

CITY CLERK

**City of Crossville, Tennessee**

**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

**June 30, 2006**

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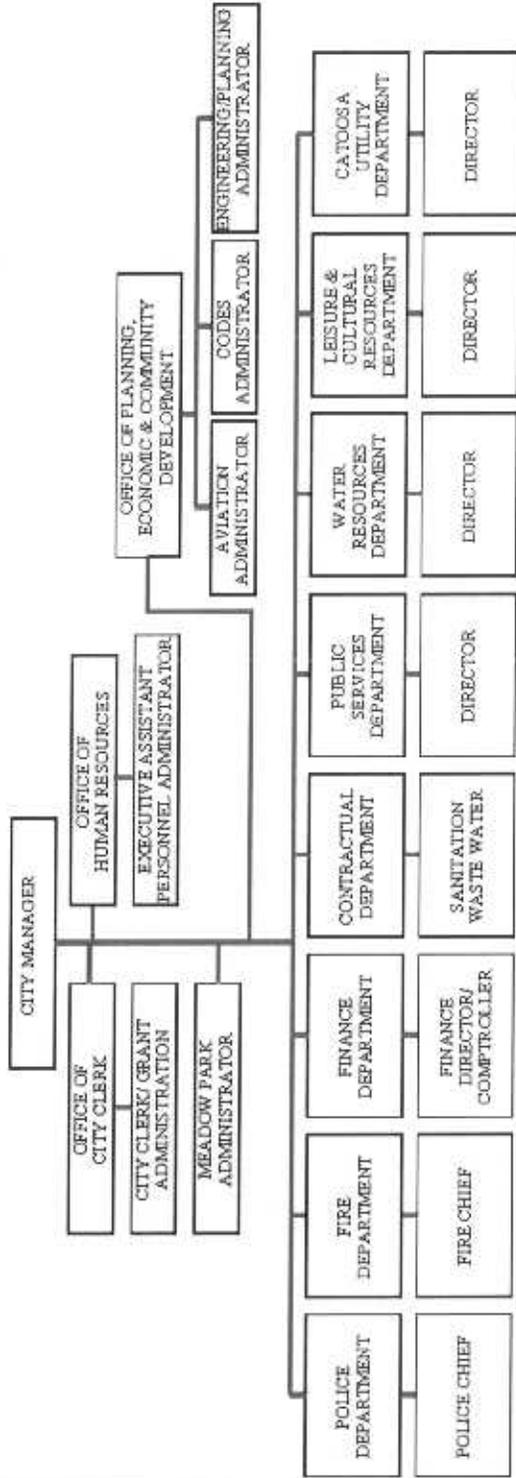
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**INTRODUCTORY SECTION**

# MANAGEMENT STRUCTURE - EXECUTIVE BRANCH CROSSVILLE CITY GOVERNMENT



**City of Crossville, Tennessee**  
**DIRECTORY OF PUBLIC OFFICIALS**  
**June 30, 2006**

ELECTED OFFICIALS

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

APPOINTED OFFICIALS

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

**FINANCIAL SECTION**



PLEMMONS-JACKSON & CABANISS, PLLC  
CERTIFIED PUBLIC ACCOUNTANTS

Janice Plemmons - Jackson, CPA

Mark W. Cabaniss, CPA

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Council Members  
City of Crossville, Tennessee

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Crossville, Tennessee, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Crossville, Tennessee's management. Our responsibility is to express an opinion on these financial statements based on our audit.

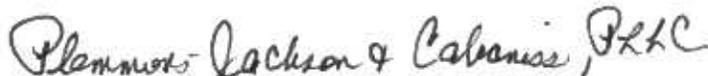
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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, Tennessee, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof 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 16, 2006, on our consideration of the City of Crossville, Tennessee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, pension funding information, and budgetary comparison information on pages 3 through 14, page 46, and pages 47 through 55 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Crossville, Tennessee basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, other supplementary information, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis, and is also not a required part of the basic financial statements of the City of Crossville, Tennessee. The combining and individual nonmajor fund financial statements, the other supplementary information, and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

  
Plemmons-Jackson & Cabaniss, PLLC

Crossville, Tennessee  
November 16, 2006

**REQUIRED SUPPLEMENTARY INFORMATION**



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

This discussion and analysis of the City of Crossville's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the City's financial statements.

### **USING THIS ANNUAL REPORT**

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

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

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

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

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

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

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

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

### **Fund Financial Statements**

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

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

## THE CITY AS A WHOLE

For the year ended June 30, 2006, net assets changed as follows:

	NET ASSETS					
	Governmental Activities		Business-Type Activities		Total Government	
	2006	2005	2006	2005	2006	2005
Current and other assets	17,956,401	15,831,325	9,012,634	7,721,407	26,969,035	23,552,732
Capital assets	24,095,251	23,466,279	47,479,288	39,352,781	71,574,539	62,819,060
Total assets	42,051,652	39,297,604	56,491,922	47,074,188	98,543,574	86,371,792
Other liabilities	3,097,224	2,875,180	423,839	424,740	3,521,063	3,299,920
Long-term liabilities outstanding	1,222,247	1,285,745	21,022,996	17,686,040	22,245,243	18,971,785
Total liabilities	4,319,471	4,160,925	21,446,835	18,110,780	25,766,306	22,271,705
Net assets:						
Investment in capital assets, net of related debt	24,020,251	23,366,279	26,438,101	21,666,741	50,458,352	45,033,020
Restricted	0	0	222,831	617,639	222,831	617,639
Unrestricted	13,711,930	11,770,400	8,384,155	6,679,028	22,096,085	18,449,428
Total net assets (deficit)	37,732,181	35,136,679	35,045,087	28,963,408	72,777,268	64,100,087

By far, the largest portion of the City's net assets (75%) reflects its investment in capital assets (e.g. land, buildings, utility plant, machinery, equipment, and infrastructure), net of any related debt used to acquire those assets that is still outstanding. The City uses these assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (1%) represents resources that are subject to external restriction on how they may be used. The remaining unrestricted net assets of \$22,096,085 may be used to meet the City's ongoing obligations to citizens and creditors. Of the unrestricted net assets, \$8.3 Million is attributable to business-type activities and \$13.7 Million is attributed to governmental activities. The governmental activities do not have any restricted net assets, primarily due to the minimal debt.

**CHANGE IN NET ASSETS**

	Governmental Activities		Business-Type Activities		Total Government	
	2006	2005	2006	2005	2006	2005
<b>REVENUES</b>						
Program revenues:						
Charges for services	1,191,258	3,268,815	7,018,411	6,030,440	8,209,669	9,299,255
Operating grants and contributions	636,600	635,254	-	-	636,600	635,254
Capital grants and contributions	76,438	72,990	606,545	520,714	682,983	593,704
General revenues:						
Taxes:						
Property taxes	1,702,535	1,682,179	-	-	1,702,535	1,682,179
Local options sales tax	6,812,244	6,273,545	-	-	6,812,244	6,273,545
State shared taxes	887,626	755,981	-	-	887,626	755,981
Other taxes	1,197,202	1,096,342	-	-	1,197,202	1,096,342
Unrestricted investment earnings	478,784	203,954	361,784	153,088	840,568	357,042
Gain (loss) on sale of capital assets		(5,282)	-	-	-	(5,282)
<b>Total revenues</b>	<b>12,982,687</b>	<b>13,983,778</b>	<b>7,986,740</b>	<b>6,704,242</b>	<b>20,969,427</b>	<b>20,688,020</b>
<b>EXPENSES</b>						
Governmental activities:						
General government	2,764,755	3,047,111	-	-	2,764,755	3,047,111
Public safety	4,482,045	3,973,535	-	-	4,482,045	3,973,535
Highways and streets	1,488,969	1,421,950	-	-	1,488,969	1,421,950
Sanitation	306,773	334,538	-	-	306,773	334,538
Leisure and culture	1,055,266	1,015,666	-	-	1,055,266	1,015,666
Airport	179,198	172,048	-	-	179,198	172,048
Industrial development	45,089	15,411	-	-	45,089	15,411
Tourism development	49,958	72,284	-	-	-	-
Cemeteries	44,860	26,227	-	-	44,860	26,227
Interest on long-term debt	34,440	13,008	-	-	34,440	13,008
Business-type activities:						
Water and sewer	-	-	6,689,781	5,477,863	6,689,781	5,477,863
<b>Total expenses</b>	<b>10,451,353</b>	<b>10,091,778</b>	<b>6,689,781</b>	<b>5,477,863</b>	<b>17,141,134</b>	<b>15,569,641</b>
Excess (deficiency) before extraordinary item	2,531,334	3,892,000	1,296,959	1,226,379	3,828,293	5,118,379
Extraordinary item-contribution from merger	-	-	4,848,888	-	4,848,888	-
Transfers in (out)	64,168	55,266	(64,168)	(55,266)	-	-
<b>Increase (decrease) in net assets</b>	<b>2,595,502</b>	<b>3,947,266</b>	<b>6,081,679</b>	<b>1,171,113</b>	<b>8,677,181</b>	<b>5,118,379</b>

## Governmental Activities

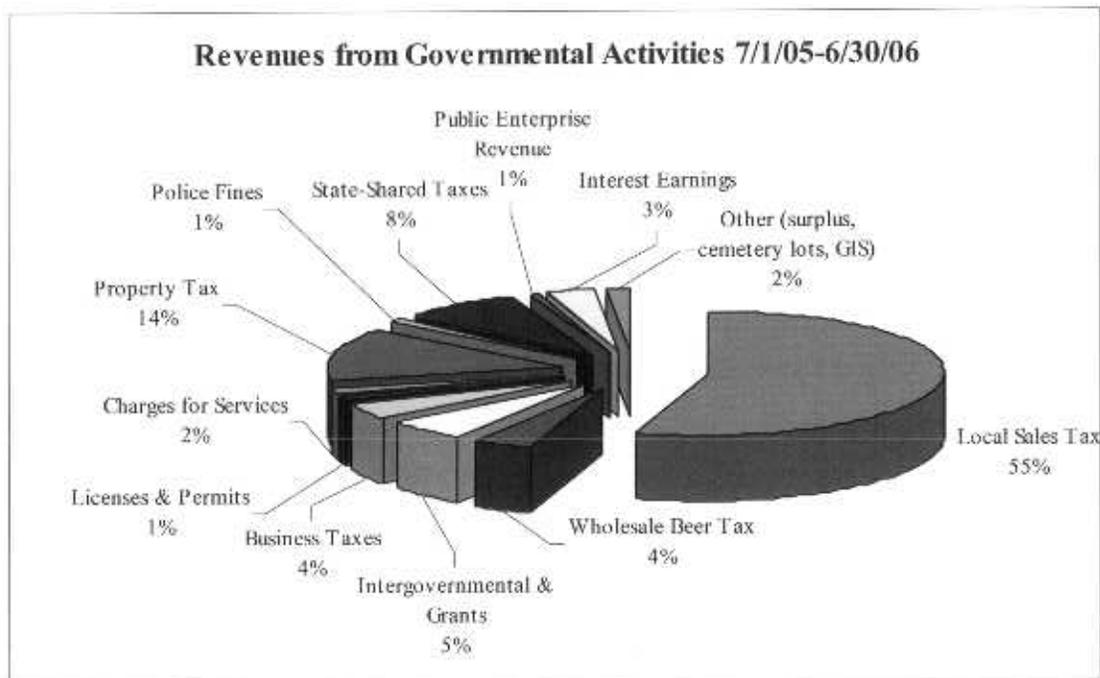
In comparison to last year, revenues for the City's governmental activities decreased 7.7% while total expenses increased 3.6%. The police, fire, and leisure and cultural departments had the biggest increase in expenditures, compared to last year, due to new personnel and/or capital outlay. The revenues decreased due to the contributions of assets from developers and annexations. The fiscal year ended June 30, 2005 had \$2.1 Million in contributions of assets categorized as charges for services, in comparison to \$188,000 in 2006. Even though overall revenues decreased, property tax revenues increased 1% and local sales tax collections increased 8.6% over the previous year, with some months of record high collections. Intergovernmental revenue increased over \$200,000 due to increases in State Sales and Income Taxes, and grants for disaster relief and airport improvements. Interest earnings increased over \$230,000 in comparison to the prior year due to an increase in investment interest rates.

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

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

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

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



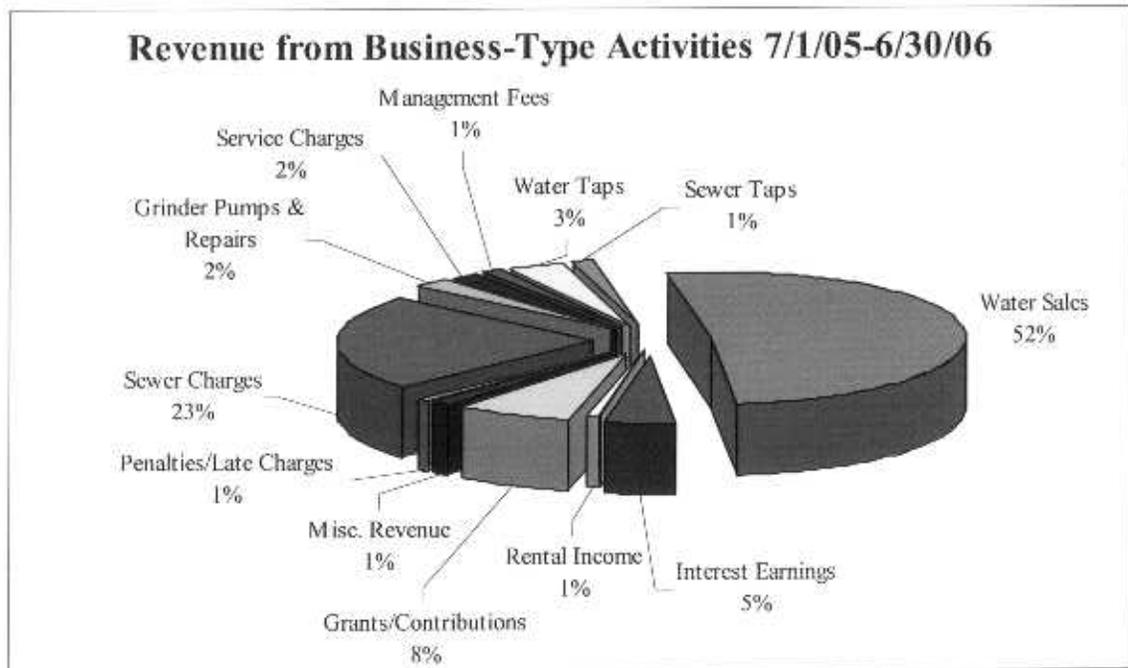
### **Business-Type Activities**

Revenues and expenses of the business-type activities were greatly affected by the merger between the City of Crossville utility operations and the Catoosa Utility District. The City of Crossville merged with the Catoosa Utility District on October 1, 2006, which added an increase of \$4.8 Million in Net Assets to the City of Crossville.

Prior to the merger, the City of Crossville managed Catoosa Utility District until September 30, 2006, which yielded \$112,530 in management revenues and \$139,803 in expenses. Revenues of the City's business-type activities grew 19% which is an overall \$1.28 Million increase over the previous year. The merger with the Catoosa Utility District is the main reason for the increase in revenues. Water sales alone increased by almost \$694,000 due to the merger adding over 3,800 customers. Interest earnings yielded an additional \$200,000, due to the increase in interest rates and investment earnings. Water tap fees more than doubled in comparison to the previous year, up to \$279,975 in 2006 from \$135,104 in 2005. This was due to the major growth in recently annexed areas.

Expenses increased 22%, mainly due to the merger as well. Customer accounting and collection and water transmission and distribution expenses more than doubled due to the merger. All of the former District employees in these areas became City employees. Interest expense also increased 43%, up from \$489,203 to \$700,314 due to the City's absorption of the District's debt. Depreciation expense for water assets increased by over \$200,000 due to the completion of the large capital projects plus the depreciation of donated infrastructure and annexed areas.

The following graph summarizes the revenue sources for the business-type activities.



## THE CITY'S FUNDS

At the close of the City's fiscal year on June 30, 2006, the governmental funds of the City reported a combined fund balance of \$13,789,407. This ending balance includes an increase in fund balance of \$1,519,927 in the City's General Fund. In addition, these other changes in fund balances should be noted:

- The City received \$293,608 in State of Tennessee Street Aid funding and spent \$471,020. This ultimately led to a decrease in the fund balance of (\$177,412), which left an ending fund balance of \$389,364. The City committed designated funds to the Tulip Drive Extension, which explains the use of fund balance.
- The Industrial Development Fund increased \$583,637, with an ending balance of \$1,006,965. The City sold an industrial spec building and the funds will be invested in future industrial expansion.

## **General Fund Budgetary Highlights**

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

1. Emergency in nature—Meadow Park Lake had damages as a result of a tornado. The budget was amended to cover the necessary repairs with both insurance reimbursement and FEMA Disaster Relief.
2. Grant projects—The airport received private and state grants for extension of a taxiway and sewer line in connection to a new hangar. The budget was amended to accept the grants and expend the funds. The City also joined forces with the U.S. Army Corp of Engineers on a utility expansion project. The enterprise fund budget was amended to deposit the City's share of the costs.
3. Increases to prevent budget overrun—The budget was amended to cover additional, unexpected costs related to increased fuel prices, purchase of recreational land, and final bid costs connected to the Iris Lane Abutment Project and Highway 127N Interchange Lighting.
4. Merger with the Catoosa Utility District—The enterprise fund budget was amended to cover the revenues and expenses connected to the merger. This included the establishment of the Catoosa Department and the payment to Tennessee Consolidated Retirement System for the absorption of employees.

Even with these adjustments, the actual charges to expenditures were \$2.1 Million below the final budget amounts for the General Fund and \$1.2 Million below final budget amounts for the Consolidated Water and Sewer Enterprise Fund. The most significant favorable variances occurred in the General Fund's transfer to Capital Projects (\$867,456), Street Department (\$209,244), and the Public Safety Building (\$296,928). This was due to capital projects, mainly street related and the roof on the Public Safety Building, which were not completed by 6/30/06. The expenses were carried over into the following year's budget. The enterprise fund's interest expense was significantly less than budget due to variable rates that were lower than the budget, and depreciation expense was also lower than originally budgeted due to a later project completion time. In addition, the original budget was prepared assuming that the City would manage the Catoosa Utility District for 12 months, which left unused management expenses of \$512,459.

On the other hand, actual revenues were \$311,655 above the final budgeted amount in the General Fund, mainly due to interest earnings and local sales tax increases. Water and Sewer Fund revenue was over \$300,000 higher than budget estimates due to interest earnings and outside grants/contributions. The budgeted operating revenues and expenses were consistent with that of prior years, with expenses being well below the budgeted figures. As noted above, revenue budgets were conservative in comparison to actual receipts which also led to increased fund balance.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

As of June 30, 2006, the City had \$71.6 million invested in a broad range of capital assets, including police and fire equipment, buildings, park facilities, roads, water and sewer lines. This represents a net increase (including additions and deductions) of 14% over last year.

	Capital Assets at Year-End (In Millions)					
	Governmental Activities		Business-Type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Land	2.73	2.45	0.42	0.29	3.15	2.75
Water and Sewer Treatment and Distribution Plant	-	-	65.89	54.54	65.89	54.54
Buildings & Improvements	12.78	12.93	-	-	12.78	12.93
Machinery & Equipment	5.03	4.33	3.36	2.60	8.39	6.93
Infrastructure	12.28	12.10	-	-	12.28	12.10
Construction In Progress Less Accumulated Depreciation	0.76	0.16	1.22	0.88	1.98	1.04
	(9.49)	(8.50)	(23.42)	(18.97)	(32.90)	(27.47)
<b>Net</b>	<b>24.10</b>	<b>23.47</b>	<b>47.48</b>	<b>39.35</b>	<b>71.57</b>	<b>62.82</b>

This year's major additions included over \$8 Million in assets--property, distribution, and equipment, from the Catoosa Utility District merger for the business-type activities. The governmental activities also had large capital additions for road projects and building improvements and \$371,532 for a fully equipped fire engine.

## Debt

At year-end, the City had \$22.3 Million in bonds and notes outstanding versus \$19 Million last year—an increase of 17% as shown below.

	Outstanding Debt at Year-End					
	Governmental Activities		Business-type Activities		Totals	
	2006	2005	2006	2005	2006	2005
General obligation bonds (backed by the City)	283,247	307,745	4,830,980	5,361,970	5,114,228	5,669,715
Revenue bonds and notes (backed by specific tax and fee revenues)	939,000	978,000	16,210,208	12,324,070	17,149,208	13,302,070
Totals	<u>1,222,247</u>	<u>1,285,745</u>	<u>21,041,188</u>	<u>17,686,040</u>	<u>22,263,436</u>	<u>18,971,785</u>

New debt of \$5.22 Million resulted from the merger between the City of Crossville utility operations and the Catoosa Utility District in the business-type activities. In the governmental activities, the City of Crossville's only interest bearing note was decreased due to obligated payments by Cumberland County E-911. An interlocal agreement was signed between the City of Crossville, Cumberland County, and Cumberland County E-911, which obligates the Cumberland County E-911 to repay the debt. This agreement is reflected in the Government-Wide Statement of Net Assets as outstanding debt to the Tennessee Municipal Bond Fund and as a receivable from Cumberland County E-911.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The new General Fund Budget effective July 1, 2006 maintained the same tax rate as the fiscal year ended June 30, 2006. Since the last sales tax increase in 1999, the City has had an average sales tax growth rate, excluding the rate increase, of 20% in comparison to the 1998 level of sales. This sales tax trend has prevented property tax rate increases. The State of Tennessee also restored the remainder of previous years' tax cuts. This restoration of taxes plus the City's new census will bring approximately \$91,000 more in revenue from the State of Tennessee annually.

Some of the significant capital asset items budgeted for next year include \$495,000 for airplane hangars at the airport, \$2 Million for soccer fields, \$178,000 for four fully-equipped police vehicles, \$400,000 for the Holiday Hills bridge repair, and \$865,000 on other street related capital projects. Grants and specially designated state funding will offset some of these large expenses. The City also programmed a possible loan for the soccer fields.

With the October 1, 2006 merger between the Crossville Water and Sewer Fund and the Catoosa Utility District, the utility operations have increased their territory. The newly

formed Catoosa Department has \$372,500 budgeted for system improvements, including the completion of the changeover to radio read meters. Other major utility capital additions include \$1 Million for water tank painting/resurfacing, \$950,000 for the State funded Highway 127S sewer expansion, \$600,000 for improving the Holiday Hills dam, \$600,000 for use of waterline rehabilitation savings, \$556,000 in wastewater improvements and \$644,700 for Holiday Hills Water Plant improvements. Loans and grants from state and federal agencies, as well as savings, will fund construction costs. Some of these projects will be finished within the fiscal year while others will progress into the next few fiscal years.

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

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

**BASIC FINANCIAL STATEMENTS**

**Government-wide Financial Statements**

**City of Crossville, Tennessee**  
**GOVERNMENT-WIDE STATEMENT OF NET ASSETS**  
**June 30, 2006**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 13,241,668	\$ 7,505,379	\$ 20,747,047
Receivables (net)	4,521,504	885,536	5,407,040
Inventories	120,088	201,080	321,168
Deferred financing costs	0	216,000	216,000
Restricted cash and cash equivalents	73,141	222,831	295,972
Capital assets			
Land & construction in progress	3,485,453	1,645,528	5,130,981
Other capital assets, net of depreciation	20,609,798	45,833,760	66,443,558
Total capital assets	<u>24,095,251</u>	<u>47,479,288</u>	<u>71,574,539</u>
<b>Total assets</b>	<u>42,051,652</u>	<u>56,510,114</u>	<u>98,561,766</u>
<b>LIABILITIES</b>			
Accounts payable & accrued expenses	1,286,449	423,839	1,710,288
Deferred revenue	1,810,775	0	1,810,775
Long-term liabilities			
Due within one year	65,000	1,467,211	1,532,211
Due in more than one year	1,157,247	19,573,977	20,731,224
<b>Total liabilities</b>	<u>4,319,471</u>	<u>21,465,027</u>	<u>25,784,498</u>
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt	24,020,251	26,438,101	50,458,352
Restricted	0	222,831	222,831
Unrestricted	13,711,930	8,384,155	22,096,085
<b>Total net assets</b>	<u>\$ 37,732,181</u>	<u>\$ 35,045,087</u>	<u>\$ 72,777,268</u>

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

	Net (Expense) Revenue and Changes in Net Assets		
	Primary Government		
	Governmental Activities	Business-type Activities	Total
Capital			
Grants and Contributions			
0	\$ (1,743,226)	\$ 0	\$ (1,743,226)
1,142	(4,336,720)	0	(4,336,720)
0	(1,195,069)	0	(1,195,069)
0	(306,773)	0	(306,773)
0	(868,181)	0	(868,181)
61,476	(16,640)	0	(16,640)
13,820	(1,090)	0	(1,090)
0	(49,958)	0	(49,958)
0	5,040	0	5,040
0	(34,440)	0	(34,440)
<u>76,438</u>	<u>(8,547,057)</u>	<u>0</u>	<u>(8,547,057)</u>
<u>606,545</u>	<u>0</u>	<u>935,175</u>	<u>935,175</u>
<u>606,545</u>	<u>0</u>	<u>935,175</u>	<u>935,175</u>
<u>\$ 682,983</u>			
	1,702,535	0	1,702,535
	6,812,244	0	6,812,244
	887,626	0	887,626
	488,933	0	488,933
	545,592	0	545,592
	162,677	0	162,677
	478,784	361,784	840,568
	0	4,848,888	4,848,888
	<u>64,168</u>	<u>(64,168)</u>	<u>0</u>
	<u>11,142,559</u>	<u>5,146,504</u>	<u>16,289,063</u>
	2,595,502	6,081,679	8,677,181
	<u>35,136,679</u>	<u>28,963,408</u>	<u>64,100,087</u>
	<u>\$ 37,732,181</u>	<u>\$ 35,045,087</u>	<u>\$ 72,777,268</u>

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

**City of Crossville, Tennessee**  
**BALANCE SHEET**  
**Governmental Funds**  
**June 30, 2006**

	General	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash	\$ 10,830,731	\$ 910,266	\$ 1,500,671	\$ 13,241,668
Cash - restricted	21,604	0	51,537	73,141
Receivables, net of allowance for uncollectible				
Property taxes	1,809,049	0	0	1,809,049
Accounts	78,335	0	0	78,335
Grants	34,851	0	0	34,851
Notes	3,838	0	0	3,838
Due from other governments	1,568,980	0	48,451	1,617,431
Inventories	109,504	0	10,584	120,088
<b>TOTAL ASSETS</b>	<b>\$ 14,456,892</b>	<b>\$ 910,266</b>	<b>\$ 1,611,243</b>	<b>\$ 16,978,401</b>
<b>LIABILITIES &amp; FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	\$ 105,258	\$ 920,909	\$ 149,600	1,175,767
Customer deposits	760	0	0	760
Accrued expenses	109,922	0	0	109,922
Deferred tax revenues	1,902,545	0	0	1,902,545
<b>Total liabilities</b>	<b>2,118,485</b>	<b>920,909</b>	<b>149,600</b>	<b>3,188,994</b>
<b>Fund balances</b>				
Unreserved	12,338,407	(10,643)	0	12,327,764
Unreserved, reported in nonmajor				
Special revenue funds	0	0	1,461,643	1,461,643
<b>Total fund balances</b>	<b>12,338,407</b>	<b>(10,643)</b>	<b>1,461,643</b>	<b>13,789,407</b>
<b>TOTAL LIABILITIES &amp; FUND BALANCES</b>	<b>\$ 14,456,892</b>	<b>\$ 910,266</b>	<b>\$ 1,611,243</b>	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	24,095,251
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.	1,069,770
Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(1,222,247)

Net assets of governmental activities	<b>\$ 37,732,181</b>
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The notes to the basic financial statements are an integral part of this statement.

**City of Crossville, Tennessee**  
**STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**Governmental Funds**  
**For the Year Ended June 30, 2006**

	General	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUE</b>				
Local taxes	\$ 9,711,981	\$ 0	\$ 0	\$ 9,711,981
Licenses and permits	179,831	0	0	179,831
Intergovernmental revenue	909,134	0	272,392	1,181,526
Interest income	417,550	0	61,234	478,784
Fines and forfeits	113,613	0	30,696	144,309
Charges and services	222,720	0	30,263	252,983
Public enterprise revenue	0	0	15,994	15,994
Grants	366,317	0	13,821	380,138
Donations	104,784	0	0	104,784
Miscellaneous	295,692	0	6,500	302,192
<b>Total Revenue</b>	<u>12,321,622</u>	<u>0</u>	<u>430,900</u>	<u>12,752,522</u>
<b>EXPENDITURES</b>				
Current				
General government	2,654,010	0	0	2,654,010
Public safety	4,213,409	0	18,679	4,232,088
Street	926,278	0	191,554	1,117,832
Sanitation	0	0	305,277	305,277
Leisure and culture	859,223	0	0	859,223
Airport	77,743	0	0	77,743
Industrial development	0	0	45,089	45,089
Tourism development	49,958	0	0	49,958
Cemeteries	41,419	0	0	41,419
Debt service				
Principal retirement	64,000	0	0	64,000
Interest charges	34,440	0	0	34,440
Capital outlay - facilities acquisition and construction				
	<u>1,233,891</u>	<u>452,080</u>	<u>308,388</u>	<u>1,994,359</u>
<b>Total expenditures</b>	<u>10,154,371</u>	<u>452,080</u>	<u>868,987</u>	<u>11,475,438</u>
<b>EXCESS (DEFICIENCY) REVENUE OVER EXPENDITURES</b>				
	<u>2,167,251</u>	<u>(452,080)</u>	<u>(438,087)</u>	<u>1,277,084</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of assets	0	0	550,000	550,000
Operating transfers in	87,982	441,437	305,193	834,612
Operating transfers (out)	<u>(735,306)</u>	<u>0</u>	<u>(35,138)</u>	<u>(770,444)</u>
<b>Total other financial sources (uses)</b>	<u>(647,324)</u>	<u>441,437</u>	<u>820,055</u>	<u>614,168</u>
<b>EXCESS (DEFICIENCY) REVENUE &amp; OTHER SOURCES OVER EXPENDITURES &amp; OTHER USES</b>				
	1,519,927	(10,643)	381,968	1,891,252
<b>FUND BALANCES, beginning of year</b>				
	<u>10,818,480</u>	<u>0</u>	<u>1,079,675</u>	<u>11,898,155</u>
<b>FUND BALANCES, end of year</b>				
	<u>\$ 12,338,407</u>	<u>\$ (10,643)</u>	<u>\$ 1,461,643</u>	<u>\$ 13,789,407</u>

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

City of Crossville, Tennessee  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
 BALANCES OF GOVERNMENTAL ACTIVITIES**  
 For the Year Ended June 30, 2006

<b>NET CHANGE IN FUND BALANCES--TOTAL GOVERNMENTAL FUNDS</b>	<b>\$ 1,891,252</b>
Governmental funds report capital outlays as expenditures. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$1,994,359) exceeded depreciation (\$1,033,772) in the current period.	960,587
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.	(228,065)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(91,770)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	64,000
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	<u>(502)</u>
<b>Change in net assets of governmental activities (p 16)</b>	<b><u>\$ 2,595,502</u></b>

City of Crossville, Tennessee  
**STATEMENT OF NET ASSETS**  
 Proprietary Funds  
 June 30, 2006

	<u>Enterprise Funds</u>
	<u>Water &amp; Sewer</u>
<b>ASSETS</b>	
<b>Current assets</b>	
Cash	\$ 7,505,379
Accounts receivable, net of allowance for doubtful accounts	869,918
Inventories of materials	201,080
Total current assets	<u>8,576,377</u>
<b>Noncurrent assets</b>	
Restricted cash	222,831
Capital assets:	
Land	422,978
Plant in service	65,894,379
Construction in progress	1,222,550
Machinery and equipment	3,358,048
Less accumulated depreciation	(23,418,667)
Deferred financing cost	216,000
Special assessment receivable	15,618
Total other assets	<u>47,933,737</u>
Total assets	<u>56,510,114</u>
<b>LIABILITIES</b>	
<b>Current liabilities</b>	
Accounts payable	332,522
Accrued liabilities	91,317
Current portion of notes/bond payable	1,467,211
Total current liabilities	<u>1,891,050</u>
<b>Noncurrent liabilities</b>	
Notes and bonds payable, less current portion	<u>19,573,977</u>
Total noncurrent liabilities	<u>19,573,977</u>
Total liabilities	<u>21,465,027</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	26,438,101
Restricted for debt service	222,831
Unrestricted	8,384,155
Total net assets	<u>\$ 35,045,087</u>

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

City of Crossville, Tennessee  
**STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS**  
**Proprietary Fund**  
For the Year Ended June 30, 2006

	<u>Enterprise Funds</u>
	<u>Water &amp; Sewer</u>
<b>OPERATING REVENUE</b>	
Charges for services	\$ 7,018,411
Total operating revenue	<u>7,018,411</u>
<b>OPERATING EXPENSES</b>	
Personnel services	1,585,648
Repair and maintenance	32,930
Materials and supplies	547,286
Contractual services	1,522,964
Other	439,346
Depreciation and amortization	<u>1,861,293</u>
Total operating expenses	<u>5,989,467</u>
<b>OPERATING INCOME (LOSS)</b>	<u>1,028,944</u>
<b>NONOPERATING REVENUE (EXPENSES)</b>	
Interest expense	(700,314)
Interest income	<u>361,784</u>
Total nonoperating revenue (expenses)	<u>(338,530)</u>
<b>INCOME (LOSS) BEFORE OTHER REVENUES, EXTRAORDINARY ITEMS AND TRANSFERS</b>	690,414
Contributions in aid of construction	606,545
Extraordinary item--contribution from merger	4,848,888
Net transfers	<u>(64,168)</u>
<b>CHANGE IN NET ASSETS</b>	6,081,679
<b>Total Net Assets--beginning of year</b>	<u>28,963,408</u>
<b>Total Net Assets--end of year</b>	<u>\$ 35,045,087</u>

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

**City of Crossville, Tennessee**  
**STATEMENT OF CASH FLOWS**  
**Proprietary Fund**  
**For the Year Ended June 30, 2006**

**Enterprise Funds**

Water & Sewer

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from customers	\$ 6,940,385
Payments to suppliers	(2,580,595)
Payments to employees	<u>(1,585,648)</u>
Net cash provided by operating activities	<u>2,774,142</u>

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

Proceeds from capital debt	5,220,000
Principal paid on capital debt	(1,883,044)
Interest paid on capital debt	(700,314)
Purchases of capital assets	(9,987,799)
Contribution from merger	4,848,888
Contributions in aid of construction	606,545
Other receipts (payments)	<u>(152,739)</u>
Net cash provided (used) by capital and financing activities	<u>(2,048,463)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Operating transfer to General Fund, net	<u>(64,168)</u>
Net cash (used) by noncapital financing activities	<u>(64,168)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Liquidation of investments	421,738
Interest received on investments	<u>361,784</u>
Net cash provided (used) by investing activities	<u>783,522</u>

**NET INCREASE (DECREASE) IN CASH**

1,445,033

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

6,283,177

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

\$ 7,728,210

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET**

**CASH PROVIDED (USED) BY OPERATING ACTIVITIES**

Operating income (loss)	\$ 1,028,944
Adjustments to reconcile operating income to net cash provided	
by operating activities:	
Depreciation expense	1,861,293
Change in assets and liabilities	
Receivables, net	(78,026)
Inventories	(37,168)
Accounts and other payables	388
Accrued expenses	<u>(1,289)</u>
Net cash provided by operating activities	<u>\$ 2,774,142</u>

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

**City of Crossville, Tennessee**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2006**

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

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

**Reporting Entity**

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

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

**Related Organizations**

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

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

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

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

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

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

**City of Crossville, Tennessee**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2006**

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

**A. BASIS OF PRESENTATION**

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

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

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

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

**B. FUND ACCOUNTING**

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

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

**City of Crossville, Tennessee**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2006**

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

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

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

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

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

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

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

### **C. MEASUREMENT FOCUS**

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

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

**City of Crossville, Tennessee**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2006**

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

**D. BASIS OF ACCOUNTING**

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

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

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

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

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

Property taxes for which there is an enforceable legal claim as of January 1, 2006, but which were levied to finance year 2007 operations, have been reported as deferred revenue. Grants and

**City of Crossville, Tennessee**  
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entitlements received before the eligibility requirements were met also have been reported as deferred revenue.

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

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

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

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

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

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

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

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

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

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

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

**City of Crossville, Tennessee**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**F. CASH AND CASH EQUIVALENTS**

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

The City has segregated cash accounts for various amounts that are invested with the State of Tennessee in the Local Government Investment Pool (LGIP). During the fiscal year ended June 30, 2006, investments were limited to deposits with the State of Tennessee in the Local Government Investment Pool. The pool's investments are reported at fair value at June 30, 2006 based on market prices. Earnings on the pooled funds are apportioned and paid or credited to the funds monthly.

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

**G. INVENTORY**

Inventory consists of expendable supplies held for consumption.

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

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

**H. ACCRUED UNBILLED REVENUE**

During the year, customer water meters are read and bills rendered throughout monthly periods. Because not every meter is read on the same date, revenue for water distributed but not yet billed is accrued at fiscal year-end to match revenues with related expenses. At June 30, 2006, accrued unbilled revenues were \$331,611.

**I. RESTRICTED ASSETS**

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

**City of Crossville, Tennessee**  
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<u>Governmental Activities</u>	<u>Amount</u>
Restricted for specific uses	\$ 73,141
<u>Business-Type Activities</u>	
Restricted for bond interest and sinking funds	<u>222,831</u>
Total government-wide restricted assets	<u>\$ 295,972</u>

**J. CAPITAL ASSETS**

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

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

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

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

**City of Crossville, Tennessee**  
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**K. CAPITALIZATION OF INTEREST**

In conformity with Financial Accounting Standards No. 34, "Capitalization of Interest Cost," the City capitalizes interest costs for business-type activities only, net of related interest earned, from the date of the borrowing until the projects acquired with those funds are ready for their intended use. During the fiscal year ended June 30, 2006, no interest costs were capitalized as fixed assets in the Water and Sewer Fund as part of the costs of constructing various projects. Total interest costs for the Water and Sewer fund amounted to approximately \$700,314.

**L. COMPENSATED ABSENCES**

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

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

Amounts accrued at June 30, 2006 for compensated absences are not expected to be liquidated with expendable available financial resources, and accordingly, the liability is not reported on the governmental fund financial statements. The government-wide statement of net assets does include the liability for compensated absences.

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

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

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

**N. FUND BALANCE RESERVES**

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

City of Crossville, Tennessee  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**O. EQUITY CLASSIFICATIONS—NET ASSETS**

**Government-wide Statements**

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

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

**Fund Statements**

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

**P. OPERATING REVENUES AND EXPENSES**

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

**Q. CONTRIBUTIONS OF CAPITAL**

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

**R. INTERFUND ACTIVITY**

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

**City of Crossville, Tennessee**  
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Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported other financing sources/uses in governmental funds and after nonoperating revenue/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

**S. ESTIMATES**

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

**NOTE 3: CHANGE IN ACCOUNTING PRINCIPLES**

The City of Crossville, Tennessee has implemented GASB Statement No. 45 (GASB 46), "Net Assets Restricted by Enabling Legislation". This statement clarifies the meaning of legal enforceability as it relates to restricted net assets. At June 30, 2006, the City of Crossville, Tennessee has no net assets restricted by enabling legislation.

**NOTE 4: DEPOSITS AND INVESTMENTS**

**Deposits**—State statutes require that all deposits in financial institutions be fully collateralized by an amount equal to 105 percent of the face amount of uninsured deposits. The collateral must be considered as category 1 for credit risk. The City's deposits were fully insured or collateralized as required by state statutes at June 30, 2006. At year-end, the carrying amount of the City's deposits was \$21,043,018 and the respective bank balances totaled \$21,237,575.

Deposits of \$17,123,936 were held in the State of Tennessee Local Government Investment Pool (LGIP); cash held in checking was covered by the Federal Depository Insurance Corporation (FDIC) for \$100,000; additionally the bank had assets pledged to the City with collateral at a value of \$2,000,000.

**Cash on Hand**—At year end; the City had \$2,793 in undeposited cash on hand, which is included on the balance sheet of the City as part of "Cash and cash equivalents". Cash and cash equivalents are all highly liquid investments with a maturity of three months or less when purchased.

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

**City of Crossville, Tennessee**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE 5: RECEIVABLES**

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

**Property Taxes**—Property taxes include amounts levied against all real, public utilities, and also for industrial and commercial taxpayers on tangible personal property located in the City. Property tax revenue received during 2006 for real and public utility property taxes represents collections of the 2005 taxes.

2006 real property taxes are levied each July 1 on the assessed value as of January 1, 2006, the lien date. Assessed values are established by the State of Tennessee at the following rates of assumed market value:

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

Taxes were levied at the rate of \$.70 per \$100. Payment may be made during the period from August 1 through November 30 and become delinquent on December 1 of each tax year. Current tax collections of \$1,668,728 for the fiscal year ended June 30, 2006 were approximately 97.92% of the tax levy for 2005 taxes.

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

<u>Governmental Activities</u>	<u>Amount</u>
Local option sales tax	\$ 1,213,512
State sales tax	117,605
Telecommunications sales tax	274
Gasoline taxes	52,149
Mixed drink tax	12,330
Wholesale beer tax	<u>103,680</u>
State income tax	117,881
Total Governmental Activities	<u>1,617,431</u>
 <u>Business-Type Activities</u>	
Intergovernmental receivable	<u>0</u>
Total Intergovernmental Receivables	<u>\$ 1,617,431</u>

**City of Crossville, Tennessee**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE 6—RISK MANAGEMENT**

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

**NOTE 7—CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2006, is as follows:

	Balance <u>July 1, 2005</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>June 30, 2006</u>
<b>Governmental Activities:</b>				
Capital assets not being depreciated				
Land	\$ 2,453,098	\$ 300,532	\$ 27,500	\$ 2,726,130
Construction in progress	<u>159,764</u>	<u>1,079,485</u>	<u>479,926</u>	<u>759,323</u>
Total capital assets not being depreciated	<u>2,612,862</u>	<u>1,380,017</u>	<u>507,426</u>	<u>3,485,453</u>
Capital assets being depreciated				
Buildings	5,872,120	107,463	474,517	5,505,066
Machinery and equipment	4,325,858	781,447	72,638	5,034,667
Improvements other than bldgs	7,057,312	213,448	0	7,270,760
Infrastructure	<u>12,095,971</u>	<u>188,733</u>	<u>0</u>	<u>12,284,704</u>
Total capital assets being depreciated	<u>29,351,261</u>	<u>1,291,091</u>	<u>547,155</u>	<u>30,095,197</u>
Less accumulated depreciation				
Buildings	(1,315,272)	(137,384)	(13,769)	(1,438,887)
Machinery and equipment	(3,477,481)	(418,811)	(59,163)	(3,837,129)
Improvements other than bldgs	(999,485)	(198,578)	0	(1,198,063)
Infrastructure	<u>(2,705,606)</u>	<u>(305,714)</u>	<u>0</u>	<u>(3,011,320)</u>
Total accumulated depreciation	<u>(8,497,844)</u>	<u>(1,060,487)</u>	<u>( 72,932)</u>	<u>(9,485,399)</u>
Net capital assets being depreciated	<u>20,853,417</u>	<u>230,604</u>	<u>474,223</u>	<u>20,609,798</u>
<b>Governmental Activities Capital Assets, Net</b>	<u>\$ 23,466,279</u>	<u>\$ 1,610,621</u>	<u>\$ 981,649</u>	<u>\$ 24,095,251</u>

**City of Crossville, Tennessee**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2006</u>
<b>Business-Type Activities</b>				
Capital assets not being depreciated				
Land	\$ 294,010	\$ 128,968	\$ 0	\$ 422,978
Construction in progress	<u>882,199</u>	<u>1,084,541</u>	<u>744,190</u>	<u>1,222,550</u>
Total capital assets not being depreciated	<u>1,176,209</u>	<u>1,213,509</u>	<u>744,190</u>	<u>1,645,528</u>
Capital assets being depreciated				
Buildings and distribution lines	54,541,618	11,352,762	0	65,894,380
Machinery and equipment	<u>2,604,942</u>	<u>850,254</u>	<u>97,149</u>	<u>3,358,047</u>
Total capital assets being depreciated	<u>57,146,560</u>	<u>12,203,016</u>	<u>97,149</u>	<u>69,252,427</u>
Less accumulated depreciation				
Buildings and distribution lines	(17,081,861)	(3,853,846)	0	(20,935,707)
Machinery and equipment	<u>(1,888,127)</u>	<u>(691,982)</u>	<u>(97,149)</u>	<u>(2,482,960)</u>
Total accumulated depreciation	<u>(18,969,988)</u>	<u>(4,545,828)</u>	<u>(97,149)</u>	<u>(23,418,667)</u>
Net capital assets being depreciated	<u>38,176,572</u>	<u>7,657,188</u>	<u>0</u>	<u>45,833,760</u>
<b>Business-Type Activities Capital Assets, Net</b>	<u>\$ 39,352,781</u>	<u>\$ 8,870,697</u>	<u>\$ 744,190</u>	<u>\$ 47,479,288</u>

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 110,243
Public safety	249,957
Streets	371,137
Cemeteries	3,441
Leisure and cultural	196,043
Airport	101,455
Sanitation	<u>1,496</u>
Total depreciation expense	<u>\$ 1,033,772</u>

**City of Crossville, Tennessee**  
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Construction in progress for the City of Crossville consists of the following:

**Governmental Activities:**

	Total	Expended to	Remaining	
	<u>Project Cost</u>	<u>June 30, 2006</u>	<u>Costs</u>	<u>Source of Funds</u>
Centennial Park bathroom/ Concessions	\$ 75,000	\$ 3,325	\$ 71,675	City funds
Public safety building imp.	354,068	48,218	305,850	City funds
Cleveland St improvement	140,299	138,439	1,860	City funds
TN Ave causeway project	215,000	5,800	209,200	\$26,000 property owners/City funds
Warner Field correctional Improvements	100,000	525	99,475	\$94,120 bond co/City funds
Tulip Drive extension	362,000	268,828	93,172	State street aid funds
Holiday Hills bridge	1,910,000	2,017	1,907,983	City funds
Cook Road widening	120,000	73,544	46,456	City funds and State of TN
Iris Lane road abutment	138,474	138,474	0	75% property owners/25% City fund
Northwest connector	<u>410,000</u>	<u>80,153</u>	<u>329,847</u>	City funds
 Total Government Activities	 <u>\$ 3,824,841</u>	 <u>\$ 759,323</u>	 <u>\$ 3,065,518</u>	

**Business-Type Activities:**

	Total	Expended to	Remaining	
	<u>Project Cost</u>	<u>June 30, 2006</u>	<u>Costs</u>	<u>Source of Funds</u>
127S utility relocation	\$ 685,000	\$ 9,993	\$ 675,007	City rehabilitation savings/or State
Pump station—Genesis/Hayes	120,000	13,500	106,500	City funds
Holiday Hills plant improvement	650,000	58,453	591,547	City funds
Iris Lane W&S lines abutment	166,780	166,780	0	City funds
Catoosa radio read meter prog	224,500	112,000	112,500	City funds
Holiday Hills dam overflow	1,080,000	109,768	970,232	City funds
Water tanks repaint/resurface	287,500	20,450	267,050	
Meadow Park Lake Dam	<u>10,000,000</u>	<u>731,606</u>	<u>9,268,394</u>	City funding preliminary, fed grants
 Total Business-Type Act.	 <u>\$ 13,213,780</u>	 <u>\$ 1,222,550</u>	 <u>\$ 11,991,230</u>	

**City of Crossville, Tennessee**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2006**

**NOTE 8: LONG-TERM DEBT**

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

**Governmental Activities**

As of June 30, 2006, the governmental long-term debt of the City of Crossville consisted of the following:

\$1,000,000 note dated 11/17/04, variable interest rate est. average 3.5% with principal ranging from \$22,000--\$66,000 annually	\$ 939,000
\$250,000 Capital outlay note, date 1/26/00, annual payment of \$25,000 with 0% interest.	75,000
Accrued compensated absences	<u>208,247</u>
Total Governmental Activities Debt	<u>\$ 1,222,247</u>

**Business-Type Activities**

As of June 30, 2006, the business-type long-term debt of the City of Crossville consisted of the following:

\$1,931,989 dated April 1, 1985, State of Tennessee bonds, monthly payments of \$14,224 through March 2014, average interest rate of 3.31%	\$ 1,051,512
\$4,713,500 General obligation loan dated February 25, 1999, interest payable monthly at variable rates, annual principal payments of \$154,340 - \$371,450 beginning May 25, 2001	3,663,680
\$5,355,000 Water System Refunding Bonds, Series 2005, dated March 31, 2005, due in annual installments from \$302,512 to \$362,721 beginning March 2006, interest at 3.5% - 5.0%	5,075,000
\$2,650,000 State of Tennessee loan dated May 5, 1992, monthly payments of \$14,224 at 2.64% interest through July 2014	1,241,179
\$4,200,000 General obligation loan dated June 26, 1996, interest payable monthly at variable rate, annual principal payment of \$229,700 - \$436,000 began May 1999	1,167,300

**City of Crossville, Tennessee**  
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\$7,500,000 State of Tennessee loan, initial amounts drawn down of \$5,759,366 with \$1,740,634 available for one year; monthly payment of \$28,512 at 1.77% interest through March 2024	5,167,913
\$1,675,000 State of Tennessee loan, initial amounts drawn down of \$1,210,042 with \$464,958 available for one year; monthly payments of \$5,822 at 1.47% interest through November 2024	1,109,236
\$575,000 State of Tennessee loan, initial rate of 1.47%; monthly payments of \$2,284 until August 2024	436,706
\$2,600,000 RUD loan dated November 12, 2003, monthly payments of \$11,518 at 4.25% interest through April 2042	2,360,313
Plus: premium on refunding	18,192
Less: deferred amount on refunding	<u>(249,843)</u>
Total Business-Type Debt	<u>\$21,041,188</u>

**Changes in Long-term Debt**

The following is a summary of changes in long-term debt for the year ended June 30, 2006:

	Balance <u>July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30, 2006</u>	Due Within <u>One Year</u>
<b>Governmental Activities:</b>					
TML 2004 note	\$ 978,000	\$ 0	\$ 39,000	\$ 939,000	\$ 40,000
Gen Obligation Capital Outlay Note	100,000	0	25,000	75,000	25,000
Compensated absences	<u>207,745</u>	<u>502</u>	<u>0</u>	<u>208,247</u>	<u>0</u>
Total Governmental Activ.	<u>\$ 1,285,745</u>	<u>\$ 502</u>	<u>\$ 64,000</u>	<u>\$ 1,222,247</u>	<u>\$ 65,000</u>

**City of Crossville, Tennessee**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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	Balance			Balance	Amounts
	July 1, 2005	Additions	Reductions	June 30, 2006	Due Within
					One Year
<b>Business-Type Activities:</b>					
Gen Obligation loan 1999 TMBF	\$ 3,860,670	\$ 0	\$ 196,990	\$ 3,663,680	\$ 206,830
Gen Obligation loan 1996 TMBF	1,501,300	0	334,000	1,167,300	352,500
Tennessee Local Dev Authority loan	1,377,151	0	135,972	1,241,179	139,602
Tennessee Local Dev Authority loan	1,157,475	0	105,963	1,051,512	105,515
Series 1993 Refunding Bonds	240,000	0	240,000	0	0
SRF loan	5,421,893	0	253,980	5,167,913	258,523
RUD loan	2,531,479	0	171,166	2,360,313	178,584
SRF loan	457,526	0	20,820	436,706	21,132
SRF loan	1,162,960	0	53,724	1,109,236	54,525
Series 2005 Refunding Bonds	<u>0</u>	<u>5,220,000</u>	<u>145,000</u>	<u>5,075,000</u>	<u>150,000</u>
Total Business-Type Act.	17,710,454	5,220,000	1,657,615	21,272,839	1,467,211
Plus premium on refunding	0	18,810	618	18,192	827
Less deferred amount on refunding	<u>(24,414)</u>	<u>(258,328)</u>	<u>(32,899)</u>	<u>(249,843)</u>	<u>(11,314)</u>
Net Business-Type Activities Debt	<u>\$17,686,040</u>	<u>\$4,980,482</u>	<u>\$1,650,334</u>	<u>\$ 21,041,188</u>	<u>\$ 1,341,897</u>

**City of Crossville, Tennessee**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2006**

**Annual Debt Service Requirements**

The annual debt service requirements to maturity, including principal and interest for long-term debt as of June 30, 2006 are as follows:

Year Ending June 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2007	\$ 65,000	\$ 32,865	\$ 1,467,211	\$ 739,623
2008	66,000	31,465	1,526,388	688,950
2009	68,000	30,030	1,588,098	635,965
2010	44,000	28,525	1,289,338	580,574
2011	45,000	26,985	1,283,379	533,546
2012 -- 2016	246,000	110,355	6,451,686	1,935,368
2017 -- 2021	287,000	64,505	4,469,888	915,391
2022 -- 2026	193,000	13,615	2,516,851	352,383
2027 -- 2028	0	0	680,000	31,913
Plus premium on refunding	0	0	18,192	0
Less deferred amount on refunding	0	0	(249,843)	0
	<u>\$ 1,014,000</u>	<u>\$ 338,345</u>	<u>\$ 21,041,188</u>	<u>\$ 6,413,713</u>

**NOTE 9—INTERFUND TRANSFERS**

Interfund transfers for the year ended June 30, 2006, consisted of the following:

<u>Transfers From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Purpose</u>
General fund	Sanitation fund	\$ 305,193	Residential garbage collection costs
General fund	Capital Projects fund	406,299	Construction costs for capital assets
General fund	Water & Sewer fund	23,814	Depreciation costs of public works
Water and Sewer fund	General fund	87,982	Public works costs allocation
State Street Aid fund	Capital Projects fund	35,138	

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

**City of Crossville, Tennessee**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2006**

**NOTE 10—PENSION FUND**

**Plan Description**

Employees of Crossville are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 17, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Crossville participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

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

**Funding Policy**

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

Crossville is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2006 was 15.84% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Crossville is established and may be amended by the TCRS Board of Trustees.

**Annual Pension Cost**

For the year ending June 30, 2006, Crossville's annual pension cost of \$796,141 to TCRS was equal to Crossville's required and actual contributions. The required contribution was determined as part of the July 1, 2003 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of

**City of Crossville, Tennessee**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2006**

present and future assets of 7.5 percent a year compounded annually, (b) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5 percent annual increase in the Social Security wage base, and (d) projected post retirement increases of 3.0 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. Crossville's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2005 was 10 years.

An actuarial valuation was performed as of July 1, 2005, which established contribution rates effective July 1, 2006.

**Trend Information**

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>% of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2006	\$796,141	100.00%	\$ 0
June 30, 2005	\$585,068	100.00%	\$ 0
June 30, 2004	\$467,761	100.00%	\$ 0

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

The City extended a contract with Waste Industries of Tennessee, LLC doing business as Cumberland Waste Disposal for a five-year period for the City's garbage collection until August 2012. The rates for residential customers provide for one pickup per week. The prior contract had provided for commercial and residential pickups; with the new contract, commercial customers pay fees directly to the contractor. Annual garbage fees paid during the fiscal year ended June 30, 2006 for residential pickups were \$296,718.

On November 1, 1999, the City contracted with U.S. Filter for operation of wastewater and related treatment facilities, and to provide service for the collection system rehabilitation program for a period of five years. The annual expense for the year ended June 30, 2006 was \$183,198 for sewer rehabilitation and \$823,992 for wastewater facilities operations. The contract was renewed in November 2004 for an additional five-year period.

**NOTE 12: OPERATING AGREEMENT AND MERGER OF WATER DISTRICT**

On July 20, 2004, the City of Crossville, Tennessee and Catoosa Utility District of Cumberland and Fentress Counties, Tennessee entered into a consolidation agreement whereby they agreed to consolidate the District's System into the City's utility system as a separate department pursuant to TCA 7-82-202(f) by transferring all of the District's property and obligations to the City.

**City of Crossville, Tennessee**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2006**

In accordance with the Act and the requirements of the Consolidation Agreement, the District submitted a petition for consolidation with the Utilities Management Review Board (UMRB) for its review and comment. The UMRB reviewed the Petition of Consolidation at its meeting on August 5, 2004 and issued favorable comments on the proposed consolidation, which were forwarded with the original Petition for Consolidation to the Cumberland County Mayor in accordance with the Act. On October 29, 2004, the Cumberland County Mayor held a public hearing on the Petition for Consolidation in order to determine whether the public convenience and necessity required such consolidation pursuant to the requirements of the Act. On November 5, 2004, the Cumberland County Mayor issued an order denying the Petition for Consolidation. The District filed an appeal of the Mayor's order on November 15, 2004 in the Cumberland County Circuit Court pursuant to TCA 7-82-202 and the City has filed a motion to intervene, but the appeal has not yet gone to trial.

In order to immediately achieve certain operation efficiencies and lower rates for the District's customers, and to facilitate other benefits of consolidation for their respective utility customers, the City and District entered into an Interim Operating Agreement dated December 28, 2004.

The Operating Agreement, effective April 1, 2005, appointed the City as the District's Agent with authority to exercise all of the powers that can be lawfully delegated to the City and perform all of the duties of the District in connection with the operations of the District's entire water system and all of the District's operations.

Effective October 1, 2005, the City and District approved the annexation and consolidation into the City of Crossville, Tennessee as a separate department of the City of Crossville. The proprietary fund includes the operations of Catoosa Water Department after September 30, 2005. The merger of assets and liabilities from Catoosa into the City of Crossville at book value generated a contribution of capital of \$4,848,888 reported as an extraordinary item on the proprietary income statement.

**NOTE 13: LOAN RECEIVABLE AND PAYABLE FOR E911 PROJECT**

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

The government-wide balance sheet includes the loan receivable from the District at June 30, 2006 of \$939,000 and reflects the City's related liability to the Tennessee Municipal League Bond Fund of the same. Principal paid during the fiscal year of \$39,000 and interest and expenses paid of \$30,433 have been included in the financial statements by the City as operating grants and contributions and debt expenditures.

**City of Crossville, Tennessee**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2006**

**NOTE 14: RESTRICTIONS AND CONTINGENCIES**

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

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

**NOTE 15: OTHER POST-EMPLOYMENT BENEFITS**

In addition to pension benefits described in Note 10, the City provides post-employment benefit options for health care to eligible retirees, disabled employees, and their families. The benefits are provided in accordance with City ordinances and the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA). The criteria to determine eligibility include: years of service, employee age, and disability due to line of duty. The City funds the benefits on a pay-as-you-go basis. The City pays the cost of the health insurance premiums until they are eligible for Medicare benefits. During the fiscal year ended June 30, 2006, expenses of \$18,857 were recognized for post-employment benefits. There are 3 participants currently eligible. Expenses for post-retirement health care benefits are recognized as eligible employee claims are paid.

**NOTE 16: OTHER COMMITMENTS**

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

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

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

The State of Tennessee is requiring the City to repair and improve the dam at Holiday Lake, along with repair to the bridge and enlarging the spillway. The costs for this project are estimated to be

**City of Crossville, Tennessee**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2006**

near \$1,000,000. Plans for the dam repair have been approved by the State. A 50% grant from TDOT is expected of \$200,000 for bridge improvements. Preliminary design costs are estimated to be \$29,700.

The City is holding retainage fees of \$33,500 from MPACT Construction Company for problems with retaining walls at the recreation parks additional fields. The money is escrowed at a local bank. Additionally, the bonding company has been contacted to request additional funds to pay for the correctional work. The City owes \$8,350 for corrective design/engineering fees.

A contract for stream mitigation environmental study has been signed for \$25,000, which will be reimbursed by a local industry to the City at completion.

A joint project with TDOT to build the northwest connector is beginning, with a remaining commitment of \$115,278 by the City for engineering for Phase I and II of the project. Total cost of the project has not been determined.

The City has agreed to annex Cumberland Mountain State Park and provide sanitary sewer services to the park. A grant of \$946,850 will provide funding to extend sewer lines to the area, and the State of Tennessee will pay the costs of sewer within the park boundaries.

Various contracts for engineering services have been executed for projects of the City. Remaining costs on these contracts at June 30, 2006 are \$210,945.

**NOTE 17: RELATED PARTY TRANSACTIONS**

The City of Crossville leased a building in the Catoosa Water Department's service area on an annual lease term at \$900 per month until September 30, 2006 from two City employees, who were former Catoosa Utility District management. Both own a 50% interest in the building. The annual lease was renewed on October 1, 2006 at \$925 per month for twelve months.

**OTHER REQUIRED SUPPLEMENTARY INFORMATION**

**City of Crossville, Tennessee**  
**SCHEDULE OF FUNDING PROGRESS - PENSION PLAN**  
(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets  (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
07/01/05	\$ 9,030	\$ 10,246	\$ 1,216	88.13%	\$ 4,674	26.02%
07/01/03	7,705	9,076	1,371	84.89%	4,100	33.44%
07/01/01	6,658	8,107	1,449	82.13%	3,508	41.31%

**Fund Financial Statements**

**City of Crossville, Tennessee**  
**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL**  
**General Fund**  
**For the Year Ended June 30, 2006**

	BUDGET		Actual	Variance with
	Original	Final		Final Budget
				Fav. (Unfavorable)
<b>REVENUE</b>				
<b>Taxes</b>				
Property taxes	\$ 1,815,000	\$ 1,815,000	\$ 1,672,382	\$ (142,618)
Business taxes	440,000	440,000	488,933	48,933
Penalties and interest on taxes	27,500	27,500	22,880	(4,620)
Wholesale beer and liquor taxes	510,000	510,000	545,592	35,592
Payments in lieu of taxes	151,871	151,871	162,677	10,806
Local option sales taxes	6,200,000	6,200,000	6,812,244	612,244
Special tax assessments	7,273	7,273	7,273	0
<b>Total taxes</b>	<b>9,151,644</b>	<b>9,151,644</b>	<b>9,711,981</b>	<b>560,337</b>
<b>Licenses and Permits</b>				
Building, plumbing, and related permits	194,000	194,000	164,231	(29,769)
Beer permits and other	18,500	18,500	15,600	(2,900)
<b>Total licenses and permits</b>	<b>212,500</b>	<b>212,500</b>	<b>179,831</b>	<b>(32,669)</b>
<b>Intergovernmental Revenues</b>				
State income tax	149,721	149,721	120,400	(29,321)
State beer and liquor tax	50,803	50,803	74,531	23,726
State sales tax	598,140	598,140	651,212	53,072
Excise taxes	51,020	51,020	39,820	(11,200)
City street and transportation	21,415	21,415	21,508	93
Reimbursements/donations	15,000	89,000	99,620	10,620
Grant revenue	802,804	858,855	366,317	(492,538)
Telecommunications tax	1,550	1,550	1,663	113
<b>Total intergovernmental revenue</b>	<b>1,690,453</b>	<b>1,820,504</b>	<b>1,375,071</b>	<b>(445,433)</b>
<b>Interest</b>	<b>140,000</b>	<b>140,000</b>	<b>417,550</b>	<b>277,550</b>
<b>Fines and Forfeits</b>				
City court fines and other	132,100	132,100	113,613	(18,487)
<b>Charges for Services</b>				
Clerk fees	5,000	5,000	5,065	65
Park and recreation charges	188,300	188,300	187,085	(1,215)
Traffic signal maintenance	40,000	40,000	4,500	(35,500)
Driver and safety school fees	26,500	26,500	26,070	(430)
<b>Total charge for services</b>	<b>259,800</b>	<b>259,800</b>	<b>222,720</b>	<b>(37,080)</b>

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

City of Crossville, Tennessee  
**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL**  
**General Fund**  
**For the Year Ended June 30, 2006**

	BUDGET		Actual	Variance with Final Budget
	Original	Final		Fav. (Unfavorable)
Miscellaneous Revenue				
Cemetery revenue	20,000	20,000	49,900	29,900
Sale of land and equipment	2,500	2,500	1,050	(1,450)
Airport	85,430	97,281	92,582	(4,699)
Donations	1,750	1,750	5,164	3,414
Cable tv royalties	117,500	117,500	109,563	(7,937)
GIS revenue	7,500	7,500	1,638	(5,862)
Other miscellaneous	30,800	39,370	40,959	1,589
	<u>265,480</u>	<u>285,901</u>	<u>300,856</u>	<u>14,955</u>
Total miscellaneous revenue				
	<u>265,480</u>	<u>285,901</u>	<u>300,856</u>	<u>14,955</u>
<b>TOTAL REVENUE</b>	<u>11,851,977</u>	<u>12,002,449</u>	<u>12,321,622</u>	<u>319,173</u>
 <b>EXPENDITURES</b>				
General government				
Legislative				
Personnel services	38,370	38,370	32,716	5,654
Contractual services	5,900	5,900	3,495	2,405
Materials & supplies	1,450	1,450	856	594
	<u>45,720</u>	<u>45,720</u>	<u>37,067</u>	<u>8,653</u>
Total legislative				
	<u>45,720</u>	<u>45,720</u>	<u>37,067</u>	<u>8,653</u>
City court				
Personnel services	13,170	13,170	11,998	1,172
Contractual services	350	350	0	350
Materials & supplies	1,500	1,500	1,303	197
	<u>15,020</u>	<u>15,020</u>	<u>13,301</u>	<u>1,719</u>
Total city court				
	<u>15,020</u>	<u>15,020</u>	<u>13,301</u>	<u>1,719</u>
Central staff				
Personnel services	573,960	570,495	561,374	9,121
Contractual services	44,000	44,385	35,485	8,900
Materials & supplies	16,090	17,630	15,075	2,555
Capital outlay	5,000	6,540	6,540	0
	<u>639,050</u>	<u>639,050</u>	<u>618,474</u>	<u>20,576</u>
Total central staff				
	<u>639,050</u>	<u>639,050</u>	<u>618,474</u>	<u>20,576</u>

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

City of Crossville, Tennessee  
**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL**  
**General Fund**  
**For the Year Ended June 30, 2006**

	BUDGET		Actual	Variance with Final Budget
	Original	Final		Fav. (Unfavorable)
Engineering				
Personnel services	205,440	204,950	190,327	14,623
Contractual services	40,900	37,090	25,301	11,789
Materials & supplies	15,850	20,450	17,318	3,132
Other services & charges	1,000	700	0	700
Capital outlay	46,240	46,240	41,230	5,010
Total engineering	<u>309,430</u>	<u>309,430</u>	<u>274,176</u>	<u>35,254</u>
Planning & zoning				
Personnel services	1,600	1,600	1,188	412
Contractual services	9,250	9,250	8,790	460
Materials & supplies	1,500	1,500	229	1,271
Total planning & zoning	<u>12,350</u>	<u>12,350</u>	<u>10,207</u>	<u>2,143</u>
Municipal buildings				
Personnel services	34,069	32,424	30,611	1,813
Contractual services	51,600	53,245	39,953	13,292
Materials & supplies	4,400	4,400	3,322	1,078
Other services & charges	2,000	2,000	809	1,191
Total municipal buildings	<u>92,069</u>	<u>92,069</u>	<u>74,695</u>	<u>17,374</u>
Maintenance				
Personnel services	568,636	566,861	557,845	9,016
Contractual services	57,550	62,535	58,004	4,531
Materials & supplies	84,330	87,910	72,756	15,154
Other services & charges	1,000	1,160	1,156	4
Capital outlay	79,000	78,280	74,249	4,031
Total maintenance	<u>790,516</u>	<u>796,746</u>	<u>764,010</u>	<u>32,736</u>
Administrative				
Personnel services	131,600	105,886	79,075	26,811
Contractual services	120,500	149,730	124,787	24,943
Materials & supplies	2,500	2,500	691	1,809
Other services & charges	192,500	204,984	203,964	1,020
Capital outlay	0	18,500	17,395	1,105
Grants, contributions & other	207,650	207,650	146,787	60,863
Total administrative	<u>654,750</u>	<u>689,250</u>	<u>572,699</u>	<u>116,551</u>

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

City of Crossville, Tennessee  
**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL**  
**General Fund**  
**For the Year Ended June 30, 2006**

	BUDGET		Actual	Variance with Final Budget
	Original	Final		Fav. (Unfavorable)
Tree board				
Personnel services	900	900	780	120
Contractual services	0	500	500	0
Materials & supplies	<u>13,000</u>	<u>12,500</u>	<u>2,258</u>	<u>10,242</u>
Total tree board	<u>13,900</u>	<u>13,900</u>	<u>3,538</u>	<u>10,362</u>
Nonprofit organizations				
Grants, contributions & other	<u>183,052</u>	<u>183,052</u>	<u>171,552</u>	<u>11,500</u>
Total nonprofit organizations				
Public works				
Personnel services	217,477	217,317	212,801	4,516
Contractual services	39,200	37,572	30,061	7,511
Materials & supplies	13,300	15,443	9,432	6,011
Other services & charges	<u>2,200</u>	<u>1,845</u>	<u>1,411</u>	<u>434</u>
Total public works	<u>272,177</u>	<u>272,177</u>	<u>253,705</u>	<u>18,472</u>
Total general government	<u>3,028,034</u>	<u>3,068,764</u>	<u>2,793,424</u>	<u>275,340</u>
Public safety				
Public safety building				
Personnel services	36,649	36,649	34,907	1,742
Contractual services	264,121	265,121	266,366	(1,245)
Materials & supplies	5,500	4,500	3,504	996
Other services & charges	1,500	1,500	1,187	313
Grants, contributions & other	14,000	14,000	9,493	4,507
Capital outlay	<u>329,000</u>	<u>329,000</u>	<u>38,385</u>	<u>290,615</u>
Total public safety building	<u>650,770</u>	<u>650,770</u>	<u>353,842</u>	<u>296,928</u>
Auxiliary police				
Personnel services	11,050	11,050	9,051	1,999
Contractual services	250	150	0	150
Materials & supplies	<u>3,500</u>	<u>3,600</u>	<u>1,785</u>	<u>1,815</u>
Total auxiliary police	<u>14,800</u>	<u>14,800</u>	<u>10,836</u>	<u>3,964</u>

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

City of Crossville, Tennessee  
**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL**  
**General Fund**  
**For the Year Ended June 30, 2006**

	BUDGET		Actual	Variance with Final Budget
	Original	Final		Fav. (Unfavorable)
Police				
Personnel services	1,919,046	1,942,071	1,940,673	1,398
Contractual services	97,500	110,235	113,104	(2,869)
Materials & supplies	157,800	175,762	161,025	14,737
Other services & charges	2,200	2,050	1,606	444
Grants, contributions & other	10,110	10,110	10,000	110
Capital outlay	321,000	282,655	218,897	63,758
Total police	<u>2,507,656</u>	<u>2,522,883</u>	<u>2,445,305</u>	<u>77,578</u>
Fire				
Personnel services	1,154,455	1,154,730	1,141,380	13,350
Contractual services	128,432	129,987	119,221	10,766
Materials & supplies	155,470	157,385	132,139	25,246
Other services & charges	1,200	1,200	980	220
Grants, contributions & others	21,129	21,129	21,129	0
Capital outlay	396,000	396,150	379,080	17,070
Total fire	<u>1,856,686</u>	<u>1,860,581</u>	<u>1,793,929</u>	<u>66,652</u>
Codes administration				
Personnel services	158,508	158,953	157,552	1,401
Contractual services	8,500	8,730	4,729	4,001
Materials & supplies	20,450	19,775	13,765	6,010
Capital outlay	25,000	25,000	20,206	4,794
Total codes administration	<u>212,458</u>	<u>212,458</u>	<u>196,252</u>	<u>16,206</u>
Animal control				
Personnel services	35,519	35,319	33,278	2,041
Contractual services	2,500	2,500	1,599	901
Materials & supplies	4,750	4,950	3,686	1,264
Other services & charges	200	200	0	200
Grants, contributions & other	31,250	31,250	31,250	0
Capital outlay	20,000	20,000	15,812	4,188
Total animal control	<u>94,219</u>	<u>94,219</u>	<u>85,625</u>	<u>8,594</u>
Total public safety	<u>5,336,589</u>	<u>5,355,711</u>	<u>4,885,789</u>	<u>469,922</u>

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

City of Crossville, Tennessee  
**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL**  
**General Fund**  
**For the Year Ended June 30, 2006**

	BUDGET		Actual	Variance with
	Original	Final		Final Budget
				Fav. (Unfavorable)
Highways and streets				
Personnel services	522,528	514,948	500,034	14,914
Contractual services	94,075	106,275	90,457	15,818
Materials & supplies	466,670	467,684	333,790	133,894
Other services & charges	6,200	6,200	1,997	4,203
Capital outlay	86,000	86,060	45,645	40,415
Total highways and streets	<u>1,175,473</u>	<u>1,181,167</u>	<u>971,923</u>	<u>209,244</u>
Cemeteries				
Personnel services	78,808	78,808	35,672	43,136
Contractual services	13,225	13,225	3,133	10,092
Materials & supplies	6,400	6,400	2,614	3,786
Grants, contributions & others	1,000	1,000	0	1,000
Total cemeteries	<u>99,433</u>	<u>99,433</u>	<u>41,419</u>	<u>58,014</u>
Leisure and cultural				
Recreation parks				
Personnel services	325,121	319,441	310,939	8,502
Contractual services	169,350	175,185	152,584	22,601
Materials & supplies	113,865	119,416	109,578	9,838
Other services & charges	1,500	2,280	1,194	1,086
Grants, contributions & other	15,000	15,000	12,260	2,740
Capital outlay	130,000	394,830	302,378	92,452
Total recreation parks	<u>754,836</u>	<u>1,026,152</u>	<u>888,933</u>	<u>137,219</u>
Meadow Park Lake				
Personnel services	63,550	64,260	61,862	2,398
Contractual services	28,350	52,135	30,529	21,606
Materials & supplies	17,750	17,825	20,604	(2,779)
Capital outlay	24,000	9,000	0	9,000
Total Meadow Park Lake	<u>133,650</u>	<u>143,220</u>	<u>112,995</u>	<u>30,225</u>

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

City of Crossville, Tennessee  
**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES  
 IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL**  
 General Fund  
 For the Year Ended June 30, 2006

	BUDGET		Actual	Variance with Final Budget
	Original	Final		Fav. (Unfavorable)
Palace Theatre				
Personnel services	76,327	75,202	61,866	13,336
Contractual services	80,200	81,410	63,489	17,921
Materials & supplies	50,200	50,115	34,318	15,797
Other services & charges	600	600	0	600
Capital outlay	6,000	6,000	0	6,000
Total Palace Theatre	<u>213,327</u>	<u>213,327</u>	<u>159,673</u>	<u>53,654</u>
Total Leisure and cultural	<u>1,101,813</u>	<u>1,382,699</u>	<u>1,161,601</u>	<u>221,098</u>
Airport				
Personnel services	22,799	24,129	23,590	539
Contractual services	47,811	51,216	46,077	5,139
Materials & supplies	4,225	3,325	2,795	530
Other services & charges	5,800	5,800	5,281	519
Capital outlay	22,000	85,067	74,074	10,993
Total airport	<u>102,635</u>	<u>169,537</u>	<u>151,817</u>	<u>17,720</u>
Tourism Development				
Contractual services	13,500	13,445	10,230	3,215
Supplies	2,000	1,715	1,224	491
Grants, contributions & others	53,750	54,090	38,504	15,586
Total Tourism Development	<u>69,250</u>	<u>69,250</u>	<u>49,958</u>	<u>19,292</u>
Debt service				
Principal	25,000	64,000	64,000	0
Interest	0	35,000	34,440	560
Fiscal agent fees	5,000	5,000	0	5,000
Total debt service	<u>30,000</u>	<u>104,000</u>	<u>98,440</u>	<u>5,560</u>
<b>TOTAL EXPENDITURES</b>	<u>10,943,227</u>	<u>11,430,561</u>	<u>10,154,371</u>	<u>1,276,190</u>

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

City of Crossville, Tennessee  
**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES  
 IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL**  
 General Fund  
 For the Year Ended June 30, 2006

	BUDGET		Actual	Variance with Final Budget
	Original	Final		Fav. (Unfavorable)
<b>REVENUE OVER (UNDER) EXPENDITURES</b>	908,750	571,888	2,167,251	1,595,363
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in				
Water and sewer fund	95,500	95,500	87,982	(7,518)
Operating transfers out				
Solid waste fund	(317,850)	(317,850)	(305,193)	12,657
Water and sewer fund	(24,000)	(24,000)	(23,814)	186
Capital projects fund	(1,253,255)	(1,273,755)	(406,299)	867,456
Total other finan. sources (uses)	(1,499,605)	(1,520,105)	(647,324)	872,781
<b>REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)</b>	(590,855)	(948,217)	1,519,927	2,468,144
<b>FUND BALANCE, beginning of yr</b>	10,818,480	10,818,480	10,818,480	0
<b>FUND BALANCE, end of year</b>	<u>\$ 10,227,625</u>	<u>\$ 9,870,263</u>	<u>\$ 12,338,407</u>	<u>\$ 2,468,144</u>

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

City of Crossville, Tennessee  
**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES  
 IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL**  
**Capital Projects Fund**  
**For the Year Ended June 30, 2006**

	BUDGET		Actual	Variance with Final Budget
	Original	Final		Fav. (Unfavorable)
<b>REVENUE</b>				
Intergovernmental revenue	\$ 0	\$ 0	\$ 0	\$ 0
Charges for services	0	0	0	0
Fines and costs	0	0	0	0
Public enterprise revenue	0	0	0	0
Interest income	0	0	0	0
Donations--DARE	0	0	0	0
Grants	0	0	0	0
Miscellaneous	0	0	0	0
<b>Total revenue</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>EXPENDITURES</b>				
Capital outlay	1,253,255	1,308,893	452,080	856,813
<b>Total expenditures</b>	<u>1,253,255</u>	<u>1,308,893</u>	<u>452,080</u>	<u>856,813</u>
<b>EXCESS (DEFICIENCY OF REVENUE OVER EXPENDITURES</b>	(1,253,255)	(1,308,893)	(452,080)	856,813
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	1,253,255	1,308,893	441,437	(867,456)
<b>REVENUES &amp; OTHER FINANCING SOURCES OVER EXPENDITURES</b>	0	0	(10,643)	(10,643)
<b>FUND BALANCE , beginning of year</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>FUND BALANCE, end of year</b>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (10,643)</u>	<u>\$ (10,643)</u>

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

**City of Crossville, Tennessee**  
**COMBINING BALANCE SHEET**  
**Nonmajor Governmental Funds**  
**June 30, 2006**

	SPECIAL REVENUE FUNDS				TOTAL
	State Street Aid	Solid Waste Management	Drug Fund	UDAG Ind. Development Fund	NONMAJOR GOVERNMT FUNDS
<b>ASSETS</b>					
Cash	\$ 442,310	\$ 25,033	\$ 26,362	\$ 1,006,966	\$ 1,500,671
Cash - restricted	0	0	51,537	0	51,537
Accounts receivable, net	0	0	0	0	0
Inventory	0	10,584	0	0	10,584
Due from other governments	48,451	0	0	0	48,451
<b>TOTAL ASSETS</b>	<b>\$ 490,761</b>	<b>\$ 35,617</b>	<b>\$ 77,899</b>	<b>\$ 1,006,966</b>	<b>\$ 1,611,243</b>
<b>LIABILITIES &amp; FUND BALANCE</b>					
<b>LIABILITIES</b>					
Accounts payable	\$ 101,397	\$ 34,643	\$ 13,560	\$ 0	\$ 149,600
Unearned grant revenue	0	0	0	0	0
Total liabilities	101,397	34,643	13,560	0	149,600
<b>FUND BALANCE</b>					
Designated	0	0	0	0	0
Undesignated	389,364	974	64,339	1,006,966	1,461,643
Total fund equity	389,364	974	64,339	1,006,966	1,461,643
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 490,761</b>	<b>\$ 35,617</b>	<b>\$ 77,899</b>	<b>\$ 1,006,966</b>	<b>\$ 1,611,243</b>

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

**City of Crossville, Tennessee**  
**COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2006**

	SPECIAL REVENUE FUNDS				TOTAL NONMAJOR
	State Street Aid Fund	Solid Waste Fund	Drug Fund	UDAG Industrial Development Fund	GOVERNMENTAL FUNDS
<b>REVENUE</b>					
Intergovernmental revenue	\$ 272,392	\$ 0	\$ 0	\$ 0	\$ 272,392
Charges for services	0	84	0	30,179	30,263
Fines and forfeits	0	0	30,696	0	30,696
Public enterprise revenue	0	0	15,994	0	15,994
Interest income	21,216	0	5,291	34,727	61,234
Donations	0	0	0	0	0
Grants	0	0	0	13,821	13,821
Miscellaneous	0	0	6,500	0	6,500
Total revenue	<u>293,608</u>	<u>84</u>	<u>58,481</u>	<u>78,727</u>	<u>430,900</u>
<b>EXPENDITURES</b>					
Street lighting	190,354	0	0	0	190,354
Collection fees	0	297,707	0	0	297,707
DARE program	0	0	2,129	0	2,129
Landfill	0	2,681	0	0	2,681
Drug enforcement	0	0	8,072	0	8,072
Capital outlay	244,328	0	64,060	0	308,388
Materials and supplies	1,200	4,889	8,478	0	14,567
Repairs and maintenance	0	0	0	0	0
Debt service	0	0	0	0	0
Other	0	0	0	45,089	45,089
Total expenditures	<u>435,882</u>	<u>305,277</u>	<u>82,739</u>	<u>45,089</u>	<u>868,987</u>
<b>EXCESS (DEFICIENCY) REVENUE OVER EXPENDITURES</b>	<u>(142,274)</u>	<u>(305,193)</u>	<u>(24,258)</u>	<u>33,638</u>	<u>(438,087)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceeds from sale of assets	0	0	0	550,000	550,000
Operating transfers in	0	305,193	0	0	305,193
Operating transfers (out)	(35,138)	0	0	0	(35,138)
Total other financing sources (uses)	<u>(35,138)</u>	<u>305,193</u>	<u>0</u>	<u>550,000</u>	<u>820,055</u>
<b>EXCESS (DEFICIENCY) REVENUE &amp; OTHER SOURCES OVER EXPENDITURE:</b>	<u>(177,412)</u>	<u>0</u>	<u>(24,258)</u>	<u>583,638</u>	<u>381,968</u>
<b>FUND BALANCE, beginning</b>	<u>566,776</u>	<u>974</u>	<u>88,597</u>	<u>423,328</u>	<u>1,079,675</u>
<b>FUND BALANCE, ending</b>	<u>\$ 389,364</u>	<u>\$ 974</u>	<u>\$ 64,339</u>	<u>\$ 1,006,966</u>	<u>\$ 1,461,643</u>

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

**City of Crossville, Tennessee**  
**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL**  
**State Street Aid Fund**  
**For the Year Ended June 30, 2006**

	BUDGET		Actual	Variance with Final Budget
	Original	Final		Fav. (Unfavorable)
<b>REVENUE</b>				
Intergovernmental revenue	\$ 267,636	\$ 267,636	\$ 272,392	\$ 4,756
Charges for services	0	0	0	0
Fines and costs	0	0	0	0
Public enterprise revenue	0	0	0	0
Interest income	8,500	8,500	21,216	12,716
Grants	0	0	0	0
Miscellaneous	0	0	0	0
<b>Total revenue</b>	<u>276,136</u>	<u>276,136</u>	<u>293,608</u>	<u>17,472</u>
<b>EXPENDITURES</b>				
Street lighting	190,000	190,360	190,354	6
Capital outlay	550,000	550,000	244,328	305,672
Materials and supplies	125,000	89,502	1,200	88,302
<b>Total expenditures</b>	<u>865,000</u>	<u>829,862</u>	<u>435,882</u>	<u>393,980</u>
<b>EXCESS (DEFICIENCY OF REVENUE OVER EXPENDITURES</b>	(588,864)	(553,726)	(142,274)	411,452
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in (out)	0	(35,138)	(35,138)	0
<b>REVENUES &amp; OTHER FINANCING SOURCES OVER EXPENDITURES</b>	(588,864)	(588,864)	(177,412)	411,452
<b>FUND BALANCE , beginning of year</b>	<u>566,776</u>	<u>566,776</u>	<u>566,776</u>	<u>0</u>
<b>FUND BALANCE, end of year</b>	<u>\$ (22,088)</u>	<u>\$ (22,088)</u>	<u>\$ 389,364</u>	<u>\$ 411,452</u>

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

City of Crossville, Tennessee  
**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES  
 IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL**  
**Solid Waste Fund**  
 For the Year Ended June 30, 2006

	BUDGET		Actual	Variance with Final Budget
	Original	Final		Fav. (Unfavorable)
<b>REVENUE</b>				
Intergovernmental revenue	\$ 0	\$ 0	\$ 0	\$ 0
Charges for services	150	150	84	(66)
Fines and costs	0	0	0	0
Public enterprise revenue	0	0	0	0
Interest income	0	0	0	0
Grants	0	0	0	0
Miscellaneous	0	0	0	0
<b>Total revenue</b>	<u>150</u>	<u>150</u>	<u>84</u>	<u>(66)</u>
<b>EXPENDITURES</b>				
Collection fees	300,000	300,000	297,707	2,293
Materials and supplies	5,500	5,500	4,889	611
Landfill	12,500	12,500	2,681	9,819
<b>Total expenditures</b>	<u>318,000</u>	<u>318,000</u>	<u>305,277</u>	<u>12,723</u>
<b>EXCESS (DEFICIENCY OF REVENUE OVER EXPENDITURES</b>	(317,850)	(317,850)	(305,193)	12,657
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	317,850	317,850	305,193	(12,657)
<b>REVENUES &amp; OTHER FINANCING SOURCES OVER EXPENDITURES</b>	0	0	0	0
<b>FUND BALANCE , beginning of year</b>	<u>974</u>	<u>974</u>	<u>974</u>	<u>0</u>
<b>FUND BALANCE, end of year</b>	<u>\$ 974</u>	<u>\$ 974</u>	<u>\$ 974</u>	<u>\$ -</u>

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

City of Crossville, Tennessee  
**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES  
 IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL**  
**Drug Fund**  
 For the Year Ended June 30, 2006

	BUDGET		Actual	Variance with Final Budget
	Original	Final		Fav (Unfavorable)
<b>REVENUE</b>				
Intergovernmental revenue	\$ 0	\$ 0	\$ 0	0
Charges for services	0	0	0	0
Fines and costs	18,500	18,500	30,696	12,196
Public enterprise revenue	22,000	22,000	15,994	(6,006)
Interest income	1,200	1,200	5,291	4,091
Donations--DARE	1,500	1,500	0	(1,500)
Miscellaneous	0	0	6,500	6,500
<b>Total revenue</b>	<u>43,200</u>	<u>43,200</u>	<u>58,481</u>	<u>15,281</u>
<b>EXPENDITURES</b>				
DARE program	6,000	6,000	2,129	3,871
Drug enforcement	50,000	12,063	8,072	3,991
Capital outlay	30,000	64,187	64,060	127
Materials and supplies	7,000	10,750	8,478	2,272
<b>Total expenditures</b>	<u>93,000</u>	<u>93,000</u>	<u>82,739</u>	<u>10,261</u>
<b>EXCESS (DEFICIENCY OF REVENUE OVER EXPENDITURES</b>	(49,800)	(49,800)	(24,258)	25,542
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	0	0	0	0
<b>REVENUES &amp; OTHER FINANCING SOURCES OVER EXPENDITURES</b>	(49,800)	(49,800)	(24,258)	25,542
<b>FUND BALANCE , beginning of year</b>	<u>88,597</u>	<u>88,597</u>	<u>88,597</u>	<u>0</u>
<b>FUND BALANCE, end of year</b>	<u>\$ 38,797</u>	<u>\$ 38,797</u>	<u>\$ 64,339</u>	<u>\$ 25,542</u>

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

City of Crossville, Tennessee  
**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES  
 IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL  
 UDAG Industrial Development Fund  
 For the Year Ended June 30, 2006**

	BUDGET		Actual	Variance with Final Budget
	Original	Final		Fav. (Unfavorable)
<b>REVENUE</b>				
Intergovernmental revenue	\$ 0	\$ 0	\$ 0	\$ 0
Charges for services	65,000	65,000	30,179	(34,821)
Interest income	10,000	10,000	34,727	24,727
Other income	0	0	0	0
Grants	0	0	13,821	13,821
<b>Total revenue</b>	<u>75,000</u>	<u>75,000</u>	<u>78,727</u>	<u>3,727</u>
<b>EXPENDITURES</b>				
Capital outlay	575,000	575,000	0	575,000
Contractual services	95,000	95,000	45,089	49,911
<b>Total expenditures</b>	<u>670,000</u>	<u>670,000</u>	<u>45,089</u>	<u>624,911</u>
<b>EXCESS (DEFICIENCY OF REVENUE OVER EXPENDITURES</b>	(595,000)	(595,000)	33,638	628,638
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of assets	575,000	575,000	550,000	(25,000)
<b>REVENUES &amp; OTHER FINANCING SOURCES OVER EXPENDITURES</b>	(20,000)	(20,000)	583,638	603,638
<b>FUND BALANCE , beginning of year</b>	<u>423,328</u>	<u>423,328</u>	<u>423,328</u>	<u>0</u>
<b>FUND BALANCE, end of year</b>	<u>\$ 403,328</u>	<u>\$ 403,328</u>	<u>\$ 1,006,966</u>	<u>\$ 603,638</u>

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

City of Crossville, Tennessee  
**STATEMENT OF NET ASSETS**  
 Proprietary Funds  
 June 30, 2006

	<u>Enterprise Funds</u>
	<u>Water &amp; Sewer</u>
<b>ASSETS</b>	
<b>Current assets</b>	
Cash	\$ 7,505,379
Accounts receivable, net of allowance for doubtful accounts	869,918
Inventories of materials	201,080
Total current assets	<u>8,576,377</u>
<b>Noncurrent assets</b>	
Restricted cash	222,831
Capital assets	
Land	422,978
Plant in service	65,894,379
Construction in progress	1,222,550
Machinery and equipment	3,358,048
Less accumulated depreciation	(23,418,667)
Deferred financing cost	216,000
Special assessment receivable	15,618
Total other assets	<u>47,933,737</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 56,510,114</u></b>
<b>LIABILITIES</b>	
<b>Current liabilities</b>	
Accounts payable	\$ 332,522
Accrued liabilities	91,317
Current portion of notes/bond payable	1,467,211
Total current liabilities	<u>1,891,050</u>
<b>Noncurrent liabilities</b>	
Notes and bonds payable, less current portion	<u>19,573,977</u>
Total noncurrent liabilities	<u>19,573,977</u>
Total liabilities	<u>21,465,027</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	26,438,101
Restricted for debt service	222,831
Unrestricted	8,384,155
Total net assets	<b><u>\$ 35,045,087</u></b>

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

City of Crossville, Tennessee  
**STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS--BUDGET TO ACTUAL**  
**Water and Sewer Fund**  
**For the Year Ended June 30, 2006**

	BUDGET		Actual	Variance with
	Original	Final		Final Budget
				Fav. (Unfavorable)
<b>OPERATING REVENUE</b>				
Metered water sales	\$ 3,372,050	\$ 3,949,710	\$ 4,099,252	\$ 149,542
Sewer services charges	1,830,000	1,830,000	1,833,640	3,640
Tap fees	225,000	337,500	392,428	54,928
Grinder pump sales and repairs	201,500	201,500	199,503	(1,997)
Rental	56,218	56,218	56,218	0
Forfeited discount and penalties	60,000	77,250	56,064	(21,186)
Other operating revenues	729,345	777,845	381,306	(396,539)
Total operating revenue	<u>6,474,113</u>	<u>7,230,023</u>	<u>7,018,411</u>	<u>(211,612)</u>
<b>OPERATING EXPENSES</b>				
Water plant				
Personnel services	626,754	634,502	633,083	1,419
Contractual services	335,650	336,057	318,768	17,289
Fixed charges	13,000	13,000	9,784	3,216
Supplies	185,670	187,106	180,511	6,595
Total water plant	<u>1,161,074</u>	<u>1,170,665</u>	<u>1,142,146</u>	<u>28,519</u>
Water distribution				
Personnel services	341,677	540,273	507,208	33,065
Contractual services	21,750	65,308	57,018	8,290
Materials and supplies	117,000	179,050	129,928	49,122
Other	1,750	3,780	2,181	1,599
Total water distribution	<u>482,177</u>	<u>788,411</u>	<u>696,335</u>	<u>92,076</u>
Catoosa operating phase				
Personnel services	379,060	385,105	102,202	282,903
Contractual services	102,680	103,700	26,164	77,536
Other	25,000	19,545	7,047	12,498
Supplies	23,525	21,915	4,393	17,522
Total Catoosa operating phase	<u>530,265</u>	<u>530,265</u>	<u>139,806</u>	<u>390,459</u>
Sewer plant and collection				
Personnel services	191,746	189,446	121,932	67,514
Material and supplies	31,700	32,000	28,726	3,274
Contract service	830,822	832,823	830,656	2,167
Other	10,500	10,499	8,195	2,304
Total sewer plant and collection	<u>1,064,768</u>	<u>1,064,768</u>	<u>989,509</u>	<u>75,259</u>
Sewer rehabilitation				
Contract services	183,198	183,198	183,198	0
Repair and maintenance	23,000	29,355	32,930	(3,575)
Total sewer rehabilitation	<u>206,198</u>	<u>212,553</u>	<u>216,128</u>	<u>(3,575)</u>

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

City of Crossville, Tennessee  
**STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS--BUDGET TO ACTUAL**  
**Water and Sewer Fund**  
**For the Year Ended June 30, 2006**

	BUDGET		Actual	Variance with Final Budget
	Original	Final		Fav. (Unfavorable)
Grinder pumps				
Personnel services	95,913	95,613	90,314	5,299
Contractual services	33,250	33,250	19,789	13,461
Materials and supplies	215,650	215,950	203,728	12,222
Other	250	250	0	250
Total grinder pumps	<u>345,063</u>	<u>345,063</u>	<u>313,831</u>	<u>31,232</u>
General and administrative				
Customer acct/collection	210,295	382,105	349,971	32,134
Personnel services	22,700	142,556	130,909	11,647
Contractual services	137,800	147,250	87,371	59,879
Other	99,250	116,255	62,168	54,087
Total general and administrative	<u>470,045</u>	<u>788,166</u>	<u>630,419</u>	<u>157,747</u>
Depreciation and amortization	<u>1,927,285</u>	<u>2,139,711</u>	<u>1,861,293</u>	<u>278,418</u>
Total operating expenses	<u>6,186,875</u>	<u>7,039,602</u>	<u>5,989,467</u>	<u>1,050,135</u>
<b>OPERATING INCOME</b>	<u>287,238</u>	<u>190,421</u>	<u>1,028,944</u>	<u>838,523</u>
<b>NONOPERATING REVENUE (EXPENSES)</b>				
Interest expense	(593,479)	(851,581)	(700,314)	151,267
Interest income	100,000	145,000	361,784	216,784
Total nonoperating revenue (expenses)	<u>(493,479)</u>	<u>(706,581)</u>	<u>(338,530)</u>	<u>368,051</u>
<b>INCOME (LOSS) BEFORE OTHER REVENUES, EXTRAORDINARY ITEMS, AND TRANSFERS</b>	(206,241)	(516,160)	690,414	1,206,574
Contributions in aid of construction	100,000	300,000	606,545	306,545
Extraordinary item--contribution from utility merger	4,848,888	4,848,888	4,848,888	0
Transfer in	24,000	24,000	23,814	(186)
Transfer out	(95,500)	(95,500)	(87,982)	7,518
<b>CHANGE IN NET ASSETS</b>	4,671,147	4,561,228	6,081,679	1,520,451
<b>Total Net Assets--beginning of year</b>	<u>28,963,408</u>	<u>28,963,408</u>	<u>28,963,408</u>	<u>0</u>
<b>Total Net Assets--end of year</b>	<u>\$ 33,634,555</u>	<u>\$ 33,524,636</u>	<u>\$ 35,045,087</u>	<u>\$ 1,520,451</u>

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

**City of Crossville, Tennessee**  
**STATEMENT OF CASH FLOWS**  
**Enterprise Fund**  
**For the Year Ended June 30, 2006**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from customers	\$ 6,940,385
Payments to suppliers	(2,580,595)
Payments to employees	(1,585,648)
Net cash provided by operating activities	<u>2,774,142</u>

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

Proceeds from capital debt	5,220,000
Principal paid on capital debt	(1,883,044)
Interest paid on capital debt	(700,314)
Purchases of capital assets	(9,987,799)
Contribution from merger	4,848,888
Payment of financing costs	(152,739)
Contributions in aid of construction	606,545
Net cash provided (used) by capital and financing activities	<u>(2,048,463)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Operating transfer to General Fund, net	<u>(64,168)</u>
Net cash (used) by noncapital financing activities	<u>(64,168)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Liquidation of investments	421,738
Interest received on investments	361,784
Net cash provided (used) by investing activities	<u>783,522</u>

**NET INCREASE (DECREASE) IN CASH**

1,445,033

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

6,283,177

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

\$ 7,728,210

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET**

**CASH PROVIDED (USED) BY OPERATING ACTIVITIES**

Operating income (loss)	\$ 1,028,944
Adjustments to reconcile operating income to net cash provided	
by operating activities:	
Depreciation & amortization expense	1,861,293
Change in assets and liabilities	
Receivables, net	(78,026)
Inventories	(37,168)
Accounts and other payables	388
Accrued expenses	(1,289)
Net cash provided by operating activities	<u>\$ 2,774,142</u>

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

City of Crossville, Tennessee  
**SCHEDULE OF CHANGES IN PROPERTY TAX RECEIVABLES**  
 General Fund  
 For the Year Ended June 30, 2006

<u>Tax Year</u>	Balance June 30, 2005	Tax Levy	Collections	Exemptions and Abatements	Balance June 30, 2006
2006	\$ 0	\$ 1,785,020	\$ 0	\$ 0	\$ 1,785,020
2005	1,704,719	0	1,668,728	1,653	37,644
2004	46,213	0	18,466	835	28,582
2003	16,255	0	5,509	0	10,746
2002	9,442	0	3,313	(682)	5,447
2001	3,267	0	1,061	0	2,206
2000	4,478	0	741	0	3,737
1999	1,322	0	143	0	1,179
1998	1,307	0	53	0	1,254
1997	596	0	40	0	556
1996	42	0	0	0	42
1995	376	0	0	0	376
	1,788,017	1,785,020	1,698,054	1,806	1,876,789
Less Allowance for Uncollectible Taxes	(67,222)	-	-	(518)	(67,740)
<b>TAXES RECEIVABLE, June 30</b>	<b>\$ 1,720,795</b>	<b>\$ 1,785,020</b>	<b>\$ 1,698,054</b>	<b>\$ 1,288</b>	<b>\$ 1,809,049</b>

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

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

**City of Crossville, Tennessee**  
**SCHEDULE OF DEBT SERVICE REQUIREMENTS**  
**General Obligation Debt**  
**June 30, 2006**

Fiscal Year	Capital Outlay Note		TML Bond Fund Note 2005		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 25,000	\$ 0	\$ 40,000	\$ 32,865	\$ 65,000	\$ 32,865
2008	25,000	0	41,000	31,465	66,000	31,465
2009	25,000	0	43,000	30,030	68,000	30,030
2010	0	0	44,000	28,525	44,000	28,525
2011	0	0	45,000	26,985	45,000	26,985
2012	0	0	46,000	25,410	46,000	25,410
2013	0	0	48,000	23,800	48,000	23,800
2014	0	0	49,000	22,120	49,000	22,120
2015	0	0	51,000	20,405	51,000	20,405
2016	0	0	52,000	18,620	52,000	18,620
2017	0	0	54,000	16,800	54,000	16,800
2018	0	0	56,000	14,910	56,000	14,910
2019	0	0	57,000	12,950	57,000	12,950
2020	0	0	59,000	10,955	59,000	10,955
2021	0	0	61,000	8,890	61,000	8,890
2022	0	0	63,000	6,755	63,000	6,755
2023	0	0	64,000	4,550	64,000	4,550
2024	0	0	66,000	2,310	66,000	2,310
<b>Total</b>	<b>\$ 75,000</b>	<b>\$ 0</b>	<b>\$ 939,000</b>	<b>\$ 338,345</b>	<b>\$ 1,014,000</b>	<b>\$ 338,345</b>

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

RUD Loan		State Revolving Fund 01-156		State of TN Loan		Refunding Bonds Series 2005		Totals	
Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
\$ 178,584	\$ 97,848	\$ 21,132	\$ 6,276	\$ 139,602	\$ 31,086	\$ 150,000	\$ 212,559	\$ 1,467,211	\$ 739,623
186,324	90,108	21,444	5,964	143,332	27,356	155,000	207,221	1,526,388	688,950
194,399	82,033	21,756	5,652	147,162	23,526	160,000	201,709	1,588,098	635,965
202,823	73,609	22,080	5,328	151,095	19,593	165,000	196,021	1,289,338	580,574
211,613	64,819	22,404	5,004	155,132	15,556	170,000	190,159	1,283,379	533,546
220,784	55,648	22,740	4,668	159,278	11,410	175,000	183,990	1,329,825	485,929
230,352	46,080	23,076	4,332	163,534	7,154	185,000	177,328	1,383,154	435,943
240,335	36,097	23,412	3,984	182,044	2,784	190,000	170,201	1,422,493	383,494
250,751	25,681	23,760	3,648	0	0	200,000	162,544	1,139,243	335,546
261,618	14,814	24,120	3,288	0	0	205,000	154,188	1,176,971	294,456
182,730	3,705	24,468	2,940	0	0	215,000	145,263	1,130,801	251,694
0	-	24,840	2,568	0	0	225,000	135,772	981,734	214,837
0	-	25,200	2,208	0	0	235,000	125,563	1,016,336	180,028
0	-	25,572	1,836	0	0	245,000	114,763	661,925	143,623
0	-	25,956	1,452	0	0	255,000	103,513	679,092	125,209
0	-	26,340	1,068	0	0	265,000	91,813	696,376	106,225
0	-	26,724	684	0	0	280,000	79,550	718,781	86,558
0	-	27,120	288	0	0	295,000	66,613	472,132	67,629
0	-	4,562	8	0	0	305,000	53,113	309,562	53,121
0	-	0	0	0	0	320,000	38,850	320,000	38,850
0	-	0	0	0	0	330,000	23,819	330,000	23,819
0	-	0	0	0	0	350,000	8,094	350,000	8,094
<u>\$ 2,360,313</u>	<u>\$ 590,442</u>	<u>\$ 436,706</u>	<u>\$ 61,196</u>	<u>\$ 1,241,179</u>	<u>\$ 138,465</u>	<u>\$ 5,075,000</u>	<u>\$ 2,842,646</u>	21,272,839	6,413,713
								18,192	
								(249,843)	0
								<u>\$ 21,041,188</u>	<u>\$ 6,413,713</u>

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

City of Crossville, Tennessee  
SCHEDULE OF PRINCIPAL OFFICIALS' AND SURETY BONDS  
For the Year Ended June 30, 2006

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

**City of Crossville, Tennessee**  
**SCHEDULE OF INSURANCE COVERAGE**  
**June 30, 2006**

<u>Subject of Insurance</u>	<u>Type of Coverage</u>	<u>Amount of Coverage</u>
Buildings and contents	Fire, lightning, extended coverage, 80% coinsurance, \$1,000 deductible	\$ 43,825,856
General liability	Comprehensive general & personal injury liability	1,000,000
	Public officials personal liability (\$5,000 deductible)	100,000
Automobile liability	Bodily injury or personal injury liability	
	Per person	250,000
	Per occurrence	600,000
	Property damage	85,000
	Automobile physical damage	
	Actual cash value (collision deductible ranges up to \$1,000) Excess auto physical damage fire department - aggregate	2,137,000
Employee Dishonesty		100,000
Workmen's compensation	Statutory limits Employer's liability	600,000
Running surety bond	Contract replacement	2,500
Equipment	Extended coverage (deductible range up to \$1,000)	2,553,325
Airport	Bodily injury and property damage liability	5,000,000

**City of Crossville, Tennessee**  
**SUPPLEMENTARY SCHEDULE OF FEDERAL AND STATE FINANCIAL ASSISTANCE**  
**For the Year Ended June 30, 2006**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Accrued (Deferred) Grant Revenues June 30, 2005	Grant Revenues Received	Contributions and Miscellaneous Revenues	Expenditures	Accrued (Deferred) Grant Revenues June 30, 2006
<b>U.S. DEPARTMENT OF JUSTICE</b>							
Office of Justice Programs							
Police Vests	none	none	\$ 1,114	\$ 2,256	\$ 0	\$ 1,142	\$ 0
<b>FEDERAL EMERGENCY MANAGEMENT AGENCY</b>							
TN Dept of Military TEMA	97.036	Z-06-032872-00	0	0	0	26,821	26,821
<b>U.S. DEPARTMENT OF HOUSING &amp; URBAN DEVELOPMENT (HUD)</b>							
TN Dept of Economic & Community Development	14.228	GC-04-10903-00	242,465	510,841	0	268,376	0
Housing Rehabilitation Program							
<b>TOTAL FEDERAL GRANTS</b>			\$ 243,579	\$ 513,097	\$ 0	\$ 296,339	\$ 26,821
<b>STATE GRANTS</b>							
TIP Grant - Granitifiandre/Iris Phase 2	n/a	Z-02-08511-00	\$ 72,990	\$ 86,810	\$ 0	\$ 13,820	\$ 0
Airport Maintenance	n/a	Z-05-023854-00	1,683	1,683	0	0	0
TN Arts Commission Touring Arts	n/a	Z-05-023416-00	2,250	2,250	0	0	0
Airport Maintenance	n/a	Z-06-02-8707-00	0	7,756	0	8,500	744
Dept of Trans Aeronautics Division	n/a	Z-06-02-9433-00	0	6,450	0	6,450	0
Dept of Transportation	n/a	Z-06-02-9413-00	0	47,741	0	55,026	7,285
<b>TOTAL STATE GRANTS</b>			\$ 76,923	\$ 152,690	\$ 0	\$ 83,796	\$ 8,029
<b>TOTAL GRANTS</b>			\$ 320,502	\$ 665,787	\$ 0	\$ 380,135	\$ 34,850

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

**STATISTICAL SECTION**

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

<u>Tax Year</u>	<u>Assessments</u>	<u>Rate</u>	<u>Levy</u>	<u>Collections in Year of Levy</u>	
				<u>Amount</u>	<u>Percentage</u>
2006	\$ 255,002,857	\$ 0.70	\$ 1,785,020	\$ 0	0.00%
2005	243,531,287	0.70	1,704,184	1,668,728	97.92%
2004	242,689,143	0.70	1,688,791	1,640,193	97.12%
2003	236,291,000	0.70	1,654,037	1,618,668	97.86%
2002	228,255,500	0.60	1,361,574	1,319,769	96.93%
2001	188,585,615	0.70	1,321,018	1,283,796	97.18%
2000	188,252,571	0.70	1,317,768	1,273,232	96.62%
1999	175,403,000	0.70	1,227,821	1,199,275	97.68%
1998	172,378,000	0.70	1,206,646	1,171,755	97.11%
1997	165,294,463	0.56	925,764	883,178	95.40%
1996	121,249,137	0.70	848,599	822,045	96.87%

**City of Crossville, Tennessee**  
**UTILITY STATISTICAL DATA**  
**For the Year Ended June 30, 2006**

**RATES**

Water and Sewer Rates	<u>Inside City Limits</u>	<u>Outside City Limits</u>
First 2,000 gallons - water	\$7.38 minimum bill	\$11.08 minimum bill
- sewer	\$9.00 minimum bill	\$13.50 minimum bill
All over 2,000 gallons - water	\$3.69 per 1,000 gallons	\$5.54 per 1,000 gallons
- sewer	\$4.50 per 1,000 gallons	\$6.75 per 1,000 gallons
Utility districts (except CUD)		\$2.49 per 1,000 gallons
Catoosa Utility District (until 10/1/05)		\$1.00 per 1,000 gallons
All utility districts (effective 11/1/06)		\$3.43 per 1,000 gallons

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

	<u>Inside City Limits</u>	<u>Outside City Limits</u>
Water Customers		
Residential	3,545	6,465
Commercial	1,095	79
Industrial	31	2
Utility district (taps)	<u>0</u>	<u>9</u>
<b>TOTAL WATER CUSTOMERS</b>	<u>4,671</u>	<u>6,555</u>
<b>TOTAL SEWER CUSTOMERS</b>	<u>4,444</u>	<u>16</u>

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



PLEMMONS-JACKSON & CABANISS, PLLC  
CERTIFIED PUBLIC ACCOUNTANTS

Janice Plemmons - Jackson, CPA

Mark W. Cabaniss, CPA

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

Honorable Mayor and Council Members  
Crossville, Tennessee

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Crossville, Tennessee, as of and for the year ended June 30, 2006, which collectively comprise City of Crossville, Tennessee's basic financial statements and have issued our report thereon dated November 16, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Crossville, Tennessee's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect City of Crossville, Tennessee's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings, recommendations, and management's response as item 06-1.

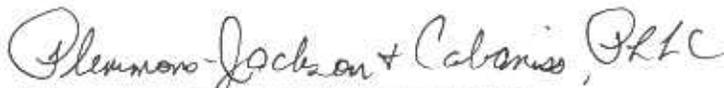
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

However, we consider the reportable condition described in finding 06-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Crossville, Tennessee's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings, recommendations, and management's response as item 06-1.

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



Plemmons-Jackson & Cabaniss, PLLC  
Certified Public Accountants

Crossville, Tennessee  
November 16, 2006

**City of Crossville, Tennessee**  
**SCHEDULE OF FINDINGS, RECOMMENDATIONS & MANAGEMENT'S RESPONSE**  
**For the Year Ended June 30, 2006**

**FINDING 06-1: DETAILS OF CONTRACTS NOT FOLLOWED**

Contracts were awarded to the lowest bidders for two road construction projects during the fiscal year. A new roadway project to extend Tulip Drive for approximately 3,685 linear feet was awarded on August 30, 2005 for \$323,095, which required substantial completion by May 1, 2006. Although an additional 522 cubic yards of borrow excavation was needed, a change order to the contract was never issued or brought before City Council for approval at \$5,220. The bid specifications called for 875.65 tons of base gravel that were not used, which should have lowered the price by \$8,765.50. Substantial completion of the project was 128 days late, which cost the City an additional \$27,674. On November 14, 2006, Council approved a final payment to the contractor that was \$10,000 below the City's additional costs.

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

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

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

**RECOMMENDATION:**

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

**MANAGEMENT'S RESPONSE:**

Management understands, but disagrees, in part, with the auditor's finding. Any and all of the logistical deficiencies listed by the auditor on these two projects were part of the final settlement negotiations. The perceived procedural oversights have been corrected by increased inspection personnel and qualification of inspection services. We acknowledge and agree with the administrative processes recommended by the auditor and same have been implemented.