<u>31,334</u>
Total current liabilities	<u>4,135,714</u>
 LONG-TERM LIABILITIES	
Notes, capital leases and other obligations	21,726,578
Compensated absences	63,520
Revenue bonds payable	5,199,839
Original issue premium	13,249
Deferred refunding	(181,961)
Accrued postemployment benefits	<u>95,034</u>
Total long-term liabilities	<u>26,916,259</u>
Total liabilities	<u>31,051,973</u>
 NET ASSETS	
Invested in capital assets, net of related debt	46,470,928
Unrestricted	<u>5,169,681</u>
Total net assets	<u>\$ 51,640,609</u>

The Notes to Basic Financial Statements are an integral part of this statement.

CITY OF CROSSVILLE
 PROPRIETARY FUND
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES
 IN NET ASSETS
 Year Ended June 30, 2012

	<u>Water and Sewer Department</u>
OPERATING REVENUES	
Charges for sales and services:	
Water and Sewer revenues	\$ 8,665,368
Intergovernmental	1,348,779
Other	<u>500</u>
Total operating revenues	<u>10,014,647</u>
OPERATING EXPENSES	
Transmission and distribution	4,070,264
Customer accounting and collection	464,211
Administrative and general	175,013
Depreciation	<u>2,651,336</u>
Total operating expenses	<u>7,360,824</u>
OPERATING INCOME	<u>2,653,823</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	4,371
Interest expense	(605,316)
Other income (expense)	<u>6,217</u>
Total nonoperating revenues (expenses)	<u>(594,728)</u>
CHANGE IN NET ASSETS	2,059,095
NET ASSETS, beginning	<u>49,581,514</u>
NET ASSETS, ending	<u><u>\$ 51,640,609</u></u>

The Notes to Basic Financial Statements are an integral part of this statement.

CITY OF CROSSVILLE
 PROPRIETARY FUND
 STATEMENT OF CASH FLOWS
 Year Ended June 30, 2012

	<u>Water and Sewer Department</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 9,294,515
Payments to suppliers	(1,952,596)
Payments to employees	<u>(1,945,124)</u>
Net cash provided by operating activities	<u>5,396,795</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal paid on capital debt	(1,884,613)
Interest paid on capital debt	(605,316)
Proceeds from capital debt	7,009,923
Additions to capital assets, net	<u>(8,539,568)</u>
Net cash flows used in capital and related financing activities	<u>(4,019,574)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest	<u>4,371</u>
Net cash flows provided by investing activities	<u>4,371</u>
Net increase in cash and cash equivalents	1,381,592
Cash and cash equivalents, beginning of year	<u>2,888,632</u>
Cash and cash equivalents, end of year	<u>\$ 4,270,224</u>
CLASSIFIED AS:	
Current assets	\$ 1,525,519
Restricted assets	<u>2,744,705</u>

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	<u>Water and Sewer Department</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
OPERATING INCOME	<u>\$ 2,653,823</u>
ADJUSTMENTS NOT AFFECTING CASH	
Depreciation	2,651,336
Changes in assets and liabilities:	
(Increase) decrease in receivables	11,509
(Increase) decrease in unbilled revenues	(43,250)
(Increase) decrease in due from other governments	(717,951)
(Increase) decrease in inventory	(17,806)
Increase (decrease) in accounts payable	788,714
Increase (decrease) in other assets/liabilities	63,360
Increase (decrease) in compensated absences	<u>7,060</u>
TOTAL ADJUSTMENTS	<u>2,742,972</u>
Net cash provided by operating activities	<u>\$ 5,396,795</u>
 SIGNIFICANT NONCASH ACTIVITIES	
Purchase of capital assets financed by payables or debt	<u>\$ 7,009,923</u>

The Notes to Basic Financial Statements are an integral part of this statement.

CITY OF CROSSVILLE
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

Index to Notes

	<u>Page</u>
Note 1 Summary of Significant Accounting Policies	14-23
Note 2 Stewardship, Compliance and Accountability	23
Note 3 Cash and Investments	23-24
Note 4 Receivables	24
Note 5 Interfund Transfers	25
Note 6 Capital Assets	25-26
Note 7 Long-Term Liabilities	26-29
Note 8 Deferred Compensation Plan	29-30
Note 9 Employee Retirement Systems	30-32
Note 10 Water Sales Agreements	32
Note 11 Related Party Transaction	32
Note 12 Commitments and Contingencies	33
Note 13 Landfill Postclosure Care Costs	33

CITY OF CROSSVILLE
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Crossville (the City) was incorporated under Chapter 362 of the Acts of Tennessee for the year 1901.

Executive and administrative authority resides with the Mayor, who is elected at-large, and the City Council, composed of five members, including the Mayor.

The financial statements of the City have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) as applied to governmental units. The Governmental Accounting Standards Board (“GASB”) is the standard-setting body for governmental accounting and financial reporting. Pronouncements of the Financial Accounting Standards Board (“FASB”) issued after November 30, 1989, are not applied in the preparation of the financial statements of enterprise funds in accordance with an election made by the City under GASB Statement No. 20. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below.

(A) Reporting Entity

In evaluating the City as a reporting entity, management has addressed all potential component units (traditionally separate reporting entities) for which the City may be financially accountable and, as such, should be included within the City’s financial statements. The City (the primary government) is financially accountable if it appoints a voting majority of the organization’s governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit or to impose specific financial burden on the City. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete. The City has no component units at June 30, 2012.

(B) Related Organizations

City officials are responsible for appointing the members of the boards of certain other related organizations, but the City's accountability for these organizations does not extend beyond making the appointments. The Mayor or the City Council appoints the Board members of the Crossville Housing Authority and the Public Building Authority of City of Crossville, Tennessee.

(C) Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Interfund services provided and used are not eliminated in the government-wide statement of activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

(D) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services, or privileges provided, and (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within sixty days of the end of the fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

General Fund - The General Fund accounts for all financial resources applicable to the general operations of City government that are not properly accounted for in another fund. Revenues are derived primarily from taxes and intergovernmental revenues.

Capital Projects Fund - The Capital Projects Fund accounts for the acquisition or construction of capital projects, other than those financed by Enterprise Funds. Revenues are derived primarily from the sale of general obligation bonds and notes, loans, intergovernmental revenues, and earnings on investments.

The City reports the following enterprise fund:

Water and Sewer Department Fund - The Water and Sewer Department Fund accounts for operations of the City's water and sewer services. The fund's revenues are derived primarily from user fees and intergovernmental revenues. The Water and Sewer Department Fund is the only major enterprise fund.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues include charges for services. Operating expenses include costs of services as well as materials, contracts, personnel and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

Additionally, the City reports the following nonmajor governmental funds:

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

(E) **Budget Policy and Budgetary Data**

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

The City Finance Manager annually obtains information from all officers, departments, boards, commissions, and other agencies of City Government for which appropriations are made and/or revenues are collected and compiles the annual operating budget for the ensuing fiscal year beginning July 1. The compiled information, including various expenditure options and the means of financing them, is submitted to the Mayor.

During May and June, the City Council hears budget requests from agencies and departments at its regularly scheduled meetings. In addition, advertised public hearings are held to allow taxpayers' comments prior to final passage.

Prior to July, the City adopts an interim budget appropriating funds for the usual and ordinary expenses of the City Government in an amount not to exceed one-twelfth of the preceding year's operating budget for each month that the interim budget is in effect. Subsequently, the budget is legally enacted through passage of an ordinance with an operative date of July 1.

Formal budgets are adopted for all funds. These formal budgets are adopted on a departmental basis and the line item estimates are from the appropriations ledger and not from a formal budget ordinance. The legal level of budgetary control is the fund level. Transfers of appropriations between funds require the approval of the City Council. The City Finance Manager may make interdepartmental and intradepartmental transfers within the General Fund.

Major capital facilities and improvements, which are accounted for by the City within the Capital Projects Fund, are subject to budgetary control on a project basis. Appropriations for a specific project do not lapse until completion of the project. Because of the project nature of these funds, budgetary comparison statements on an annual basis do not provide meaningful information and, accordingly, are not presented in the accompanying financial statements.

The budgets are prepared on a basis consistent with generally accepted accounting principles. All unencumbered and unexpended appropriations lapse at the end of the fiscal year.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is utilized for budgetary accounting controls in the governmental funds. Encumbrances are reported as assignment of fund balances. Encumbrances do not constitute expenditures or liabilities.

Expenditures may not legally exceed appropriations at or above the fund level. All budgeted amounts shown in the financial statements and the accompanying supplementary information reflect the original budget and the amended budget (which may have been adjusted for legally authorized revisions to the annual budgets during the year). During the year ended June 30, 2012, several supplemental appropriations were necessary for capital purposes.

(F) Assets, Liabilities and Fund Equity

(1) Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, interest-bearing deposits at various financial institutions, and short-term investments with an original maturity of three months or less.

(2) Investments

Investments are stated at fair value, except for interest-earning investment contracts that have a remaining maturity of one year or less at the time of purchase. Any change in the value of investments recorded at fair value is included in investment income. Fair value is based on quoted market prices.

(3) Inventories and Prepaid Items

Inventories, principally materials, supplies, and replacement parts, are valued at cost in Governmental Funds and Proprietary Funds, with cost determined using the first-in, first-out (FIFO) method. The costs are recorded as expenditures at the time individual inventory items are consumed (consumption method).

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

(4) Restricted Assets

Proceeds of bonds, as well as resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants. Also, amounts due from other governments may be included as restricted assets because their use is limited by grant agreements.

(5) Capital Assets

Capital assets (including infrastructure) are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Contributed capital assets are recorded at their estimated fair market value on the date contributed. Capital assets include public domain infrastructure assets consisting of roads, bridges, streets and sidewalks, sewers, lighting systems, and drainage systems. The City defines capital assets, other than infrastructure, as assets with an initial, individual cost of more than \$5,000 and an estimated useful life of one year or greater. Infrastructure assets including streets, sidewalks, curbs, and guttering with an initial cost of \$10,000 or more are capitalized. Infrastructure assets including traffic signals, street lighting, and drainage systems with an initial cost of \$20,000 or more are capitalized.

Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Land and certain land improvements are inexhaustible capital assets, and are not depreciated. Depreciation on depreciable capital assets is calculated on the straight-line basis over the following estimated useful lives:

	<u>Useful Life</u>
Buildings and improvements	40 years
Machinery and equipment	3 - 7 years
Water and sewer plant	20 - 40 years
Public domain infrastructure	20 - 40 years

Interest is capitalized on assets acquired with tax-exempt debt. The amount of interest capitalized is the net interest expense incurred (interest expense less interest income) from the date of the borrowing until completion of the project.

(6) Bond Discounts, Premiums and Issuance Costs

In the governmental funds, bond discounts and premiums and issuance costs are treated as period costs in the year of issue.

In proprietary funds, bond discounts and premiums and issuance costs are deferred and amortized over the term of the bonds using the straight-line method, which does not differ significantly from the effective interest method. Bond discounts are presented as a reduction of the face amount of bonds payable whereas issuance costs are recorded as deferred charges.

At the government-wide level any bond discounts and premiums and issuance costs in the governmental funds are adjusted and reported in the same manner as in proprietary funds.

(7) Deferred Gain/Loss from Advance Refunding of Debt

In the proprietary funds (and for governmental activities in the government-wide financial statements) the difference between the new debt and the net carrying value of the old debt on refunded debt transactions is deferred. The deferred gain/loss is amortized using the effective interest method over the life of the new debt. The deferred gain/loss is offset against the new liability.

(8) Fund Balance

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

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

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

Committed Fund Balance – represents amounts that can only be used for specific purposes imposed by a formal action of the City's highest level of decision-making authority, the City Council. Committed resources cannot be used for any other purpose unless the City Council removes or changes the specified use by the same type of action previously used to commit those amounts, either by resolution or by ordinance.

Assigned Fund Balance – represents amounts the City intends to use for specific purposes as expressed by the City Council or an official delegated the authority to assign amounts. This is the residual classification for all governmental funds other than the general fund. The City Finance Manager has been granted the ability to assign amounts to a specific purpose as part of the annual budget ordinance.

Unassigned Fund Balance – represents the residual classification for the general fund or deficit balances in other funds.

Amounts are considered to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available. Unrestricted amounts are considered to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

	<u>General Fund</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Fund balances:				
Nonspendable				
Inventory	\$ 164,974	\$ -	\$ -	\$ 164,974
Restricted				
Airport	105,706	-	-	105,706
Housing Authority	24,850	-	-	24,850
Cemetery	105,175	-	-	105,175
Drug fund	-	-	141,857	141,857
Streets	-	-	245,135	245,135
Capital projects	-	1,393	-	1,393
Committed				
Assigned				
Industrial development	554,766	-	-	554,766
Unassigned	<u>6,235,086</u>	<u>(406,681)</u>	<u>(31,103)</u>	<u>5,797,302</u>
Total fund balances	<u>\$7,190,557</u>	<u>\$(405,288)</u>	<u>\$355,889</u>	<u>\$7,141,158</u>
Summary for governmental funds balance sheet (page 4):				
Nonspendable	\$ 164,974	\$ -	\$ -	\$ 164,974
Restricted	235,731	1,393	386,992	624,116
Committed	-	-	-	-
Assigned	554,766	-	-	554,766
Unassigned	<u>6,235,086</u>	<u>(406,681)</u>	<u>(31,103)</u>	<u>5,797,302</u>
Total fund balances	<u>\$7,190,557</u>	<u>\$(405,288)</u>	<u>\$355,889</u>	<u>\$7,141,158</u>

(G) Revenues, Expenditures and Expenses

Substantially all governmental fund revenues are accrued. Expenditures are recognized when the related fund liability is incurred, except for the following instances permitted by generally accepted accounting principles:

- General obligation long-term debt principal and interest are reported only when due.
- Inventory costs are reported in the period when inventory items are consumed, rather than in the period purchased.

(1) **Property Taxes**

Property taxes are levied by the City annually based upon assessed valuations established by the State of Tennessee. The various types of property are assessed at a percentage of market value as follows:

Farm and residential real property	25%
Commercial and industrial property:	
Real	40%
Personal	30%
Public utilities real and personal property	55%

The property tax levy is without legal limit. The rate, as permitted by Tennessee State Law and City Charter, is set annually by the City Council and collected by the City Treasurer. Property taxes are secured by a statutory lien effective as of the original levy date of January 1. Taxes are due August 1 and become delinquent December 1. Property taxes levied are recorded as receivables, net of estimated uncollectible amounts.

The receivables collected during the current fiscal year and those collected by the City Treasurer related to tax levies for 2011, are recorded as revenue in accordance with the principles established by the Governmental Accounting Standards Board. The net receivables estimated to be collectible subsequent to August 29, are recorded as deferred revenues at June 30, 2012.

(2) Grant Revenue

The City, a recipient of grant revenues, recognizes revenues (net of estimated uncollectible amounts, if any), when all applicable eligibility requirements, including time requirements, are met. Resources transmitted to the City before the eligibility requirements are met are reported as deferred revenues.

Some grants and contributions consist of capital assets or resources that are restricted for capital purposes—to purchase, construct, or renovate capital assets associated with a specific program. These are reported separately from grants and contributions that may be used either for operating expenses or for capital expenditures of the program at the discretion of the City.

(3) Investment Income

Investment income from pooled cash and investments is allocated monthly based on the percentage of a fund's average daily equity in pooled cash and investments to the total average daily-pooled equity in pooled cash and investments.

(4) 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 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.

(5) Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds to provide services, construct assets and service debt. These transactions are generally reflected as transfers except for transactions reimbursing a fund for expenditures made by it for the benefit of another fund. Such transactions are recorded as expenditures in the disbursing fund and as a reduction of expenditures in the receiving fund. Transactions that would be treated as revenues or expenditures if the involved organizations were external to the City are treated as revenues in the receiving fund and expenditures in the disbursing fund. Transfers within governmental activities and within business-type activities are eliminated upon consolidation.

Amounts owed to one fund by another are reported as due to/due from other funds. The interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. Amounts reported in the fund financial statements as due to/due from other funds are subject to elimination upon consolidation. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

(6) Indirect Costs

Certain indirect costs have been included as part of the program expenses reported for the various functional activities.

(7) 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(H) Net Assets

The government-wide and business-type fund financial statements utilize a net asset presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted and unrestricted.

Invested in Capital Assets (net of related debt) - is intended to reflect the portion of net assets which are associated with non-liquid capital assets less outstanding capital asset related debt.

Restricted Net Assets - represent net assets that have third party (statutory, bond covenant or granting agency) limitations on their use. The City's policy is generally to use restricted net assets first, as appropriate opportunities arise.

Unrestricted Net Assets - While management may have categorized and segmented portions for various purposes, the City has the unrestricted authority to alter these managerial decisions.

(I) Pollution Remediation Obligations

The City recognizes pollution remediation obligations when an obligating event is identified and a monetary estimate can be determined.

(J) Subsequent Events

Management performed an evaluation of subsequent events through November 9, 2012, the date these financial statements were available to be issued.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

1) Compliance with Finance Related Legal and Contractual Provisions

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

2) Excess of Expenditures Over Appropriations in Individual Funds

For the year ended June 30, 2012, the City had no material excess of expenditures over appropriations in individual funds.

Net Assets/Fund Balance Deficit

The Capital Projects Fund has a deficit in fund balance of \$405,288 at June 30, 2012. The City plans to fund the deficit with additional transfers from the General Fund.

The Solid Waste Fund has a deficit in fund balance of \$31,103 at June 30, 2012. The City plans to fund the deficit with additional transfers from the General Fund.

NOTE 3. CASH AND INVESTMENTS

The City uses a central cash and investment pool for certain Governmental Funds and Proprietary Funds. The cash and investment pool balances are classified as cash and cash equivalents in the accompanying financial statements. The City's investment policy with respect to the cash and investment pool is to maximize investment earnings while maintaining an acceptable level of risk. Because investments in the pool must provide for the future needs of the City, flexibility and liquidity of investments are generally maintained at all times.

Interest rate risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's policies require purchases of investments with maturities of two years or less. The City presents its exposure to interest rate changes using the weighted average maturity method. The City manages its interest rate risk by limiting the weighted average maturity of its investment portfolio for the primary government. The City's investment portfolio did not experience any significant fluctuations in fair value during the year.

Custodial credit risk - The City’s policies limit deposits and investments to those instruments allowed by applicable state laws. State statutes require that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the value of the uninsured deposits. The deposits must be covered by federal depository insurance or the Tennessee Bank Collateral Pool, by collateral held by the City’s agent in the City’s name, or by the Federal Reserve Banks acting as third party agents. State statutes also authorize the City to invest in bonds, notes or treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations and federally chartered banks and savings and loan associations, repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities, the state pooled investment fund, and mutual funds. Statutes also require that securities underlying repurchase agreements must have a market value at least equal to the amount of funds invested in the repurchase transaction. As of June 30, 2012, \$1,234,452 of the City’s bank balance was exposed to credit risk because it was uninsured and uncollateralized.

Credit risk - The City’s policies are designed to maximize investment earnings, while protecting the security of principal and providing adequate liquidity, in accordance with all applicable state laws. The City’s investment policy includes specific policies involving credit risk.

NOTE 4. RECEIVABLES

Receivables at June 30, 2012, consist of the following:

	<u>Governmental Activities Funds</u>			<u>Business-Type</u>	<u>Total</u>
	<u>General</u>	<u>Capital</u>	<u>Other</u>	<u>Activities</u>	
		<u>Projects</u>	<u>Governmental</u>		
Primary Government					
Receivables:					
Taxes	\$2,124,480	\$ -	\$ -	\$ -	\$2,124,480
Accounts	37,432	-	-	399,950	437,382
Other	368,529	-	-	8,521	377,050
Intergovernmental	<u>1,780,000</u>	<u>-</u>	<u>49,685</u>	<u>2,031,645</u>	<u>3,861,330</u>
Gross receivables	4,310,441	-	49,685	2,440,116	6,800,242
Less:					
Allowance for uncollectibles	<u>(61,845)</u>	<u>-</u>	<u>-</u>	<u>(11,864)</u>	<u>(73,709)</u>
Net receivables	<u>\$4,248,596</u>	<u>\$ -</u>	<u>\$49,685</u>	<u>\$2,428,252</u>	<u>\$6,726,533</u>

Taxes receivable include the uncollected property taxes from tax levies made during the current and past fourteen years, as well as the anticipated levy for the current calendar year. The allowance for uncollectible taxes is the weighted average percentage of prior year collections on delinquent taxes to the total delinquent taxes receivable at June 30, 2012.

NOTE 5. INTERFUND TRANSFERS

Transfers are used to (1) move revenues of \$1,081,037 from the General Fund to the Capital Projects Fund for capital asset construction and acquisition costs, (2) move revenues of \$362,051 from the General Fund to the Solid Waste Fund to cover solid waste collection costs.

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012, is as follows:

Primary Government

Governmental Activities:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Non-Depreciable Assets:				
Land and land improvements	\$ 6,325,267	\$ 1,825,495	\$ 10,021	\$ 8,140,741
Construction in progress	<u>2,637,623</u>	<u>3,407,358</u>	<u>962,130</u>	<u>5,082,851</u>
Total non-depreciable assets	<u>8,962,890</u>	<u>5,232,853</u>	<u>972,151</u>	<u>13,223,592</u>
Depreciable Assets:				
Buildings and improvements	8,371,508	541,808	-	8,913,316
Machinery and equipment	7,144,811	510,776	88,030	7,567,557
Other improvements	12,358,255	1,001,304	-	13,359,559
Infrastructure	<u>17,707,611</u>	<u>431,432</u>	<u>-</u>	<u>18,139,043</u>
Total depreciable assets	<u>45,582,185</u>	<u>2,485,320</u>	<u>88,030</u>	<u>47,979,475</u>
Less Accumulated Depreciation for:				
Buildings, machinery and other improvements	10,687,544	970,365	78,030	11,579,879
Infrastructure	<u>4,991,683</u>	<u>884,040</u>	<u>-</u>	<u>5,875,723</u>
Total accumulated depreciation	<u>15,679,227</u>	<u>1,854,405</u>	<u>78,030</u>	<u>17,455,602</u>
Depreciable Assets, net	<u>29,902,958</u>	<u>630,915</u>	<u>10,000</u>	<u>30,523,873</u>
Governmental activities capital assets, net	<u>\$38,865,848</u>	<u>\$ 5,863,768</u>	<u>\$ 982,151</u>	<u>\$ 43,747,465</u>
Business-Type Activities:				
Non-Depreciable Assets:				
Land	\$ 424,236	\$ 150,580	\$ -	\$ 574,816
Construction in progress	<u>11,626,403</u>	<u>6,572,715</u>	<u>10,396,365</u>	<u>7,802,753</u>
Total non-depreciable assets	<u>12,050,639</u>	<u>6,723,295</u>	<u>10,396,365</u>	<u>8,377,569</u>
Depreciable Assets:				
Water and sewer plant	84,123,819	11,805,566	23,270	95,906,115
Machinery and equipment	<u>5,815,467</u>	<u>430,342</u>	<u>250,303</u>	<u>5,995,506</u>
Total depreciable assets	<u>89,939,286</u>	<u>12,235,908</u>	<u>273,573</u>	<u>101,901,621</u>
Less Accumulated Depreciation for:				
Water and sewer plant	29,125,174	2,618,654	250,303	31,493,525
Machinery and equipment	<u>3,896,647</u>	<u>32,682</u>	<u>-</u>	<u>3,929,329</u>
Total accumulated depreciation	<u>33,021,821</u>	<u>2,651,336</u>	<u>250,303</u>	<u>35,422,854</u>
Depreciable Assets, net	<u>56,917,465</u>	<u>9,584,572</u>	<u>23,270</u>	<u>66,478,767</u>
Business-type activities capital assets, net	<u>\$68,968,104</u>	<u>\$16,307,867</u>	<u>\$10,419,635</u>	<u>\$ 74,856,336</u>

Depreciation expense is charged to functions as follows:

Primary Government – Governmental Activities:	
General government	\$ 208,216
Airport	156,051
Cemetery	12,014
Parks and recreation	354,913
Public safety	272,320
Sanitation	1,496
Streets	<u>849,395</u>
Total	<u>\$1,854,405</u>
Primary Government – Business-Type Activities:	
Water and Sewer Department	<u>\$2,651,336</u>

NOTE 7. LONG-TERM LIABILITIES

Changes in long-term liabilities for the fiscal year ended June 30, 2012, were as follows:

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2012</u>	<u>Due Within One Year</u>
Primary Government					
GOVERNMENTAL ACTIVITIES					
Notes payable	\$ 1,532,933	\$2,638,067	\$ 140,186	\$4,030,814	\$ 609,667
Compensated absences	<u>267,709</u>	<u>15,590</u>	<u>-</u>	<u>283,299</u>	<u>64,669</u>
Total governmental activities	<u>\$ 1,800,642</u>	<u>\$2,653,657</u>	<u>\$ 140,186</u>	<u>\$4,314,113</u>	<u>\$ 674,336</u>
BUSINESS-TYPE ACTIVITIES					
Water and Sewer Department:					
Revenue bonds	\$ 5,685,025	\$ -	\$ 395,785	\$ 5,289,240	\$ 89,401
Notes payable	17,889,935	7,009,923	1,488,828	23,411,030	1,684,452
Compensated absences	<u>81,464</u>	<u>7,060</u>	<u>-</u>	<u>88,524</u>	<u>25,004</u>
Total business-type activities	<u>\$23,656,424</u>	<u>\$7,016,983</u>	<u>\$1,884,613</u>	28,788,794	<u>\$1,798,857</u>
Net deferred refunding and original issue premiums and discounts				<u>(168,712)</u>	
				<u>\$28,620,082</u>	

In prior years, the City refunded certain bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liabilities for the refunded bonds are not included in the City's financial statements. At June 30, 2012, the remaining liabilities for the bonds refunded were \$4,100,000.

Debt related to governmental activities at June 30, 2012, consisted of the following:

Tennessee Municipal Bond Fund Loan 2004 – In November 2004, the City received a loan from the Public Building Authority of the City of Clarksville, Tennessee to secure a loan for constructing and equipping the Crossville/Cumberland County Emergency Communications Center project. The note will be repaid over a 20-year period with a variable rate (currently 0.49%) through 2024. The balance at June 30, 2012, is \$680,000.

Tennessee Municipal Bond Fund Loan 2010 – In November 2010, the City entered into an agreement with the Public Building Authority of the City of Clarksville, TN to secure a loan for the purpose of financing water and sewer system projects and for the acquisition of equipment. The loan will be repaid in annual installments through 2019 at a variable rate (0.18% at June 30, 2012). The balance at June 30, 2012, is \$870,814.

Airport Capital Outlay Note* – In February 2011, the City entered into an agreement to purchase property adjacent to the airport for \$680,000. The sellers are financing the purchase, to be repaid in annual installments through July 2015. The balance at June 30, 2012, is \$680,000.

Land Purchase Capital Outlay Note* – In February 2012, the City entered into an agreement to purchase property for industrial development for \$1,800,000. The sellers are financing the purchase, to be repaid in annual installments through July 2020 with interest at 3.45%. The balance at June 30, 2012, is \$1,800,000.

Debt service requirements for general obligation debt are met by the General Fund. The compensated absences liability attributable to governmental activities will be liquidated by the General Fund and the Special Revenue Funds.

Debt related to business-type activities at June 30, 2012, consisted of the following:

<u>Issue</u>	<u>Interest Rates</u>	<u>Principal Amount</u>
State Wastewater Facility Revolving Loan 2000	1.77%	\$ 3,545,981
State Wastewater Facility Revolving Loan 2001	1.47%	305,150
State Wastewater Facility Revolving Loan 2001	1.47%	769,756
State Wastewater Facility Revolving Loan 1992	2.64%	345,595
State Revolving Loan August 2009	2.88%	2,598,684
State Revolving Loan November 2009	2.83%	2,896,380
State Revolving Loan April 2010	2.78%	470,151
State Revolving Loan May 2010	2.69%	648,662
Tennessee Local Development Authority	3.31%	268,199
Tennessee Municipal Bond Fund, Series 1997	0.25%	2,256,800
Water System Refunding Revenue Bonds, Series 2005	3.65% - 4.63%	4,100,000
Tennessee Municipal Bond Fund 2010	0.18%	3,024,186
Water and Sewer Revenue and Tax Bonds, Series 2003	4.25%	1,189,240
USDA Rural Development Loan Hwy 70 N Waterline	3.00%	1,698,076
USDA Rural Development Loan Cumberland Cove	3.00%	583,410
USDA Rural Development Loan Meadow Park Lake Dam	3.00%	<u>4,000,000</u>
Total payable from business-type activities		<u>\$28,700,270</u>

State Wastewater Facility Revolving Loan 2000 - The City entered into an agreement with the Tennessee Department of Environment and Conservation to secure a loan for the purpose of constructing a water treatment plant at Meadow Park Lake and related raw water transport facilities and lines. The loan will be repaid in monthly installments through 2024 with interest at 1.77%. The remaining balance at June 30, 2012, is \$3,545,981.

State Wastewater Facility Revolving Loan 2001* - The City entered into an agreement with the Tennessee Department of Environment and Conservation to secure a loan for the purpose of waterline upsizing to address low-pressure in the Homestead area. The loan will be repaid in monthly installments through 2025 with interest at 1.47%. The remaining balance at June 30, 2012, is \$305,150.

State Wastewater Facility Revolving Loan 2001 - The City entered into an agreement with the Tennessee Department of Environment and Conservation to secure a loan for the purpose of major sewer rehabilitation to improve available capacity of the wastewater plant. The loan will be repaid in monthly installments through 2024 with interest at 1.47%. The remaining balance at June 30, 2012, is \$769,756.

State Wastewater Facility Revolving Loan 1992 - The City entered into an agreement with the Tennessee Department of Environment and Conservation to secure a loan for the purpose of expanding the existing treatment plant. The loan will be repaid in monthly installments through 2015 with interest at 2.64%. The remaining balance at June 30, 2012, is \$345,595.

State Revolving Loan August 2009 – The City entered into an agreement with the Tennessee Department of Environment and Conservation and the Tennessee Local Development Authority to secure a loan for the purpose of financing wastewater treatment plant improvements. The loan will be repaid in monthly installments through 2032 at 2.88% interest. The balance at June 30, 2012, is \$2,598,684.

State Revolving Loan November 2009 – The City entered into an agreement with the Tennessee Department of Environment and Conservation and the Tennessee Local Development Authority to secure a loan for the purpose of financing the construction of water lines for wastewater treatment. The loan will be repaid in monthly installments through 2032 at 2.83% interest. The balance at June 30, 2012, is \$2,896,380.

State Revolving Loan April 2010 – The City entered into an agreement with the Tennessee Department of Environment and Conservation and the Tennessee Local Development Authority to secure a loan for the purpose of financing upgrades and improvements to the wastewater treatment plant. The loan will be repaid in monthly installments through 2031 at 2.78% interest. The balance at June 30, 2012, is \$470,151.

State Revolving Loan May 2010 – The City entered into an agreement with the Tennessee Department of Environment and Conservation and the Tennessee Local Development Authority to secure a loan for the purpose of financing upgrades and improvements to the wastewater treatment plant. The loan will be repaid in monthly installments through 2032 at 2.69% interest. The balance at June 30, 2012, is \$648,662.

Tennessee Local Development Authority – The City entered into an agreement with the Tennessee Local Development Authority to secure a loan for the purpose of financing construction of sewer lines and wastewater treatment plant. The loan will be repaid in monthly installments through 2015 at a variable rate (3.31% at June 30, 2012). The balance at June 30, 2012, is \$268,199.

Tennessee Municipal Bond Fund Loan 1997* – The City entered into an agreement with the Public Building Authority of the City of Clarksville, TN to secure a loan for the purpose of financing water system projects. The loan will be repaid in annual installments through 2019 at a variable rate (0.25% at June 30, 2012). The balance at June 30, 2012, is \$2,256,800.

Water System Refunding Revenue Bonds, Series 2005 – The City entered into an agreement with the Public Building Authority of the City of Crossville, TN, in connection with Water System Refunding Bonds. The bonds will be repaid in semi-annual installments through 2029 at fixed rates from 3.65% to 4.63%. The balance at June 30, 2012, is \$4,100,000.

Tennessee Municipal Bond Fund Loan 2010* – The City entered into an agreement with the Public Building Authority of the City of Clarksville, TN to secure a loan for the purpose of financing water and sewer system projects and for the acquisition of equipment. The loan will be repaid in annual installments through 2022 at a variable rate (0.18% at June 30, 2012). The balance at June 30, 2012, is \$3,024,186.

Water and Sewer Revenue and Tax Bonds, Series 2003 – The City entered into an agreement with the USDA Rural Development to secure bonds for the purpose of constructing waterworks systems improvements and extensions. The bonds will be repaid in annual installments through 2023 at a fixed rate of 4.25%. The balance at June 30, 2012, is \$1,189,240.

USDA Rural Development Loan Hwy 70 N Waterline – The City entered into an agreement with the USDA Rural Development to secure a loan for the purpose of financing water and sewer systems improvements and extensions. The loan will be repaid in annual installments through 2050 at a fixed rate of 3.00%. The balance at June 30, 2012, is \$1,698,076.

USDA Rural Development Loan Cumberland Cove – The City entered into an agreement with the USDA Rural Development to secure a loan for the purpose of financing water and sewer systems improvements and extensions. The loan will be repaid in annual installments through 2050 at a fixed rate of 3.00%. The balance at June 30, 2012, is \$583,410.

USDA Rural Development Loan Meadow Park Lake Dam – The City entered into an agreement with the USDA Rural Development to secure a loan for the purpose of financing water and sewer systems improvements and extensions. The loan will be repaid in annual installments through 2050 at a fixed rate of 3.00%. The balance at June 30, 2012, is \$4,000,000.

*In August, 2012, these notes and bonds were advance refunded by the issuance of general obligation and water and sewer refunding and improvement bonds. Series 2012 A, B and C bonds totaling \$16,645,000 have interest rates of 2.67-3.19% and mature in 2037.

Principal and interest requirements to maturity for bonds, notes and other obligations payable, excluding amounts for compensated absences, are as follows:

Year	Primary Government			
	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2013	\$ 609,667	\$ 31,781	\$ 1,773,853	\$ 525,318
2014	614,667	59,621	1,950,558	664,137
2015	620,666	52,231	1,734,237	625,901
2016	399,000	44,824	1,771,520	592,711
2017	404,000	37,404	1,820,955	558,291
2018-2022	1,252,814	76,910	8,573,091	2,236,947
2023-2027	130,000	960	4,559,469	1,384,565
2028-2032	-	-	3,542,141	715,368
2033-2037	-	-	826,760	396,562
2038-2042	-	-	826,760	272,547
2043-2047	-	-	826,760	148,535
2048-2050	-	-	494,166	29,591
	<u>\$4,030,814</u>	<u>\$303,731</u>	<u>\$28,700,270</u>	<u>\$8,150,473</u>

NOTE 8. 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 until 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.

NOTE 9. EMPLOYEE RETIREMENT SYSTEMS

The City provides retirement benefits through a Pension Plan and an Other Postemployment Benefits Plan. The following is a summary of each of these plans:

Pension Plan

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 using 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 the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state 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 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.

Other Postemployment Benefits

The City provides postemployment medical coverage to all employees and their families 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, until they are eligible for Medicare benefits. Any cost to the retiree related to family coverage is deducted from their retirement check.

Trend Information:

	<u>Year Ended</u>	<u>Annual Pension/OPEB Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension/OPEB Obligation (Asset)</u>
Pension Plan	6/30/12	\$885,453	100.00%	\$ -
	6/30/11	857,179	100.00%	-
	6/30/10	825,746	100.00%	-
Other Postemployment Benefits	6/30/12	\$ 38,407	100.00%	\$95,034
	6/30/11	35,986	100.00%	90,522
	6/30/10	73,371	35.32%	90,523

Funding Policy and Other Information:

The Pension Plan contribution requirement for the City is established and may be amended by the TCRS Board of Trustees. The City is currently required to contribute to the Pension Plan at an actuarially determined rate. The contribution requirement of plan members is set by state statute.

The City currently pays for Other Postemployment Benefits on a pay-as-you-go basis.

The employer's annual pension cost for the current year and related information for each plan is as follows:

	<u>Pension Plan</u>	<u>Other Postemployment Benefits</u>
Contribution rates for employer	14.80%	N/A
Contribution rates for plan members	up to 5%	Varies
Annual pension/OPEB cost	\$885,453	\$38,407
Contributions made by employer	885,453	33,895
Contributions made by plan members	-	-
Actuarial valuation date for current contributions	July 1, 2009	June 30, 2010
Amortization method	Level Dollar	Level Dollar
Remaining amortization period at valuation date	6 years	30 years
Asset valuation method	Market value, as adjusted	N/A
Actuarial assumptions:		
Investment rate of return	7.50%	N/A
Projected salary increases	4.75%	N/A
Inflation rate	3.50%	3.00%

In the July 1, 2011, actuarial valuation for the City's OPEB Plan uses an annual healthcare cost trend rate of 8.5% initially, reducing incrementally to an ultimate rate of 3.5%.

The City's annual pension/OPEB cost and net pension/OPEB obligation (asset) related to each plan for the current year were as follows:

	<u>Pension Plan</u>	<u>Other Postemployment Benefits</u>
Annual required contribution	\$885,453	\$38,407
Interest on net pension/OPEB obligation	-	-
Adjustment to annual required contribution	<u>-</u>	<u>-</u>
Annual pension/OPEB cost	885,453	38,407
Contributions made	<u>885,453</u>	<u>33,895</u>
Increase in net pension/OPEB obligation	-	4,512
Net pension/OPEB obligation at beginning of year	<u>-</u>	<u>90,522</u>
Net pension/OPEB obligation at end of year	<u>\$ -</u>	<u>\$95,034</u>

The annual required contribution for the pension plan 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 the schedule of funding progress included in the required supplemental information is intended to serve as surrogate for the funded status and funding progress of the plan.

The annual required contribution for the other postemployment benefits plan was calculated using the projected unit cost method.

Financial Reports:

The TCRS issues a publicly available financial report for the Pension Plan 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>.

The Other Postemployment Benefits Plan does not issue a financial report that includes financial statements and required supplementary information.

NOTE 10. 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, 2012, no water was sold to the FCFUD under the terms of the contract.

In November 2006, the City entered into a water service contract with SCUD to provide all SCUD's potable water needs provided that SCUD's demands do not exceed the City's capacity to furnish potable water to all of the 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's customers inside the City and shall become effective at the same time as the rate increase to the City's customers inside the City. During the year ended June 30, 2012, the City sold 220,838,500 gallons (20.8% of total gallons sold) totaling \$657,744 (10.1% of total water revenues) under the terms of this contract. Additionally, SCUD owes the City \$65,985 at June 30, 2012.

In April 2007, the City entered into a water service contract with Grandview Utility District ("GUD") to provide all of GUD's potable water needs provided that GUD's demands do not exceed the City's capacity to furnish potable water to all of the City's customers. The contract became effective May 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 GUD will be the same percentage rate increase as established by the City's customers inside the City and shall become effective at the same time as the rate increase to the City's customers inside the City. During the year ended June 30, 2012, the City sold 32,540,500 gallons (3.1% of total gallons sold) totaling \$96,898 (1.5% of total water revenues) under the terms of this contract. Additionally, GUD owes the City \$9,257 at June 30, 2012.

NOTE 11. RELATED PARTY TRANSACTION

The City 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, 2012, and requires the City to pay \$1,000 per month.

NOTE 12. COMMITMENTS AND CONTINGENCIES

The City is a defendant in a lawsuit filed in the Circuit Court for Cumberland County, Tennessee filed by approximately 200 property owners in the Lake Tansi area of Cumberland County. The plaintiffs have petitioned the court for inverse condemnation requesting that each plaintiff be awarded in excess of \$100,000, with the specific amount to be determined 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 lawsuit 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. The City does not concede any of the allegations in the lawsuit or deem them to be meritorious. Management does not believe any potential losses related to this lawsuit would be covered by the City's insurance. No amounts are recorded in the financial statements related to this lawsuit.

The City is party to other various lawsuits and claims in the ordinary course of their operations. Management believes that the potential adverse impact of these proceedings would not be material to the basic financial statements of the City.

The City has received federal and state grants for specific purposes that are subject to review and audit by grantor agencies. Such audits could result in reimbursements to the grantor agencies for expenditures disallowed under the terms of the grants. City management is not aware of any potential losses from such disallowances and believes that reimbursements, if any, would not be material.

The City has entered into various construction commitments. Such contracts include contracts for improvements to the water and sewer plant, and acquisition and construction contracts related to general government capital projects. Several of these contracts were in progress but not completed as of June 30, 2012. The total contractual commitments outstanding as of June 30, 2012, were not significant and the City has sufficient funds available to cover these commitments.

NOTE 13. LANDFILL POSTCLOSURE CARE COSTS

The postclosure care costs of the City landfill closed in 1993 are accounted for in the primary government governmental activities. State and federal regulations require the City to place a final cover on all landfills after closure, and the City must perform certain maintenance and monitoring functions for 30 years thereafter. The City recognizes landfill postclosure care costs based on the amount of the landfill used during the year. The estimated liability for landfill postclosure care costs of \$195,286 at June 30, 2012, is based on the use of 100 percent of the capacity of the City landfill. Changes in the estimated liability for landfill postclosure care costs for the year ended June 30, 2012, are as follows:

Estimated liability, June 30, 2011	\$205,786
Costs incurred	<u>10,500</u>
Estimated liability, June 30, 2012	<u>\$195,286</u>
Due within one year	<u>\$ 11,025</u>

The estimated total current cost of the landfill postclosure care of \$195,286 is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfills were acquired at June 30, 2012. However, the actual cost of postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

CITY OF CROSSVILLE

SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
 PUBLIC EMPLOYEE RETIREMENT SYSTEMS
 SCHEDULE OF FUNDING PROGRESS
 June 30, 2012

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
Pension Plan						
July 1, 2011	\$16,395,000	\$ 17,870,000	\$1,475,000	91.74%	\$5,806,000	25.41%
July 1, 2009	12,908,000	15,711,000	2,803,000	82.16%	5,933,000	47.23%
July 1, 2007	11,637,000	13,566,000	1,929,000	85.78%	5,294,000	36.44%
Other Postemployment Benefits						
July 1, 2009	\$ -	\$ 689,711	\$ 689,711	0.00%	\$7,404,480	9.32%
July 1, 2008	-	679,970	679,970	0.00%	5,294,000	12.84%

Note: The annual required contribution is calculated using the aggregate actuarial cost method. Information in this schedule is calculated using the entry age actuarial cost method as a surrogate for the funding progress of the plan. Additional years will be added as the become available.

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

These are the operating funds which are restricted as to use by the federal or state governments and special purpose funds established by the City Council.

Drug Fund accounts for revenues from drug fines and forfeited goods received. State law requires usage of those monies to further drug education and investigations.

Solid Waste Fund accounts for revenues and expenditures for solid waste collection.

State Street Aid Fund accounts for revenues and expenditures of the City's share of state gasoline taxes. State law requires that gasoline taxes be used to maintain streets.

CITY OF CROSSVILLE
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
June 30, 2012

	Special Revenue			Total Special Revenue	Total Nonmajor Governmental Funds
	Drug Fund	Solid Waste	State Street Aid		
ASSETS					
Cash and cash equivalents	\$ 141,963	\$ -	\$ 198,749	\$ 340,712	\$ 340,712
Due from other governments	<u>-</u>	<u>-</u>	<u>49,685</u>	<u>49,685</u>	<u>49,685</u>
Total assets	<u>\$ 141,963</u>	<u>\$ -</u>	<u>\$ 248,434</u>	<u>\$ 390,397</u>	<u>\$ 390,397</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable and accrued liabilities	<u>\$ 106</u>	<u>\$ 31,103</u>	<u>\$ 3,299</u>	<u>\$ 34,508</u>	<u>\$ 34,508</u>
Total liabilities	<u>106</u>	<u>31,103</u>	<u>3,299</u>	<u>34,508</u>	<u>34,508</u>
FUND BALANCES					
Nonspendable	-	-	-	-	-
Restricted	141,857	-	245,135	386,992	386,992
Committed	-	-	-	-	-
Assigned	-	-	-	-	-
Unassigned	<u>-</u>	<u>(31,103)</u>	<u>-</u>	<u>(31,103)</u>	<u>(31,103)</u>
Total fund balances (deficitS)	<u>141,857</u>	<u>(31,103)</u>	<u>245,135</u>	<u>355,889</u>	<u>355,889</u>
Total liabilities and fund balances	<u>\$ 141,963</u>	<u>\$ -</u>	<u>\$ 248,434</u>	<u>\$ 390,397</u>	<u>\$ 390,397</u>

CITY OF CROSSVILLE
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended June 30, 2012

	Special Revenue			Total Special Revenue	Total Nonmajor Governmental Funds
	Drug Fund	Solid Waste	State Street Aid		
REVENUES					
Intergovernmental	\$ -	\$ -	\$ 279,856	\$ 279,856	\$ 279,856
Investment income	144	-	224	368	368
Miscellaneous	140,646	-	-	140,646	140,646
Total revenues	<u>140,790</u>	<u>-</u>	<u>280,080</u>	<u>420,870</u>	<u>420,870</u>
EXPENDITURES					
Public safety	89,451	-	-	89,451	89,451
Sanitation	-	372,139	-	372,139	372,139
Streets	-	-	233,003	233,003	233,003
Total expenditures	<u>89,451</u>	<u>372,139</u>	<u>233,003</u>	<u>694,593</u>	<u>694,593</u>
Excess (deficiency) of revenues over (under) expenditures	<u>51,339</u>	<u>(372,139)</u>	<u>47,077</u>	<u>(273,723)</u>	<u>(273,723)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	362,051	-	362,051	362,051
Total other financing sources (uses)	<u>-</u>	<u>362,051</u>	<u>-</u>	<u>362,051</u>	<u>362,051</u>
Net change in fund balance	<u>51,339</u>	<u>(10,088)</u>	<u>47,077</u>	<u>88,328</u>	<u>88,328</u>
FUND BALANCE (DEFICIT), beginning	<u>90,518</u>	<u>(21,015)</u>	<u>198,058</u>	<u>267,561</u>	<u>267,561</u>
FUND BALANCE (DEFICIT), ending	<u>\$ 141,857</u>	<u>\$ (31,103)</u>	<u>\$ 245,135</u>	<u>\$ 355,889</u>	<u>\$ 355,889</u>

CITY OF CROSSVILLE
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
REVENUES				
Taxes:				
Property taxes	\$ 1,975,000	\$ 1,959,700	\$ 2,091,370	\$ 131,670
Local sales tax	7,000,000	7,000,000	6,803,196	(196,804)
Local beer and liquor tax	885,000	885,000	975,632	90,632
Business taxes	630,100	630,100	687,103	57,003
Payments in lieu of taxes	200,000	200,000	206,788	6,788
Licenses and permits:				
Beer and liquor license fees	23,700	23,700	22,181	(1,519)
Building permits	100,000	100,000	162,540	62,540
Other permits	13,000	13,000	12,518	(482)
Intergovernmental revenues:				
Intergovernmental grants and contracts	2,878,510	2,878,510	2,365,074	(513,436)
State sales and income tax	840,000	840,000	872,206	32,206
Other state taxes	94,000	94,000	97,059	3,059
Charges for services:				
Airport charges	102,500	102,500	107,795	5,295
Cemetery charges	30,000	30,000	30,450	450
Driver safety school charges	26,000	26,000	26,300	300
Park facility and concession charges	168,900	168,900	198,760	29,860
Fines and forfeitures:				
Court fines and costs	105,000	105,000	136,599	31,599
Other fines and costs	8,800	8,800	4,305	(4,495)
Drug related fines and forfeitures	4,000	4,000	3,086	(914)
Interest revenue:	11,400	11,400	9,539	(1,861)
Contributions and donations:	10,000	10,000	12,700	2,700
Miscellaneous:				
Insurance recoveries	15,000	30,820	44,989	14,169
Sale of property and equipment	2,000	2,000	26,665	24,665
Other revenues	106,700	106,700	123,006	16,306
Total revenues	15,229,610	15,230,130	15,019,861	(210,269)
EXPENDITURES				
General government:				
Payroll and payroll taxes	1,505,010	1,496,960	1,400,199	(96,761)
Employee benefits	558,650	545,695	469,060	(76,635)
Supplies	215,250	227,725	166,197	(61,528)
Utilities	101,050	101,150	77,854	(23,296)
Repairs and maintenance	64,900	64,120	38,774	(25,346)
Other expenditures	839,971	841,681	705,380	(136,301)
Capital outlay	112,000	109,500	101,966	(7,534)
City court:				
Payroll and payroll taxes	15,000	15,000	15,000	-
Supplies	1,250	1,300	1,255	(45)
Other expenditures	900	850	627	(223)
Airport:				
Supplies	2,150	1,650	1,299	(351)
Utilities	29,275	29,145	28,761	(384)
Repairs and maintenance	12,500	11,920	10,802	(1,118)
Other expenditures	92,950	88,750	86,970	(1,780)
Capital outlay	2,552,310	2,557,720	2,444,878	(112,842)
Cemetery:				
Payroll and payroll taxes	33,500	33,500	31,404	(2,096)
Employee benefits	13,850	13,850	11,159	(2,691)
Supplies	5,100	5,100	2,649	(2,451)
Utilities	1,765	1,765	903	(862)
Repairs and maintenance	23,850	23,850	15,794	(8,056)

(continued on next page)

CITY OF CROSSVILLE
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2012

(continued from previous page)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Parks and recreation:				
Payroll and payroll taxes	\$ 476,500	\$ 477,440	\$ 452,730	\$ (24,710)
Employee benefits	135,850	120,270	115,036	(5,234)
Supplies	181,800	189,390	142,810	(46,580)
Utilities	239,510	245,770	218,465	(27,305)
Repairs and maintenance	128,500	128,910	84,601	(44,309)
Other expenditures	75,850	76,230	63,607	(12,623)
Capital outlay	36,000	36,000	22,950	(13,050)
Planning and zoning:				
Payroll and payroll taxes	102,400	102,400	96,919	(5,481)
Employee benefits	41,900	41,300	33,288	(8,012)
Supplies	5,550	6,750	4,960	(1,790)
Utilities	4,775	4,775	4,121	(654)
Repairs and maintenance	1,300	1,350	1,240	(110)
Other expenditures	42,845	42,195	15,842	(26,353)
Public safety:				
Payroll and payroll taxes	3,091,460	3,135,355	3,029,501	(105,854)
Employee benefits	1,135,400	1,102,250	1,014,793	(87,457)
Supplies	435,100	468,800	335,258	(133,542)
Utilities	72,275	72,125	49,079	(23,046)
Repairs and maintenance	118,300	132,350	119,848	(12,502)
Other expenditures	600,250	592,875	477,498	(115,377)
Capital outlay	154,000	174,875	143,685	(31,190)
Streets:				
Payroll and payroll taxes	533,100	534,780	470,017	(64,763)
Employee benefits	224,200	207,490	182,869	(24,621)
Supplies	282,900	297,885	201,500	(96,385)
Utilities	36,050	34,810	28,571	(6,239)
Repairs and maintenance	146,700	149,320	113,157	(36,163)
Other expenditures	12,700	11,365	6,638	(4,727)
Capital outlay	935,000	1,013,088	692,502	(320,586)
Tourism development:				
Payroll and payroll taxes	49,500	56,580	56,550	(30)
Employee benefits	16,700	16,125	15,330	(795)
Supplies	4,320	2,385	1,792	(593)
Utilities	900	900	953	53
Repairs and maintenance	250	250	-	(250)
Other expenditures	324,875	321,305	263,111	(58,194)
Debt service:				
Principal	396,000	396,000	140,186	(255,814)
Interest	105,000	105,000	12,644	(92,356)
Total expenditures	<u>16,328,991</u>	<u>16,469,924</u>	<u>14,222,982</u>	<u>(2,246,942)</u>
Excess of revenues over (under) expenditures	<u>(1,099,381)</u>	<u>(1,239,794)</u>	<u>796,879</u>	<u>2,036,673</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(1,560,500)	(1,925,550)	(1,443,088)	482,462
Issuance of bonds and notes	<u>1,873,000</u>	<u>1,873,000</u>	<u>838,067</u>	<u>(1,034,933)</u>
Total other financing sources (uses)	<u>312,500</u>	<u>(52,550)</u>	<u>(605,021)</u>	<u>(552,471)</u>
Net change in fund balance	(786,881)	(1,292,344)	191,858	1,484,202
FUND BALANCE at beginning of year	<u>6,998,699</u>	<u>6,998,699</u>	<u>6,998,699</u>	<u>-</u>
FUND BALANCE at end of year	<u>\$ 6,211,818</u>	<u>\$ 5,706,355</u>	<u>\$ 7,190,557</u>	<u>\$ 1,484,202</u>

CITY OF CROSSVILLE
SPECIAL REVENUE FUND
DRUG FUND
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
REVENUES				
Investment income	\$ 200	\$ 200	\$ 144	\$ (56)
Miscellaneous	<u>42,000</u>	<u>42,000</u>	<u>140,646</u>	<u>98,646</u>
Total revenues	<u>42,200</u>	<u>42,200</u>	<u>140,790</u>	<u>98,590</u>
EXPENDITURES				
Public safety	19,250	30,950	30,145	(805)
Capital outlay	<u>81,000</u>	<u>69,300</u>	<u>59,306</u>	<u>(9,994)</u>
Total expenditures	<u>100,250</u>	<u>100,250</u>	<u>89,451</u>	<u>(10,799)</u>
Excess of revenues over (under) expenditures	(58,050)	(58,050)	51,339	109,389
FUND BALANCE at beginning of year	<u>90,518</u>	<u>90,518</u>	<u>90,518</u>	<u>-</u>
FUND BALANCE at end of year	<u>\$ 32,468</u>	<u>\$ 32,468</u>	<u>\$ 141,857</u>	<u>\$ 109,389</u>

CITY OF CROSSVILLE
SPECIAL REVENUE FUND
SOLID WASTE FUND
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Miscellaneous	\$ 100	\$ 100	\$ -	\$ (100)
Total Revenues	<u>100</u>	<u>100</u>	<u>-</u>	<u>(100)</u>
EXPENDITURES				
Sanitation	<u>360,600</u>	<u>380,950</u>	<u>372,139</u>	<u>(8,811)</u>
Total expenditures	<u>360,600</u>	<u>380,950</u>	<u>372,139</u>	<u>(8,811)</u>
Deficiency of revenues under expenditures	(360,500)	(380,850)	(372,139)	8,711
OTHER FINANCING SOURCES				
Transfers in	<u>360,500</u>	<u>380,850</u>	<u>362,051</u>	<u>(18,799)</u>
Net change in fund balance	-	-	(10,088)	(10,088)
FUND BALANCE (DEFICIT) at beginning of year	<u>(21,015)</u>	<u>(21,015)</u>	<u>(21,015)</u>	<u>-</u>
FUND BALANCE (DEFICIT) at end of year	<u>\$ (21,015)</u>	<u>\$ (21,015)</u>	<u>\$ (31,103)</u>	<u>\$ (10,088)</u>

CITY OF CROSSVILLE
SPECIAL REVENUE FUND
STATE STREET AID FUND
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental	\$ 295,000	\$ 295,000	\$ 279,856	\$ (15,144)
Investment income	<u>150</u>	<u>150</u>	<u>224</u>	<u>74</u>
Total revenues	<u>295,150</u>	<u>295,150</u>	<u>280,080</u>	<u>(15,070)</u>
EXPENDITURES				
Streets	<u>255,000</u>	<u>255,000</u>	<u>233,003</u>	<u>(21,997)</u>
Total expenditures	<u>255,000</u>	<u>255,000</u>	<u>233,003</u>	<u>(21,997)</u>
Excess revenues over expenditures	40,150	40,150	47,077	6,927
FUND BALANCE at beginning of year	<u>198,058</u>	<u>198,058</u>	<u>198,058</u>	<u>-</u>
FUND BALANCE at end of year	<u>\$ 238,208</u>	<u>\$ 238,208</u>	<u>\$ 245,135</u>	<u>\$ 6,927</u>

FINANCIAL SCHEDULES

Financial schedules are used to demonstrate finance related legal and contractual compliance, provide details of data summarized in the financial statements and present other information deemed useful.

CITY OF CROSSVILLE
 COMBINED SCHEDULE OF CHANGES IN TAXES RECEIVABLE
 Year Ended June 30, 2012

Tax Year (1)	Property Taxes Receivable Balance June 30, 2011	Property Taxes Levied	Anticipated Current Year Levy (2)	Net Pick-Ups and Charge-Offs	Collections	Property Taxes Receivable Balance June 30, 2012	Allowance for Uncollectibles	Net Receivable Balance June 30, 2012
2012	\$ -	\$ -	\$ 1,978,329	\$ -	\$ -	\$ 1,978,329	\$ -	\$ 1,978,329
2011	-	2,030,073	-	44	1,969,865	60,252	7,871	52,381
2010	45,639	-	-	-	21,342	24,297	5,800	18,497
2009	26,539	-	-	-	11,352	15,187	5,792	9,395
2008	9,592	-	-	-	254	9,338	5,792	3,546
2007	8,447	-	-	-	364	8,083	7,596	487
2006	5,119	-	-	-	195	4,924	4,924	-
2005	2,952	-	-	-	179	2,773	2,773	-
2004	17,247	-	-	-	98	17,149	17,149	-
2003	3,835	-	-	-	97	3,738	3,738	-
1995-2002	410	-	-	-	-	410	410	-
Totals	\$ 119,780	\$ 2,030,073	\$ 1,978,329	\$ 44	\$ 2,003,746	\$ 2,124,480	\$ 61,845	\$ 2,062,635

Note:

(1) Accrual of the anticipated current year levy is required by GASB Statement No. 33. The accrual is recorded net of the allowance for uncollectible amounts.

CITY OF CROSSVILLE
SUMMARY SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY
June 30, 2012

	Principal	Interest	Total
GOVERNMENTAL ACTIVITIES			
2013	\$ 609,667	\$ 31,781	\$ 641,448
2014	614,667	59,621	674,288
2015	620,666	52,231	672,897
2016	399,000	44,824	443,824
2017	404,000	37,404	441,404
2018	411,000	29,969	440,969
2019	258,814	22,516	281,330
2020	259,000	15,334	274,334
2021	261,000	8,145	269,145
2022	63,000	946	63,946
2023	64,000	637	64,637
2024	66,000	323	66,323
Total governmental activities	4,030,814	303,731	4,334,545
BUSINESS-TYPE ACTIVITIES			
2013	1,773,853	525,318	2,299,171
2014	1,950,558	664,137	2,614,695
2015	1,734,237	625,901	2,360,138
2016	1,771,520	592,711	2,364,231
2017	1,820,955	558,291	2,379,246
2018	1,875,741	522,850	2,398,591
2019	1,932,912	486,101	2,419,013
2020	1,601,533	447,970	2,049,503
2021	1,643,216	409,690	2,052,906
2022	1,519,689	370,337	1,890,026
2023	1,320,893	330,333	1,651,226
2024	985,850	295,040	1,280,890
2025	543,126	277,315	820,441
2026	1,149,292	261,621	1,410,913
2027	560,308	220,255	780,563
2028	571,636	203,606	775,242
2029	1,583,300	186,982	1,770,282
2030	595,288	123,783	719,071
2031	588,939	106,635	695,574
2032	202,978	94,362	297,340
2033	165,352	89,234	254,586
2034	165,352	84,273	249,625
2035	165,352	79,312	244,664
2036	165,352	74,352	239,704
2037	165,352	69,391	234,743
2038	165,352	64,431	229,783
2039	165,352	59,470	224,822
2040	165,352	54,509	219,861
2041	165,352	49,549	214,901
2042	165,352	44,588	209,940
2043	165,352	39,628	204,980
2044	165,352	34,667	200,019
2045	165,352	29,707	195,059
2046	165,352	24,747	190,099
2047	165,352	19,786	185,138
2048	165,352	14,825	180,177
2049	165,352	9,864	175,216
2050	163,462	4,902	168,364
Total business-type activities	28,700,270	8,150,473	36,850,743
Total primary government indebtedness	\$ 32,731,084	\$ 8,454,204	\$ 41,185,288

CITY OF CROSSVILLE

ANALYSIS OF DEBT

June 30, 2012

	<u>Outstanding July 1, 2011</u>	<u>Issued FY 2011-2012</u>	<u>Retired FY 2011-2012</u>	<u>Outstanding June 30, 2012</u>	<u>Maturing FY 2012-2013</u>	<u>Interest Payable FY 2012-2013</u>
GOVERNMENTAL ACTIVITIES						
Notes payable:						
Tennessee Municipal Bond Fund, Series 2004	\$ 726,000	\$ -	\$ (46,000)	\$ 680,000	\$ 48,000	\$ 3,332
Tennessee Municipal Bond Fund, Series 2010	126,933	838,067	(94,186)	870,814	135,000	1,567
Airport Capital Outlay Note	680,000	-	-	680,000	226,667	-
Land Purchase Capital Outlay Note	-	1,800,000	-	1,800,000	200,000	26,882
	<u>1,532,933</u>	<u>2,638,067</u>	<u>(140,186)</u>	<u>4,030,814</u>	<u>609,667</u>	<u>31,781</u>
Total notes payable						
Total governmental activities	<u>1,532,933</u>	<u>2,638,067</u>	<u>(140,186)</u>	<u>4,030,814</u>	<u>609,667</u>	<u>31,781</u>
BUSINESS-TYPE ACTIVITIES						
Bonds:						
Water System Refunding Revenue Bonds, Series 2005	4,275,000	-	(175,000)	4,100,000	-	-
Water and Sewer Revenue and Tax Bonds, Series 2003	<u>1,410,025</u>	<u>-</u>	<u>(220,785)</u>	<u>1,189,240</u>	<u>89,401</u>	<u>48,815</u>
Total bonds	<u>5,685,025</u>	<u>-</u>	<u>(395,785)</u>	<u>5,289,240</u>	<u>89,401</u>	<u>48,815</u>
Notes payable -						
State Wastewater Facility Revolving Loan 2000	3,828,401	-	(282,420)	3,545,981	287,428	60,440
State Wastewater Facility Revolving Loan 2001	327,890	-	(22,740)	305,150	23,076	4,332
State Wastewater Facility Revolving Loan 2001	828,436	-	(58,680)	769,756	59,549	10,917
State Wastewater Facility Revolving Loan 1992	504,871	-	(159,276)	345,595	163,531	7,157
State Revolving Loan August 2009	2,680,836	19,164	(101,316)	2,598,684	104,268	73,476
State Revolving Loan November 2009	2,958,397	41,603	(103,620)	2,896,380	116,136	80,472
State Revolving Loan April 2010	487,502	-	(17,351)	470,151	19,812	12,804
State Revolving Loan May 2010	-	667,670	(19,008)	648,662	27,816	18,498
Tennessee Local Development Authority	417,822	-	(149,623)	268,199	158,304	8,877
Tennessee Municipal Bond Fund, Series 1997	2,520,780	-	(263,980)	2,256,800	277,180	5,642
Tennessee Municipal Bond Fund, Series 2010	3,335,000	-	(310,814)	3,024,186	282,000	5,444
USDA Rural Development Loan Hwy 70 N Waterline	-	1,698,076	-	1,698,076	44,736	50,942
USDA Rural Development Loan Cumberland Cove	-	583,410	-	583,410	15,353	17,502
USDA Rural Development Loan Meadow Park Lake Dam	-	4,000,000	-	4,000,000	105,263	120,000
	<u>17,889,935</u>	<u>7,009,923</u>	<u>(1,488,828)</u>	<u>23,411,030</u>	<u>1,684,452</u>	<u>476,503</u>
Total notes payable						
Total business-type activities	<u>23,574,960</u>	<u>7,009,923</u>	<u>(1,884,613)</u>	<u>28,700,270</u>	<u>1,773,853</u>	<u>525,318</u>
Total general obligation debt	<u>\$ 25,107,893</u>	<u>\$ 9,647,990</u>	<u>\$ (2,024,799)</u>	<u>\$ 32,731,084</u>	<u>\$ 2,383,520</u>	<u>\$ 557,099</u>

CITY OF CROSSVILLE
SCHEDULE OF BONDS AND NOTES PAYABLE - BY FISCAL YEAR
June 30, 2012

DIRECT INDEBTEDNESS

Fiscal Year Ended June 30	Issue	Interest Rate	Principal	Interest Due	Total Interest and Principal
2013	Tennessee Municipal Bond Fund Loan 2004	0.49	\$ 48,000	\$ 3,332	\$ 51,332
2014		0.49	49,000	3,097	52,097
2015		0.49	51,000	2,857	53,857
2016		0.49	52,000	2,607	54,607
2017		0.49	54,000	2,352	56,352
2018		0.49	56,000	2,087	58,087
2019		0.49	57,000	1,813	58,813
2020		0.49	59,000	1,534	60,534
2021		0.49	61,000	1,245	62,245
2022		0.49	63,000	946	63,946
2023		0.49	64,000	637	64,637
2024		0.49	66,000	323	66,323
			<u>680,000</u>	<u>22,830</u>	<u>702,830</u>
2013	Tennessee Municipal Bond Fund Loan 2010	0.18	135,000	1,567	136,567
2014		0.18	139,000	1,324	140,324
2015		0.18	143,000	1,074	144,074
2016		0.18	147,000	817	147,817
2017		0.18	150,000	552	150,552
2018		0.18	155,000	282	155,282
2019		0.18	1,814	3	1,817
				<u>870,814</u>	<u>5,619</u>
2013	Airport Capital Outlay Note	0.00	226,667	-	226,667
2014		0.00	226,667	-	226,667
2015		0.00	226,666	-	226,666
			<u>680,000</u>	<u>-</u>	<u>680,000</u>
2013	Land Purchase Capital Outlay Note	3.45	200,000	26,882	226,882
2014		3.45	200,000	55,200	255,200
2015		3.45	200,000	48,300	248,300
2016		3.45	200,000	41,400	241,400
2017		3.45	200,000	34,500	234,500
2018		3.45	200,000	27,600	227,600
2019		3.45	200,000	20,700	220,700
2020		3.45	200,000	13,800	213,800
2021		3.45	200,000	6,900	206,900
				<u>1,800,000</u>	<u>275,282</u>
	Total direct indebtedness		<u>4,030,814</u>	<u>303,731</u>	<u>4,334,545</u>

(continued on following page)

CITY OF CROSSVILLE
SCHEDULE OF BONDS AND NOTES PAYABLE - BY FISCAL YEAR
June 30, 2012

(continued from previous page)

WATER AND SEWER DEPARTMENT

Fiscal Year Ended June 30	Issue	Interest Rate	Principal	Interest Due	Total Interest and Principal
2013	State Wastewater Facility Revolving Loan 2000	1.77	\$ 287,428	\$ 60,440	\$ 347,868
2014		1.77	292,554	55,314	347,868
2015		1.77	297,776	50,092	347,868
2016		1.77	303,089	44,779	347,868
2017		1.77	308,499	39,369	347,868
2018		1.77	314,003	33,865	347,868
2019		1.77	319,605	28,263	347,868
2020		1.77	325,310	22,558	347,868
2021		1.77	331,115	16,753	347,868
2022		1.77	337,023	10,845	347,868
2023		1.77	343,037	4,831	347,868
2024		1.77	86,542	256	86,798
				<u>3,545,981</u>	<u>367,365</u>
2013	State Wastewater Facility Revolving Loan 2001	1.47	59,549	10,917	70,466
2014		1.47	60,430	10,036	70,466
2015		1.47	61,325	9,141	70,466
2016		1.47	62,232	8,234	70,466
2017		1.47	63,153	7,313	70,466
2018		1.47	64,088	6,378	70,466
2019		1.47	65,036	5,430	70,466
2020		1.47	65,999	4,467	70,466
2021		1.47	66,976	3,490	70,466
2022		1.47	67,967	2,499	70,466
2023		1.47	68,973	1,493	70,466
2024		1.47	64,028	571	64,599
				<u>769,756</u>	<u>69,969</u>
2013	State Wastewater Facility Revolving Loan 1992	2.64	163,531	7,157	170,688
2014		2.64	167,901	2,787	170,688
2015		2.64	14,163	31	14,194
			<u>345,595</u>	<u>9,975</u>	<u>355,570</u>
2013	State Revolving Loan Fund November 2009	2.83	116,136	80,472	196,608
2014		2.83	119,472	77,136	196,608
2015		2.83	122,892	73,716	196,608
2016		2.83	126,420	70,188	196,608
2017		2.83	130,044	66,564	196,608
2018		2.83	133,776	62,832	196,608
2019		2.83	137,604	59,004	196,608
2020		2.83	141,552	55,056	196,608
2021		2.83	145,608	51,000	196,608
2022		2.83	149,784	46,824	196,608
2023		2.83	154,080	42,528	196,608
2024		2.83	158,496	38,112	196,608
2025		2.83	163,032	33,576	196,608
2026		2.83	167,712	28,896	196,608
2027		2.83	172,524	24,084	196,608
2028		2.83	177,468	19,140	196,608
2029		2.83	182,556	14,052	196,608
2030		2.83	187,788	8,820	196,608
2031		2.83	193,116	3,492	196,608
2032		2.83	16,320	-	16,320
			<u>2,896,380</u>	<u>855,492</u>	<u>3,751,872</u>

(continued on following page)

CITY OF CROSSVILLE
SCHEDULE OF BONDS AND NOTES PAYABLE - BY FISCAL YEAR
June 30, 2012

(continued from previous page)

WATER AND SEWER DEPARTMENT

Fiscal Year Ended June 30	Issue	Interest Rate	Principal	Interest Due	Total Interest and Principal
2013	State Revolving Loan Fund August 2009	2.88	\$ 104,268	\$ 73,476	\$ 177,744
2014		2.88	107,316	70,428	177,744
2015		2.88	110,448	67,296	177,744
2016		2.88	113,664	64,080	177,744
2017		2.88	116,988	60,756	177,744
2018		2.88	120,396	57,348	177,744
2019		2.88	123,912	53,832	177,744
2020		2.88	127,524	50,220	177,744
2021		2.88	131,256	46,488	177,744
2022		2.88	135,084	42,660	177,744
2023		2.88	139,020	38,724	177,744
2024		2.88	143,076	34,668	177,744
2025		2.88	147,252	30,492	177,744
2026		2.88	151,560	26,184	177,744
2027		2.88	155,976	21,768	177,744
2028		2.88	160,524	17,220	177,744
2029		2.88	165,216	12,528	177,744
2030		2.88	170,040	7,704	177,744
2031		2.88	175,016	2,728	177,744
2032		2.88	148	-	148
			<u>2,598,684</u>	<u>778,600</u>	<u>3,377,284</u>
2013	State Revolving Loan Fund April 2010	2.78	19,812	12,804	32,616
2014		2.78	20,364	12,252	32,616
2015		2.78	20,940	11,676	32,616
2016		2.78	21,528	11,088	32,616
2017		2.78	22,140	10,476	32,616
2018		2.78	22,764	9,852	32,616
2019		2.78	23,400	9,216	32,616
2020		2.78	24,060	8,556	32,616
2021		2.78	24,732	7,884	32,616
2022		2.78	25,428	7,188	32,616
2023		2.78	26,148	6,468	32,616
2024		2.78	26,880	5,736	32,616
2025		2.78	27,636	4,980	32,616
2026		2.78	28,416	4,200	32,616
2027		2.78	29,220	3,396	32,616
2028		2.78	30,048	2,568	32,616
2029		2.78	30,888	1,728	32,616
2030	2.78	31,752	864	32,616	
2031	2.78	13,995	84	14,079	
			<u>470,151</u>	<u>131,016</u>	<u>601,167</u>
2013	Tennessee Local Development Authority	3.31	158,304	8,877	167,181
2014		3.31	109,185	3,638	112,823
2015		3.31	710	24	734
			<u>268,199</u>	<u>12,539</u>	<u>280,738</u>

(continued on following page)

CITY OF CROSSVILLE
SCHEDULE OF BONDS AND NOTES PAYABLE - BY FISCAL YEAR
June 30, 2012

(continued from previous page)

WATER AND SEWER DEPARTMENT

Fiscal Year Ended June 30	Issue	Interest Rate	Principal	Interest Due	Total Interest and Principal
2013	Tennessee Municipal Bond Fund, Series 1997	0.25	\$ 277,180	\$ 5,642	\$ 282,822
2014		0.25	291,040	4,949	295,989
2015		0.25	305,590	4,221	309,811
2016		0.25	320,870	3,457	324,327
2017		0.25	336,910	2,655	339,565
2018		0.25	353,760	1,813	355,573
2019		0.25	371,450	929	372,379
			<u>2,256,800</u>	<u>23,666</u>	<u>2,280,466</u>
2013	Water System Refunding Revenue Bonds, Series 2005	3.65	-	-	-
2014		3.75	185,000	173,861	358,861
2015		3.85	190,000	166,546	356,546
2016		4.00	200,000	158,546	358,546
2017		4.25	205,000	149,833	354,833
2018		4.25	215,000	140,695	355,695
2019		4.38	225,000	130,851	355,851
2020		4.50	235,000	120,276	355,276
2021		4.50	245,000	109,251	354,251
2022		4.50	255,000	97,776	352,776
2023		4.50	265,000	85,851	350,851
2024		4.50	280,000	73,251	353,251
2025		4.50	-	72,000	72,000
2026		4.50	600,000	72,000	672,000
2027		4.63	-	46,250	46,250
2028		4.63	-	46,250	46,250
2029		4.63	1,000,000	46,250	1,046,250
			<u>4,100,000</u>	<u>1,689,487</u>	<u>5,789,487</u>
2013	Water and Sewer Revenue and Tax Bonds, Series 2003	4.25	89,401	48,815	138,216
2014		4.25	93,276	44,940	138,216
2015		4.25	97,317	40,899	138,216
2016		4.25	101,537	36,679	138,216
2017		4.25	105,937	32,279	138,216
2018		4.25	110,530	27,686	138,216
2019		4.25	115,317	22,899	138,216
2020		4.25	120,312	17,904	138,216
2021		4.25	125,529	12,687	138,216
2022		4.25	130,969	7,247	138,216
2023		4.25	99,115	1,724	100,839
			<u>1,189,240</u>	<u>293,759</u>	<u>1,482,999</u>

(continued on following page)

CITY OF CROSSVILLE
SCHEDULE OF BONDS AND NOTES PAYABLE - BY FISCAL YEAR
June 30, 2012

(continued from previous page)

WATER AND SEWER DEPARTMENT

Fiscal Year Ended June 30	Issue	Interest Rate	Principal	Interest Due	Total Interest and Principal
2013	State Wastewater Facility Revolving Loan 2001	1.47	\$ 23,076	\$ 4,332	\$ 27,408
2014		1.47	23,412	3,996	27,408
2015		1.47	23,760	3,648	27,408
2016		1.47	24,120	3,288	27,408
2017		1.47	24,468	2,940	27,408
2018		1.47	24,840	2,568	27,408
2019		1.47	25,200	2,208	27,408
2020		1.47	25,572	1,836	27,408
2021		1.47	25,956	1,452	27,408
2022		1.47	26,340	1,068	27,408
2023		1.47	26,724	684	27,408
2024		1.47	27,120	288	27,408
2025		1.47	4,562	6	4,568
			305,150	28,314	333,464
2013	Tennessee Municipal Bond Fund 2010	0.18	282,000	5,444	287,444
2014		0.18	289,000	4,936	293,936
2015		0.18	297,000	4,416	301,416
2016		0.18	305,000	3,881	308,881
2017		0.18	314,000	3,332	317,332
2018		0.18	322,000	2,767	324,767
2019		0.18	331,000	2,187	333,187
2020		0.18	340,000	1,592	341,592
2021		0.18	350,000	980	350,980
2022		0.18	194,186	350	194,536
			3,024,186	29,885	3,054,071
2013	State Revolving Loan May 2010	2.69	27,816	18,498	46,314
2014		2.69	26,256	16,380	42,636
2015		2.69	26,964	15,672	42,636
2016		2.69	27,708	14,928	42,636
2017		2.69	28,464	14,172	42,636
2018		2.69	29,232	13,404	42,636
2019		2.69	30,036	12,600	42,636
2020		2.69	30,852	11,784	42,636
2021		2.69	31,692	10,944	42,636
2022		2.69	32,556	10,080	42,636
2023		2.69	33,444	9,192	42,636
2024		2.69	34,356	8,280	42,636
2025		2.69	35,292	7,344	42,636
2026		2.69	36,252	6,384	42,636
2027		2.69	37,236	5,760	42,996
2028		2.69	38,244	4,392	42,636
2029		2.69	39,288	3,348	42,636
2030	2.69	40,356	2,280	42,636	
2031	2.69	41,460	1,176	42,636	
2032	2.69	21,158	168	21,326	
			648,662	186,786	835,448

(continued on following page)

CITY OF CROSSVILLE
 SCHEDULE OF BONDS AND NOTES PAYABLE - BY FISCAL YEAR
 June 30, 2012

(continued from previous page)

WATER AND SEWER DEPARTMENT

Fiscal Year Ended June 30	Issue	Interest Rate	Principal	Interest Due	Total Interest and Principal
2013	USDA Rural Development Loan Hwy 70 N Waterline	3.00	\$ 44,736	\$ 50,942	\$ 95,678
2014		3.00	44,736	49,600	94,336
2015		3.00	44,736	48,258	92,994
2016		3.00	44,736	46,916	91,652
2017		3.00	44,736	45,574	90,310
2018		3.00	44,736	44,232	88,968
2019		3.00	44,736	42,890	87,626
2020		3.00	44,736	41,548	86,284
2021		3.00	44,736	40,206	84,942
2022		3.00	44,736	38,864	83,600
2023		3.00	44,736	37,521	82,257
2024		3.00	44,736	36,179	80,915
2025		3.00	44,736	34,837	79,573
2026		3.00	44,736	33,495	78,231
2027		3.00	44,736	32,153	76,889
2028		3.00	44,736	30,811	75,547
2029		3.00	44,736	29,469	74,205
2030		3.00	44,736	28,127	72,863
2031		3.00	44,736	26,785	71,521
2032		3.00	44,736	25,443	70,179
2033		3.00	44,736	24,101	68,837
2034		3.00	44,736	22,759	67,495
2035		3.00	44,736	21,417	66,153
2036		3.00	44,736	20,074	64,810
2037		3.00	44,736	18,732	63,468
2038		3.00	44,736	17,390	62,126
2039		3.00	44,736	16,048	60,784
2040		3.00	44,736	14,706	59,442
2041		3.00	44,736	13,364	58,100
2042		3.00	44,736	12,022	56,758
2043	3.00	44,736	10,680	55,416	
2044	3.00	44,736	9,338	54,074	
2045	3.00	44,736	7,996	52,732	
2046	3.00	44,736	6,654	51,390	
2047	3.00	44,736	5,312	50,048	
2048	3.00	44,736	3,969	48,705	
2049	3.00	44,736	2,627	47,363	
2050	3.00	42,844	1,285	44,129	
			<u>1,698,076</u>	<u>992,324</u>	<u>2,690,400</u>

(continued on following page)

CITY OF CROSSVILLE
SCHEDULE OF BONDS AND NOTES PAYABLE - BY FISCAL YEAR
June 30, 2012

(continued from previous page)

WATER AND SEWER DEPARTMENT

Fiscal Year Ended June 30	Issue	Interest Rate	Principal	Interest Due	Total Interest and Principal
2013	USDA Rural Development Loan Cumberland Cove	3.00	\$ 15,353	\$ 17,502	\$ 32,855
2014		3.00	15,353	17,042	32,395
2015		3.00	15,353	16,581	31,934
2016		3.00	15,353	16,121	31,474
2017		3.00	15,353	15,660	31,013
2018		3.00	15,353	15,199	30,552
2019		3.00	15,353	14,739	30,092
2020		3.00	15,353	14,278	29,631
2021		3.00	15,353	13,818	29,171
2022		3.00	15,353	13,357	28,710
2023		3.00	15,353	12,896	28,249
2024		3.00	15,353	12,436	27,789
2025		3.00	15,353	11,975	27,328
2026		3.00	15,353	11,515	26,868
2027		3.00	15,353	11,054	26,407
2028		3.00	15,353	10,593	25,946
2029		3.00	15,353	10,133	25,486
2030		3.00	15,353	9,672	25,025
2031		3.00	15,353	9,212	24,565
2032		3.00	15,353	8,751	24,104
2033		3.00	15,353	8,291	23,644
2034		3.00	15,353	7,830	23,183
2035		3.00	15,353	7,369	22,722
2036		3.00	15,353	6,909	22,262
2037		3.00	15,353	6,448	21,801
2038		3.00	15,353	5,988	21,341
2039		3.00	15,353	5,527	20,880
2040		3.00	15,353	5,066	20,419
2041		3.00	15,353	4,606	19,959
2042		3.00	15,353	4,145	19,498
2043	3.00	15,353	3,685	19,038	
2044	3.00	15,353	3,224	18,577	
2045	3.00	15,353	2,763	18,116	
2046	3.00	15,353	2,303	17,656	
2047	3.00	15,353	1,842	17,195	
2048	3.00	15,353	1,382	16,735	
2049	3.00	15,353	921	16,274	
2050	3.00	15,349	460	15,809	
			583,410	341,293	924,703

(continued on following page)

CITY OF CROSSVILLE
SCHEDULE OF BONDS AND NOTES PAYABLE - BY FISCAL YEAR
June 30, 2012

(continued from previous page)

WATER AND SEWER DEPARTMENT

Fiscal Year Ended June 30	Issue	Interest Rate	Principal	Interest Due	Total Interest and Principal
2013	USDA Rural Development Loan Meadow	3.00	\$ 105,263	\$ 120,000	\$ 225,263
2014	Park Lake Dam	3.00	105,263	116,842	222,105
2015		3.00	105,263	113,684	218,947
2016		3.00	105,263	110,526	215,789
2017		3.00	105,263	107,368	212,631
2018		3.00	105,263	104,211	209,474
2019		3.00	105,263	101,053	206,316
2020		3.00	105,263	97,895	203,158
2021		3.00	105,263	94,737	200,000
2022		3.00	105,263	91,579	196,842
2023		3.00	105,263	88,421	193,684
2024		3.00	105,263	85,263	190,526
2025		3.00	105,263	82,105	187,368
2026		3.00	105,263	78,947	184,210
2027		3.00	105,263	75,790	181,053
2028		3.00	105,263	72,632	177,895
2029		3.00	105,263	69,474	174,737
2030		3.00	105,263	66,316	171,579
2031		3.00	105,263	63,158	168,421
2032		3.00	105,263	60,000	165,263
2033		3.00	105,263	56,842	162,105
2034		3.00	105,263	53,684	158,947
2035		3.00	105,263	50,526	155,789
2036		3.00	105,263	47,369	152,632
2037		3.00	105,263	44,211	149,474
2038		3.00	105,263	41,053	146,316
2039		3.00	105,263	37,895	143,158
2040		3.00	105,263	34,737	140,000
2041		3.00	105,263	31,579	136,842
2042		3.00	105,263	28,421	133,684
2043		3.00	105,263	25,263	130,526
2044		3.00	105,263	22,105	127,368
2045		3.00	105,263	18,948	124,211
2046		3.00	105,263	15,790	121,053
2047		3.00	105,263	12,632	117,895
2048		3.00	105,263	9,474	114,737
2049		3.00	105,263	6,316	111,579
2050		3.00	105,269	3,157	108,426
			<u>4,000,000</u>	<u>2,340,003</u>	<u>6,340,003</u>
	Total Water and Sewer Department		<u>28,700,270</u>	<u>8,150,473</u>	<u>36,850,743</u>
	Total Primary Government Indebtedness		<u>\$ 32,731,084</u>	<u>\$ 8,454,204</u>	<u>\$ 41,185,288</u>

CITY OF CROSSVILLE
SCHEDULE OF TAX RATES AND ASSESSMENTS
June 30, 2012

<u>Year of Levy</u>	<u>Rate</u>	<u>Assessment</u>	<u>Amount of Tax Assessed</u>
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
2011	0.55	369,102,842	2,030,073
2012	0.53	373,269,625	1,978,329

CITY OF CROSSVILLE

SCHEDULE OF WATER AND SEWER RATES AND NUMBER OF CUSTOMERS
June 30, 2012

WATER AND SEWER CUSTOMER RATES

	Inside City Limits	Outside City Limits
First 2,000 gallons		
Water	\$ 8.52 minimum bill	\$12.78 minimum bill
Sewer	10.42 minimum bill	15.62 minimum bill
All over 2,000 gallons		
Water	\$4.26 per 1,000 gallons	\$6.39 per 1,000 gallons
Sewer	5.21 per 1,000 gallons	7.81 per 1,000 gallons
Utility districts		\$3.09 per 1,000 gallons

NUMBER OF CUSTOMERS

	Inside City Limits	Outside City Limits	Total
Water customers			
Residential	3,716	6,960	10,676
Commercial	1,263	181	1,444
Industrial	34	8	42
Utility district taps	-	5	5
Total water customers	<u>5,013</u>	<u>7,154</u>	<u>12,167</u>
Total sewer customers	<u>4,758</u>	<u>20</u>	<u>4,778</u>

CITY OF CROSSVILLE
SCHEDULE OF UNACCOUNTED FOR WATER
Year Ended June 30, 2012

(All amounts in gallons)

Water Treated and Purchased		
Water pumped (potable)	1,351,841,000	
Water purchased	<u>-</u>	
Total Water Treated and Purchased		1,351,841,000
Accounted for Water		
Water sold	1,062,404,600	
Fire department usage	42,825	
Flushing	<u>3,925,767</u>	
Total Accounted for Water		<u>1,066,373,192</u>
Unaccounted for Water		<u>285,467,808</u>
Percent Unaccounted for Water		<u>21.1%</u>

Other: For the year ended June 30, 2012, the City of Crossville also had 12,377,373 gallons of water in documented repair leaks which would reduce the unaccounted for water to 20.2%. All amounts included in this schedule are supported by documentation on file at the water system.

CITY OF CROSSVILLE

SCHEDULE OF SALARIES AND OFFICIAL BONDS OF PRINCIPAL OFFICIALS
Year Ended June 30, 2012

<u>Official Title</u>	<u>Name</u>	<u>Salary</u>	<u>Bond</u>	<u>Surety</u>
Mayor	J. H. Graham, III	\$ 4,116	\$500,000	Tennessee Municipal League Risk Management Pool
City Manager	Bruce Wyatt	63,255	500,000	Tennessee Municipal League Risk Management Pool
City Recorder	Sally Oglesby	61,309	500,000	Tennessee Municipal League Risk Management Pool
Finance Director	Fred Houston	62,560	500,000	Tennessee Municipal League Risk Management Pool

CITY OF CROSSVILLE
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2012

Federal Grantor/Pass -Through Grantor/Program Title	Federal CFDA Number	Contract Number	Beginning (Accrued) Deferred Grant Revenue	Cash Receipts	Expenditures	Other Adjustments	Ending (Accrued) Deferred Grant Revenue
U.S. DEPARTMENT OF TRANSPORTATION							
Passed through Tennessee Department of Transportation:							
State and Community Highway Safety	20.600	PT-11-11	\$ (2,953)	\$ 4,436	\$ 1,740	\$ 257	\$ -
Alcohol Traffic Safety and Drunk Driving Incentive	20.601	K8-11-55	(293)	293	-	-	-
Total Highway Safety Cluster			(3,246)	4,729	1,740	257	-
Alcohol Saturation and Checkpoints	20.607	154AL-11-08	(6,303)	17,864	12,264	703	-
Alcohol Saturation and Checkpoints	20.607	154AL-12-31	-	3,529	10,596	-	(7,067)
Alcohol Saturation and Checkpoints	20.607	154AL-12-30	-	9,871	18,444	-	(8,573)
Alcohol Saturation and Checkpoints	20.607	154AL-12-170	-	2,727	4,966	-	(2,239)
Airport Improvement Program	20.106	DG-10-29290-00	(33,298)	1,728,898	1,708,409	-	(12,809)
Airport Improvement Program	20.106	Z-08200754-00	(462,149)	780,092	435,942	-	(117,999)
Total U.S. Department of Transportation			(504,996)	2,547,710	2,192,361	960	(148,687)
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT							
Passed through Tennessee Department of Economic and Community Development:							
Community Development Block Grant	14.228	33004-63412	-	-	24,323	-	(24,323)
Total U.S. Department of Housing and Urban Development			-	-	24,323	-	(24,323)
U.S. DEPARTMENT OF JUSTICE							
Bulletproof Vest Partnership Program	16.607	2009BUBX09049954	(1,407)	3,208	2,043	-	(242)
Total U.S. Department of Justice			(1,407)	3,208	2,043	-	(242)

(continued on next page)

CITY OF CROSSVILLE

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2012

Federal Grantor/Pass -Through Grantor/Program Title	Federal CFDA Number	Contract Number	Beginning (Accrued) Deferred Grant Revenue	Cash Receipts	Expenditures	Other Adjustments	Ending (Accrued) Deferred Grant Revenue
(continued from previous page)							
U.S. ENVIRONMENTAL PROTECTION AGENCY							
Passed through Tennessee Department of Environment and Conservation:							
Capitalization Grants for Clean Water State Revolving Funds - ARRA	66.458	CWA 2009-225	\$ (140,888)	\$ 147,276	\$ 6,388	\$ -	\$ -
Capitalization Grants for Drinking Water State Revolving Funds - ARRA	66.468	DWA 2009-087	(463,958)	491,694	27,736	-	-
Capitalization Grants for Drinking Water State Revolving Funds - ARRA	66.468	DWF 10-105	-	571,624	667,670	-	(96,046)
Passed through Upper Cumberland Development District:							
GIS Stormwater Inventory Program	66.454	GG1031677	-	17,500	17,500	-	-
Total U.S. Environmental Protection Agency			(604,846)	1,228,094	719,294	-	(96,046)
U.S. DEPARTMENT OF COMMERCE							
Passed through Tennessee Department of Environment and Conservation:							
Investments for Public Works and Economic Development Facilities	11.300	04-01-06064	(173,341)	173,341	-	-	-
Total U.S. Department of Commerce			(173,341)	173,341	-	-	-
U.S. DEPARTMENT OF AGRICULTURE							
Water and Waste Disposal Systems for Rural Communities - ARRA	10.781	Highway 70 loan	-	1,700,000	1,700,000	-	-
Water and Waste Disposal Systems for Rural Communities - ARRA	10.781	Highway 70 grant	-	514,628	727,923	-	(213,295)
Water and Waste Disposal Systems for Rural Communities	10.760	MPL Dam loan	-	2,756,204	4,000,000	-	(1,243,796)
Water and Waste Disposal Systems for Rural Communities	10.760	MPL Dam grant	-	-	454,342	-	(454,342)
Water and Waste Disposal Systems for Rural Communities	10.760	Cumberland Cove loan	-	583,410	583,410	-	-
Total Water and Waste Program Cluster			-	5,554,242	7,465,675	-	(1,911,433)
Total U.S. Department of Agriculture			-	5,554,242	7,465,675	-	(1,911,433)

(continued on next page)

CITY OF CROSSVILLE
 SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
 Year Ended June 30, 2012

Federal Grantor/Pass -Through Grantor/Program Title	Federal CFDA Number	Contract Number	Beginning (Accrued) Deferred Grant Revenue	Cash Receipts	Expenditures	Other Adjustments	Ending (Accrued) Deferred Grant Revenue
(continued from previous page)							
U.S. OFFICE OF NATURAL DRUG CONTROL POLICY							
Passed through Laurel County Fiscal Court, Kentucky:							
High Intensity Drug Trafficking Area	95.001	G 11 AP0001A	\$ (7,326)	\$ 9,988	\$ 2,662	\$ -	\$ -
Total U.S. Office of Natural Drug Control Policy			<u>(7,326)</u>	<u>9,988</u>	<u>2,662</u>	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>(1,291,916)</u>	<u>9,516,583</u>	<u>10,406,358</u>	<u>960</u>	<u>(2,180,731)</u>
STATE AWARDS							
Tennessee of Department of Transportation							
Aeronautics Division Grant		Z-09-21-4036-00	(28,063)	79,139	20,316	(49,934)	(19,174)
Aeronautics Division Grant		AERO-M12-213	-	3,496	8,282	-	(4,786)
Aeronautics Division Grant		AERO-M11-113	-	6,839	6,839	-	-
Tennessee of Department of Environment and Conservation							
Clean Water State Revolving Fund		CWA 2009-225	(140,888)	166,440	25,552	-	-
Drinking Water State Revolving Fund		DWA 2009-087	<u>(394,618)</u>	<u>436,222</u>	<u>41,604</u>	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES OF STATE AWARDS			<u>(563,569)</u>	<u>692,136</u>	<u>102,593</u>	<u>(49,934)</u>	<u>(23,960)</u>
TOTAL EXPENDITURES OF FEDERAL AND STATE AWARDS			<u>\$ (1,855,485)</u>	<u>\$10,208,719</u>	<u>\$10,508,951</u>	<u>\$ (48,974)</u>	<u>\$ (2,204,691)</u>

CITY OF CROSSVILLE

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
June 30, 2012

Note 1. Basis of Presentation

The supplemental schedule of expenditures of federal and state awards includes the federal and state grant activity of the City and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Other Adjustments

Other adjustments to the schedule of expenditures of federal and state awards reflect adjustments to prior year ending accrued revenues that will not be received, adjustments to record accruals not recorded in prior years, or reclassifications of accrual amounts to the proper grants.

Independent Auditors' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance With
Government Auditing Standards

To the Honorable Mayor
and Members of the City Council
Crossville, Tennessee

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Crossville, (the City), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents, and have issued our report thereon dated November 9, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City is responsible for establishing and maintaining effective 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 opinion 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.

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

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs that we consider to be significant deficiencies in internal control over financial reporting (Finding 2012-1). A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

We noted certain matters that we have reported to management of the City in a separate letter dated November 9, 2012.

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 the Mayor, the City Council, the City of Crossville's management, others within the entity, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Haylett, Lewis & Bister, PLLC

Chattanooga, Tennessee
November 9, 2012

Independent Auditors' Report on Compliance With Requirements
That Could Have a Direct and Material Effect on Each Major Program and on
Internal Control Over Compliance in Accordance With OMB Circular A-133

To the Honorable Mayor
and Members of the City Council
Crossville, Tennessee

Compliance

We have audited the City of Crossville's (the City) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2012. The City's major federal programs are identified in the summary of auditors' 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, the City of Crossville complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as Finding 2012-2.

Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is 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. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying Schedule of Findings and Questioned Costs as Finding 2012-2. A significant deficiency in the internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 the Mayor, the City Council, the City of Crossville's management, others within the entity, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Haslett, Lewis & Bister, PLLC

Chattanooga, Tennessee
November 9, 2012

CITY OF CROSSVILLE
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year Ended June 30, 2012

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weaknesses identified? yes no
- Significant deficiencies identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weaknesses identified? yes no
- Significant deficiencies identified that are not considered to be material weaknesses? yes none reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? yes no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
20.106	U.S. Department of Transportation: Airport Improvement Program
66.468	U.S. Environmental Protection Agency: Capitalization Grants for Drinking Water State Revolving Funds - ARRA
10.760	U.S. Department of Agriculture: Water Waste Program Cluster: Water and Waste Disposal Systems for Rural Communities
10.781	Water and Waste Disposal Systems for Rural Communities - ARRA

CITY OF CROSSVILLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012

Dollar threshold used to distinguish between type A
and type B programs: \$312,191

Auditee qualified as low-risk auditee? yes no

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding 2012-1: Internal Control over Financial Reporting

Condition and criteria: Under current professional standards, the City is responsible for the internal control process which includes preparation of year-end financial statements in accordance with generally accepted accounting principles. During the audit process numerous adjustments and corrections were made to the governmental fund, proprietary fund and government-wide financial statements related to debt, accrued and deferred revenues, and grant revenues. The amounts involved were significant to the financial statements.

Context: The financial statement revisions made during the audit process constitute significant deficiencies in internal control.

Effect: The City's independent auditors assist in the preparation of accurate financial statements and disclosures, but are not considered a part of the City's internal control process.

Cause: The City's internal control process did not adequately identify and correct certain misstatements in the governmental fund and government-wide financial statements.

Recommendation: We recommend that the City improve the review process of amounts reflected in the governmental fund and government-wide financial statements.

Management's response: The City accepts responsibility for the internal control process. Procedures will be put in place to provide more managerial review of work done by staff to ensure greater accuracy of financial statements in the future.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2012-2: Schedule of Expenditures of Federal Awards

Federal program: All programs
Federal agency: All agencies
Award years: July 1, 2011 to June 30, 2012

Criteria: According to OMB Circular A-133, Subpart C, Paragraph .300 (d), the auditee shall prepare appropriate financial statements, including the schedule of expenditures of federal awards.

Condition: In our testing, we determined that major revisions were required to the City's schedule of expenditures of federal awards.

CITY OF CROSSVILLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012

Questioned costs: None

Effect: The City is not in compliance with federal regulations regarding preparation of a complete and accurate schedule of expenditures of federal awards.

Cause: The City's Finance Department is responsible for financial reporting of federal awards, this includes the preparation of the schedule of expenditures of federal awards. Although, the records for the individual programs were kept satisfactorily, the schedule required numerous adjustments, due to inadequate review.

Recommendation: The City should develop processes to properly prepare and review the schedule of expenditures of federal awards.

Management's response: Procedures will be strengthened to ensure that federal awards are properly reported as required by OMB Circular A-133.

CITY OF CROSSVILLE

SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2012

Finding 2011-1: Internal Control over Financial Reporting

Condition: Under current professional standards, the City is responsible for the internal control process which includes preparation of year-end financial statements in accordance with generally accepted accounting principles. During the audit process numerous adjustments and corrections were made to the governmental fund and government-wide financial statements related to capital assets, debt, accrued and deferred revenues, and grant revenues. The amounts involved were significant to the financial statements.

Corrective Action Taken: This finding was repeated in the current year.

Finding 2011-2: Schedule of Expenditures of Federal Awards

Condition: According to OMB Circular A-133, Subpart C, Paragraph .300(d), the auditee shall prepare appropriate financial statements, including the schedule of expenditures of federal awards. In our testing, we determined that major revisions were required to the City's schedule of expenditures of federal awards.

Corrective Action Taken: This finding was repeated in the current year.